The Role for Local Government in “The Future We Want”

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Abstract: This Discussion Paper outlines core issues facing local governments in the realization of sustainable and inclusive cities, in the context of the outcomes of the United Nations Conference on Sustainable Development (Rio+20). These include (i) Fostering a Sustainable and Inclusive Economy (ii) Financing for Sustainable Production, Management Systems and Infrastructure (iii) Urban Governance and (iv) Capacity Development.- To address these matters, the authors argue that there is a need and opportunity for Economic and Social Commission for Asia and the Pacific (ESCAP) to foster necessary reforms to achieve more sustainable and inclusive cities by addressing: (i) Provision of appropriate mandates, systems and incentives for sub-national governments to plan for a green urban economy and to include in such planning proactive measures towards poverty eradication; (ii) Formation of appropriate and inclusive governance mechanisms (iii) Incentive systems for funding the investment needed to underpin the transition to a sustainability agenda (iv) Organizational structures to maximize participation in, and manage, such investments, in particular reform of corporate governance in sub-national governments and the provision of systems to improve the quality of investment decisions, and (v) The development of enabling frameworks, and provision of appropriate incentives, for use of the capital markets to fund investments in sustainable production, management systems and infrastructure. These concerns are critical to addressing a green/sustainability agenda for the development and management of sustainable cities in the region.

*This paper was prepared for the “Regional Workshop on the role of local governments in the Future We Want” held on the 28 of October 2013 at the United Nations Conference Center in Bangkok, Thailand. This document draws upon outcomes from the workshop.

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### Acronyms and Abbreviations

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<tbody>
<tr>
<td>ADB</td>
<td>Asian Development Bank</td>
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<tr>
<td>ASEAN</td>
<td>Association of South-East Asian Nations</td>
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<td>AusAID</td>
<td>Australian Agency for International Development</td>
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<td>CLGF</td>
<td>Commonwealth Local Government Forum</td>
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<td>DfID</td>
<td>UK Department for International Development</td>
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<td>ESCAP</td>
<td>United Nations Economic and Social Commission for Asia and the Pacific</td>
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<td>G20</td>
<td>Group of Twenty (major economies)</td>
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<td>GCF</td>
<td>Green Climate Fund</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>GEF</td>
<td>Global Environment Facility</td>
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<td>GGGI</td>
<td>Global Green Growth Institute</td>
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<td>GHG</td>
<td>greenhouse gas</td>
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<td>ICLEI</td>
<td>International Council for Local Environmental Initiatives</td>
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<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
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<tr>
<td>JNNURM</td>
<td>Jawaharlal Nehru National Urban Renewal Mission</td>
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<tr>
<td>LGU</td>
<td>local government unit</td>
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<tr>
<td>MGI</td>
<td>McKinsey Global Institute</td>
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<tr>
<td>NGO</td>
<td>Non-Governmental Organization</td>
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<td>OECD</td>
<td>Organization for Economic Cooperation and Development</td>
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<tr>
<td>PPP</td>
<td>public-private partnership</td>
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<td>UCLG ASPAC</td>
<td>United Cities and Local Governments, Asia-Pacific</td>
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<td>UN-Habitat</td>
<td>United Nations Human Settlements Programme</td>
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<td>USAID</td>
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Executive summary

Cities are critical to the implementation of the sustainable development agenda. The outcome document of the United Nations Conference on Sustainable Development (Rio+20), “The Future We Want,” reaffirmed political commitment to address the persistent challenges related to sustainable development, with a broad package of commitments for action. Many of these actions must be taken at the local level, and local governments have a key role to play in this.

Cities are key actors in national development strategies and, therefore, greater attention must be paid to the development of national urban policies with the purpose to bring about sustainable and inclusive urban development. Changing the way cities function will require new forms of planning and urban governance to achieve a green economy in the context of sustainable development and poverty eradication. However, city management systems face significant challenges with regard to these expectations and agendas.

Almost all Asia-Pacific cities have outgrown their original municipal jurisdiction and their urban areas now extend into at least one other local government territory (and often many). However, systems of governance allowing integration of these various levels of provision are largely inadequate. City planning and service management systems do not often cover the urbanized area or resource and economic hinterland of the city, and different levels of plans may contradict or overlook each other.

Local governments and urban development authorities in many developing countries rarely have the mandate and/or capacity required to undertake planning let alone planning for sustainable development. Nor do they often have a mandate to plan or implement major items of strategic infrastructure needed to achieve such growth. While decentralization has provided opportunities for local government to take greater responsibility for the funding and delivery of services, efficacy is often dependent upon the national government providing appropriate enabling environments and supportive relationships to ensure they can operate efficiently.

Local government financing systems have been traditionally weak. Local governments often do not optimally collect taxes or receive the revenue they are due, and rarely set tariffs to maintain the levels of cost recovery needed to achieve sustainable operation of services. Moreover, local governments have been given unfunded mandates. They are vested with the responsibility to provide services, but not given the corresponding revenue sources and organizational infrastructure. At the same time, local governments are either prevented or are strongly restricted in their access to the capital markets for investment funding.

Asia-Pacific governments need to build capacity in areas to foster sustainable urban development, financing and urban governance. In particular, the effective integration of social and environmental issues into urban and regional planning for economic growth needs to change the institutional silo
culture and adopt more programmatic approaches to urban management operations. A national support mechanism for capacity building in sustainable urban development is necessary. Purposeful and open mechanisms of accountability need to be instituted and sustained to improve performance of local governments.

To address these challenges, there is urgent need to foster critical reforms addressing:

a. Provision of appropriate mandates and systems for national and sub-national governments to plan for sustainable urban economic development and to include in such planning proactive measures towards poverty eradication;
b. Formation of appropriate and inclusive governance mechanisms to implement mandates which are representative of all urban stakeholders;
c. Incentive systems to fund the investment needed to underpin the transition to the sustainability agenda, in particular those which provide incentives for improved fiscal performance i.e. value of assets and inventories on which many other forms of leveraged finance are based;
d. Collaborative organizational structures to maximize participation in, and manage, necessary reform in sub-national governments and the provision of systems to improve the quality of decision-making;
e. The development of an enabling framework, both at national and sub-national levels, and provision of appropriate incentives, to facilitate and stimulate sustainable production and consumption, including the preservation of ecological services management of urban systems, and infrastructure;
f. Strengthening capacities required to bring about needed change, including greater collaboration with key local and national stakeholders.

To implement these reforms, provision must be made for greater participation of community groups and the private sector in decision-making processes which affect urban and local economic development and management. A stronger emphasis on capacity development is needed to ensure that reforms result in more sustainable development outcomes for cities. Knowledge activities should underpin all the above activities, but need to be operationally relevant and practical for users/participants.

No institution is likely to achieve this reform agenda on its own. The issue of partnerships is thus crucial. At present, a range of agencies focuses on their own particular sector or role. The need to provide a ‘voice’ of the city, encouraging a cross-sector, and cross-institutional approach focused on city problems, across the range of partners, is critical.

