Stepping Up: Improving the Performance of China’s Urban Water Utilities

China has made remarkable progress in expanding its urban water supply and wastewater infrastructure since 1990. However, as the country is experiencing the greatest wave of urbanization in history, providing urban water services to new residents and dealing with new spatial patterns of urban development, particularly in booming metropolitan areas, will be a demanding task. The disparities between cities of high and low capacities have created segments in the urban water market. National policies, standards, and approaches for urban water services will need to be tailored to meet the local economic and environmental reality. Addressing future challenges will require not only more investment, but new approaches to enhance governance and regulation, boost utility operational and financial performance, increase user fees, ensure adequate fiscal support, and explicitly recognize the constraints facing lower capacity cities and towns.

A recent World Bank study titled Stepping Up: Improving the Performance of China’s Urban Water Utilities reviews China’s accomplishments in providing urban water services, identifies the major challenges, and recommends directions for the future. It aims to provide an assessment of where the sector stands today and to create a strategic framework for policy discussions, project design, and reform efforts. Five interrelated themes are the center of the strategic framework:

I. Adopting Goal-based Sector Governance

In the past, performance of China’s water sector was measured by achievement of physical targets. The focus for the future should be on utility performance, including improving the environment, protecting public health, and providing good quality service to all at reasonable cost. This study recommends the following approaches:

1. Improve National Policy Coordination

There are four main sector agencies at the national level that guide the urban water sector: the Ministry of Construction (MOC), the State Environmental Protection Agency (SEPA), the Ministry of Water Resources (MWR), and the Ministry of Public Health (MOPH). The various specialized sector agencies each issue a multitude of opinions, notices, and other pronouncements. There is a need for improved coordination among these agencies.

Report on China’s Urban Water Utilities
Urban Planning News
Urban Events
Public Water Utility Reform: Best Practice, Best Fit
The World Bank’s Water and Wastewater Lending Program in China
World Bank Held a Series of Workshops on Public Transport
Update on “Urban Best Practice Area” of the World Expo Shanghai 2010
E-Development Resources at the World Bank
Understanding Your Local Economy: A Resource Guide for Cities
Capacity Development at the Local Level through Radio

Contents:

1. Report on China’s Urban Water Utilities
2. Urban Planning News
3. Urban Events
4. Public Water Utility Reform: Best Practice, Best Fit
5. The World Bank’s Water and Wastewater Lending Program in China
6. World Bank Held a Series of Workshops on Public Transport
7. Update on “Urban Best Practice Area” of the World Expo Shanghai 2010
8. E-Development Resources at the World Bank
10. Capacity Development at the Local Level through Radio
circulars, which are not always consistent, provide ambiguous guidance to cities, and may even be contested by other sector agencies.

This study recommends that the State Council establish a National Water and Sanitation Committee under a Deputy Prime Minister, with one ministry serving as the Secretariat. The committee would not be a new agency, but rather be composed of representatives from the relevant national agencies, as well as other stakeholder groups. It could coordinate national policy formulation, integrate decision-making among the different sector agencies, and monitor sector performance and development.

2. Strengthen Provincial Government Oversight
Provincial agencies in China already have many key mandates for utility oversight. However, their efforts are often hampered by a lack of funds and real authority over municipal governments, as well as lack of coordination among provincial agencies. This study recommends that provincial governments increase the budget and capacity of their provincial agencies and more vigorously exercise their oversight role for urban water services. This study also recommends that provincial governments establish “Provincial Water and Sanitation Committees” or create new “Provincial Water Offices” that would consolidate urban water regulatory and oversight functions into one office.

3. Set Appropriate Water and Wastewater Standards
China should aim to have standards that are:
- Affordable to ensure the service is financially sustainable
- Enforceable to allow regulators to compel compliance
- Efficient to enable policy objectives to be met in a least-cost manner

The way China applies standards now does not fully meet these criteria, particularly for low-capacity cities. This study recommends that China use transitional wastewater standards for low capacity cities and manage water quality from a watershed perspective, and that the timing for lower capacity cities to meet the full standard should be realistic and could be left to the discretion of provincial governments.

II. Improving Municipal Utility Governance and Structure

There is still huge potential for improving the efficiency of urban water utilities by modifying utility governance and structure. The study’s three recommendations are as follows:

1. Streamline and Coordinate Municipal Utility Governance
Municipal governments will need to improve their capacity to govern and regulate public utilities, and create more integrated, accountable, and transparent city governance structures for the sector. This study recommends that high-capacity cities experiment with streamlined utility governance structures, such as a Water Board or a multi-sector Public Utilities Commission. Lower capacity cities should make a concerted effort to coordinate the different government agencies overseeing water utilities.

2. Empower Municipal Utilities and Hold Them Accountable
This study recommends that municipal governments empower utilities to take more responsibility for key corporate functions such as strategic master planning, capital improvement plans, financing strategies, cost-recovery strategies, human resource development, regulatory compliance, etc.

A culture of continuous utility improvement should be encouraged by national, provincial, and city governments. This can be realized through a commitment to transparency, customer orientation, monitoring and evaluating performance against other utilities and improvements over time, and the judicious use of the private sector. Professional organizations and research institutes have an important role to play in fostering a new culture of excellence.

3. Manage Wastewater as a Network Utility Business
Many cities in China have the view that drainage is a
public good, whereas wastewater treatment is a commercial activity. The typical institutional arrangement for wastewater in China is fragmented, often leaving the city without an entity with overall responsibility for the planning, financing, and operating of the wastewater system. Moreover, it hides the true overall cost of wastewater service, which can be significantly more expensive than water supply.

