

PART I. URBAN DEVELOPMENT TRENDS AND CHALLENGES

Current Situation

East Asia's economic future depends on the continued success of its urban areas. Cities and towns are typically the most dynamic sources of productivity growth in any economy, and in East Asia they already contribute at least 70 percent of the region's economic **growth**.¹

Cities are where economies modernize. They are the main centers for production of internationally traded goods and services and the chief bases for foreign investment—a fact that further enhances their importance in East Asia, a region at the forefront of integration into the world economy. East Asian cities such as Tokyo, Hong Kong, Singapore, Seoul, Beijing, Shanghai, Kuala Lumpur, Manila, and Jakarta count among the major cities of the world and are chief centers of trade and **production**.² Policymakers in the region recognize urban and regional economic development as national priorities because they are crucial to national development and poverty **alleviation**.³

However, East Asia's urbanization is a result of a complex series of economic, demographic, and governance transitions that pose an unprecedented challenge for local and national governments. East Asia's urban population surged from 21 percent in 1980 to 36 percent in 2000 and is expected to surpass 50 percent by 2025—a growth of roughly half a billion people—primarily as a result of migration from rural areas but also from natural increase.

The stakes for East Asia are high. If not properly managed, urbanization could exacerbate environmental damage, congestion, the lack of basic services, ill health, and insecurity, especially among the poor. Sound urbanization management policies are critical, and the role of city governments in developing and implementing such policies is perhaps even more important than that of national governments. Hence, city governments, many of which have only recently been empowered by the shift toward greater East Asian decentralization, are now scrambling to meet the diverse and growing challenges of urbanization.

Long-term Trends and Implications

To successfully manage urbanization while minimizing its pitfalls, policymakers at local and national levels first need facts about the main features of the urbanization process, drawing on national, regional, and international experience. This section of the report outlines the following three key aspects of the process:

- Changes in economic structure of countries in the region
- Enormous demographic implications of these economic changes
- Trend toward decentralization in East Asia and its implications for governance.

Long-term Trends

The Economic Transition

Trade, industry, and services are increasing, whereas agriculture is declining in importance.

In all countries of the world, economic development is accompanied by a fall in agriculture's share of the gross domestic product (GDP) over time as industry and services grow in

1. Webster (2002).

2. Beaverstock, Smith, and Taylor (1999).

3. For example, China's 10th five-year plan recognizes that urban development holds a key to national economic growth and equity. China has therefore concluded that it must promote the development of urban areas as a means of reducing persistent urban-rural disparities.



importance. In East Asia, industry and services' share of GDP rose from 72 percent in 1980 to 87 percent in 2000, while agriculture's share fell from 28 to 13 percent. Densely populated urban areas provide the most efficient locations for production of manufactured goods and services. The presence of large nearby markets for output, inputs, labor, and other services allows firms to profit from economies of scale and specialization. Physical proximity allows more and faster diffusion of knowledge about new techniques, products, or markets. Transaction costs fall, most notably in matching workers to job opportunities.

Such effects—sometimes called agglomeration economies—explain why urbanization always accompanies sustained economic growth and why productivity and incomes tend to increase systematically with city size. For example, the per capita GDP of Ho Chi Minh City is more than three times Vietnam's national average, and the per capita GDP of Shanghai is about five times China's national average. Incomes in Greater Jakarta, Seoul, and Bangkok are at least 80 percent higher than incomes in surrounding areas.⁴ Major urban areas in East Asia therefore contribute a disproportionately large share of national output (and growth) compared with their share of the national population (see table 1).

Agglomeration economies often extend beyond a city itself. Cities and their surrounding regions—including other cities and towns—are increasingly forming local networks or systems that support mutual economic growth. These new agglomeration clusters include Bangkok's eastern seaboard, China's coastal area, and the National Capital Region beyond Manila, along with the cross-border clusters of Medan (Indonesia), Penang (Malaysia), Phuket (Thailand), Yunnan Province (China), and North Laos/Vietnam.

Finally, urban areas play a special role in the process of globalization, the growth in the proportion of economic transactions that take place between residents of different countries—a process in which East Asia has been a leading participant. As noted above, cities are the main location for the production of internationally traded manufactured goods and services as well as of most foreign direct investment. They are centers for employment of migrants and for international communications and networking. Globalization adds to the existing advantages of urban areas for economic growth but poses new demands of its own. To meet these demands, city managers will need to provide for new types of infrastructure, particularly for communications, a sound regulatory framework, and an attractive business climate.

The Demographic Transition

Urban population and city size are rapidly increasing, while the rural population is stabilizing.

Accompanying the rising economic might of cities during the development process is the movement of the population from rural areas to cities. Figure 1 indicates that more than 36 percent of East Asia's population now lives in urban areas, an increase from around 16 percent in 1960. The pace of urbanization became especially rapid after 1980, with the population share of urban areas increasing by 7 to 8 percentage points per decade. The current base of urbanization among developing countries of the region also varies widely, from low-income countries such as Cambodia and Vietnam, with urbanization ratios of 25 percent or less, to middle-income countries such as the Philippines, with an urbanization ratio near 60 percent (see table 2). East Asia is among the less urbanized of developing regions; urbanization is already around 75 percent in Latin America (about the same as in the United States) and more than 60 percent in Europe and Central Asia. However, because of the current high rate of increase in urbanization in East Asia, demographic shifts will be enormous, and urbanization will dominate Asia's development agenda during the next 20 years.



4. Yusuf and others (2001). Calculated using urban and rural income data from *World Development Indicators* 2001.

Table 1. City GDP and Population

City	City GDP as percentage of national GDP	Percentage of total population (2000)
Shanghai	5	1
Beijing	3	1
Guangzhou	4	1
Bangkok	40	12
Jakarta	7	5
NCR ^a (Philippines)	31	13
Ho Chi Minh City	19	6
Hanoi	8	3

Notes: a. NCR = National Capital Region; GDP = gross domestic product.

Source: World Development Indicators (2000).

Table 2. Level and Rate of Urbanization

(percent unless indicated)

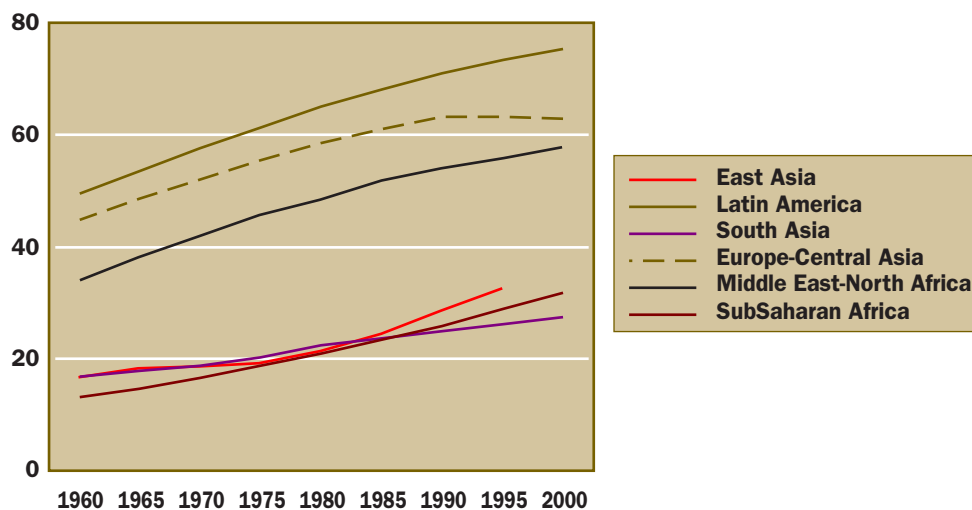
Country	Urban Population 2001 (millions)	Urban Ratio 2001 ^a	Urban Population Growth 1995–2000	Urban Population Growth 2001–30	Forecast Urbanization Ratio 2030 ^a
Cambodia	2.4	17.5	6.4	3.5	36.1
China	471.9	36.7	3.5	2.2	59.5
Indonesia	90.4	42.1	4.2	2.4	63.7
Mongolia	1.5	56.6	0.9	1.4	66.5
Philippines	45.8	59.4	3.6	2.3	75.1
Vietnam	19.4	24.5	3.1	3.0	41.3

Notes: a. Percentage of total population.

Source: Webster (2002) and World Bank (various).

Figure 1. Urban Population 1960–2000

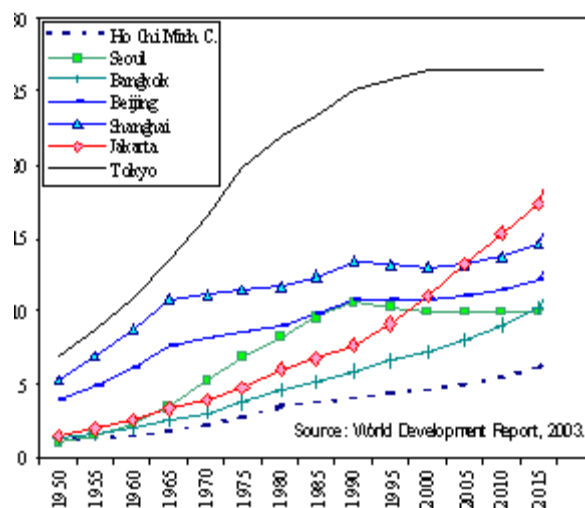
(percent of total population)



Source: [[pls advise]]



Figure 2. Population of Asian Megacities, 1950–2015
(millions)



Source: World Development Report, 2003.

The population living in cities with more than a million residents is expected to rise by half, from 330 million in 2000 to nearly 500 million in 2015, and the population living in “megacities,” that is, cities with a population exceeding 10 million, will rise from about 80 to 120 million (see figure 2).

The most rapid urban growth is taking place at the periurban periphery of East Asian cities, where manufacturers find relatively cheap production facilities. In China alone, the population of periurban areas will grow by approximately 250 million over the next 25 years.⁵ The conversion of rural towns to urban towns and cities as population grows accounts for much of this growth in urban population.

The Governance Transition

Decentralization is increasing the responsibility of city management and decreasing the power of national ministries.

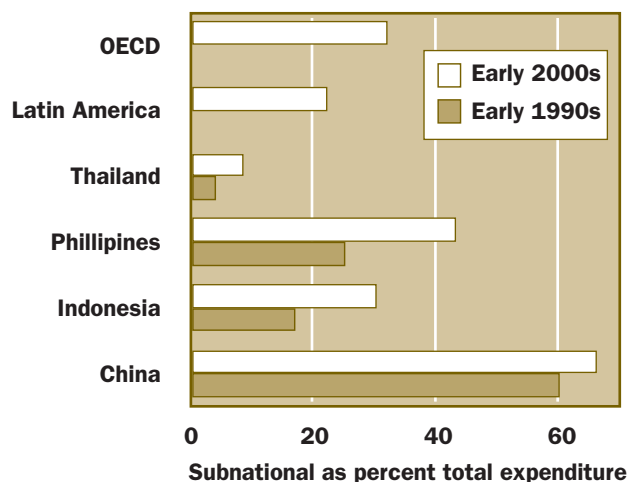
Prospects for better city management in East Asia are being affected by a third trend—decentralization of government authority from central to local levels. The motive for decentralization is often political, based on public demands for accountability and the recognition that in modern economies, government actions must answer local needs and be shaped by local resources and opportunities. However, sound policy reasons for decentralization arise from the increased efficiency that occurs when the people who make decisions are the ones most affected by their consequences. As cities grow in size and complexity, centralized management of city policies and development from distant capitals no longer works. This is especially true in an age of globalization, when nimble responses to market forces determine competitive advantage. Hence, decentralization is an inevitable consequence of urban growth.