Such partnerships also need to include international financial institutions, specialist climate/environmental funds such as the GEF and GCF, associations of local governments such as CITYNET, UCLG ASPAC, ICLEI and CLGF, Foundations such as the Gates, Clinton and Rockefeller Foundations, and private sector initiatives such as the World Business Council for Sustainable Development.
ESCAP has a key role to play in providing an inclusive regional platform for cross-sector analysis and a multi-stakeholder dialogue. It can do this by:

a. Promoting the development of national urban policies to achieve sustainable, resilient and inclusive urban development;
b. Promoting dialogue among different levels of government and other stakeholders to develop collaborative governance systems needed to support the sustainable development of cities;
c. Fostering knowledge sharing among development agencies cities and local governments to improve regional platforms which provide for the collaboration needed for effective responses to the urban challenges of the region;
d. Reviewing current practices of financing and identifying areas where local governments can increase their fiscal performance and asset management;
e. Developing improved data management systems and tools to improve the analytical basis for planning, management and sustainable development of future cities.
Introduction

Context

The outcome document of the United Nations Conference on Sustainable Development (Rio+20), “The Future We Want,” reaffirmed political commitment to address the challenges to sustainable development for all, in particular in developing countries, and emphasized that regional commissions have a significant role to play in promoting such development as an integral part of the post-2015 development framework.¹ The sustainable urban development agenda will be a vital component of the implementation of the Rio+20 outcomes, as well as the Sustainable Development Goals (SDGs) and post-2015 development agenda. This is underscored by the inclusion of “sustainable cities and human settlements” as one of the key thematic areas under the framework for action and follow-up.

In this overall context, in 2016, the United Nations will be convening the third Conference on Human Settlements and Sustainable Urban Development (Habitat III) to secure commitment of the urban sector for action towards the Future We Want, and to map out a “New Urban Agenda”. Pursuant to General Assembly Resolution 67/216 and UN-Habitat Governing Council Resolution 24/14, regional commissions are requested to contribute to all stages of the preparatory process, including through, among others, the preparation of regional reports, contributions to a global report, the convening of regional meetings and the utilization of their regular sessions to provide inputs to the preparatory process for Habitat III.

This paper addresses the challenges facing local governments in the context of rapid urban transformation and is designed as a first step in response to both the overall post Rio+20 sustainable development framework; regional discussions on themes related to Habitat III and for identifying key challenges facing local governments in the context of rapid urban development in the region; and roles ESCAP could play in support².

The Focus

The Rio+20 Outcome Document is very comprehensive, covering many aspects of sustainability, but the importance of the urban and other sub-national entities in implementing the measures required to achieve global sustainability is recognized. However, the fact that the urban sector organizations will play a pivotal role in implementing almost all of the proposed measures is perhaps not sufficiently emphasized. This is particularly relevant for Asia where the urban share of the economy is even larger than the wealthy ‘western’ countries. Raising the visibility of the issues of sustainable urban management, and the level of policy debate on them is perhaps a critical role for ESCAP. There is an absence of discussion on the development of green economies and cities, something many countries and international development agencies are giving greater attention to.

ESCAP should raise issues relevant to policy-makers and that the discussion around them is framed in terms of practical implementation. Using inputs gathered from the “Regional Workshop on the Role of

Local Government in the Future We Want” held in Bangkok on the 28th October, this document is intended to identify areas where ESCAP can add value to the international and regional dialogue on the implementation of the Rio+20 agenda inputs to the Habitat III conference.

Recent trends and experiences in Asia-Pacific urbanization

Continuing rapid growth - particularly in secondary cities

Today’s urbanization presents cities, particularly secondary cities, and national governments with unprecedented challenges. In the Asian region alone, the urban population is expected to increase by an additional 1.1 billion over the next 20 years. The need for urban services and infrastructure will rise dramatically, placing cities under tremendous pressure to address current shortfalls, but also meet rising future demand. Over 70% of greenhouse gas emissions can be, directly or indirectly, attributed to cities. Cities must strategically think about how they can invest to be globally competitive, achieve economic and employment growth, while addressing environmental and social challenges such as climate change and urban poverty. Within the next decade, the rural sector population in the region will start to decline, and the cities are where nearly all jobs will be created.

A salient deficiency to the creation of sustainable development and adequate livelihoods in cities is ineffective urban governance along with inadequate levels of infrastructure and quality of urban service delivery. The public sector is often unable to respond due to deficits in planning and management capacity, in service orientation, in the private sector involvement and in access to financial resources, which together seriously undermine efforts to meet the growing demand for quality infrastructure provision, livelihoods and urban services.

Nevertheless, such rapid change presents opportunities to foster sustainable development. For example, the influx of 120,000 people to cities per day will require the provision of 20,000 houses, 250 km of local and feeder roads and 6 mega-liters of water. Such investments, almost doubling the existing investment stock in urban areas, if carried out in a sustainable manner, can be a significant step forward in fostering sustainable development.

ESCAP has the regional mandate to engage with national and local government in the development of their sustainable urban development policies. To make such engagement effective, ESCAP should focus on helping governments shape investment patterns in cities, promoting environmentally efficient and inclusive development.

Concentration of the economy in the urban areas

Asia’s cities are the focus of the national economy. Notably, this is much more so in Asia than in most OECD economies with higher levels of urbanization. This makes urban economies crucial to the national
and regional economic agenda in general and to the pursuit of sustainable economic development in particular. This has not, however, with few exceptions, resulted in national governments prioritizing urban development. This situation should change. Arguably the most important economic priority for many Asian governments is to foster efficient and competitive cities.

In 2011, urban areas contributed about 80% of the gross national product (GDP) in Asia but represented only 45% of the total population. The range of concentration is wide, from the city-states of Singapore and Hong Kong, China that produce almost all of their GDP in urban areas to Myanmar and the Lao People’s Democratic Republic (Lao PDR) where urban areas produce much less, at 45%- and 51% of total GDP respectively. Overall, East Asia’s urban populations produce 92% of their countries’ wealth, with Southeast Asia at 77% and South Asia at 75%. Per capita GDP in urban areas is much higher than overall national averages.

Rapid urbanization has been the key driver of Asia’s dynamic growth and development — and the poverty reduction that has resulted. The region’s success has been dependent on high levels of capital investment to create world-class industries, rising productivity, and openness to foreign trade. Asia’s businesses and workforce are becoming increasingly competitive in the world economy, and this is the driving force behind increasing levels of urbanization. Such processes will continue to predominate in some countries, such as Bangladesh and Vietnam, but rapidly rising incomes mean that a number of countries, China, Malaysia and Thailand among them, are running up against the limits of export-led, manufacturing-based growth. A new strategy, maximizing both external competitiveness and support for endogenous growth, is needed. Improved infrastructure, reducing input, transport and transaction costs to business, is critical to competitiveness and to laying the foundation for internal trade and the development of scale in service industries.

The economic cost of inadequate infrastructure is not only high, but is beginning to threaten the competitiveness and productivity of Asian cities (and national economies in consequence). For example, India needs to invest US$1.2 trillion to wipe out the deficits in urban infrastructure, to meet the requirements of the urban population over the next twenty years, and to enhance national economic growth — a related estimate is that the current urban infrastructure deficit costs India about 4.3 percent of its GDP per year and significantly reduces its potential economic growth. Some governments in Asia have recognized this and have attempted to meet the infrastructure challenge by establishing new mechanisms to invest in urban infrastructure, both as a step to maintaining domestic growth and also to enhancing their position in the global marketplace. Such investment should be more resilient; help cut pollution and reduce cities’ resource impacts.