This study recommends that municipal governments explore options for integrating wastewater service and recovering collection system costs from users. Some options for integrating the service include:

- One utility company owns and manages all drainage network and treatment plant assets.
- The treatment company enters into a lease contract for the drainage network.
- The treatment company enters into management contracts with the government drainage bureaus.
- A “Wastewater Group” is formed that puts all organizations under a single management team.

4. Pursue Opportunities for Aggregating Urban Water Services

Water utilities are typically organized along administrative boundaries in China. Aggregating services across administrative jurisdictions or functions can potentially generate benefits from economies of scale, more professional management, and improved access to finance. The study recommends that provincial and municipal governments explore options for extending urban water infrastructure to suburban towns, as well creating regional water utilities which service multiple towns and cities.

III. Moving Up the Financial Sustainability Ladder

Moving toward cost-recovery tariffs and greater reliance on capital markets for investment generates strong incentives for utility efficiency. It also enhances accountability to users who must pay for the service and to lenders who require repayment. Cost-recovery tariffs also allow the utility to operate in a more commercial manner and reduce its dependence on government transfers.

1. Ensure Utility Cost Recovery from User Fees

This study recommends that all cities have user fees that cover the utility’s costs and adopt financing strategies along the following lines:

- High-capacity cities. Water supply and integrated wastewater utilities (i.e., drainage and treatment utilities) should finance all capital investments through capital markets, private investment, and internally generated cash with full cost recovery tariffs. The one exception is that municipal governments may wish to continue financing drainage investments to control the growth in tariffs.

- Low-capacity cities. Water supply utilities, and especially integrated wastewater utilities, will continue to need equity contributions, grants, and concessionary finance to keep tariffs at socially acceptable levels. Moreover, low-capacity cities should be subject to less stringent transitional water and wastewater quality standards to reduce costs.

Raising tariffs is one method of increasing revenues. Of equal importance is improving fee collection and utilizing efficient rate structures. Although Chinese cities are rapidly installing water meters at the household level, smaller cities are lagging in this respect.

2. Make More Use of Debt Financing

China’s strong economy has created a high level of liquidity in the domestic banking system, which has created a golden opportunity for water utilities to tap into. At present Chinese utilities have very low debt-to-asset ratios, and rely more heavily on municipal governments for finance. This study, therefore, recommends that Chinese cities should transform their financially stressed utilities into creditworthy enterprises that can fund an appropriate share of their capital program through commercial debt.

3. Create Incentive-Based Concessionary Finance Programs

China’s national government provides significant levels of finance to the urban water sector. The two main instruments are the China Development Bank (CDB), which offers long-term loans, and the National Development and Reform Commission (NDRC)-administered state bond program, which offers long-term, low interest loans and grants. These financing mechanisms could be further refined through structured programs.

This study recommends that the national government restructure existing concessionary finance programs (or develop new ones) for the urban water sector. There are many different options that need to be studied and
pursued, but the following principles should guide the reforms:

- National government funding for the urban water sector should be significantly increased.
- More funding should be channeled to low-capacity cities and towns.
- Provincial governments should take the lead in designing and administering concessionary finance program(s).
- The program(s) should be structured to provide the right incentives, with carefully designed eligibility criteria, appraisal procedures, and monitoring and evaluation activities.
- A range of financing instruments should be considered, including loans, grants, revolving loan programs, credit enhancements, output-based aid, etc.

IV. Use the Private Sector to Help Improve Municipal Utilities

Cities throughout China have turned to the private sector to finance, construct and operate water supply and wastewater treatment plants. This study has two general recommendations on private participation. First, municipal governments and their utilities should engage with the private companies as part of an overall reform process to ensure a sustainable utility balance. Most importantly, if user fees and fiscal transfers are inadequate, then regardless of whether ownership and/or operation is public or private, the service will not be sustainable.

Second, the general approach in China is that private companies must “pay to play,” meaning they must invest their own funds if they are to participate in the sector. Many non-investment models, however, could be employed beneficially in China, including management, affermage, lease, and design-build-operate arrangements. These non-investment private arrangements are particularly attractive for cities that (a) do not have financing constraints, but want to improve the performance of their utility, or (b) cities where the investment risks are large, particularly in low-capacity cities.

V. Improve Utility Capital Planning to Lower Costs

The urban water business is capital intensive, so good decisions on infrastructure investment can lower costs and improve service. This study identifies two important areas for capital planning.

Water supply planning. Most cities still do not employ sophisticated water planning methodologies that explicitly consider multiple objectives, uncertainty, and risk in order to determine the optimal resource mix for meeting their urban water demand. In particular, economic, financial, and environmental objectives are often not fully factored into water supply planning exercises, which tend to be driven by physical planning approaches or are policy-driven.

Investments in water supply and drainage networks. The proper planning of investments in upgrading and expanding water supply and wastewater pipes and pumping stations holds huge potential for savings. Developing asset management programs (AMP) which collect information on existing assets (particularly buried pipes), use sophisticated methodologies for analyzing the data, and link investments to overall service goals, should be used in China too. Utilities should also carefully consider the costs and benefits of two different types of drainage systems: (1) combined systems, which convey both wastewater and stormwater; and (2) separate drainage systems, which are increasingly popular in China, can cost up to double combined systems, and may not be justified by the environmental benefits. Low-capacity cities should avoid separate collection systems.

(This summary is prepared by the Quarterly editor based on the executive summary of the report. To read the full report in English, please visit http://go.worldbank.org/PRR44UVHT0 For more information, please contact Greg Browder at gbrowder@worldbank.org or Mingyuan Fan at mfan@worldbank.org)
Urban Planning News

Urban and Rural Planning Law of China to be enforced beginning January 1, 2008

The Urban and Rural Planning Law of China was adopted in the 30th session of the standing committee for the 10th National People’s Congress, and released in the form of a Presidential Order signed by Chinese President Hu Jintao. The Law will be enacted on January 1, 2008, when the existing City Planning Law will be rescinded. The Urban and Rural Planning Law consists of 7 chapters with 70 articles, including general rules, development of urban and rural planning, revision of urban and rural planning, supervision & inspection, legal responsibilities, and appendix.