Across the region, central governments are transferring responsibility for economic development functions and core poverty reduction programs to the local level. Several East Asian countries have decentralized public spending even further than the average for Organisation for Economic Co-operation and Development (OECD) countries (see figure 3). China is among the world’s most fiscally decentralized countries, with nearly 70 percent of public spending decided at the subnational level, followed in the East Asia and Pacific (EAP)



5. Webster (2002).

Figure 3. Decentralization of Spending



OECD = Organisation for Economic Cooperation and Development.

Source: World Bank, East Asia Preliminary Reference Earth Model.

region by the Philippines, with 43 percent (up from 25 percent in 1992). Other EAP countries are in the early stages of fiscal decentralization. Indonesia passed far-reaching decentralization laws in 2000 and is in the process of implementing regulations. Vietnam, Cambodia, and Laos are still very centralized and are just beginning to define intergovernmental policy.

In China, Indonesia, and the Philippines, local governments now have a decisive influence on national economic growth and competitiveness. They are responsible not only for health services, education, and housing but also for business registration, licensing and approvals, health and safety regulations, land policy, planning and building standards, infrastructure provision, environmental protection, and air quality standards as well as public safety. Decentralization clearly provides opportunities for more responsive and accountable service delivery, enhancing quality of life and local competitiveness. But to realize decentralization's full benefits, governments in East Asia must address urgent issues of internal reorganization, institutional change, financial management, and local capacity. China, although still in the formative stages of developing market-based institutions and policies relevant to decentralization, is the only country in the region that has long experience with considerable provincial and local autonomy and with associated fiscal, institutional, and administrative systems that normally must accompany decentralization to leverage its benefits.

Implications for Rural Development

What are the consequences of these trends for rural areas? Many EAP countries now recognize that urbanization, far from having a negative effect on rural development, is an important part of the solution to rural poverty. China's experience is illuminating. Despite past efforts that restricted urban growth and favored rural investment, productivity in China's urban areas is double that of rural areas, and urban-based businesses have driven most national economic growth. China's 10th Five-Year Plan is the first to recognize that it must promote the positive development of its urban areas as a means of reducing persistent disparities between urban and rural areas. Because of China's limited potential for agricultural growth, only rapid increases in the urban-based economy can reduce the income gap,



mainly by reallocating surplus rural labor but also by allowing increased capital and technology input in agriculture. Analyses show that the shift of rural labor to more productive urban manufacturing and services has by itself contributed about 10 percent of China's economic growth in the past two decades.

In all EAP countries, a significant percentage of rural income derives from nonfarm income, which has been an important factor in the decline of rural poverty in China and Indonesia. In rural Indonesia and China, nonfarm sources, on average, account for nearly half of rural household income.⁶ Rural areas are therefore beneficiaries when nearby towns are better managed and properly plan their infrastructure. Furthermore, about 40 percent of East Asia's rural population and an even higher percentage of the rural poor live on fragile lands unsuited for agriculture because they are arid, on steep slopes, or part of fragile ecosystems. Productivity growth therefore requires a shift to nonagricultural activities that do not make intense use of land.⁷

. Strategies must consider the existing synergies between urban and rural development to reduce poverty in both areas and to balance the potential contributions of both to overall economic growth. A national development strategy that ignores the needs of either rural or urban development would be counterproductive.

Key Challenges and Policy Responses

Along with the opportunities arising from economic, demographic, and governance transformations also come incredible challenges. Among existing urban households, millions are affected by poverty; lack of access to basic services; difficulty getting to work; or lack of adequate, sanitary living space. Without sufficient policy and investment responses, the population influx to cities could worsen environmental and health conditions and further erode the living standards of citizens, especially the poor. East Asia's urban governments not only need to manage, operate, and expand services and facilities to meet a large backlog of unmet demand but must also plan for their populations to double over the next 30 years.

The following five challenges need priority attention:

- Enhancing the local investment climate to promote economic growth and increase jobs
- Improving the living conditions of the urban poor and their access to basic services
- Managing urban population expansion through better infrastructure, planning, and land management
- Developing the framework for sustainable urban finance
- Strengthening the institutions required for improved urban governance and management under decentralization.

Enhancing the Local Investment Climate to Promote Economic Growth and Increase Employment

Improving the local investment climate can enhance the role cities play in contributing to national economic growth and employment creation. Local government decisions can have a significant effect on business productivity and thus on a city's ability to attract and retain industry and employment. With decentralization, local governments have a wide scope for shaping the investment climate in response to the needs of business. Box 1 reports on evidence from city-level firm surveys in China.



6. World Bank *Reducing Rural Poverty*, 2002, East Asia and Pacific Special Focus.

7. World Development Report 2003, p. 5.

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Box 1. Improving the City-Level Investment Climate in China

An investment climate survey conducted in five Chinese cities (Shanghai, Guangzhou, Beijing, Tianjin, and Chengdu) found that firms were more productive and achieved higher sales growth and investment rates in cities with better investment climates. In particular, firms did better when they could hire contract workers under flexible arrangements, could draw on a skilled workforce, and had access to efficient financial services. Firms tended to perform less well in cities with higher levels of corruption.

Several of the variables that made a difference to firms are under the control of local governments; they include barriers to entry and exit from an industry, labor skills and flexibility, corruption, and rates of theft and loss from shipments. Such findings emphasize the potential local governments have for enhancing regional growth by improving specific aspects of the investment climate. For businesses in Chengdu and Tianjin, the lower-rated cities in the China survey, estimates suggest that removing obstacles to investment could increase sales growth by up to 10 percent and overall productivity by a third.

Source: World Bank, China Investment Climate Assessment (2002).

International best practice illustrates actions that national and local governments can take to bolster the local investment climate and improve productivity and competitiveness. Many of these recommendations require cooperation across levels of government, among different local jurisdictions, and between government and the public. They include the following:

- Creating national frameworks to guide local officials' economic development efforts and providing these officials with training and technical assistance.
- Involving local businesses and the public in the process of crafting city-level economic development strategies, sometimes within a regional context.
- Benchmarking government performance against that of comparable jurisdictions in services, regulation, licensing, land policy, environmental regulations, public safety, tax policy, local educational systems (including technical education), cultural and recreational opportunities, and trade logistics, ensuring that these "soft" investments are oriented to support the local development strategy.
- Providing appropriate infrastructure, including competitive telecommunication and information technology (IT) services, to support the local development strategy.
- Recognizing that a healthy, pleasant living environment that includes cultural, recreational, and social activities is an important element in attracting high-level professional talent, whether foreign or domestic.
- Developing strategies to market the city's products nationally and sometimes globally.

Singapore takes a very aggressive stance in promoting itself as a place with one of the world's best business environments for enterprise growth. It prides itself on its efforts to change rules that get in the way of business efficiency and has a website, www.cutredtape.gov.sg, that celebrates the steps it has taken and allows citizens and businesses to solve problems by contacting appropriate government offices directly. Singapore, South Korea, and many Chinese cities have also invested heavily in environmental infrastructure and social facilities as part of an explicit strategy to become known as good places to live. They recognize that by improving their social, recreational, and environmental conditions, they enhance their ability to attract foreign direct investment and high-level workers, both foreign and local.

The region is witnessing the emergence of a small but influential middle class of young, well-educated knowledge workers. This phenomenon may significantly increase demand for higher-quality municipal services and a clean and healthy environment.

Cultural assets can have a similar effect on business environments. Although cultural heritage preservation is worthwhile in its own right, cultural assets are also an important



factor in enhancing civic pride and conveying a sense of place for a city, thereby differentiating that city from others. Governments are beginning to understand that cultural investments have economic as well as aesthetic value.

A recent assessment of global experience with national plans for local and subregional economic development pointed to the following two conclusions:

- “Cities and regional economies are now seen fundamentally as economic assets and building blocks rather than as problems and challenges. As a consequence, city and regional economic development is much accepted as a national priority.
- In the context of an increasingly global economy, national policies have shifted to being about helping all cities and regions to do better, rather than simply helping the worse off by seeking to redistribute national economic activity and public expenditure from other cities and regions towards **them**.”⁸

Local governments can tap a good deal of international experience through partnerships, including that of more than 20,000 local development agencies in OECD countries. Local governments also have opportunities to work cooperatively with economic development entities in neighboring municipalities and regions.

Where public infrastructure services are broadly inadequate, some cities have supported industrial parks to ensure that businesses have the services they need to prosper and generate employment. Key requirements are to guarantee that such facilities have necessary location advantages and respond to the level, price, and type of services local businesses need. Although properly estimating the potential demand for facilities is difficult, successful cases of industrialization can be found in developing East Asia—for example, in coastal China, Thailand (Eastern Seaboard), and Singapore, where industrial parks were initially (and, to a large extent, still are) developed by the public **sector**.⁹ However, many governments have invested in industrial parks with poor returns, which has led them to assume that private investment in and management of industrial parks is the most prudent policy. There are many cases, especially in the less developed regions or countries, where partnerships between the public and private sectors are the only means of moving forward.

It is worth noting the harm that poor land management and registration and poorly functioning land markets can inflict on city economic growth and competitiveness, pushing up the price and reducing the utility of urban land. In the Philippines, the value of land with unclear title has been estimated at US\$132 billion, seven times the savings and time deposits in commercial **banks**.¹⁰ Incomplete land registration also causes local governments enormous losses in forgone property taxes. With half the urban land in Indonesia and the Philippines improperly registered and with the land records of Laos and Cambodia destroyed in civil conflict, the problem is large and especially affects the poor, who are the most vulnerable to exploitation without secure tenure. Land management is also affected by unaffordable planning and building standards, cumbersome dispute resolution mechanisms, lengthy and costly land transfer mechanisms, limited public access to property registers, and lack of planned infrastructure.

Relatively low-cost urban land management reforms, along with improved public access to land information, could reap large economic gains. Singapore, Malaysia, and Hong Kong have highly developed systems for land registration and administration, and Thailand has recently created a strong land administration system with World Bank technical assistance. The Asian Development Bank (ADB) is also providing assistance in Mongolia, Cambodia, and other countries. Many countries have used private companies under contract to develop cadastres and independent property valuations. The problem deserves



8. Clark (2001).

9. Webster (2003).

10. De Soto (2000).

more attention from senior governmental policymakers, and a more intensive effort to solve it would have high returns.

Improving Conditions of the Urban Poor and Increasing Access to Basic Services

Recent decades have seen a dramatic fall in the number and proportion of East Asians living in poverty. For example, the proportion of people living on less than \$1 a day fell from 26 to 15 percent between 1987 and 1998. Growth and the accompanying urbanization have driven poverty reduction in the region. Table 3 indicates that poverty rates in urban areas are typically well below those in rural areas, a finding consistent with the higher productivity and incomes generally found in urban areas. Thus, about 29 percent of the Philippines' urban population lives on less than \$2 a day compared with 60 percent in rural areas. People migrate from the countryside to the city precisely because of the opportunity to escape poverty.

Nevertheless, although urban income and productivity are high on average, income inequality is higher in urban than in rural areas (see Table 3). Such inequality in a geographically concentrated area is not only socially problematic but also politically explosive.

*Table 3. Urban Poverty in East Asia
(percent)*

Country/Year	Headcount index \$2/day		
	Urban	Rural	Total
China			
1990	25.1	86.7	70.4
1999	11.3	68.4	50.8
Indonesia			
1990	52.8	79.7	71.5
1999	49.7	74.6	64.9
Philippines			
1988	35.6	70.8	57.4
2000	29.4	60.3	46.5
Thailand			
1992	11.3	40.6	31.4
2000	14.7	42.2	33.5
Country/Year	Share of national poverty		
	Urban	Rural	Total
China			
1990	9.4	90.6	100
1999	6.9	93.1	100
Indonesia			
1990	22.6	77.4	100
1999	30.0	70.0	100
Philippines			
1988	23.5	76.5	100
2000	31.0	69.0	100
Thailand			
1992	11.3	88.7	100
2000	13.9	86.1	100

Source: World Bank data and staff estimates.