There is an opportunity for the cities in the region to consider adopting strategies to support

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‘endogenous’ growth as a means of stimulating the growth of local economies. Much of this growth would need to be ‘locally-focused,’ i.e. promotes industry and services within the urban region – meaning the contiguous geographic area which functions as a regional economic unit. Such growth has the potential to reduce the environmental impact of urban development by reducing energy used in transport of materials, and by increased use of recycling and reuse of waste and products.

Maintaining Asia’s growth trajectory and its contribution to the world’s economic system is a formidable challenge. As Asia moves towards closer integration with the world economy, it will need to make a major reassessment of the ‘qualitative’ shifts in production patterns required and of its consequent infrastructure needs. This in turn will require changes in the way we plan and implement ‘soft’ and ‘hard’ infrastructure investments, as well as in the design and operation of urban management institutions.

*In its regional dialogue on sustainable urban development policy, ESCAP should focus on fostering implementation of concrete measures potentially within the capacity and mandate of local governments. In urban regions, this often means the provision of social and economic infrastructure. It should promote the use of planning systems for infrastructure which, in turn, provides the basis for, and guides, sustainable development.*

**Environmental challenges – global and local**

Cities occupy only 2% of the world’s land but consume 75% of its resources. They produce a similar percentage of the earth’s wastes. Rapid urbanization in many Asian cities has resulted in severe environmental problems occurring which will take decades to address. Unfortunately, environmental problems experienced in smaller cities are often very severe. Many of these have limited ability to manage the pressures of urbanization. As they consume resources, all cities produce waste, including air pollution, GHGs, solid waste, and toxic effluents. They also make unsustainable demands on soil and water supplies for their food production, and on forests for the timber and paper they use. London needs 125 times its own area to provide the resources it consumes, and if urban areas in the developing world grow in the same way and consume at the same levels, the environmental impact will be catastrophic.

A sustainable footprint for each person in a world that shared all its resources equally would be about 1.8 hectares (ha) per inhabitant. The average ecological footprint in rural China is 1.6, but in Shanghai it is already 7.0 and in a typical United States (US) city is about the same. Even if the world’s entire population were to return to the countryside, our economy would still not be sustainable. Modern high-

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11 See Footnote 4.
12 ‘Hard infrastructure’ is the physical economic (e.g. ports, social (e.g. schools) and environmental (e.g. waste water treatment) infrastructure a city needs. ‘Soft infrastructure’ is the skills and systems on which the effective planning and operation of such physical infrastructure depends
consumption lifestyles mean there are reducing gaps between the ecological footprints of rural and urban areas. Moreover, as discussed above, to reduce poverty, urban areas need to grow.

At the community level, poor environmental conditions are directly responsible for about 25% of all preventable ill health in the world today. Two-thirds of those affected are children. They fall ill because of a lack of essential environmental resources—chief among them adequate clean water, food, shelter, fuel, and air. People are also made sick when exposed to hazards in the environment. Many diseases are linked to environmental problems like polluted drinking water, foul air, poor waste disposal, and the presence of mosquitoes and other carriers of disease. Changes in the way people live and work can also cause a sudden increase in old diseases and the emergence of new ones. Overcrowding and industrialization affect the health of millions in the developing world.

Asia’s overcrowded and sprawling slum settlements suffer severe environmental and health problems. Garbage collection is often non-existent, and drainage tends to be poor, creating ideal conditions for insects and other disease vectors. Our cities’ poorest people, who are often excluded from the benefits of emerging prosperity, may also face a disproportionate share of health risks related to economic growth. Urban slums may be located near major roads, factories, or dumpsites, exposing residents to higher levels of air pollution or to the risks of industrial accidents.

The economic, health, and other costs of environmental degradation are already high. The cost of air and water pollution in Jakarta probably exceeds 1 billion USD per year, while, in Bangkok, it is more than US$2 billion. Environmental costs in Asia’s other large cities are comparable. They are rising as safety thresholds for a large number of pollutants and poisons are exceeded in increasingly large geographic areas. According to Science magazine, exposure to air pollution affects “death rates, hospitalizations and medical visits, complications of asthma and bronchitis, days of work lost, restricted-activity days, and a variety of measures of lung damage.”

Asia-Pacific governments do not often fully account for the cost of a poor environment – on the planet, on energy security, on health and productivity, and on competitiveness. Malaysia is sponsoring a Green Cities initiative within ASEAN with the support of Indonesia, Vietnam, Thailand and Myanmar, and the technical assistance support of ADB. Japan is fostering an Environmentally Sustainable Cities initiative with extensive support of Asian cities and has led the way in respect of promoting industrial ecology in the region through its Ecotowns program. China has developed several approaches to developing Ecocities and has promoted the concept of ‘Circle Economy’ very much akin to urban metabolism thinking. These diverse approaches are still mostly at the pilot stage or apply to restricted parts of the city’s economy, but are providing examples and learning experiences which can be built upon.

The key challenge for the Asia-Pacific region, therefore, is to build national approaches to maintaining, and indeed improving, living standards while reducing environmental damage from urban-based

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production, consumption, and waste production. Although environmental damage is high, technologies and cleaner energy sources are available which will decrease the need for fossil fuels without adversely affecting the quality of life and energy costs.

ESCAP needs also to improve understanding and action on the negative consequences of environmental damage and the most cost effective ways for local governments to ameliorate this damage. In the context of policy dialogue and its focus on concrete action to develop appropriate hard and soft infrastructure, environmental infrastructure and systems (for example waste water treatment, promoting energy efficiency) should be a priority.

Lack of inclusiveness and disparity in Service Access

The urban poor comprise a vast mix of people with very different personal collective histories. Some urban slums are mature settlements that have existed for 20 or 30 years. Others areas are far less established and inhabited by recent migrants to the city. It is widely recognized now that poverty has many dimensions and to capture its real meaning, it should be measured using a variety of indicators.

About 70% or 800 million of the world’s poor live in Asia. Between 240 and 260 million of them or 33% live in urban areas. Studies show that while the proportion of poor urban households has been falling in most countries, the numbers remain high. In 2004, about 150 million urban poor were estimated to be in developing countries of Asia. The largest proportion of the urban poor live in India, which accounts for half of the total urban poor in Asia. Bangladesh, Indonesia, Pakistan, China, and Philippines are each home to more than ten million impoverished city dwellers.

Many of Asia’s urban poor live in informal settlements, in both built-up and peri-urban areas, in squalid, high-density slums. Most residents who work in the informal economy subsist on low incomes, usually because of a lack of access to full employment. They usually live under conditions of extreme deprivation and degradation and suffer social exclusion. Of particular importance is the lack of access to basic urban infrastructure services such as local clinics, education and good drainage which enable households to be more productive and build assets.

The absence of affordable, adequate housing, a key asset for the poor, highlights their exclusion. Despite appalling housing conditions, they often face eviction. But they also need such basic infrastructure as water supply and sanitation. Many suffer from poor access to education and health services, and have inadequate social protection. Simple poverty measurement indicators do not reflect a lack of access to urban services, or the vulnerability of the urban poor to health, or economic shock. These factors often send households spiralling into deeper levels of poverty.