Over 6000 national standards to be issued in this year and next year

According to Liu Pingjun, Director of China’s National Standard Administration Committee, recently the issue of outdated standards has been acutely felt in China. Among the over 21,000 national standards at present, more than 9,500 outdated ones will need to be revised in the “eleventh five-year period”. In 2007 and 2008, China will establish over 6,000 national standards, in addition to those revisions.

11 national eco-garden city pilots identified by the Ministry of Construction

Recently, 11 cities (Qingdao, Nanjing, Hangzhou, Weihai, Yangzhou, Suzhou, Shaoxing, Guilin, Changshu, Kunshan and Zhangjiagang) were identified as pilot cities for China’s “National Eco-Garden City” program. The Ministry of Construction will conduct surveys and summarize experiences in these cities, with an aim to promote eco-garden city development in China.

The 3rd batch of famous historic and cultural towns/villages unveiled

Forty-one towns, such as Guangfu Town in Hebei Province, and 36 villages, including Liuliqu Village in Longquan Town, Mentougou District of Beijing, were evaluated by the Ministry of Construction and the State Administration of Cultural Heritage and accredited as the 3rd batch of famous Chinese historic and cultural towns/villages. The accreditation awarding ceremony was held in Beijing on June 9. Vice Minister of Construction Qiu Baoxing and Director of the State Administration of Cultural Heritage Shan Qixiang awarded the certificates.

Subway and light rail in service in China amounting to 602.3 km

Ten cities in mainland China, such as Beijing, Shanghai and Guangzhou, have built and started to operate subways and light rails, according to the latest statistics by China’s Ministry of Construction. Twenty-two lines are now in service or the pilot phase, covering a total length of 602.3 km.
Urban railway transport construction plans have been approved for 15 cities (Beijing, Shanghai, Tianjin, Chongqing, Guangzhou, Shenzhen, Nanjing, Hangzhou, Wuhan, Chengdu, Harbin, Changchun, Shenyang, Xi’an and Suzhou). These cities will invest a total of RMB 620 billion in the next 10 years to build 1,700 km of urban railways.

**China’s urban population reaches 577 million**

China’s urban population had reached 577 million in 662 cities, including 287 at or above the prefecture level, according to the Comprehensive Urban Social and Economic Development Report, released by the China’s National Bureau of Statistics on September 26, 2007.

The 2007 China Development Report: Reducing Poverty in Development, published in Beijing lately by the China Development Research Foundation, revealed that China’s rural population in poverty has declined from 250 million in 1978 to around 20 million at present, and the incidence of poverty declined from 31% to 2.5%.

**Revitalization Plan of Northeastern China approved by the State Council**

China’s State Council formally approved the Northeastern Region Revitalization Plan, proposing to build the northeast into an important region of economic growth, and setting a target of positioning around “4 bases and 1 district”. In its approval comments, the State Council also stated that policy measures shall be further improved and implemented to provide more policy support and fiscal transfer and to create a favorable policy environment for revitalizing old industrial bases in the northeast. Meanwhile, the revitalization program shall be driven forward by reform, greater transparency, and independent innovation, to speed up economic restructuring and transformation of growth patterns.

**2008 World Planners Congress to be held in Dalian, China**

The 44th World Planners Congress, sponsored by the International Society of City and Regional Planners (ISOCARP), is to be held in Dalian, China from September 19-23, 2008, with the main theme as “Urban Growth without Sprawl – A Way towards Sustainable Urbanization”. The Congress will consist of 3 pillars of forums, exhibitions and city tours. A young planners’ seminar will be conducted before the Congress. The 2008 Annual Conference of Urban Planning in China, sponsored by the Urban Planning Society of China, will be held at the same time.

(Non Planning News is a regular feature co-sponsored by the World Bank and the Urban Planning Society of China)
Annual Conference of Urban Planning

The China Annual Conference of Urban Planning was held September 1-3, 2007 in Harbin, a famous city in northern China. Renowned officials from the central government, local officials from Heilongjiang Province and Harbin Municipality, experts, and over 1,300 urban planners attended this annual conference.

Zhou Ganzhi, President of Urban Planning Society of China, delivered opening remarks titled “Bring out the Blossom of Urban Planning through Reviewing Experiences and Creating New Momentum”. He gave a general picture of planning, revealed existing problems, reiterated extreme importance of local experiences, and proposed 2 roles for the planning sector, namely playing a leading role at micro level and a supporting role at macro level, and making due contribution in different roles.

The opening ceremony was followed by the awards ceremony for the 4th China Academy of Urban Planning and Design Cup young planner thesis competition and the excellent organizers of the Annual Conference.

In the plenary session, Vice Minister of Construction Qiu Baoxing delivered an academic speech on “Challenges and Strategies in Fostering Orderly Urbanization in China”. Other speeches were: “Development of City Culture and Cultural Heritage Protection”, by Shan Jixiang, Director of the State Administration of Cultural Heritage; “National Urban System Planning under Guidelines on Healthy Urbanization” by Wang Kai, Deputy Chief Urban Planning from China Academy of Urban Planning and Design, and “Coordinated Regional Development and Planning of Functioning Zones” by Fan Jie, Director of the Sustained Development Research Center under the China Academy of Sciences. To broaden the horizon of professional urban planners and promote inter-disciplinary connection, the conference also invited academicians and renowned experts (e.g., Qian Yi, Ding Yihui, Wang Yi, Huang Ping, Chu Dajia) from fields related to urban planning, such as environment, meteorology, law, sociology and management to make diversified presentations, such as “Situation of National Resources and Environment and Sustainable Urban Development in China”, “Global Climate Changes and its Impact on China”, “Public Interest in the Property Law”, “Issues in Urbanization from the Perspective of Coordinated Urban and Rural Development”, “Human-oriented Urban Research and Urban Planning”. These presentations were well received by the audience.