Furthermore, because the urban population is increasing much more quickly than the rural population, the urban share of poverty in overall national poverty will rise sharply; in the EAP Region as a whole, it is expected to rise from approximately 25 percent in 1998 to 40 percent by 2025.¹¹ Therefore, although urbanization assists poverty reduction overall, the poverty that remains becomes concentrated in urban areas and exhibits higher levels of inequality.

As a result, policies targeting the specific problems of the urban poor have become more important. Significant numbers of the urban poor live in communities that lack access to basic services such as piped water, sanitation, storm water drainage, paved footpaths, and electricity (see [table 4](#)). In Vietnam, for example, nearly half the urban poor live in temporary housing with inadequate access to basic services compared with only 38 percent of the rural poor. In the Philippines, the proportion of households living in the poorest housing without services is five times greater in urban than in rural areas.

The common assumption is that the poor lack basic services because of their poverty; however, this is not the case. Time and again, surveys of low-income housing and squatter populations indicate that these communities have the resources and the desire to pay for basic services if the government provided them. In fact, the poor often pay high prices for alternatives to these services—for example, by buying water from vendors who can charge ten times the price of water from a municipal tap.

The Millennium Development Goals adopted in 2001 include among their targets to “halve, by 2015, the proportion of people without sustainable access to safe drinking water and basic sanitation” and to achieve “a significant improvement in the lives of at least 100 million slum dwellers” by 2020. Because half of the world’s urban residents live in Asia, it bears a significant part of the burden of meeting these targets. Meeting urban residents’ needs for access to basic services, land tenure, and environmental quality is a fundamental challenge for East Asia. The multidimensional nature of urban poverty calls for diverse approaches.

Key programs for consideration by local officials include the following:

- *Improving Basic Services and Regularizing Low Income Housing.* For cities with large, unserved slum and squatter communities such as Manila, Ho Chi Minh City, or Phnom Penh, slum upgrading can directly improve the lives of the urban poor by providing water and sanitation, storm water drainage, roads or footpaths, and secure tenure (see [Box 2](#)). Such programs can have significant benefits for residents’ health and social welfare. Monitoring data indicate that improvement in low-income housing increases community pride, reduces crime, and significantly reduces illness and child mortality.¹² Sub-Saharan Africa has the largest percent of its urban population living in slums, followed by South and East Asia (see [figure 4](#)).

Upgrading programs can also have important economic effects for the residents. Private investment has been shown to rise in low-income housing areas when basic infrastructure and land tenure improve. Surveys indicate that each dollar of public investment in physical improvements in such areas can generate seven dollars in private investment.

11. Kessides (2002).

12. For example, the infant mortality rate in El Mezquital, Guatemala, dropped by more than 90 percent and crime rates decreased by 43 percent. In Jordan, infant mortality declined five times faster in low-income communities that were upgraded than in the population as a whole. (Elwan, unpublished monograph).

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Table 4. Urban Service Access in Southeast Asia

	Piped Water	Flush Toilets	Electricity	Lacking Three Services
Poor	34	61	68	17.5
Nonpoor	55	89	97	0.6

Source: United Nations Habitat.

Box 2: Examples of Urban Poverty Programs

The EAP Region has pioneered programs to extend basic services to low-income urban areas.

Kampung Improvement Program (KIP)

For more than 30 years, the KIP in Indonesia has provided low-income neighborhoods with water supply, drainage, paved footpaths, some paved roads, schools, and health clinics. “Since its inception in 1969, the Kampung Improvement Program has spread to 800 cities in Indonesia to benefit almost 30 million people and is among the best urban poverty relief programs in the world.” (Massachusetts Institute of Technology, “Kampung Improvement Project III.” Available at <http://web.mit.edu/urbanupgrading/upgrading/case-examples/ce-IO-jak.html>).

Philippine Community Mortgage Program (CMP)

The CMP is an innovative program to deal with the widespread problem of squatting on private lands. Under the program, accredited nongovernmental organizations organize and train communities to negotiate with landowners to sell the property at a mutually acceptable price. The CMP Fund, established by the government, loans the community the funds necessary to pay the landowner. Individual families are then allocated plots and repay their share of the cost of land acquisition to the CMP Fund through individual mortgages. Because of a resource shortage, this program does not include infrastructure improvements. The World Bank’s East Asia and Pacific Urban Development Sector Unit is working with the government on a pilot program to provide funding for basic water supply, drainage, sanitation, and paving of some roads and footpaths to family plots associated with CMP so that these communities can be better integrated into the fabric of the city.

Vietnam Household Sanitation Revolving Fund

This fund has enabled 120,000 poor households in three cities to have access to properly designed in-house flush toilets.

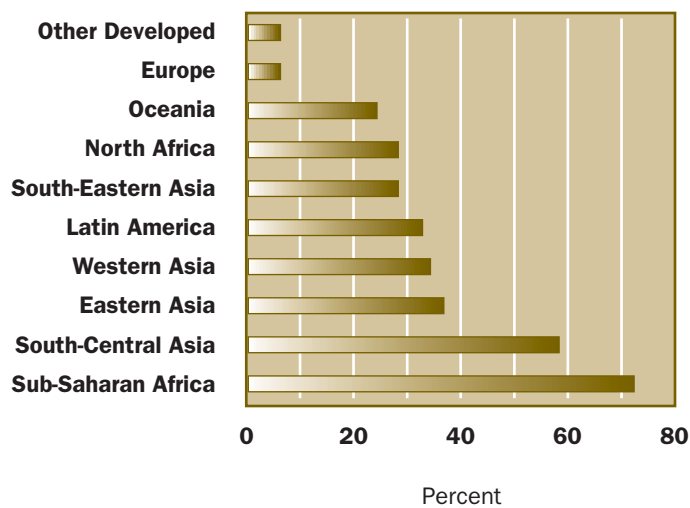
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Although there is no one-size-fits-all model for providing basic infrastructure services in low-income areas, experience indicates that those formulating a program should consider the following approach:

1. Adopt a program that works at scale to have an effect. Programs should systematically move from one unserved low-income area to the next.
2. Prepare a year-by-year financial model for the entire long-term program. Make sure that any national or local financial support is affordable to the government providing the support and realistic when scaled up to all the communities in the program. Factor in the revenues to be obtained from the beneficiaries, who should make a contribution toward the cost of land and neighborhood infrastructure.



Figure 4. Slum Dwellers as a Percentage of Urban Population, 2001



Source: United Nations Habitat.

3. Avoid standards that are too high and costly. Predefined minimum plot sizes or service levels often raise costs excessively and hinder sustainability. Available resources should dictate initial standards that can be raised over time as resources improve.
 4. Minimize relocation and maximize in situ upgrading, which is less disruptive and results in lower costs.
 5. Build alliances that involve the municipality, utility companies, the private sector, civic groups, affected communities, and nongovernmental organizations.
 6. Take a pragmatic approach to land tenure. Although some projects have been successful without land tenure, such as the Kampung Improvement Program (KIP) in Indonesia, bundling land tenure with service provision provides the basis for long-term transformation of the community and economic regeneration. Land tenure gives communities assets that can be leveraged and creates incentives for families to invest in home improvements. Subsidies for land should target those in greatest need.
 7. Address the prevention of new unserved low-income housing areas while dealing with existing problems. This means improving the functioning of the land market, providing the main infrastructure to open new land, and ensuring enforcement.
 8. Use the program to promote skills development and income opportunities for residents. Skills training associated with the construction can result in residents becoming skilled craftsmen or small-scale contractors. Also, land regularization may offer greater opportunities for rental units that can provide significant income.
- *Targeting Credit Programs.* Carefully designed microcredit or other targeted credit programs can help address market failures that otherwise exclude the poor from access to credit, thus supporting entrepreneurship and economic self-help among the poor. Such programs will have the best overall effect when designed to avoid reliance on large, unsustainable subsidies or the creation of disincentives for commercial banks to serve the market.



- *Skills Development.* Efforts to teach job-related skills can be a useful element of an employment strategy that targets the poor. However, such programs are likely to have a limited impact except as part of a broader vocational training program. Recent efforts to link the design of vocational training programs to the needs of city-level business development deserve more attention. The more complex the skills, such as with technical or IT training, the more likely it is that success will require formal education or involvement of the private sector. The construction sector has traditionally been the largest entry point to the job market for unskilled laborers; it is also one of the sectors most open to newly formed small companies. In many Asian cities, the need for improvements or extensions to small-scale infrastructure, such as drainage canals and footpaths, is very high, and such projects have high rates of return. Programs that combine training in construction skills, small-scale finance, labor-intensive work, and policies that promote small-scale construction firms can provide positive synergies that benefit low-income targeted groups.
- *Social Safety Nets.* Some cities have achieved considerable success with programs that provide access to subsidized social services for the poorest citizens, including health care, education, and food. In Indonesia, Balikpapan issues identification cards to poor families who qualify for education and health care **subsidies**.¹³
- *Scaling Up to Have an Effect.* Scaling up urban poverty programs should be a goal of national and local governments. Accomplishing this will require national coordination across individual programs at the city level. Standards should be modest so programs will still be affordable when scaled up. Designs should be constrained to fit within specific budget limits. Richer cities will have higher standards—for example, house-to-house connections, a higher percentage of paved roads, wider streets, and even piped sewerage. Poorer cities will have fewer paved roads and perhaps pit latrines for sanitation. Affordable programs are necessary so that cities can expand them over time to all communities that lack basic infrastructure. When cities design such upgrading programs properly, community contributions can help reduce their costs. Low-income families in many countries have shown themselves willing to buy their plot and accept a large part of the costs of land acquisition and infrastructure services if given the opportunity to spread their payments over time.
- *Managing Migration.* An important responsibility of cities must be to manage migration. Although migration itself is not a negative phenomenon, it raises the incomes of migrants and relieves pressure on fragile agricultural lands. It also encourages the illegal occupation of unserved land. Rather than preventing new migrants from entering the city, management must integrate them into the formal system as rapidly and smoothly as possible. Some actions that managers can take are as follows:
 1. Develop realistic land-use plans supported by infrastructure development, especially in rapidly growing periurban areas, to lower the costs of planned subdivisions.
 2. Avoid requirements for high minimum standards (for example, large plot sizes, waterborne sewerage) that neither the poor nor the responsible local government can afford.
 3. Avoid extravagant subsidies and giving away land. Require habitants of low-income areas to pay for regularized plots. Recognize that plot sales offer a unique opportunity to recover the cost of on-site infrastructure.

13. World Bank (2002).



4. Protect vacant private land; put vacant public land to use.
5. Reform land administration and property registration to facilitate a functioning property market.
6. Encourage people to rent rooms.
7. Develop a housing and mortgage market.

Because a national framework is so important to local efforts to improve the condition of the urban poor, national officials of regional countries should meet regularly and discuss strategies for scaling up services to the poor in EAP. Although positive programs are under way in Indonesia and Vietnam, other countries are having difficulty developing a long-term, financially sustainable program. National agencies could benefit from a forum that allows them to share experiences and discuss their strategies among themselves and with local governments. An annual conference could be a useful vehicle for countries to discuss the elements and content of programs that lead to scalability and affordability. A conference would also provide an anchor that would support a network of practitioners. The Global Development Learning Network could also encourage government agencies to communicate and learn.

Tackling infrastructure challenges

With the exception of China, EAP countries have been unable to effectively expand their infrastructure to accommodate growth in and around cities. As a result, the price of scarce land that does have services is bid up, raising the cost of business investment as well as housing. In addition, unplanned development that takes place without infrastructure causes severe pollution and environmental damage—for example, to groundwater sources. Retrofitting infrastructure after development is always much more expensive than planning and implementing infrastructure in line with development.