Poverty influences people’s health because it largely determines an individual’s environmental risks, as well as the person’s ability to access resources to deal with those risks. Many in the poorest countries

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22 Deolikar, Anil and Pernia, Ernesto. 2003. ‘Poverty Growth and Institutions in Developing Asia.’ Manila
live in conditions that imperil their health through steady exposure to biological pathogens in their immediate environment. More than 500 million people in Asian cities lack adequate shelter or acceptable housing. Safe water is unavailable to 700 million in these cities, and two billion of their people have no access to adequate sanitation. All these basic needs are necessary for good health.

Projects designed to overcome the lack of access to basic services are hard to formulate and implement. By their very nature, they must be community-focused, multi-sectoral, and run at both the community level in a participatory way and at the city level – there is no point in improving local area drainage if the city-wide system cannot accept the outflow from the city. Successful examples of such projects do exist. Projects as the STEP UP project implemented by Philippine Business for Social Progress (an NGO) and the Neighbourhood Upgrading and Shelter Sector Project implemented by the Indonesian Department of Public Works constitute important models from which to learn.

Lack of inclusion does not only affect the poor. Their lack of productivity brought on by poor health affects the economy and, given that the informal sector may comprise a majority of the economic activity and employment of a city, this matters. The potential for spread of disease, social disruption and the environmental consequences of slum development also affect the city’s competitiveness. National ‘inclusive city’ policies are thus also a priority for sustainable development agenda and should be an integral element in sustainable urban development policy and infrastructure systems promoted in ESCAP-facilitated regional dialogues.

Decentralization

Many countries in Asia have embraced decentralization or devolution – meaning certain aspects of service delivery have been given to local governments. In practice, most decentralization has been more a transfer of administrative responsibility than a real commitment to full local governance of service provision. In some countries, central control over local government is characterized by financial control, in others by the appointment of senior staff. The degrees of dependency on central transfers and of control of financial resources vary although the general situation is one of high dependency. Some countries, particularly in the Pacific, do not have the financial resources to support local governments. The levels of central government involvement in the collection and subsequent distribution of revenue vary too.

In the Asia-Pacific region local governments operate under legislation promulgated by higher levels, whether the central government in a unitary form of a national government or the state or provincial legislative body in the federal system. This structure determines the powers, authorities, duties, functions, and forms of local government. The Philippines have relatively strong local autonomy. Local governments prepare budgets, subject to review by higher levels. There is some local discretion in salaries, though civil service regulations have national coverage. Most staff are hired locally, and a few

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24 Defined as having the mandate and the ability to regulate, manage, and take responsibility for a substantial share of public affairs in the interest of the local population.
senior positions are appointed by the elected mayor—the city administrator and city secretary, for example. But national governments appoint the treasurer and budget officer.

In China, local budgets are approved by a people’s congress at the same level but this power is offset by the hierarchical linking of budgets, limited local tax autonomy, directives from above, and earmarked funds. Local officials are appointed by the local people’s congresses, but higher levels of government appoint senior local government officials. Overall, China and the transitional countries in the sphere of the former Soviet Union have less local autonomy, and there is more local independence in countries with extensive experience of market mechanisms, such as Indonesia, Philippines, and Thailand. 

Trying to summarize the experience with decentralization and service provision is complicated by the variety of decentralization and devolution models in the region. There are different approaches to devolution of responsibilities in respect of type and level of services devolved, distribution of planning and revenue raising powers, mechanisms of fiscal transfers and human resource management. But the net result has usually been to place additional burdens on already hard-pressed local government. It is thus very important that common issues of decentralization/devolution be analysed, and the institutional constraints to improved performance are addressed, in order to meet the challenges described above.

Nevertheless there are models that display at least some positive aspects of a well-managed decentralization process. Seoul demonstrates effective governance of its metropolitan region. At a smaller scale, the Philippines have examples of local governments coming together voluntarily in a metropolitan structure – one of the most effective being Metro Iloilo-Gimeras. Metropolitan governance focused on economic development is relatively rare, however. The Cairns Region in Australia provides one example. As a core part of regional dialogue on sustainable urban development policy, ESCAP has a role to improve the dissemination, improvement and adaptation of these models and others throughout the region.

Challenges for Asia-Pacific cities

Economic, social and environmental sustainability

In order to implement the Rio+20 agenda, Asia-Pacific cities’ ability to plan, finance, construct and maintain a sustainable economy, and its underpinning infrastructure needs to be strengthened. While Asia has progressed significantly in bolstering its capacities for urban management, key areas of capacity deficit remain. In particular, the region needs to build: capacity for fostering sustainable economic growth which achieves society’s social and environmental goals; sustainable financing systems and capacity required both to fund capital expenditures and to service debt and to operate and maintain the consequent investment; and systems of metropolitan governance needed to manage multi-jurisdictional urban areas which underpin this growth and financing. It is these areas where efforts should be focused.

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25 ADB 2008 ‘Managing Asian Cities’. Manila
Cities must be ready to take up the role of economic drivers if current export-led growth falters. But many do not have a citywide strategy for economic development and often they are not business-friendly and are burdened by regulations and inadequate infrastructure. Many national governments have adopted poorly targeted mechanisms for redressing imbalances and differential regional growth. And growth achieved must be inclusive. If the poor are excluded from the benefits of economic development, economic progress is slowed by the lack of a broad base of demand and, in extreme, by social disruption. The environmental impact of Asia’s cities on their hinterland and the planet is now a global concern. New approaches to take on this challenge must be planned and developed.

Considerable investment in both ‘hard’ and ‘soft’ infrastructure is needed, but funding the vast gaps that now exist is a major difficulty. Asset management—rather than asset shortage—is also a major problem and appropriate infrastructure maintenance and rehabilitation programs need to be designed and funded.

Policy and regulatory shortfalls

Thus, a core national policy priority should be the development of sustainable, competitive cities. Such policies should focus, first, on making Asian city regions as efficient as they can and need to be. They must address the serious financial, administrative, and coordination weaknesses in the face of unprecedented and often overwhelming growth and change. The effects of population increase combined with rising standards of living pose significant challenges for city management. Cities can be socially excluding. They suffer severe shelter and social problems. Most need affordable, adequate housing not only for the poor but also for the lower middle class, leading to substantial shelter backlogs and extensive informal or illegal settlements. These issues need to be addressed. Community participation in planning and implementation is limited, and self or group interest often determines development priorities. Better transparency and accountability is needed.

If the full potential of Asia’s city regions is to be realized, action is clearly needed through systemic initiatives tailored to local circumstance. At the national level, appropriate enabling frameworks are missing. These relate to:

- Capital markets, where there are few incentives to mobilize the currently liquid capital markets, especially pension and life insurance funds, to finance infrastructure.
- Intergovernmental transfers, which are now often primarily formula- and mostly population-based and do not foster intergovernmental coordination, efficient use of assets, the generation of own-source revenues, and the needed infrastructure investment.
- The civil service, which has few mechanisms and incentives for building capacity of staff in local governments.

Given the urgent need for development to build sustainable social, economic, and environmental infrastructure, these constraints must be addressed.

26 ADB. 2013. ‘Infrastructure for a Seamless Asia’ Manila.
At the implementation level, there must be clear incentives for strengthening city management and encouraging better quality development of Asian cities. This means recognizing that action is necessary at both macro- and micro-levels and that the speed and scale of urbanization demand new approaches. National governments must also put an enabling framework in place to encourage local governments to generate their own resources and to help them fund infrastructure which is beyond their ability.