On top of the plenary session, there were 10 parallel meetings surrounding the main theme of “Urban Planning Towards Harmonious Society”, shedding light on city master planning, urban infrastructure, urban residence and urban public utilities, industry planning and planning of industrial parks, planning administration and land development, planning and construction of small towns and villages, detailed planning and urban design, heritage conservation and city revitalization, regional planning and urban eco-planning. Out of 718 theses, 123 were presented in the parallel meetings, followed by heated discussions. Active participation was also witnessed in the 6 free forums (Planning Innovation In

In parallel with the conference, a number of other activities were ongoing including the 4th Executive Council Meeting, the 4th Council Meeting of the Urban Planning Society of China, and the exhibition for the 2007 China Urban Planning Conference. The sponsor handed out the registration cards awarding credit hours for continuing education to accredited planners, and published a number of books such as Harmonious Urban Planning and 50 Years of Urban Planning Society of China.

The conference was sponsored by the Urban Planning Society of China, supported by the Harbin People’s Government and Heilongjiang Provincial Construction Department, and hosted by the Harbin Urban Planning Bureau. It was announced in the conference that 2008 annual conference for urban planning will be held in Dalian. Wang Shihua and Song Zengbin, Deputy Mayors of Harbin and Dalian respectively, held the handover ceremony.

(The text is prepared by the Urban Planning Society of China. For more information, please visit www.Planning.cn)

2nd International Conference for China’s Water Sector

With rapid economic growth and accelerating urbanization, China is witnessing increasingly acute conflicts between shortages of water resources and increasing water demand. Over 400 of China’s 600 cities suffer from water shortages. Even worse, the already limited water resources are challenged by water pollution, thus strengthening the case for enhancing the safety of the urban water supply and water environment. Scarce water resources, intensifying water pollution, and deteriorating urban water ecology have become main obstacles for sustainable development in China. In that context, securing the urban water supply, improving urban drinking water quality, and purifying the water environment constitute an important basis for sustainable social and economic development, as well as better livelihood and health. Based on past experiences in urban water supply, water conservation and water pollution control, and the strategy of developing water-saving cities and establishing a water market, building a sound urban water environment presents a necessary choice to ease growing tension between population, resources and environment.

The 2nd International Conference for China’s Water Sector, sponsored by China’s Ministry of Construction, National Development and Reform Commission, Ministry of Science and Technology, and State Environmental Protection Administration, was convened to learn about cutting-edge international technologies and successful experiences, review domestic explorative practices, and discuss appropriate development strategies and countermeasures for China to further promote market reform and the industrialization process in the urban water sector, provide guidance on urban water supply, water conservation, and wastewater treatment and reuse, and to speed up technology advancement and mechanism innovation in the water sector in China.

Over 1,000 scholars, officials and entrepreneurs from dozens of countries and regions shared their views on water shortage challenges in China and the Asia Pacific
Jamal Saghir giving speech at the closing ceremony of the 2nd International Conference for China’s Water Sector.

Editor’s note: Jamal Saghir, Director, Energy, Transport and Water Department of the World Bank attended the 2nd International Conference for China’s Water Sector. Below is the synopsis of his speech at the Conference’s closing ceremony.

Public Water Utility Reform: Best Practice, Best Fit

Achievements and challenges

Since 1990, China has had remarkable success in increasing the stock of water infrastructure, expanding water supply coverage, and increasing the percentage of wastewater that is treated. The World Bank is proud to have contributed to these past accomplishments by providing around $5 billion in financing to support 34 urban water projects throughout China.

(The text is selected from China City Water Webpage. For more information, please visit www.chinacitywater.org)
In addition to financing, the Bank aims to provide value by improving planning, promoting financial sustainability, supporting institutional reforms, and undertaking analytical studies to support development of the sector. In this context, I am very happy to present some good practices of public water utility reform today.

In the past decades, many governments have tried to make state-owned water utilities more efficient but few have succeeded in turning them around into effective and viable organizations. The major transition in the 1990s has been from central public provision to local public provision. Another important 1990s trend was the drop in public, private, and donor sources of investment funding. This significantly reduced opportunities for network expansion or performance improvement.

In the new millennium, many utilities still face the same problems as in the past. They are locked in a vicious spiral of weak performance incentives, low willingness to pay by consumers, and insufficient funding for maintenance leading to deterioration of assets. The vicious spiral is largely a consequence of ineffective institutions coupled in many cases and countries with the monopolistic nature of the sector, lack of proper benchmarking and competition in the market and for the market. Consumers, especially the poor, have in many cases lost out.

New approaches

I would like to summarize some new approaches to public water utility reform that can help utilities to escape the vicious cycle.

There is no perfect model for public utilities that guarantees good performance. However, well functioning water utilities have certain attributes in common. These attributes are:

- Customer orientation: Reporting and “listening” to clients, and working to better meet their needs.
- Autonomy: being independent to manage professionally without arbitrary interference by others.
- Accountability: being answerable to other parties for policy decisions, for the use of resources, and for performance.
- Market orientation: making greater use of markets and the introduction of market-style incentives.

How can we achieve those attributes? There is no one solution that fits all. However, we have learned some lessons around the world of tools that can be useful. Let me briefly discuss four of those tools: corporatization, the use of public-public performance agreements, and enhancement of consumer accountability and increased private sector participation.