Transport and Motorization

Traffic congestion in East Asian cities is legendary; in many cities, travel times to work are among the worst in the world (see figure 5).¹⁴ Traffic congestion affects efficiency and productivity. In Bangkok, the city with the region's slowest average vehicle speed, the economic cost of congestion is an estimated 2.5 percent of GDP, excluding the costs of accidents and environmental damage. Congestion costs will worsen as incomes rise and car ownership increases. China's national car ownership rate is forecast to increase more than tenfold in the next 20 years—from 10 cars per 1,000 population to 120–130 by 2020. Such an increase in so short a time poses an enormous urban management threat.

Although major urban expressway investments can often increase primary road capacity (as in Bangkok, Shanghai, and other major Chinese cities), they cannot relieve urban congestion if the lower levels of the road system have inadequate capacity (as in Bangkok), or are badly designed and structured (as in Manila). In addition, in many old cities the secondary and tertiary road network cannot be significantly expanded without intolerable damage to the urban fabric.

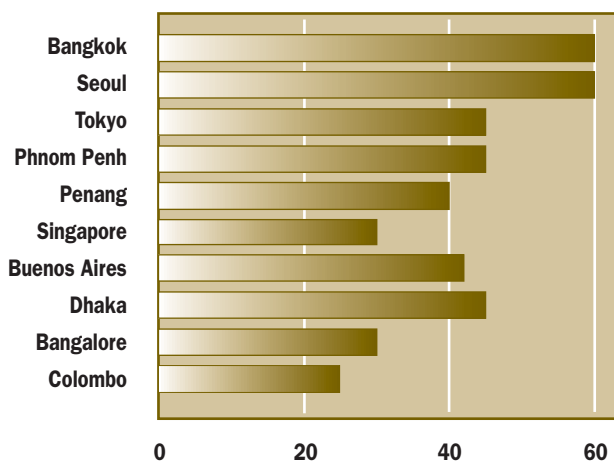
Most cities in the region have a central core with narrow streets originally built for a nonmotorized age. As they grow, cities must provide enough primary road capacity to handle essential traffic movement efficiently. But to support growth without intolerable damage to city centers or severe environmental degradation, increased road capacity must be accompanied by

- Demand-restraint measures, particularly on the movements of private cars
- Traffic management measures to use available space efficiently and limit traffic in sensitive areas

14. Gwilliam (2003).



Figure 5. Travel-time per work trip, 1998
(Minutes)



Source: UNCHS Global Urban Indicators Database.

- Attractive public transportation alternatives
- Adequate allowances for nonmotorized traffic, including walking, to discourage the motorization of short trips.

Most large European cities have adopted such multifaceted traffic management plans, giving particular emphasis to efficient public transport. Buses, which handle most passengers in the EAP Region's cities, are often inadequate and poorly managed. However, no amount of bus capacity, operational subsidy, or management reform will make buses efficient at moving people if buses get ensnared in congested roads. In Asia, Singapore has the most comprehensive approach to traffic management, which includes an innovative congestion-pricing scheme that ensures that only the number of cars the roadways can handle will enter the downtown area.

A rail system is an attractive mass transit option—South Korea, Hong Kong, and Singapore have well-functioning rail systems. However, because such systems have very high capital and operating costs, they are feasible only in the highest density corridors. Also, unless a dense network is created, rail systems can only carry a relatively small proportion of total traffic (10 percent is expected in Bangkok), primarily in the central core. Hence, road systems will continue to bear the main traffic burden.

As population densities, incomes, and land values increase in Asia's large cities, and as technology and management experience with rail systems improve, rail will become both economically and financially feasible along selected routes in more cities. Rail lends itself to public-private partnerships. Risk sharing among public and private parties, including sharing of contingent liabilities, and competition among potential private parties are key parameters in contracting. Unfortunately, in several cases recent contracting experience has not worked well, and transparency has been an issue in some countries. Involving the multilaterals to support planning and contracting may help.

Because of the high capital costs of rail systems, a phased introduction may be warranted. Exclusive bus-ways can be built along selected rights of way, with rail introduced when it becomes economically and financially justified. Also, recognizing that the infrastructure and rights-of-way costs can be unbundled from rolling stock costs, with the public sector taking more responsibility for right of way and infrastructure (as with roads), can level the playing field between alternative modes. This may also stimulate more interest and more competition among potential private operators of rolling stock, to the benefit of consumers.



Water, Sanitation, and Solid Waste

By 2010, providing clean drinking water to existing and projected urban residents will require an estimated investment of about \$20 billion, and providing sanitation will require about \$28 billion. Investment in sanitation has lagged far behind that in water. For example, in the last 30 years, the Philippines has used only 3 percent of its investment for sanitation. Indonesia has sewerage in only seven cities, and even that is only rudimentary.¹⁵ Not providing water and sanitation is costly for both the environment and public health, especially among the poor, who have the least access to these services.

If urban residents' needs for water are not met, they tend to tap into groundwater aquifers—a practice that endangers health and the viability of future water supplies. In Jakarta, residents have depleted the aquifer in the north part of the city, and salinity has risen to hazardous levels. Residents without public sewerage turn to on-site sanitation—a method that is unsuited to areas with more than 200 residents per hectare. In Jakarta, Manila, and other megacities, population density in low-income housing areas is four times this limit. Poorly constructed septic tanks leach untreated waste into the same shallow aquifers from which the self-providers extract water.

Public providers of water supply in the region have proven inefficient and unable to raise the financial resources necessary to meet expanding needs. Private providers in Manila and Jakarta have made some efficiency gains, but they have run into contractual issues with cities and have had to face the same low tariffs as public counterparts. Governments and multilateral institutions need to give much more attention to institutional and regulatory arrangements, tariffs, methods of procurement, and engagement of concessionaires and financing mechanisms that reduce dependence on foreign exchange.

Solid waste management and its modernization have emerged as major problems facing city management. Few cities have adequate systems, causing serious environmental and logistical difficulties and consequent financial and operational burdens.

Air Quality and Other Environmental Concerns

Traffic congestion also contributes to air pollution and illness. East Asian cities score poorly in several categories of ambient air quality, especially in small airborne particulates caused by traffic. These particulates are the worst health threat, capable of causing widespread and severe respiratory problems. Similarly, rapid expansion of industry has increased the concentration of industrial waste in urban areas.

Information Technology

The new economy also demands the presence of new types of infrastructure, particularly in communication. Although IT is not the economic magic bullet that many authorities have recently hypothesized, it is nevertheless increasingly important for modern business and industry. IT can reduce some of the disadvantages of geography and offers businesses in even small and medium-sized cities opportunities to participate in the global economy. Cities that embrace and harness IT stand to gain a competitive advantage.

Presently, IT infrastructure provision and use differs substantially across the EAP Region, reflecting differences in basic telecommunications infrastructure and the cost of Internet connections.¹⁶ Hong Kong (China) leads in Internet usage, with Korea, Japan, and Singapore following closely.

E-government is quickly becoming a means of improving citizens' access to services and information as well as of improving the efficiency of internal record-keeping. E-government systems can facilitate payment of tariffs, fees, and taxes and allow easy access to, for example, citizen government accounts through disbursed kiosks. Eventually, e-gover-



15. World Bank (1999/2000).

16. Yusuf and others (2001).

nance will permit better citizen monitoring of service provision and improve accountability in service delivery. Seoul publishes online its budget and development programs, management performance objectives for each city department, and the results of an annual independent survey of citizen perception of corruption by individual city departments.

Although national telecommunications policy is crucial to developing modern systems, the responsibility for implementation, regulation, and public investment increasingly is local. Local IT and e-government policy is a new element that many of the emerging cities of the region must consider.

Integrated Planning Approaches for Infrastructure

Creating new integrated planning approaches for infrastructure, especially at the provincial/regional level, is the strongest tool for channeling growth and shaping urban form into more efficient, less costly, and more environmentally sustainable patterns. Traditional master plans in EAP are typically unrealistic and not taken seriously. They must give way to broad-based strategic plans that prioritize investments and take financial constraints into account.

Jabotabek, around the city of Jakarta, and the Cavite-Laguna region south of Manila are two examples of areas where explosive population and manufacturing growth in the periurban areas surrounding a major city have led to sharply increased demands for infrastructure. Almost all countries of the EAP Region have metropolitan agglomerations that require planning across multiple independent jurisdictions. The Province of Jogjakarta is piloting such an approach with Swiss support, developing an integrated urban regional plan that covers not only Jogjakarta but also the towns surrounding the city.

To make the needed infrastructure investments, rapidly growing East Asian cities will need to adopt new, more cooperative approaches to planning, including strategies for public-private partnerships in infrastructure operations. Such infrastructure cannot be planned piecemeal. An integrated approach that is more action oriented than was adopted in the past is needed, along with a coordinated mechanism for implementation.

Reinvigorated Urban Planning

In some countries, urban planning is officially required. For example, Indonesia mandates all cities to have planning departments (Bappeda) and prepare development plans. But such planning is either rudimentary or results in rigid, unrealistic master plans that are little more than wish lists of investment requirements. In most countries, urban planning is unconnected to the constraints of available financing and rarely involves participation with local private sector and the public.

In an era of rapid population growth and resource constraints, realistic prioritization and programming of investments for infrastructure and social development are urgently needed. Decentralization suggests the need for new models of local planning. A number of cities have undertaken visioning exercises called City Development Strategies (CDS) with the help of the Cities Alliance. These are participatory processes involving the private sector and the public that identify key priorities for economic development and poverty alleviation. Although CDS is just one approach to planning, it has proven to be useful for many medium- and smaller-sized cities. A number of newly elected mayors in the Philippines, for example, have indicated that the standardized approach embedded in the Philippines CDS process helped them better understand how to meet their planning and prioritization responsibilities. This result suggests an important role for national authorities in training local officials in modern planning, programming, and budgeting processes.

Working with the Private Sector

In the foreseeable future, private sources will likely provide financing for only a small part of the needed urban infrastructure investments. This is true even in China, where the volume of private finance is large but proportionally less than 10 percent of total infrastructure investment. However, the private sector has an important role to play in introducing inno-



vation in design and management, especially in infrastructure operation and maintenance. The Asian private sector is a vibrant force in bus transport and solid waste operations, with the public sector providing only regulatory oversight. In other urban services, local officials need to continue with sector reforms, including restructuring and unbundling of services, developing transparent bidding procedures, and establishing regulatory frameworks to prepare for the time when private-sector involvement will increase. The new frameworks must improve on past practices, which involved poorly designed bidding arrangements, inappropriate risk sharing, and hidden contingent liabilities. These practices, exacerbated by the Asian financial crisis, negatively affected the outcomes of many private infrastructure schemes.

A positive development is the emerging ability of domestic private-sector companies to operate and manage infrastructure facilities. In Malaysia, the Philippines, Indonesia, and other countries, local companies are beginning to establish their credentials for operating water and wastewater systems and other services. Public policy that reduces the barriers to participation and competition for service contracts by domestic firms could support this trend.

Developing the Framework for Sustainable Urban Finance

Few city administrations in East Asia have adequate recurrent revenues to cover their needs for operations and capital investment, and most still lack the incentives to increase own-source revenue. Access to institutions that can provide capital to finance investment in long-term infrastructure, education, and health is also tightly constrained, and local government frameworks for borrowing for capital investment are poorly developed.

Increasing Local Government Revenues and Improving Expenditure Management

Fiscal transfer systems from central government to local governments should provide incentives for local revenue generation and accountability for local spending. Most governments have systems for transferring funds to the local level through such mechanisms as equalization grants and matching grants for certain priority programs. The amounts of central transfers and the ways in which they are provided can strongly affect the behavior of local officials. In the Philippines, for example, transfers from central government provide more than 60 percent of local resources and are widely believed to be so high that they diminish local incentives to generate tax revenue. In China, central transfers amount to about 45 percent of total subnational expenditures, a figure more in line with those in advanced economies. Further, when a large share of revenue comes from central government sources, the fiscal accountability of a local government to its citizens becomes tenuous.