Responsibility for developing policy at regulation at city level should rest with groups of local governments within urban regions, each local government, citizens, and businesses, and all other relevant stakeholders involved. If the potential benefits from project and program interventions are to be achieved, change must be systemic. Prescriptive methods should be avoided where possible because they are the antithesis of decentralization, and development should be encouraged through market forces and incentives. The challenge is to change management cultures—from a prescriptive orientation to one that rewards outcomes.

**Institutional and capacity shortfalls**

Cities are critical to the implementation of the broader sustainable development agenda. But at the implementation level, significant institutional and capacity shortfalls exist. The priority action areas are to:

- improve coordination systems, both multi-stakeholder, and cross-border—including better strategic planning and management systems for city regions, integrated across jurisdictions and sectors which foster greater community and private sector involvement.
- improve financial structuring, including local capital markets, private sector participation, and viable projects, and also upgrade the financial viability of the city region authorities and the mechanisms for financing infrastructure and services.
- enhance the capacity to undertake the above activities across administrative and jurisdictional boundaries.

Changing the way cities function will firstly need new forms of planning and urban governance. This is particularly important to meet the objective to foster a ‘green urban economy’—one that is environmentally sustainable—which will also contribute positively towards poverty eradication.\(^{27}\) City governance and planning systems face significant challenges about these expectations and agendas.

Almost all Asia-Pacific cities have outgrown their original municipal jurisdiction and their urban areas now extend into at least one other local government (and often many). In addition, the state/provincial government level (and sometimes the national government) also provide(s) urban services. However, systems of metropolitan governance, allowing integration of these various levels of provision, are mostly inadequate, falling short in any or all of their geographic coverage for planning and representation, sector coverage, and financial ability to fund investment. Where they exist, metro areas do not include the entire urban area. Many only cover some sectors—for example only transport, but not water. Intergovernmental fiscal systems often cannot provide for burden sharing for investment, not to mention

\(^{27}\) ADB 2012 ‘Urban Operational Plan.’ Manila.
such sharing between different levels of government (say local-state/province levels). In addition, instances of shortfalls in accountability and transparency are commonplace. This being said; initiatives in these areas exist. For example, Indonesia introduced a mechanism of sharing national resource tax revenue with local governments.

Cities need strategic plans to define investments to address social, economic, and environmental issues in an integrated manner. They do not have enough systems in place to analyse current trends, to develop strategies to address problems, and to plan, structure and finance investments to achieve the strategies. In many cases, the resources available to carry out the proposed programs and projects are insufficient. Compounding the situation is the fact that many cities approach these problems with little sense of urgency, and many officials feel overwhelmed by them. To some, the city appears ungovernable. This cannot continue. Failure to act now risks economic, social, and environmental disruption on a significant scale.

But cities in many developing countries often lack the mandate and/or capacity to undertake urban planning let alone planning for sustainable economic development. Nor do they have mandates to plan or implement major items of strategic infrastructure needed to achieve such growth. Further, their plans do not necessarily include the entire urbanized area let alone the whole economic hinterland of the city, and different agency level plans may contradict each other. Sector plans (e.g. water supply) may not reinforce the land use planning. Plans are often ignored with impunity by developers and the informal sector. While this is partially a function of inadequate and inequitable land management systems, the need to link planning systems to the broader issues of land management (e.g. land tax and value capture) has largely been ignored.

Better systems of metropolitan governance systems are needed for all large cities in the Asia region to improve planning, funding, and implementation of urban infrastructure and services. This is difficult to achieve. Annexing of adjacent local governments by the core local government is fiercely resisted and rarely successful. Raising the level responsible for metropolitan governance to state/provincial level, while theoretically appealing, is also rarely effective. The significant decentralization that has taken place in many developing countries over the last 20 years has eroded the authority of the provincial level. Thus the ‘Sydney model,’ in which constituent local governments are subject to planning controls at State level and metro infrastructure services are provided by state-level corporations, will not work – the local governments have too much statutory power. Nevertheless, these fundamental issues can be addressed over time.

**Infrastructure shortfalls**

The McKinsey Global Institute (MGI) estimates US$57 trillion in infrastructure investment will be needed between now and 2030 to keep up with projected global GDP growth\(^\text{18}\) – of which approximately US$17 trillion will be needed for the Asia-Pacific region. This figure includes the infrastructure investment needed for transport (road, rail, ports, and airports), power, water, and telecommunications. These

\(^{28}\) MGI 2013 ‘Infrastructure Productivity: How to Save $1 trillion per year’. Washington.
estimates are nearly 60% more than the US$36 trillion spent globally on infrastructure over the past 18 years and more than the estimated value of today’s worldwide infrastructure. Even then, this amount would not be sufficient to address significant backlogs and deficiencies in infrastructure maintenance and renewal or meet the broader development goals of emerging economies which ADB estimates as over US$200 billion for Asia.\(^2^9\) The McKinsey analysis suggests that addressing such shortfalls will promote economic growth – equivalent to 1% of GDP would translate into an additional 3.4 million direct and indirect jobs in India and 700,000 in Indonesia, for example.

The value of the inter-linkage between infrastructure and economic growth is borne out by the comparison of the expansions of two major Asian cities, Shanghai and Bangalore.\(^3^0\) In Shanghai, the mayor, well known for cutting through red tape, led the opening up and development of Pudong, Shanghai’s hinterland, between 1987 and 1991. From the start, Pudong has followed a strategy of infrastructure goes first. It undertook ten major infrastructure projects, including bridges, tunnels, the Metro, and a deep-water port. As a result, Shanghai grew at 8–10% per annum in the 1990s and Pudong at 16–18%. The US$40-billion investment in infrastructure changed the face of Shanghai and its roads, buildings, transport, and telecommunications emerged as some of the best in the world.

In contrast, Bangalore has been held back by the state of city infrastructure, which is threatening the city’s position as a primary global destination for investment from overseas. Problems of traffic congestion, power supply shortages, intermittent water supplies, and inadequate public transport facilities have constrained their growth. This has led to inefficient compensating investment. There is not enough power, so the city needs substantial improvement to power generation, and there is no sewage treatment plant, so there is a need to set up a proper effluent treatment system, and so on. The city has ambitious plans to address these issues, but will need to be very proactive and constant in the implementation to keep ‘on top’ of them.

Importantly, McKinsey also notes that, while the size of the infrastructure “gap” and the undoubted challenges there are in finding the finance needed to close it. The debate is dominated by political and public discussion. Unfortunately, this diverts attention away from ensuring that efficiencies are achieved in the management of existing infrastructure or on the need for quality project preparation which is focused on getting more, better-quality infrastructure for less. The MGI report argues that there is an emerging opportunity to increase the productivity of infrastructure investment by a substantial margin – saving over one-third of the cost in fact. But these savings are dependent on better, overwhelmingly urban, management systems.