- Corporatization is the process of transforming a utility that is embedded within a municipality or ministry into an organization with its own corporate identity. Performance of corporatized utilities varies. Well functioning corporatized utilities have one thing in common: their transparently appointed boards leave the utility management the discretion to act in key areas.

- Performance agreements can clarify the objectives for a public utility—and their relative weight. They can make it easier to hold managers and boards accountable for performance. Most inherent limitations of contracts plans cited in the 1990s are still valid. However, in the past decades new forms of performance agreements have emerged. For instance, more staff and managers of public utilities receive financial bonuses for good performance. And a central government can allocate central government funds on a competitive basis to decentralized utilities. These forms of incentives have moved utilities into action to better serve their consumers. I know that China is moving in this direction.

- Consumer accountability can help balance the accountability framework of utilities and can help prevent political capture. Traditionally, utilities lack of consumer accountability reflects the fact that they are dependent on governments, financially and in other ways. The belief that citizens were effectively represented by politicians, who in turn connected with utilities, was challenged in the 1990s. This led to an increased interest in direct accountability from utilities to consumers. Consumer accountability can be achieved through information channels, surveys, complaint mechanisms, advisory groups, board membership and other measures.

- Increased Private Sector Participation to enhance efficiency, increased accountability and attract investments.

- The above tools are important but reforms have to be embedded in measures for financial turnaround and capacity building. Successful reforms combine measures to improve the institutional environment with utility-focused steps.
Reform processes require patience -- they are long processes that combine various measures. Improvements in the environment in which the utility operates, are likely to have only a limited impact if the utility does not have the systems or internal capacity in place to take advantage of it.

Applications to China

The operational and financial performance of Chinese water and wastewater utilities is about average for middle-income countries, but still well below utilities in OECD countries. Given China's severe water resource constraints and environmental degradation, coupled with rapid urbanization, China's utilities will need to perform better than average utilities in OECD countries if its broader public health and environmental objectives are to be achieved by 2020.

Drawing upon the World Bank’s experience in China, as well as the Bank’s global knowledge, we have recently published a report called Stepping Up: Improving the Performance of China’s Urban Water Utilities. The report paints a vision for the urban water sector in the year 2020. This vision entails the provision of safe and reliable drinking water for all, comprehensive stormwater drainage, and the collection and treatment of all municipal wastewater. This requires efficient and financially sustainable water utilities.

There are five key policy themes that we suggest to the Government of China in the Stepping Up report:
- Financial sustainability
- Utility governance
- Private Sector participation
- Capital planning

These policy themes provide a starting point for achieving the 2020 sector vision. China is a vast and diverse country, with some very rich large cities such as Beijing and Shanghai, and hundreds of smaller and poorer cities. Standards and approaches will have to be tailored to the city’s capacity. It is not possible to use the same standards and service delivery models for all cities in China. Super cities should strive to meet the highest international standards. Smaller and poorer cities will need to take a more transitional approach with significant financial assistance from the government. China’s national policies do not always recognize this diversity, yet the reality cannot be ignored in practice. We encourage policy makers to explicitly recognize economic differences and explicitly tailor sector policies, financing, and standards to actual capacity of the cities.

But the overall direction is clear. Progress will require coordinated action from all actors.

In conclusion, public sector reform is difficult and intrinsically political. It is not a quick fix or an easy alternative to private sector participation. There is a substantial difference between reforms that are desirable and reforms that are feasible. Reform -- in reality -- is often an incremental process, and reformers will (temporarily) have to put up with less-than-ideal solutions. The selection of reform measures will have to be based on the best-fit rather than the best-practice.

Thank you for your attention.
The World Bank’s Water and Wastewater Lending Program in China (in US$ Millions)

<table>
<thead>
<tr>
<th>Project Name</th>
<th>World Bank Financing</th>
<th>W&amp;S Components²</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total Cost¹</td>
<td>IBRD</td>
</tr>
<tr>
<td>Beijing Environmental Project</td>
<td>298</td>
<td>45</td>
</tr>
<tr>
<td>Changchun Water Supply and Environment Project</td>
<td>251</td>
<td>120</td>
</tr>
<tr>
<td>Tianjin Urban Development and Environment Project</td>
<td>195</td>
<td>100</td>
</tr>
<tr>
<td>Zhejiang Multicities Development Project</td>
<td>231</td>
<td>110</td>
</tr>
<tr>
<td>Liaoqing Environment Project</td>
<td>338</td>
<td>110</td>
</tr>
<tr>
<td>Yunnan Environment Project</td>
<td>308</td>
<td>92</td>
</tr>
<tr>
<td>Second Shanghai Sewerage Project</td>
<td>663</td>
<td>250</td>
</tr>
<tr>
<td>Third National Rural Water Supply Project</td>
<td>134</td>
<td>70</td>
</tr>
<tr>
<td>Shandong Environment Project</td>
<td>202</td>
<td>95</td>
</tr>
<tr>
<td>Fourth Rural Water Supply and Sanitation Project</td>
<td>86</td>
<td>16</td>
</tr>
<tr>
<td>Hebei Urban Environment Project</td>
<td>270</td>
<td>150</td>
</tr>
<tr>
<td>Lia River Basin Project</td>
<td>189</td>
<td>100</td>
</tr>
<tr>
<td>Huai River Pollution Control Project</td>
<td>207</td>
<td>106</td>
</tr>
<tr>
<td>Second Tianjin Urban Environment Project</td>
<td>334</td>
<td>150</td>
</tr>
<tr>
<td>Shanghai Urban Environment Project</td>
<td>484</td>
<td>200</td>
</tr>
<tr>
<td>Zhejiang Urban Environment Project</td>
<td>333</td>
<td>133</td>
</tr>
<tr>
<td>Hunan Urban Development Project</td>
<td>373</td>
<td>172</td>
</tr>
<tr>
<td>Ningbo Urban Environment Project</td>
<td>291</td>
<td>130</td>
</tr>
<tr>
<td>Liuzhou Urban Environment Project</td>
<td>189</td>
<td>100</td>
</tr>
<tr>
<td>Chongqing Small Cities Infrastructure Improvement</td>
<td>265</td>
<td>180</td>
</tr>
<tr>
<td>Second Phase Shanghai Urban Environment Project</td>
<td>423</td>
<td>180</td>
</tr>
<tr>
<td>Sichuan Urban Development Project</td>
<td>373</td>
<td>180</td>
</tr>
<tr>
<td>Henan Towns Water Supply Sanitation Project</td>
<td>303</td>
<td>150</td>
</tr>
<tr>
<td>Second Guangdong Pearl River Delta Urban Project</td>
<td>188</td>
<td>96</td>
</tr>
<tr>
<td>Second Shandong Environment Project</td>
<td>270</td>
<td>147</td>
</tr>
<tr>
<td>Second Liaoning Medium Cities Project</td>
<td>325</td>
<td>173</td>
</tr>
<tr>
<td>Total (in millions)</td>
<td>11,319</td>
<td>4,400</td>
</tr>
</tbody>
</table>