Local governments need technical assistance in revising transfer formulas and in increasing their own source revenues through reducing local tax rates and improving collection efficiency. Services should be priced so that they can expand according to demand, public-private responsibilities should be rationalized to increase the efficiency of service delivery, and the framework of intergovernmental expenditure assignment should be improved.

Developing a Framework for Local Government Borrowing

The capital investment needs of Asian cities are so great that neither government subsidies nor international aid can fill the gap. Greater reliance on borrowing from domestic capital markets will be necessary, and subnational governments need new approaches to help them access domestic savings. (Seeking access to international capital markets is an inappropriate step for East Asia's local governments for the foreseeable future.)

In the world's advanced economies, borrowing from commercial banks and floating bonds are key elements of local government financing. Most advanced economies also have specialized commercial institutions that compete with local banks for lending to local governments. Among developing countries, municipalities in the Europe and Central Asia region have the broadest access to domestic bond markets. Local governments in Estonia,



Hungary, Poland, Russia, Slovakia, and the Czech Republic have all issued domestic municipal bonds. In East Asia, China's banks provide short-term loans to local governments, but in other East Asian developing countries, commercial banks are not involved and domestic bond financing is negligible. (The Philippines, for example, has floated only 13 relatively small domestic bonds since 1991.) To access domestic capital markets, local governments will have to demonstrate professional management, positive revenue flows, transparent budgeting and accounting, serious project evaluation, and the ability to operate and maintain investments. To obtain a formal, investment-grade domestic credit rating, they will need to meet even tougher standards. Initially, only the best-managed and best-led local governments are likely to take up this challenge. The time has arrived, however, for all EAP countries to begin formulating national strategies for market-based local government domestic borrowing, even if full implementation is years away. It is important to encourage pilots and demonstrations by leading municipalities or local entities and to develop local credit-rating agencies with expertise in local government rating.

A number of models from developed and developing countries offer potential ways to facilitate municipal borrowing from domestic capital markets. They include bond banks in the United States, provincial municipal financial institutions in Canada, and local government banks in the Nordic countries of Europe. In the developing world, several specialized local institutions have begun to raise domestic capital for lending to local governments. Financiera de Desarrollo Territorial in Colombia operates by rediscounting and extending the maturity of private commercial bank loans to local governments. In the Indian state of Tamil Nadu, a municipal development fund pooled the borrowing needs and risks of several local governments and successfully issued a domestic bond on their behalf. The Indian national government is now developing guidelines to support state-level financial institutions that will issue pooled bonds on behalf of local governments. Few small and medium-sized governments can tap domestic markets on their own, and such bond-pooling mechanisms may therefore fill a market niche. The World Bank Group and other multilaterals can play an important role in supporting such efforts with partial guarantees of local currency bonds and other innovative lending instruments.

The objective should be to establish a system in which local commercial banks compete on a level playing field with specialized financial intermediaries (perhaps bond-pooling intermediaries) for local government business and in which larger municipalities also have the option of issuing bonds in their own name.

All East Asian countries also need to improve both their transfers from the central government to local governments and their local revenue generation. No system for local government borrowing will be scalable without continuous internal reforms in management, tax administration, collection, budgeting, accounting, procurement, and expenditure management.

Macroeconomic Implications of Local Borrowing

There have been cases around the world—for example, in Brazil and Argentina in South America and the Philippines and Indonesia in the EAP Region—in which local governments, with the implicit support of the central government, have been allowed to borrow amounts beyond repayment capacity. This situation has led to subsequent bailouts by the central government. Sustainable borrowing requires clear rules that limit moral hazard, improve market transparency, and regulate and limit local borrowing. A basic framework is now mostly in place in the Philippines after the local government code of 1991 and is being discussed in Indonesia, but there is no internal agreement as yet on appropriate implementing rules in Indonesia. The following principles illustrate the types of regulations that must be put in place to ensure local borrowing is consistent with overall macro stability:

- Central guarantees for local borrowing in a decentralized government framework create moral hazard and should be strictly limited to exceptional cases. There should be no implicit guarantees. Lenders should know that there would be no bailouts after the



fact in cases of default.

- Local governments should not borrow in foreign markets; if they do so in exceptional cases, it must be only with formal central approval.
- Central approval should not be required for domestic borrowing, but central prudential rules should mandate strict limits. For example, a local government's total projected local debt service in any year should be restricted to 20 percent of annual revenues or a given percentage of property tax collections, and any local government's total stock of debt should be restricted to a certain percentage of the tax base.
- Local borrowing and debt service should be subject to central monitoring and auditing and be part of annual public disclosure.
- The playing field among market participants should be level so that publicly owned financial institutions do not have advantages that private financial institutions cannot enjoy.

Improving Urban Governance and Management

Decentralization is changing the patterns of governance and presents a major challenge throughout the region. To respond adequately to this challenge, East Asian countries need an improved national framework for support to local governments as well as programs of reform within local governments themselves.

National Level Actions to Support Decentralized Urban Management

Many local government officials are newly elected to offices that were previously filled by appointees of the national government. They have little experience and few systems, traditions, or channels of technical support to guide them. In several countries, national-level ministries have been reluctant to cede power, resulting in confusion in service **delivery**.¹⁷

In these circumstances, a critical first step is often for a national government to recognize that it plays a significant role in the success of local governments and that it can do much to support and empower them. National efforts to create an incentive structure for local officials to improve the efficiency of local service delivery carry big potential benefits.

National governments should therefore develop a proactive framework for national support to local administrations that involves

- Clear codification of intergovernmental responsibilities for services and investment and clear sources of finance at each level for these responsibilities
- Intergovernmental transfers to promote regional equity, with incentives for local governments to increase their own-source revenues so they can maintain the link between local spending and local taxation
- Regulations and models for uniform and transparent local government administrative systems, including budgeting, accounting, data collection, procurement, and public access to information about government services and activities
- Performance standards and independent monitoring and ratings systems that permit benchmarking different local governments against national and international indicators
- Professional training programs and technical support for implementing recommended and mandated systems.

City-level Action to Support Administrative and Institutional Reform

Regardless of what happens at the national level, local governments need to act independently to improve local management and increase the efficiency and responsiveness of local services. The first step in improving performance is to put in place local incentives that



17. For example, in Indonesia, a recently passed forestry law took back several local government powers on forestry management.

motivate staff to perform and encourage creativity. Creating expectations of good performance is a characteristic of strong leadership, but changing incentives may also require changes in local systems, procedures, and structures.

Increasing Accountability

When decentralization works, local officials are held accountable for obtaining value for money. Accountability improves when citizens participate and are actively engaged in local government decisions such as planning, budgeting, and service delivery. In some cities of China, Vietnam, and the Philippines, local governments are involving citizens, businesses, and civil society in visioning and priority-setting exercises that subsequently become the basis of budget proposals. Citizen participation is especially important with respect to community-level services. Because funds are generally not sufficient to provide desired standards of services to all communities, citizen participation is essential to determine priorities for individual communities within budget constraints. Communities also can sometimes be involved in the execution of the works or the hiring of local contractors. When communities receive training in these matters, evidence shows that they will find low-cost solutions and providers. Community participation also often leads communities to contribute their own resources to obtain better levels of basic facilities.

Accountability requires transparency in public processes and public access to information on plans, budgets, land records, and procurement. Several local governments in Indonesia are creating information offices that provide many forms of information on the local government in locations easily accessible to citizens. Data about municipal performance and budgets are increasingly being made available through the Internet, although many mayors worry that making such information available will lead to misuse by political opponents.

Improving the Efficiency of Service Delivery

- Capacity building to improve the management and efficiency of services must be seen as an ongoing, continuous effort, not an isolated training exercise. One important goal is the employment of professional, qualified staff and officials whose skills are constantly upgraded. Success in urban management ultimately depends on incentives. For example, training and technical assistance are much more effective in government units that offer strong incentives and expectations for good performance. Assessing the incentive structure within a local government should, in fact, be the first step in designing a capacity-building exercise. Installation of appropriate systems can leverage the available professional manpower and help create incentives for improved performance. Planning, budgeting, asset management systems, benchmarking performance, civil service reform, management by objectives, and other systems, when tied to increased citizen awareness, can all help increase the incentives for good performance, but a strong and committed leadership is essential.
- *Asset management systems* can be useful tools for increasing awareness of the value of municipal assets and the need for proper stewardship. Such systems can improve use of municipal resources such as infrastructure, real estate (including that with cultural significance), and significant equipment and machinery. These systems involve developing asset inventories and information systems, documenting operations and maintenance processes for each class of assets, preparing development and use plans, creating maintenance plans, and linking training to the asset management plans.
- *Performance benchmarking* against other local and foreign cities can help create standards for municipal service departments to aspire to. For instance, the ADB initiated a pilot benchmarking scheme in six municipalities across East Asia in 1999. This led the ADB to conclude that benchmarking can successfully **drive change**.¹⁸ South Korea has

18. Cities included Cebu City, Colombo, Kuantan, Shanghai, Bandung, and Surabaya. See Hamid (2000).



established independent panels to rate the quality of its public institutions and produce a report card on their services.

Building Civic Awareness and Forming Partnerships to Reduce the Burden

Programs to build civic awareness and to educate citizens about services and their own responsibilities in improving conditions in their communities can be essential elements to improving the efficiency of services. Solid waste disposal is probably the best example in which citizen cooperation in managing household waste removal and proper disposal in designated areas can greatly reduce costs.

Because of the complexity of modern towns and cities, partnerships are an essential, although neglected, mechanism for improving effectiveness. Municipal governments tend to perform in isolation of the economic and social groups active in the city. Governing rapidly growing cities and towns in EAP and delivering services efficiently is an enormous challenge for local officials. Newly empowered city governments cannot do everything themselves; indeed, they may need to shed responsibilities to become more efficient. Relying on the private sector for revenue-earning enterprises (such as markets or slaughterhouses) and on civic groups can enhance their performance and efficiency. Contracting out to neighboring municipalities or forming regional service delivery institutions is common in Europe and North America and can be an effective way to achieve improved efficiency and economies of scale.

Adapting the Institutional Structure

Once a government has determined its core priorities, there may be opportunities for redesigning institutions to support these priorities. Key ingredients are typically unbundling services to allow the use of outside providers, improving the regulatory and legal framework, and modernizing management structure. In Indonesia, for example, Bandung has reduced the number of its departments from 57 to 41, and in the Philippines, Cabantuan City has halved its municipal workforce and is using the freed resources for investments in infrastructure.

Engaging with Networks

Today's knowledge-based economy requires cities and businesses to be open to new ideas and information. Cities can benefit from joining networks such as local and international associations that share knowledge and ideas for enhancing business, culture, and social life. An example of this is the Cities Alliance, a global partnership dedicated to eliminating urban poverty. The development community can do more to enhance local training institutions and local professional societies.

Managing Metropolitan Areas

The phenomenal growth of urban population has led to the formation of many large metropolitan agglomerations that extend over the jurisdictions of numerous local governments. Because not all services can be managed effectively within the boundaries of individual jurisdictions, the need to consider metropolitan-level governance is becoming ever more urgent. Decentralization laws that inevitably give power directly to municipal and city governments exacerbate the difficulties because typically no attention is given to the needs of the metropolitan and urban regional-level governments. As a result, a crisis in governance of larger urban regional scale infrastructure networks is leading to inadequate transportation, land-use planning, water supplies, and drainage. New forms of institutional management are required. Other regions, including Europe and the United States, have tried different models without consensus on a single best approach. The different models range from (1) creating special districts to deal with specific services across jurisdictions, (2) annexing and consolidating to form a unitary government, (3) creating a federal two-tier structure of metropolitan government over multiple local districts, and (4) encouraging voluntary cooperation among local governments. Each approach has its advocates, and



local politics and traditions play a large role. Central encouragement is inevitably necessary. What is important is that the national and local levels show leadership in developing a country-specific solution that will lead to joint benefits.