**Financing challenges**

Asia-Pacific local governments are severely constrained in their ability to finance current levels of service provision for which they are mandated. Local governments are constrained by decision-making involving the building of systems and infrastructure to underpin the development of sustainable economies. The

\(^2^9\) See Footnote 24

\(^3^0\) International Herald Tribune. 2005. ‘Infrastructure in Support of City Growth’ 5 September.
problem of finance for sustainable development thus has its roots within the general legal and financing structures and incentives applying to local governments. Urban finance in Asia is thus a four-level problem:

1. Local government finances have been traditionally weak. Local governments have often not collected the taxes they are due and have not set tariffs to maintain the levels of cost recovery needed to achieve sustainable operation of services. On the other hand, incentives to perform in this area are lacking and sometimes encourage weak local performance in order to attract additional grants.

2. Local governments have been given unfunded mandates. They are vested with the responsibility to provide services, but not given the corresponding revenue sources (either from local taxes or transfers from higher levels of government) or funding sources (through such mechanisms as municipal development funds or municipal bonds).

3. Local governments are either prevented or are strongly restricted in their access to the capital markets for investment funding, and, on the other hand, sources of long-term capital such as pension funds and life insurance companies are constrained from providing such finance.

4. Many local governments have poor or no record of the public assets they own or their value, and are not able to prepare balance sheets which provide a statement of credit worthiness. Most local government units (LGUs) are asset rich and cash poor, but are not able to capitalize upon public assets to raise funds for upgrading these to improve returns. There are many opportunities to develop bankable projects which capitalize on the value of assets owned by LGUs.

Improved systems of urban finance thus need to address a) the current widespread incentives for local governments to under-perform in revenue generation and fiscal governance because, for example, national transfers are determined only by population and are not structured to ‘match’ funds generated locally; b) the lack of capacity and structures to leverage their funds once generated, for example, by borrowing or attracting private investment, and c) macro-level constraints on long-term funding for: ‘soft systems’ which are not easily presented to the public as a clear benefit; and infrastructure, for example, constraints operating through restrictions on investments that pension funds and other wholesale funds providers can make. In relation to the Rio+20 agenda, the mandate for local governments to raise and use funds for promotion of investments in sustainability – both directly and through fostering investments by other parties – needs to be strengthened.

Despite decentralization, International Monetary Fund (IMF) data show that local governments are less self-sufficient today than they were 15 years ago\(^1\). National governments have not transferred funds or gained access to finance to match service delivery obligations. However, the wholesale transfer of funds to local levels has been cautioned by evident issues of accountability and transparency in local governments, which have not always been seen as fiscally responsible or adequately meeting needs. This perception should be tempered by an understanding that these responsibilities have changed over time, and performance is best measured in parts. Sub-national government debt and contingent liabilities have brought about significant problems for national governments in India and Latin

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America, and to a lesser extent, China. As noted above, a problem in Asia-Pacific countries is that many LGUs are limited in their access to capital markets and levels of borrowing when they have ability to raise taxes and borrowings to pay for the development of local infrastructure services. Although, the current system is inefficient. The ineffective the current dearth of systems fostering local fiscal responsibility and local government capacity to borrow flies in the face of both economic theory and need.

In addition to these issues, when addressing the Rio+20 sustainability agenda, local governments have neither the mandate to fund nor access to the funds needed to foster a sustainable economy or even to put in place more environmentally friendly types of infrastructure that their cities need. Such investments are often, at least in terms of initial capital costs, more expensive than their traditional competitors. Justifying the procurement of a more expensive liquefied natural gas-fuelled busways against some standard diesel buses may be very difficult, especially in the context of widespread shortfalls in services to the poor.

**Strategies for addressing the challenges**

**Getting mandates right**

It is necessary to urgently develop efficient systems to manage the current wave of rapid urbanization. An achievable model is likely to be based on local governments being given the mandate to voluntarily form metropolitan councils and secretariats, incentivized by additional resources from higher levels of government – only forthcoming if effective management systems are in place. These higher level arrangements would have to be complimented by metro-wide service providers managed on a corporatized or concession basis under the control of the metro body. City development plans under India’s Jawaharlal Nehru National Urban Renewal Mission (JNNURM) are metro-wide and have catalyzed cooperation on infrastructure investments among adjacent local governments.

To provide a basis for ensuring effective management systems are in place, the Asian Development Bank is conducting a study of eight cities in South Asia to examine collaborative urban governance using set of 33 indicators. The research is testing the hypothesis that there is a relationship between the competitiveness of urban governance, and the economic, social and environmental performance of cities. Specifically the study examines institutional governance, strategic planning and resource management. It uses a technique developed for the City Cluster Economic Development Study to identify deficiencies between the current and desired future state of urban management practices such as development assessment, urban planning and infrastructure development, resource management, municipal finance and organizational management. These factors play an important role in fostering enabling environments for the creation of competitive, inclusive and green cities. The research is expected to provide a tool that improves the design and implementation of capacity building projects

for local governments funded by the Asian Development Bank and other international agencies and can also serve as a filter for access to incentive funding.

While the above mechanisms constitute the core of the needed governance system, it will need support, both from ‘below’ in terms of involvement of local communities and civil society, and from ‘above’ in terms of regional support networks fostering policy dialogue on sustainable urban economic development issues.

Systems and models for integrated planning to support sustainable development are being used in many countries in the region. However, exemplars of good practice and systems used in Singapore and Japan for example are not always or altogether appropriate for much of Asia. A better approach, addressing both the flexibility/ responsiveness and resources issues, would seem to be to mandate a combination of high level of ‘strategic sustainability planning’, and effective investment planning. The high-level plan does not set out detail land use zoning, but provides the directions and principles on which development approvals should be given and identifies critical infrastructure needed to support the implementation of the plan. Such a strategic approach is shown in the London Plan33 and the Global Green Growth Institute (GGGI) is fostering a ‘sustainability-focused’ planning process. An infrastructure investment plan should complement this strategic plan. Set within a budget envelope, it is designed to describe and prioritize critical infrastructure that will reinforce the strategic planning directions. The city development plans undertaken for the Jawaharlal Nehru National Urban Renewal Mission (JNNURM) in India constitute an example of these investment plans.

Given that models do exist, national and sub-national governments should work together to develop sustainable urban management systems, appropriate to their own governance context, which will embody the key institutional structures of useful models: These are:

- National planning systems which establish guidelines and targets under the Rio+20 framework which provide a clear mandate, actions and targets for cities (or city regions) to be embodied in a formal plan. These systems should include appropriate incentive systems (see finance below) and enforcement mechanisms to realize the plans.
- Short duration, ‘strategic’ sustainability planning mechanisms which provide for continuity across political terms. Such mechanisms should provide options for greening the economy and reducing the ecological footprint of the city. They should also incorporate active consultative systems.
- Structures to enable effective collaboration and decision-making in priorities for funding investment required by city plans across national, state/ provincial, city region and/or city levels.
- Dedicated capacity and sufficient resources at national, state/ provincial, city region and/or city levels capable of 1) utilizing rapid assessment tools and incorporating them into the strategic planning process and 2) participating in the investment prioritization processes.

The role of civil society in these processes is critically important. The focus on institutions and systems can at times overshadow the purpose of these organizations and systems and whom they are intended to serve. New ways and means should be elaborated that create additional space for participation by

civil society in key decisions on urban infrastructure investments. If more accessible, relevant information and appropriate incentives are given; citizens will typically not only support the initiatives, but often will be willing to make contributions.