Notes:
1. Includes price & physical contingencies, but excludes interest during construction and front-end fee.
2. Includes proportional share of contingencies.
3. Usually excludes industrial pollution control but includes most sanitation.
4. Includes investments in canal extensions, river embankments, canal sediment dredging, flood protection etc.

(Source: Greg Browder et al, Stepping Up: Improving the Performance of China’s Urban Water Utilities, P155.)
World Bank Held a Series of Seminars on Public Transport

The World Bank has been supporting the development of urban transport in China for almost 20 years with financing support for infrastructure investments as well as supporting policy development and implementation. The development of public transport, an identified priority of the Government of China, is a central element of this effort. A series of recent seminars was held, in Beijing, Fuzhou in Fujian Province, and Jinzhou in Liaoning Province to inform discussions related to development of public transport and institutional arrangements for the provision of public transport bus services.

Urban Transport Seminar, Beijing

On October 31st, 2007, the World Bank hosted a seminar on urban transport issues at the Bank office in Beijing. Representatives from the National Government, various research institutes, universities, consulting firms and the Beijing municipality attended. Three speakers gave presentations on issues related to public transport regulation and organization, the role of institutions in influencing urban transport outcomes, and the potential for the Clean Development Mechanism and carbon financing in China’s urban transport sector. The seminar provided many ideas to strengthen the institutional arrangements related to urban transport in China. Inputs received at the seminar were also used to finalize a working paper titled Developing the Public Transport Sector in China-Issues to consider in the organization, supply, and regulation of public transport bus services.

Reform and Development of Public Transportation Seminar, Fuzhou

On November 7, 2007, the Municipal Government of Fuzhou and the World Bank jointly hosted a seminar in Fuzhou focused on the “Reform and Development of Public Transport in Fuzhou.” More than 100 people attended the meeting, including officials from the State Ministry of Construction, Fujian Province, and municipal governments of several cities including Shanghai, Chongqing, Shenyang, Nanjing, Hangzhou, Nanning, Nanchang, Hefei, Xiamen, and Quanzhou as well as various experts. The urban construction division chief of the Ministry of Construction outlined the main developments related to public transport development across China. The Bank outlined the rationale and international experience underlying global trends towards the introduction of private capital in bus operations, the value of competitive tendering mechanisms as a determining factor in selecting suppliers, and the role of regulation. Speakers from Fuzhou, Chongqing, and Shanghai described recent developments, the current status and plans for the development of public transport in their cities. Speakers from Hong Kong described how public transport services were organized in Hong Kong SAR. Speakers from two international public transport companies active in China -- Veolia and New World -- provided an operator’s perspective on the management, regulation and provision of public transport. The seminar also provided input to Fuzhou as it implements the national
guidance on prioritizing public transport.

**Integrated Corridor Management: Traffic Management and Public Transportation Improvements, Jinzhou**

On December 7, 2007, the Municipal Government of Jinzhou hosted a workshop focusing on public transport and safety issues in Jinzhou as part of the Bank-financed Liaoning Medium Cities Infrastructure Project. Participants included officials and representatives from public transport companies from the Project cities of Benxi, Fushun, Liaoyang, Panjin and Jinzhou. The head of public transport for the Jinzhou Municipal Government talked about current trends in public transport in Jinzhou and provided an indication of the Municipal Government’s current plans for improving public transport consistent with State Council Directive #46 on providing priority for public transport. The Bank’s Urban Transport Advisor, Sam Zimmerman, presented an operational strategy to provide priority to public transport that focused on (i) selecting a key public transport corridor in the city; and (ii) implementing a combination of infrastructure upgrades, traffic management improvements and public transport service upgrades on the corridor to concentrate the impacts and benefits of the Government’s efforts. The seminar provided input to the cities participating in the Bank Project on ways to prioritize public transport during Project implementation.