PART II. WORLD BANK URBAN BUSINESS PRIORITIES IN EAP

Regional Response to Key Challenges

The Current World Bank Urban Program in EAP

The World Bank's EAP urban development unit covers development themes ranging from community-driven basic service delivery and microcredit projects that address urban poverty, to water and wastewater projects, to economic sector analysis that supports economic growth, to the development of strategies for cities. Within this range, the three major lines of urban business in the larger countries have been environmental management and utility reform, urban poverty, and municipal development. In the smaller IDA countries, the focus of the Bank's work has been on water supply and achievement of the water and sanitation MDGs.

Urban Environmental Management Programs

Environmental management has been the largest area of activity primarily because of the program in China. Projects in China center on water resources management, sewerage, wastewater treatment, solid waste management, and air and industrial pollution control. Chinese clients have greatly appreciated the World Bank's urban work in China, and the Bank's financing of environmental infrastructure has helped China develop modern technology and policies covering, for example, river basin management, user charges, and corporatization/privatization of utilities.

China's cities are making large investments in sewerage and drainage, and there is a high level of demand from China for Bank support for environmental management. In most other countries, the huge financial cost of sewerage has prevented implementation of more than a few isolated systems, primarily in city centers and affluent neighborhoods. Drainage and flood control is seen to be a more immediate priority than sewerage in many countries, especially Indonesia, Vietnam, and the Philippines. In Indonesia, the Bank has financed drainage and flood control in cities through integrated urban infrastructure development programs (IUIDP). In the Philippines the Bank has used city-specific development projects to support these efforts. In Vietnam a series of important environmental sanitation projects is under way.

Urban Poverty Programs

The EAP Region has extensive, positive experience with sustained, targeted programs to improve the living conditions of the urban poor. The Kampung Improvement Program (KIP) in Indonesia, for example, has received international acclaim (see box 2).

More recent urban poverty programs in Indonesia respond to new country circumstances following the 1997 financial crisis. If Indonesia's central government, local governments, and communities can agree on how to finance these programs, they may be scalable to have a nationwide effect. Vietnam has made good progress recently in starting a program of upgrading low-income areas with an emphasis on sustainability and affordability. In the Philippines, the Bank helped develop important slum-improvement programs that lasted about 10 years, but in the late 1980s the government prematurely abandoned these programs, and the number of squatter areas increased significantly.

In many countries, a large amount of urban land is informally occupied and has no clear title or is tied up by squatters, which inhibits normal development and also diminishes municipal tax revenue. Programs to provide services and regularize tenure in those areas would have strong social and economic benefits. There is high continuing demand in Indonesia and Vietnam for providing and improving basic services in low-income areas and



potential demand in the Philippines, Mongolia, Cambodia, and Laos. A learning and innovation loan (LIL) is being prepared in the Philippines to test whether the country can make a new start. However, no clear policy exists at the national level in the Philippines.

Municipal Development Programs Supporting Small and Medium-sized Cities

Municipal development projects aim to support a wide range of priority infrastructure in towns and cities along with various municipal management and policy reforms. The principal vehicles for municipal development programs in the region have been the IUIDP projects in Indonesia and the Municipal Development Fund (MDF) series in the Philippines.

- The Indonesian IUIDP projects were managed at the provincial level and were directed mostly by the national department of public works. They financed various types of infrastructure and provided significant technical assistance to local governments. The projects improved urban conditions in many Indonesian cities. However, the high degree of centralization of the program at the provincial government level limited the effect on improved city management. The Bank lent funds to local governments through subsidiary loan agreements, but the local governments pledged no collateral, and loan repayment rates were very poor. The need for infrastructure in cities and towns is high throughout Indonesia, but a significant Bank program will require developing new institutional and financial channels.
- The MDF projects in the Philippines began in the early 1980s with the establishment of the MDF revolving fund. At the time, the MDF was seen as a simple pass-through institution for retailing loans from the Bank and other donors. This limited mode worked well for the first 10 years. With strong collateral in the form of an intercept pledge of national flows to borrowing local governments, nonperforming loans are essentially zero. In the late 1990s, the MDF, renamed the Municipal Development Fund Office (MDFO), was reorganized as a department within the Department of Finance (DOF) and became caught in a budget squeeze that restricted staffing and lending. The MDFO never lent at a scale large enough to affect overall urban conditions in the Philippines. Only by giving the MDFO an adequate asset base and restructuring it to make it more commercial and entrepreneurial can it meet local needs for infrastructure investment. A parallel effort to assist local governments with project preparation is also a high priority.

Local intermediaries are clearly needed to support the huge demand for local government borrowing by small and medium-sized cities in a decentralized administrative system. The models developed in the past in Indonesia and the Philippines were convenient for retailing Bank lending but were not integrated into local financial markets and did not contribute to sustainable municipal finance. New models are urgently needed.

Small Countries

The small countries of the EAP Region, Mongolia, Cambodia, and Laos, have major infrastructure deficiencies, poor land management, limited resources, and limited capacity for urban management. To date, the Bank has lent only for urban water supply and sanitation projects and has focused on helping these nations achieve the Millennium Development Goal (MDG) for clean water and sanitation. Models for moving from water issues to a broader range of urban infrastructure projects and technical assistance have yet to be developed.

New Approaches Needed to Respond to the Challenges of Urban Transition Facing the Region

The urban group of the Bank is already engaged in significant urban environmental management programs and urban poverty programs for which methodologies are reasonably well established. But the rapid economic and demographic changes in the region and the



huge increase in responsibilities thrust on local governments that were discussed above in Part I urgently require a new response from the Bank in four areas:

- Developing the framework for sustainable urban finance to support lending to small and medium-sized cities
- Improving metropolitan infrastructure provision and periurban development of large and mega cities
- Improving the business climate in cities for economic growth and job creation
- Strengthening the institutions required for improved urban governance and urban management under decentralization

Developing the Framework for Sustainable Urban Finance

To date, the EAP group's municipal finance work has emphasized helping local governments improve their financial position through reforming property and other tax administration, raising tariffs, and improving accounting and budgeting systems.

Improving accountability for expenditures and increasing internal resource mobilization are two of the most important steps to help local governments develop sustainable finance systems.

Improving the planning and implementation of projects as well as the overall quality and transparency of budgeting and accounting is critical to obtaining local support for larger investments. Also, except in China, national fiscal transfers are far too high as a percentage of total local revenues, and this dependency further decreases the accountability of local officials to citizens for expenditure decisions. Measures for revising the formulas governing intergovernmental transfers must be devised. Bank operations should emphasize and reinforce project components that improve the overall quality and transparency of project planning and execution, enhance budgeting and accounting procedures, and increase local revenues.

Developing a framework for borrowing in domestic currency that enables local governments to carry out their investment obligations would support decentralization.

Sustainable borrowing by local governments eventually requires access to domestic private banking and capital markets without central guarantees. Dependence on national subsidies or on foreign borrowing, even from multilaterals, is not a long-term solution.

EAP countries are at very different developmental stages, and no country in the region is ready to move directly to full market-based finance of local investments. However, the Bank now has an opportunity to help regional governments, especially China, the Philippines, Indonesia, and Vietnam, develop their own country-specific strategies to increase access to domestic banking and credit markets and to help identify the step-by-step measures to take. As local conditions improve, the Bank should increasingly use its financing to leverage private domestic capital.

The long-term goal is to make progress in three ways:

- *Developing local, market-driven institutions that issue local currency bonds to finance investments by local governments.* As the local capital market develops, private banks will begin lending to local governments. But experience indicates that banks alone are rarely sufficient to deal with local government borrowing needs. Specialized institutions that aim to mobilize domestic currency from capital markets through domestic bond issues for on-lending to local governments can also play an important role. These institutions must have capitalization and lending policies that provide the safety and security necessary to attract pension and insurance companies interested in longer term investments. This will help to foster competition and lead to extended tenor and reduced interest rates. Spe-



cialized intermediaries that can do this are particularly useful to small and medium-sized local governments that would not have access to capital markets on their own. There are many market-driven intermediaries for local government finance in the United States, Europe, and Canada that can serve as models.

Multicity projects that use an intermediary for wholesaling Bank lending can be candidates for initiating a dialogue on market-driven reforms. In the Philippines, both the MDFO and the Local Water Utilities Administration (after reform) are potential intermediaries for raising money in local markets. In Indonesia, although studies have identified the outlines of a broad national framework and analyzed the criteria that an intermediary would need to fulfill, the central government is not yet ready to establish a suitable intermediary. Progress will require the involvement of the entire World Bank Group. The Poverty Reduction and Economic Management (PREM) unit should help develop the domestic capital market infrastructure (with regulatory, tax, and national prudential guidelines), and the International Finance Corporation (IFC) could provide financial support to local financial intermediaries with either equity or nonsovereign loans or guarantees. The Bank may also consider using unconventional instruments such as partial guarantees or other credit enhancements of domestic bonds floated by local municipal financing institutions. Sector adjustment operations may be useful.

- *Supporting larger cities or groups of cities that wish to float bonds in their own names.* The purpose of such support is not only to raise needed funds but also to develop the domestic market for municipal debt by creating pilot operations. In China, the Shanghai adaptable program loan (APL) is the first Chinese project that will test the readiness of the central government to tap domestic markets for environmental infrastructure. Ho Chi Minh (HCM) City is also in this category. Project-specific bond market offerings by affluent local governments in Indonesia could be considered pilot programs to test the market's appetite under current circumstances and identify constraints. In most cases, to introduce cities to the local market, the Bank would need to help develop credit enhancements that provide an attractive credit structure without relying on higher level government guarantees.
- *Leveling the playing field among financial institutions and removing disincentives for commercial banks to enter the market.* A balanced system of local government finance will feature local bank lending as well as bond finance. Identifying the constraints, removing disincentives, and developing prudential regulations for banks to enter the market is currently a priority in the Philippines and will be a priority in other countries in the next several years.

Using World Bank guarantees and loans in innovative ways in selected countries could help test the market.

In several countries, local governments and intermediaries should use pilot operations to test innovations that involve floating domestic and pooled bonds. Such measures should be considered even when the preconditions for a long-term system are absent.

Raising domestic capital for infrastructure projects is an issue that goes beyond private sector involvement.

The desirability of using domestic currency financing for infrastructure does not depend on the operator being a private entity. Use of domestic capital reduces foreign exchange risk for infrastructure projects (unless revenues are also in foreign currency). Even for a publicly managed utility, private domestic capital is more suitable than public fiscal resources because the availability of public capital is very limited and the use of private capital is more sustainable. Achieving the advantages of private capital without burdensome public sector contingent liabilities is a challenge that needs to be addressed in spe-



cific cases through corporitization, special purpose companies, and public-private partnerships.

Establishing market-driven financial intermediaries will also facilitate expanding Bank support to small and medium-sized cities and towns.

The Bank's EAP group does not have the staff to work directly with the many small and medium-sized towns that need support. The Bank and other institutions providing aid need an efficient local intermediary that would identify, appraise, and supervise projects. Establishing such intermediaries requires a clear, longer term business development strategy that identifies the steps in a possible future transition to a market-driven institution along the lines described above.

Improving Metropolitan Infrastructure Provision and Periurban Development of Large and Megacities Would Improve Efficiency

In recent years, Bank support to large cities and megacities in the EAP Region has been limited to China and aimed primarily at urban environmental improvements. Shanghai is the best example, long-term, but the Bank also has a history of support to other large cities in China. Several of China's larger cities are moving toward comprehensive development plans that include periurban districts. The Bank is supporting these efforts and is helping China develop policy on the relationships between central city and suburban districts (for example, in Shanghai and surrounding districts and Chongqing and its surrounding districts).