Financial strategies

Reversing the current situation, with its ineffective incentive structures and lack of local government funding options at a systemic level by realigning the revenue raising duties and powers of government levels and by reforming inter-governmental fiscal relations is needed, but it is a long term goal. In the short term, we must ask what financing structures can address pressing needs for financing of investments in sustainability, such as in the local production of products using sustainably produced local materials, in the infrastructure supporting such sustainable production, and in systems and infrastructure to increase community resilience in the face of climate-related threats.

In the short-term, incentives can be built into existing inter-governmental transfers over and above minimum mandated untied transfers (and there are usually quite a substantial quantity of these) to a) collect taxes and fees due using matching grants;34 b) undertake the needed investments using matching grants and access to finance, and c) leverage their funds using guarantees and facilitation funds for public-private partnership (PPP) activities. The Philippines have piloted a ‘Challenge Fund’ for local governments, providing matching grants for national priority environmental investments (such as solid waste) by local government.

National policies both framing and linked to fiscal transfers can provide incentives for better transparency, local governance and finance performance. As a ‘frame condition’ nationally mandated minimum property valuations and taxation rates can prevent a ‘race to the bottom’ by local governments. They can also define, and encourage through transfers, additional or strengthened mechanisms to bolster local government revenue – such as infrastructure charges to developers and tax increment financing. National policies can also foster improved fiscal performance, for example, by making access to additional finance and/or guarantees contingent on satisfactory ratings. These rating systems do not have to be the full ratings agency evaluation; intermediate systems have been developed in the Philippines, for example, though this should be seen as the ultimate goal. Further, national policy can also extend the ‘intercept rights’ to national transfers so as to broaden the pool of financiers willing to fund local government. In many instances, such initiatives will not require legislation and can be accomplished with changes to regulation.

In parallel to the above, local government financing system needs to be reformed and developed. Starting with strengthening municipal development funds (which most countries have),35 fostering a

34 Through cadastre development and other activities providing systems for more revenue generation and/or utilizing additional instruments such as various forms of land value capture – which are often possible within the existing legislation but are not utilized.
35 For example, extending financing options for smaller local governments through the use of ‘pooled financing’.
more commercial approach to investment\textsuperscript{36} and moving on to improving the enabling environment for PPPs and local government debt issues – in particular structuring capital market regulation and instruments to encourage holders of long-term funds such as pension funds and life insurers to fund infrastructure.

Given the above, there is the additional problem of how to make such financing systems more supportive to investment, both public and private, which fosters sustainable and inclusive urban development. The Republic of Korea’s incentive finance schemes\textsuperscript{37} provide a model, and, in developing countries, international funds such as the Global Environmental Facility (GEF) and, soon, the Green Climate Fund (GCF), are available. International financial institutions and development assistance agencies have significant funds available for climate-related investments. The United Nations Environment Programme Finance Initiative\textsuperscript{38} has developed models of how both domestic and international capital markets can be tapped for this purpose.\textsuperscript{39} The issue for national, state/provincial and local governments is to structure transfers to provide effective national incentives for investment in green economic activities and supporting infrastructure, and access to external funds.

**Capacity development needs**

Asia-Pacific governments need to build capacity in the critical areas of fostering sustainable urban economic development, financing and governance. In particular, the effective integration of social and environmental issues into planning for economic growth needs to break through institutional silos and adopt a programmatic approach to funding an integrated set of prioritized projects. In particular, the crowding in of private sector investment to leverage government resources requires new skills and approaches. The question is: ‘How can capacity development programs which address these issues be implemented?’

A national support mechanism for capacity building in sustainable urban development is needed. Such mechanisms can work through local government academies or urban development institutes, and must provide resources to network effectively with local governments and international agencies. They must:

- Ensure that local government staff have access to relevant skill training;
- Ensure access to high-quality knowledge in project appraisal methods, strategic planning, change management, e-governance, utility management, etc.;
- Assist with funding for institutional reforms and modernization or organizational governance; and
- Introduce civil service reform and generate incentives for higher performance and clean governance, with disincentives for corruption.\textsuperscript{40}

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\textsuperscript{36} For example, the Ho Chi Minh City Investment Fund for Urban Development (HIFU) was set up to leverage private sector investment with government assets (initially land).


\textsuperscript{40} Asian Development Bank, ‘Managing Asian Cities’ Manila. 2008
The JNNURM also has provisions for capacity development, albeit mainly focused on project development. This aspect of the program is expected to be considerably boosted in its second phase. In Indonesia, the ADB Capacity Development for Urban Infrastructure Management project is also a model of a comprehensive approach to capacity development that addresses many of the above issues.

While the above mechanisms constitute the core of the needed national capacity development system, regional capacity support mechanisms will be needed to support national and sub-national governments and civil society. Such mechanisms will encourage peer-to-peer learning, the development and dissemination of best practice examples and support to networks of practitioners fostering reform of mandates to foster sustainable urban economic growth, poverty reduction and funding.

**Collaborative governance**

Urban governance systems throughout the region are failing to deliver sustainable development outcomes for cities. There is growing pressure by business and civil society for fresh ideas and thinking about approaches to urban governance. These need to be built around a series of good governance principles, which are interdependent and mutually reinforcing, and involve greater consultation, cooperation, and collaboration between all sectors of society. Reforms to the traditional model of governance developed a century ago, and New Public Management in the 1990s, have not significantly improved urban governance performance of cities in developing the developing countries of the region. New urban governance models are needed in the region so that cities can use public and private sector assets and resources more efficiently, and institutional governance systems operate more efficient.

One approach to this is the application of collaborative governance. Collaborative governance is a relatively new approach to the theory and practice of urban management and development. It involves a governing arrangement where one or more public agencies directly engage non-state stakeholders in a collective decision-making process that is formal, consensus-oriented, and deliberative and that aims to make or implement public policy or manage public programs or assets.\(^{41}\) The approach is showing significant promise in overcoming the complexity and conflicts in decision making that affect the management of cities; however, there is still need for more testing of the approach if it is to become more widely accepted and used.

However, underpinning and informing the needed dialogue on the above issues will be to develop a methodology for monitoring and benchmarking progress. Such a methodology can be quickly developed from the previously mentioned Collaborative Governance Assessment of the ADB.\(^{42}\) The indicators used explicitly address the core areas. Governance and mandate are assessed in two dimensions: one set of indicators assesses governance institutions and another set of indicators assesses the systems of planning and implementation. Indicators of finance and asset management comprise another part of the assessment. Capacity development needs are identified by an assessment of human development.


\(^{42}\) ADB (forthcoming) Collaborative Governance: The New pathway to City Competitiveness. ADB, Manila
systems. Finally, indicators of the effectiveness of partnerships and leveraging of resources indicate how proactive a local government is in reaching out to find support in addressing its needs in the core governance, finance and capacity development areas.

The results of such an assessment could guide national and local governments in designing enabling frameworks and incentive mechanisms for sustainable development and international agencies in targeting their support for these - including inter alia the studies set out above. They will also inform an effective regional dialogue on local government and sustainability.