**Operating Subsidies In Public Transport: Academic Forum 2007 On The Theory And Policy Of Transport Economics And Related Development In Industrial Economics, School Of Economics And Management, Beijing Jiaotong University, China**

On December 8, 2007, the Bank’s Senior Transport Specialist, Mr. Shomik Mehndiratta, participated in a forum on Transport Economics at Beijing Jiaotong University. He spoke on operating subsidies for public transport, drawing on the lessons of international experience to make suggestions for Chinese cities grappling with the possibility of public transport subsidies in the future. The talk concluded that there were several effective alternatives to traditional operator subsidies; schemes targeted at providing subsidies directly to particular vulnerable users had often been found to be particularly effective. Further, in an environ-
Urban Best Practices Area Of World Exposition Shanghai 2010 Received The First Group Of Proposals; Deadline Extended To January 31, 2008

The international community has reacted actively to the call for proposals for the Urban Best Practices Area (UBPA) by the organizer of World Exposition Shanghai 2010. UBPA will exhibit urban best practices in the areas of “livable cities”, “sustainable urbanization”, “protection and utilization of the historical heritage”, and “technological innovation in a built environment”. So far the organizer has received 111 cases from 89 cities around the world, including 40 self-proposed cases by cities (among which Liverpool, Sao Paolo, Zurich, Madrid and other 9 cities have formally submitted their proposals), 25 cases submitted by World Bank, and 46 cases by the United Nations Educational, Scientific and Cultural Organization (UNESCO). The second meeting of International Selection Committee (ISC) was held on September 20, 2007, where the ISC reviewed the initial proposals.

To provide opportunities for more cities to participate, and to respond to suggestions by many cities, the ISC has decided to extend the deadline for submission to January 31, 2008. By this date, candidate cities should submit a written statement on the specific topic, relevant exhibition dimensions, exhibition format of the case, and a concept note of the case master plan to the Organizer. The ISC will encourage more applications from the cities in developing countries.

The ISC will meet again in February 2008 and decide the final list of selections. Invitations to selected cities will be sent out subsequently. From April to December 2008, the Organizer of World Exposition 2010 will hold technical negotiations with confirmed participants, and sign exhibition agreements. It is expected that cities and regions with physical cases will start building their projects in the northern part of the Urban Best Practices Area of the Exposition from October 2008 to September 2009, and participants with non-physical Cases can arrange their exhibitions areas in the Serial Pavilions from May 2009 to April 2010. Finally a trial run of the Urban Best Practices Area will be held from January to April 2010.

(For more information, please visit the official website of the World Exposition Shanghai 2010 at www.expo2010china.com)
The e-Development Thematic Group is a World Bank initiative which supports a global community of practice bringing together World Bank staff and external clients and partners for mutual dialogue, knowledge sharing, learning and collaboration. Since 2003 it has organized or co-sponsored over 100 learning and knowledge sharing events, including three major training workshops and about 50 Global Dialogue seminars connecting audiences in some 40 countries via videoconference and live webcast.

As a fast growing country, China has made impressive progress in utilizing e-Development technology to enhance government services. Mr. Zhu Yan, Director-General of Beijing Informatization Office shared Beijing’s practice in one of the Global Dialogue seminars. The e-Development Thematic Group has accumulated rich resources over the years, and hopes that practitioners in China will find those international practices and discussions helpful. Examples of the e-Development Thematic Group’s events include:

Citizen-Centric Government: The government of the future is a single-window government centered around a citizen’s need. This Global Dialogue enabled the policymakers to get a snapshot of international experience in order to develop their own single-window and channel management strategies and consider launching pilot projects replicating the models that proved successful elsewhere in the world. It focused specifically on citizen service centers as a most promising one-stop service delivery channel in countries with low Internet penetration.

E-Government Strategies: While a significant amount of attention has been given in the past to identifying the key components of e-Government strategies and identifying best practices, little attention has been given to the processes involved in the design of such strategies. This event featured different country perspectives from India, the United States, and Singapore, and discussed what constitutes successful e-Government strategies and their key ingredients.

Open system for e-Government: This was a Global Dialogue on open standards, open source and open formats. This approach has achieved growing acceptance in the marketplace and is increasingly seen as key enabler of the transfer and use of information across organizations, systems, and devices. The seminar focused on the embrace of “open” information and communications technology systems by governments and businesses alike in the face of growing demands for the effective, customer-centric delivery of services. A panel of experts from the World Bank, Newport News, Virginia, Sun, Microsoft, Open Source Institute, ODF Alliance, et al discussed this pertinent and interesting topic.

(To download videos, presentations and reports of past events or to participate in future events, please visit e-Development Thematic Group’s website at http://go.worldbank.org/AB6DKLW3Z0)
Poverty reduction is impossible unless cities are productive and able to offer economic opportunities to the urban poor. The role of local authorities in developing and delivering sound local economic development (LED) strategies, often as part of city development and slum upgrading strategies, is crucial. Cities can perform better and provide an environment conducive to employment and productivity through strategies that are attuned to local economic circumstances.

The Cities Alliance has released a new publication, Understanding Your Local Economy: A Resource Guide for Cities, which addresses the challenges of analyzing local economic conditions and a city’s comparative and competitive advantages.

The Resource Guide, funded by the Netherlands Ministry of Foreign Affairs, was produced by the London School of Economics and Kaiser Associates with the support of a number of Cities Alliance members, including the World Bank, UN-HABITAT, and USAID. This new publication presents practical approaches to conducting citywide and region-wide economic assessments, and includes advice on how to choose local economic development (LED) indicators and tools that can assess a local economy’s competitiveness.

Drawing on 15 case studies, one of which involved Lanzhou, China, and the methods and experiences of Cities Alliance members and partners, this publication offers practical guidance to the basic components of local economic assessments and how to undertake them.

Officials of the City of Lanzhou knew that to design a strategy effectively, it was essential to understand the city’s economic base and its constraints, as well as its competitive advantages. The assessment exercise in 2004-2005 aimed to provide the local government of Lanzhou with a strategic planning tool to support job creation and enable sustainable and inclusive growth.
Lanzhou was one of the five Chinese cities that participated in the city development strategy (CDS) program funded by the Cities Alliance, the World Bank, the United Kingdom Department for International Development (DFID), and the United Nations Centre for Human Settlements -- Habitat (UNCHS).