The Bank has not tried to address these issues in other EAP countries because the problem has been seen as too complicated. The issues of multiple jurisdictions, a lack of a political/institutional framework, and large financing requirements are among the concerns. However, metropolises like Greater Metropolitan Manila, Jakarta, Hanoi, and HCM City are the engines of national economic growth, and each metropolitan area is adding to its population the equivalent to a new medium-sized city every year. The built environment that corresponds with that growth will affect the economy and the population for many decades.

Tackling at least one large conurbation outside of China, to help clients develop a methodology that covers planning, finance, and implementation of integrated infrastructure and metropolitan management, should be a priority for the Bank.

Helping clients address the infrastructure problems of a large conurbation in an integrated way will be a major challenge and will require long-term engagement of senior Bank staff and management from several sectors. Necessary large-scale planning exercises will involve difficult trade-offs and policy decisions about land use, institutions, tariffs, taxes, and fees. It will require a large lending program to support it, and the Bank will need to cooperate with other institutions. While there are no straightforward models to offer on metropolitan governance, the Bank and its partners could provide information on approaches used elsewhere and advice on how to customize them to local **circumstances**.¹⁹ If tied to a long-term lending relationship, such advice would allow investments to be planned and implemented while gradually making adjustments to long-term plans based on experience.

Urban transport is the most important element of infrastructure provision because of its effects on land use and overall business efficiency.

In a city's central core, where development has already taken place, demand management and improvements in traffic flow are the key urban transport requirements. Some cities with inadequate transport structure will also require mass public transit and even new urban highways. In the underdeveloped periurban areas a different approach is needed. During rapid population growth, the provision of roads and other urban transport strongly influences land use and dictates where development takes place. Planning and implementing

19. Webster (2003).



new roads and public transportation in conjunction with drainage, power, water, and sanitation from the beginning, will result in huge savings over the cost of retrofitting such investments after development has taken place. The start of road construction is often the catalytic event for development. An integrated planning approach therefore would have metropolitan transport as the centerpiece.

A program to rationalize infrastructure provision in a large agglomeration would be too large for the Bank to manage alone. The Bank should form a partnership with bilateral institutions and with the Asian Development Bank (ADB).

Although the effort required for partnering with bilateral institutions and the ADB will be substantial, the potential positive economic, social, environmental, and institutional benefits are huge, and partnering is a precondition for success.

Providing clients with support in urban land management needs to go hand in hand with other elements of metropolitan management.

The region has supported important efforts to improve transparency in property rights and to modernize land administration systems in Thailand, Cambodia, and Indonesia, but less attention has been devoted to the specific problems of urban land management. Although roads and other infrastructure are the most effective instrument for shaping urban land use in the EAP Region, improving the efficiency of the urban land markets through better titling, registration, adjudication of disputes, public access to records, taxation, and development fees will reduce the costs of land development for commercial, public, and residential purposes. Among the urgent matters that must be resolved are the huge backlog of land registrations and the development of a modern land titling system in Vietnam and Cambodia, and the resolution of property rights in squatter communities in the Philippines. Improved land management is also a precondition for alleviating the negative side-effects of migration to cities. The rural development unit of the EAP group should be consulted about land management components of urban projects so that they will complement dedicated land management projects.

Improving the Business Climate in Cities for Economic Growth and Job Creation

The PREM Department of the World Bank's EAP Region has administered several assessments of the business environment in EAP countries that consider the national legal framework, policy environment, regulatory framework, and institutional issues that support or hinder business development. However, the Bank has not yet made much progress in helping clients improve the business climate at the city or local level. Local laws and regulations, land policy, infrastructure, and supporting institutions play an important role in business efficiency. Work on this topic at the city level would require a joint effort between the Bank's urban development unit and PREM. Although considerable uncertainty persists about the most effective approaches and even about the likelihood of success, clients and staff express strong interest in improving local business environments. Pilot efforts to support clients in this endeavor should be a featured element of the business strategy.

China houses the most advanced program of Bank support to local government economic development. Most Chinese cities already have economic development plans. Although these plans are heavily oriented toward physical improvements, local officials are strongly motivated to incorporate economic growth considerations in these plans. In the Chinese administrative structure, decentralized units are expected to promote national growth, and Chinese mayors are partially evaluated by how successfully they develop their cities' economy. Although the administrative structure of other countries is different, the Bank can work with central governments to develop monitoring and incentive structures aimed at increasing the local economy and increasing jobs.

The Bank's role in developing local economies would lie especially in making it more par-



ticipative, helping identify the legal and regulatory reforms needed to promote economic growth in cities, and providing targeted infrastructure.

The Bank's EAP group has been advising Chongqing on regulatory, institutional, training, and policy measures designed to improve the city's business climate and promote economic growth. The group has helped Shanghai implement its strategy, which explicitly recognizes that the city needs to cultivate a reputation for a healthy living environment if it is to attract high-end international investment. The Shanghai APL supports a set of environmental improvements that are key part of the city's economic development strategy.

The EAP group has also helped selected EAP cities develop local strategies for business and employment growth through City Development Strategies (CDS). These exercises have helped local officials formulate a participatory process for working with private businesses and civic groups to assess their competitive strengths and work out a vision and action plan for economic development.

More national governments should be encouraged to help their cities, especially those that are large and economically important, to develop individual strategies for economic growth and job creation.

For those cities that adopt local economic development strategies, the Bank could consider a pilot project that supports regulatory policy and institutional reform, priority infrastructure development, and complementary measures such as vocational training.

The policy work in Chongqing may lead to the first project with substantial support for improvements to the local business climate. In the Philippines, a CDS project is being prepared that would finance priority investments and local reforms agreed upon in about 40 cities through a participatory planning process. In Indonesia, the reform project for local urban governments would use a CDS-style planning exercise to identify needed institutional and policy reforms and targets for investment finance and capacity building. There also has been a small but interesting attempt in Indonesia to conduct a regulatory audit and stocktaking of the urban business environment. Although this stocktaking is not yet complete and its potential impact is unclear, this exercise should be attempted in other places to develop a broadly applicable methodology.

Because there is no established model for such Bank lending products, these products will evolve over time and can be defined only by experience. Some possible elements to consider are those listed in Part I: setting up national frameworks; crafting city-level economic development strategies; benchmarking against the performance of comparable jurisdictions; creating targeted infrastructure to support local development strategy; providing outlets for cultural, recreational, and social activities to attract high-level professionals; and marketing the city's products.

Although most mayors in the EAP Region have a keen interest in job creation, they have little experience to draw on, little understanding of the options and priorities (especially with respect to improving the business climate versus direct intervention), and overly optimistic expectations about the timeframe and scalability of programs. Often their attention is focused on small-scale, cottage-industry plans with little hope of replication. Considering the success of EAP's cities as platforms for modern-sector business development, the Bank's urban development unit should shift the focus of city managers to economic growth management. This can be done partly through project preparation. Considerable capacity building and TA will be required.

Strengthening the Institutions Required for Improved Urban Governance and Urban Management Under Decentralization

All EAP urban development projects include some element of institutional development and policy reform aimed at improving urban governance and improved service delivery. The Bank has succeeded in specific sectors, such as environmental management, in help-



ing cities achieve important and sustained institutional reform. However, overall city management is much more complicated, and there are few examples in which the Bank has supported overall improvements to urban management and service delivery. It would be unreasonable to expect any program by multilaterals or bilaterals to significantly improve a client city's overall management of service delivery in the short term. However, serious efforts to develop successful approaches and learn from past sector-specific efforts are important. In China, the considerable improvements in the governance of water and sewerage through measures such as corporatizing public utilities, improving tariff setting, and establishing water resources management institutions offer important lessons for other countries. In the Philippines, mayors credit involvement with CDS exercises with changing the way they do their jobs. In other countries, Bank projects have improved the monitoring of environmental impacts and community-based planning.

Different approaches will be necessary in programs of support to large cities versus small and medium-sized cities. The most reasonable approach by the Bank to institutional development in large cities is to expand from success in institutional performance in one sector to other sectors. Continuity and long-term, direct engagement with local municipal leaders to earn their trust and share knowledge about options and global experience will be necessary. Municipal governance is about making policy and developing institutions. Repeated projects with the same local governments develop relationships and encourage a sophisticated dialogue. Long-term engagement in selected cities and provinces has worked well in China and Vietnam. In other countries, the Bank's work on institutional development has been more ad hoc, involving one-off projects in a city or province.

In small and medium-sized cities, where direct engagement by the Bank is impractical, success requires support to local institutions that can wholesale knowledge. So far, Bank support to local intermediaries in the region has not been very successful in promoting urban management improvements. MDFO in the Philippines is the most advanced intermediary in the region, and although the World Bank's Operations Evaluation Department has stated that MDFO has a positive effect on local government performance, its influence in urban management and capacity building has been small. MDFO is primarily a lending institution, and lending institutions cannot bear the burden of institutional development alone. Other local centers such as universities and government training centers must play a greater role. Bank projects should include support for such local institutions.

Whether directly or indirectly through local institutions, the key principles that the World Bank's urban development unit will pursue to improve governance, urban management, and service delivery are as follows:

- Working at the national level to develop national programs in support of decentralized management (see Part I, section III-E).
- Modernizing systems that improve transparency and improving citizens' understanding of the quality and efficiency of local government services (such as public procurement systems, public disclosure policies, licensing, bill paying systems, and performance benchmarking). E-governance can be promoted as a vehicle to improve transparency and efficiency of citizen interaction with local government. This will be tried in the Indonesia Urban Sector Development Reform Project (USDRP).
- *Linking Bank financial support to incremental improvements in city performance.* Bank support can link to two types of city performance improvements: service delivery and economic growth management. The former will be easier to measure, but local officials will need to recognize the importance of economic growth and the levers under local control. The Bank can also support programs to improve incentives and accountability by encouraging specific performance agreements between national (or provincial) levels and towns and cities as well as between town or city levels and individual service departments. Having cities that receive Bank support agree to performance monitoring would be a good first step. The proposed Indonesia USDRP is the primary testing



ground for this technique. An adjustment loan for urban infrastructure and urban management performance might be considered in several countries including the Philippines.

- Ensuring that capacity-building support is available for enough time to make a difference—that is, from initial design to completed systems.
- *Creating local centers of excellence in support of local capacity building.* Long-term support will require working with local institutions to build centers of excellence in government practice, such as local government training academies and associations to improve local wholesaling of support to local officials. It will be necessary to identify and support at least two candidate partner institutions in the next two years. In addition to direct support, the Bank can help link these local institutions to international institutions. World Bank International (WBI) will develop a partnership with the Global Development Learning Network.
- *Using analytical and advisory activities (AAA) to support better urban governance and better urban management.* AAA is needed to review experience in capacity-building efforts and to develop long-term strategies for specific countries.

EAP's Urban Development Objectives

Objectives

The long-term goal of the EAP Region's urban development unit is to work closely with clients as trusted partners over an extended period to help them create a sustainable urban development path through major economic, demographic, and decentralization transitions. This goal requires the Bank to help clients in a multifaceted way in response to the challenges discussed above. The key objectives are to help clients achieve the following

- Develop a framework for sustainable finance of local government investments that includes local market-based financial intermediaries to retail Bank lending, and support to small and medium-sized cities.
- Tackle the infrastructure needs of rapidly growing metropolitan and periurban areas including both urban environment and urban transport investments.
- Improve the conditions of the urban poor and their access to basic services.
- Enhance the local investment climate to promote economic growth and increase employment.
- Improve urban governance and management.