**Support for implementing strategies**

**Local and other sub-national Government supporting each other**

Local governments, local government associations, and state/provincial agencies where applicable, should foster:

- Budgeting capacity development in the fields of planning for sustainable urban development, asset management, urban finance and ‘green’ finance, and in project development as part of routine budget, and make provisions for project-specific knowledge programs.
- Use of training needs assessments in these fields for each local government, the service delivery agencies involved in urban regions, for their key regulatory agencies, local communities, and for relevant private sector stakeholders.
- Development of training programs to the budget defined above – in particular to introduce a junior professional training program for new graduates/recruits.
- Participation in “peer-to-peer” activities to share experiences and projects with other local governments.
- Establishment of links with local academic and professional bodies in these fields to establish a mechanism for independent sector advice.
- In the finance field:
  - Focus on strengthened management of finance and assets by enhancing technical capacity and through the introduction of modern management systems of financial and asset management
  - Enhanced revenue efforts and public compliance by installing e-governance management systems and integrated geographic information systems, and training staff in the use of associated hardware and software.
  - Improved budgeting, control, and cost-efficiency through the introduction of performance budgeting, establishing minimum standards for municipal services, setting targets for service delivery, monitoring performance, and linking incentives to improvement in the provision
  - Maximize the ownership and contribution of local communities through the use of participatory budgeting principles
Partnerships with development partners, private sector and community organizations by:

- Formalizing the interface with partner organizations
- Building on the skills and resources of partners
- Establishing legal and financial parameters of partnership arrangements
- Clearly formulating operational dimensions of partnerships

National Government support

Decentralization and devolution policies must be made to work to maximize the competitive and development potential the systems of cities which exist in countries across the region\(^3\). There are many sceptics. Central governments are often doubtful of local government capacity. Local governments fear changing long established practices. But central governments have neither the resources nor the local knowledge that is needed to provide effectively or efficiently local infrastructure and services in support of sustainable economic development, taking best advantage of local competitive strengths. Local governments must be given the clear, unencumbered responsibilities to provide citywide infrastructure and services and be provided with the necessary resources. To date, decentralization has had only mixed success, held back by problems in the enabling environment discussed above and by the limited capacities of local governments and institutions to deliver results.

There is a need to fast-track appropriate mandates of local governments, provide incentive funds for needed infrastructure, and sustained programs of technical assistance and training to improve urban governance and management. Aside from physical infrastructure, major investments are required in leadership and human resource development programs for local authority politicians, management, and staff as set out in the section above. Again, performance-based incentive systems are critical in achieving this.

International support

A range of development assistance agencies, including the U.S. Agency for International Development (USAID) and the Department for International Development of the UK (DfID), have now recognized the importance of the urbanization megatrend. The G20, under Australia's chair, supported by Treasury and the Australian Agency for International Development (AusAID), is expected to take up the infrastructure issue with a view to producing real deliverables, only achievable in urban areas. On the international stage, ADB has recently completely revamped its urban strategy, the World Bank has featured urban as one of the five key new areas of focus, and UNDP is in the process of formulating a new urban strategy. Other international development banks and agencies have developed urban strategies in response to the projection that, by 2050, nearly two-thirds of the world’s population will be living in cities. Similar changes in strategy have occurred in the focus of business and foundations. Urbanization is one of the five-focus areas for the Rockefeller Foundation over the coming decade.

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In this context, and in order to foster needed local action on sustainable development agenda of the Rio+20 framework, it is important to foster a regional approach to dialogue on the above issues, linking national policy makers, local government organizations, local government, community stakeholders and development partners. In this effort, ESCAP, in primary partnership with associations of local governments, such as United Cities and Local Government Asia-Pacific (UCLG ASPAC), CITYNET, the International Council for Local Environmental Initiatives (ICLEI) and the Commonwealth Local Government Forum (CLGF), is uniquely positioned to lead. In order to commence the dialogue it will require:

- Comparative research on the part of city economies in the wider national economy;
- Tools for analysis of opportunities for sustainable economic development in the urban economy;
- Guidelines for the use of appropriate financial instruments to fund the investments required to grasp these opportunities; and
- Regular fora to provide support for research and the effective use of analytical tools, to compare the results of analytics and to disseminate best practices.

**Conclusion**

It is essential that efforts to achieve the Rio+20 framework focus on the key institutional constraints to implementation. There will be challenges for the United Nations system in partnership with member States in the implementation of the Rio+20 framework. It is an ambitious agenda. The above paper has outlined numerous such constraints and obstacles to be overcome. In order to address these, it is suggested that there is an urgent need to foster critical reforms addressing:

a. Provision of appropriate mandates and systems for national and sub-national governments to plan for sustainable urban economic development and to include in such planning proactive measures towards poverty eradication;
b. Formation of relevant and inclusive governance mechanisms to achieve these mandates which are representative of all urban stakeholders;
c. Incentive systems for funding the investment needed to underpin the transition to the sustainability agenda, in particular those which provide incentives for improved fiscal performance on which many other forms of leveraged finance are based;
d. Collaborative organizational structures to maximize participation in, and manage, needed to reform sub-national governments and the provision of systems to improve the quality of decision-making;
e. The development of an enabling framework, both at national and sub-national levels, and provision of appropriate incentives, to facilitate and stimulate sustainable production and consumption, including the preservation of ecological services management of urban systems, and infrastructure;
f. Strengthening capacities required to bring about needed change, including through better collaboration with key local and national stakeholders.
In all these reforms, space should be made to support both community organizations and the private sector, both national and international.

**Strong emphasis is needed on local government capacity building and development to ensure these reforms are sustained.** Knowledge activities should underpin all the above activities, but need to be operationally relevant and practical for users/ participants. Supporting peer-to-peer learning has been found to be very effective for local governments. The Global Water Operators Partnership was cited as a good example of practical twinning, which could be emulated by a ‘City Sustainability Partnership’. As part of effort to build capacity and improve the coherency of plans for green growth, proactive engagement with the private sector should be encouraged.

No institution can achieve this reform agenda on its own. The issue of partnerships is thus crucial. At present, a range of agencies focuses on their own particular sector agenda or role in addressing complex urban development issues and problems. This is true at national and international levels. The need to provide a ‘voice’ of the city, encouraging a cross-sector, and cross-institutional approach focused on city problems, across the range of partners, is critical.

Critical partnerships also need to include the international financial institutions, specialist climate/ environmental funding agencies such as the GEF and GCF, associations of local governments such as CITYNET, UCLG ASPAC, ICLEI and CLGF, Foundations such as the Gates, Clinton and Rockefeller Foundations, the Asia Foundation and private sector initiatives such as Green Investment Funds and the World Business Council for Sustainable Development which fosters commitment of cutting-edge businesses to provide advice to local governments on opportunities for innovation in sustainable urban management and service delivery. Within countries there are counterpart organizations and agencies, particularly environmental agencies, which have a vital role to play.

**A Regional Role for ESCAP**

ESCAP has a key role to play in providing an inclusive regional platform for cross-sector analysis and a multi-stakeholder dialogue. It can do this by:

- Promoting the development of national urban policies to achieve sustainable, resilient and inclusive urban development;
- Promoting research and dialogue among different levels of government and other stakeholders to develop integrated collaborative governance systems needed to support the sustainable development of cities;
- Fostering knowledge sharing among development agencies cities and local governments to develop regional platforms which provide for the collaboration needed to provide effective responses to the urban challenges of the region;
- Reviewing current practices of financing and identifying areas where local governments can increase their fiscal performance and asset management;
- Developing improved data management systems and tools to improve the analytical basis for planning, management and sustainable development of future cities.