Lanzhou went through the five steps of the local economy assessment process:

i) Organizing the Effort  
ii) Identifying Data Requirements  
iii) Collecting the Data  
iv) Analyzing the Data  
v) Assessing Competitiveness.

City officials identified the key LED indicators required, conducted surveys to collect data, and defined the most appropriate role for the city-region in economic development. Research was conducted using an assessment of Lanzhou city-region’s strengths, weaknesses, opportunities, and threats, with respect to market access, production capacities, innovation capacities, and the potential for agglomeration benefits.

Based on the invaluable insights of the 15 cities like Lanzhou that engaged in this knowledge sharing effort, the Cities Alliance Resource Guide summarizes LED assessment practices around the world and makes recommendations in the five key steps of the process.

The publication targets people and organizations involved in local economy assessment and city strategy development processes. To make the content accessible to different audience needs, the Resource Guide is split into two sections. The first provides an overview of key issues and tools. The second provides detailed guidance useful for conducting local economy assessments.

The publication provides quick reference materials for decision makers, detailed guidance for practitioners, and links to in-depth information. It can also be used for training activities, as it provides tips and case studies based on city experiences, and it highlights existing resources from Cities Alliance members and partners.

Rich with web references, the Resource Guide should promote the development of better informed city strategies, as in Lanzhou, and help improve the economic performance of cities as they seek to achieve competitiveness and support the creation of opportunities for the urban poor.

(To download this publication, please visit the Web site of Cities Alliance, http://www.citiesalliance.org. For more information, please contact the Resource Guide’s project manager Pascale Chabrillat at pchabrillat@citiesalliance.org.)
Since 1985, Guatemala has gone through a process of legal, administrative, and fiscal changes to promote decentralization. A critical factor for a successful reform process was to develop capacities of the municipal authorities and local populations to participate more actively and effectively in new models of participatory governance. The Guatemala Municipal Radio Training Program was designed and implemented within the decentralization framework. It has proved to be a path-breaking and innovative project, building local government capacity and bringing community involvement to participants in small towns and remote areas of the country, through the use of community radio stations. The triple methodology—a combination of book, radio, and face-to-face tutoring—has proved to be an effective way to develop local level capacity through distance education.

Guatemala’s local Community Development Councils (COCODEs) were established to provide a link between communities and municipal authorities. The law grants this power to the councils, but little had been done to show communities how to officially establish the councils and voice their priorities. Based upon a recommendation of the Secretary of Planning and Programming of the Presidency of Guatemala (SEGEPLAN), the World Bank Institute assisted in developing training materials to build COCODEs capacity for human, social, and economic development. The Guatemalan Institute for Radio Education (IGER) developed a radio training program on the legal background, objectives, and potential impacts of the COCODEs.

The first module of the training program, a ten-week course on the forming of COCODEs, was launched in 2005 and re-broadcast in 2006, with over 3,000 registered participants in two-thirds of the country. This course marked the first time that local communities were empowered, through the government, on a large scale to be systematically linked to the public investment decision making.

The second module on Participatory Planning took place in the second half of 2006. The module emphasized the importance of participatory planning for community development, i.e., how to understand participatory planning in municipalities and communities, and how to identify the advantages of being involved as citizens in planning their communities’ development. It had many registered participants on a similar high scale from very diverse communities, and with a higher percentage of women than in the past.

The third module on Participatory Budgeting took place in 2007. The course exposed the participants to the concept of participatory budgeting and how individuals and communities can work with the municipalities in the budgetary process and show their priorities. Among a significant number of registered participants inscribed in this module, 55 percent were women.

The initiative has produced 60 hours of didactic radio, reached more than 6,000 participants and distributed
more than 18,000 textbooks. Students who participated in all 3 modules were awarded a diploma in citizen participation. The program has reached a large body of learners--community leaders, students, municipal officials, and others--and has had a multiplying effect when other organizations have taken an interest and delivered programs themselves, using the prepared materials. During the course of the three deliveries, new leaders emerged and former participants have taken leadership and ownership of the program, replacing SEGEPLAN officials and “professional” tutors who had earlier run the program. In addition, university students have taken an active interest in the COCODEs training program and shown great commitment to their local communities.

The program’s importance to the future human, social, and economic development of Guatemala is recognized by a wide range of stakeholders, including the Government and the executing agencies. They are committed to continuing the work to ensure its sustainability and success; a replication of the program is envisaged for the 2008 academic year.

A great opportunity exists to learning more about how the Guatemalan Municipal Radio Program might also be of interest to other countries who wish to promote support for more citizen participation in the implementation of their national decentralization policies. For China, this model of capacity building may also have useful implications. China has made significant progress, but it is clear that rural and remote local governments would benefit greatly from capacity building and knowledge sharing programs. Distance learning methodologies could help local communities improve their development planning and management, and monitoring and evaluation of local municipalities through greater knowledge and participation of local citizens and communities.

Information about the Guatemala Municipal Radio Program can be accessed at http://go.worldbank.org/QLNHVR6iJo

(For more information, please contact Victor Vergara at Vvergara1@worldbank.org or Sabine Palmreuther at Spalmreuther@worldbank.org at the World Bank Institute’s Urban and Local Government Program)

Corrigendum

In the last issue, two pictures accompanying the article “Restoration of the Daming Palace of Tang Dynasty” had incorrect captions. The captions should be “Layout of Daming Palace, from the ancient capital city of Xi’an, by Wang Zheng” and “Photo of Hanyuan Hall before the restoration project”