Although the objectives will vary depending on the needs of each client, two areas will be the most important in the next five years: improving urban governance and management and developing sustainable frameworks for local government finance. The Bank's previous work in all the region's countries suggests that a sustainable development path that results in improved infrastructure, better urban services, economic growth, and provision of basic services to the poor depends on improving the capacity of local government management and on generating new approaches to financing priority needs. Both factors require more thinking and analysis on the part of the Bank, its partners, and its clients. The Bank's EAP urban group will make a special effort to help clients achieve these objectives over the next five years. Although its success is not assured, EAP's urban lending programs, technical advice, and AAA will serve as platforms for this effort. Progress will require that country-level strategies be agreed upon internally with country teams and with other units such as Poverty Reduction and Economic Management (PREM), World Bank Institute (WBI), Human Development (HD), and Rural Development (RD), which will play complementary roles, and externally with government counterparts. It will also require the selective use of newer instruments such as sector-adjustment loans, local currency loans, and perhaps partial guarantees. The IFC and other institutions, including bilaterals and the



ADB, should be partners. A sustained approach to partnering and a revitalized program of AAA is needed.

Key Business Lines to Support the Strategy

In all countries, the Bank will continue to finance infrastructure and basic services that city clients urgently need. The Bank needs to help where it can while at the same time maintaining in each country clear, long-term goals, which it advances bit by bit through each operation. The main business lines are described below.

Single-sector Urban Projects

These would include such projects as *environmental management* (with components such as sanitation and sewerage, solid waste management, drainage, urban air pollution control, industrial pollution control, and /or river basin management) and *urban transport* (with components such as traffic and demand management, urban mass transit, urban roads, and /or facilitation of nonmotorized traffic). Single-sector projects can support individual large cities or multiple smaller cities. In the latter case, the Bank would take the opportunity to develop or improve the functioning and financial operations of a local intermediary. In both cases, the projects could be vehicles for improving the municipal finance framework, urban governance, or urban management.

Municipal Development/integrated Urban Infrastructure Projects

Although the EAP group has not attempted recently to use a comprehensive analysis of city priorities to support a lending operation covering a wide range of municipal infrastructure for large and important cities, this will now be part of the agenda. In particular, the EAP group will attempt to launch a pilot operation to tackle a mega-city and its periurban hinterland in partnership with others. The government of Vietnam has informally suggested that Greater Metropolitan Hanoi might be a candidate. Any such projects would also address urban governance and management objectives.

Municipal Financial Intermediaries for Lending to Multiple Cities, Especially Small and Medium-sized Cities

Local specialized financial intermediaries or municipal development funds are useful not only as vehicles for the Bank to leverage its staff in work on small and medium-sized cities but also as part of the long-term financial framework for local government finance.

Provision of Basic Services to the Poor

This traditional line of business will have an explicit objective of scaling up impact through citywide and national programs.

Regional/provincial Development Projects

Many countries have expressed an increased interest in regional- and provincial-level planning and project development. In principle, such projects can be opportunities for the Bank to support the objectives of the strategy. However, regional development efforts would normally require a series of projects to consolidate success in a province or region. As a practical matter, to avoid implementation complexities, any particular operation will focus on only one or two objectives.

Implementation Measures

As [Table 5](#) illustrates, some of the elements of the strategy will require the development of new approaches, or will require moving forward in areas where there is a model but where



Table 5. The EAP Group's Experience Across the Five Objectives

Objective	Is there an available model?	Track record?	Country programs
Improving sustainable finance and access to domestic banking and credit markets and developing market-oriented intermediaries for small and medium-sized cities.	Yes	No	China, Vietnam and the Philippines.
Improving provision of infrastructure to metropolitan and periurban areas of megacities.	No	No	Some projects in China; for example, in Shanghai, but emphasis is on environmental infrastructure.
Improving basic services to the poor.	Yes	Yes	Vietnam, Indonesia, Philippines, Mongolia.
Improving the business climate for economic growth.	Some lessons learned from experience in industrial countries	No	Just starting in China.
Improving governance, urban management, and capacity.	Only at the sector-specific level	No, although there have been some significant sector achievements—for example, in water utilities.	Some efforts under way in Indonesia and China.

Source: [\[pls advise\]](#).

there is not yet a track record. Implementing the strategy will require a departure from business as usual. It will require a series of measures including: improving internal processes, developing close working relationships both within the World Bank and with other institutions, increasing the knowledge base, working with smaller countries, developing a communications strategy and monitoring progress.

Improving Internal Processes

- *Location of staff.* EAP has already decentralized staff to resident missions in China, Indonesia, Philippines and Vietnam, and has benefited from the close contact that its senior staff have with clients. This can be further reinforced with consideration given to the creation of a regional hub, possibly located in China. It may also be possible to use each existing resident mission as a minihub. Vietnam, for example, could be the hub for Cambodia and Laos, China for Mongolia, and Indonesia for the Pacific Islands.
- *Simplification of projects.* It will be necessary for EAP to initiate substantial policy and country-level planning initiatives to implement the recommendations in this report. Although the planning and reform program will be complex, it is possible for individual projects to be simplified. A series of small projects, each designed to incrementally advance a business objective in a country, is preferred over a single large project. Program loans, sector adjustment loans, and SWAPs can be an effective way to support



a country willing to undertake a program of reform. Complex projects cannot be avoided entirely but should be kept at 20 percent of the portfolio.

- *Skills.* The new business directions require skills in urban economics, urban planning, urban environmental planning, and local government finance. The immediate priority is to strengthen finance skills.
- *Internal Partnerships.* Internal partnerships are essential to delivering the highest quality support to clients. The PREM unit plays a key role in intergovernmental finance issues and in efforts to develop domestic capital markets. This is complementary to the urban unit's interest in city-level financial improvements and models for borrowing for finance of subnational infrastructure. The rural development group is a natural partner to deal with urban rural linkages, land issues, and some issues of subnational governance. Problems of air and water pollution can be dealt with in partnership with ENV, and work on metro and periurban infrastructure need to be tackled with the Transport and Energy units. IFC will be an increasingly important partner as local-level private operation of services becomes more established.

Partnering with Others

Partnerships with others have proven hard to sustain at the operational level but are critical to the success of key elements of the Bank's strategy. Many staff members believe that partnerships with bilaterals and with the ADB are useful and have worked hard to nurture them. To date, however, partnerships have generally been successful only when individual task managers on both sides have developed a personal relationship. As a result, long-term partnerships have not gone very far. Nevertheless, without deeper cooperation between partners, the opportunity to have an impact is severely diminished. Successfully developing a new business line around periurban infrastructure planning, for example, depends directly on the ability to develop a genuine relationship, at least with the Japan Bank of International Cooperation (JBIC), Japan International Cooperation Agency (JICA), ADB, and others.

The infrastructure initiative with JBIC and ADB, which focuses mostly on national infrastructure issues, is a good start and a model for what is needed at the local government level. One way to initiate partnerships would be to reach high-level agreement among potential partners on a country and a topic that would be the pilot for a new partnership arrangement. The topic should be one in which all partners have a genuine interest and to which each partner can make a meaningful contribution. A good candidate for such a topic would be infrastructure development in a large megacity and its periurban hinterland. This agreement could be followed by preparing a plan of action developed jointly at the task-team level, followed in turn by joint missions. Monitoring and periodic joint high-level meetings between managers and task teams would be necessary to solve problems as they arise and to convey to all involved the importance of coordinated work.

The Cities Alliance can be a valuable partner in helping to implement business priorities. The Cities Alliance has supported both city strategy work and programs targeted at the urban poor. It is also interested in helping cities improve the financing of urban priorities.

To date, about 62 cities in the EAP Region have either completed CDS exercises or have them under way, and another 13 are in the pipeline. Because the program is heavily donor supported, funding is limited, and in some countries there is uncertainty about how to finance more detailed follow-on planning and feasibility studies required, as well as the investments themselves. A model is needed for mainstreaming city-level planning and strategy preparation. One possibility is to link city strategy work, at least informally, to loans by municipal financial intermediaries. In Indonesia, the USDRP envisions that a planning and investment prioritization exercise will precede applications for financing projects and will also be the basis for identifying management and institutional reforms. An urban lending

intermediary to be set up in the future would finance priority investments. In the early stages of the program, a strategy document would be required as a condition of a loan, but it probably would not be required in later stages. In the Philippines, a City Development and Investment Project (CDIP) is being prepared that will finance projects identified through the CDS process in several cities.

International experience suggests that when market lenders consider making a loan to local governments, they feel considerable comfort when the loan is part of an overall plan that reflects broad local consensus on priorities. Local intermediaries therefore have an incentive to lend for TA to cities wishing to initiate planning and strategy exercises, which can resolve the TA financing issue in some cases. Such intermediaries can also lend for the needed follow-up feasibility studies and then finance the resulting investment proposals.

Increasing the Urban Development Knowledge Base

The EAP group's intellectual capital and knowledge base on urban development trends and policies needs renewal in light of the sweeping changes in countries and the clients' level of sophistication. Recent levels of Bank-funded AAA have been insufficient to permit an in-depth response to clients' needs. More analysis with direct involvement of the region's cities is needed.

Country-specific AAA is discussed in the Country-Specific Strategies section. Some regionwide issues that require AAA are as follows:

- Conducting an assessment of urban land management issues in a minimum of two countries to better document the extent of the urban land problem and its consequences and to identify practical steps forward.
- Preparation of an annual High-Level EAP Urban Poverty Conference with the objective of comparing, discussing, and debating the approaches being taken in national poverty strategies.
- Development of country-specific strategies for improving access to domestic finance for subnational infrastructure to outline a vision and next steps and to establish dialogue with clients.
- Identification of priorities and approaches for capacity building, including identifying local institutions that can promote local skills development and assess efforts to monitor the performance of municipal officials.
- Providing an overview of experience in local efforts to improve the business environment.

Improving Bank Presence in Small Countries

Small countries with which the Bank has limited lending programs often suffer from infrequent exposure to Bank staff. As noted above, the urban development unit will consider restructuring responsibilities so that regional offices serve as hubs for smaller countries. Vietnam, for example, could be the hub for Cambodia and Laos, China for Mongolia, and Indonesia for the Pacific Islands. The object is to improve the frequency and depth of contact.

Developing a Communications Strategy

Because there are literally thousands of local governments in the region, the Bank must develop a communications strategy about appropriate urban policy and about the Bank and its programs. This strategy should extend to cities as well as to national institutions. CDS has been a valuable mechanism for communication. Scaling up and mainstreaming CDS, as contemplated in the Philippines, can be one element of such a strategy. Another element can be working with local associations and with national planning and finance ministries on national development strategies. Financial intermediaries that lend to small cities and local governments can also play a role.



Table 6. Interim Measures of Success for The EAP Group's Urban Business Strategy

Objectives	Near-term targets
First-tier objectives	
Improving access to domestic capital markets by local governments.	<p>To have a framework for market-driven domestic finance of the subnational infrastructure adopted in the Philippines and in one other country by fiscal year (FY) 2005.</p> <p>To have support for a successful domestic bond issue by a subnational entity in three countries by FY 2006.</p> <p>To have support for a pooled bond issue by FY 2006.</p> <p>To establish a market-oriented financial intermediary to tap the domestic capital markets in the Philippines by FY 2006 to help small and medium-sized cities.</p>
Improving municipal governance and management.	<p>To have support committed for one local "center of excellence" for capacity building by FY 2005 and for two by FY 2006; to have local centers of excellence connected to international centers by FY 2006.</p> <p>To have subloans to local governments in the Indonesia USDRP tied to local government success in achieving performance benchmarks by FY 2005; to have a project in another country adopt performance benchmarking by FY 2006.</p> <p>To have cross-country AAA on local government capacity building completed in FY 2005 and a detailed country strategy agreed upon with one country by FY 2005.</p>
Second-tier objectives	
Improving the city-level business environment to promote economic growth and job creation.	<p>As a follow-up to the business and regulatory climate study in Indonesia, to have an audit of the local business environment for one country other than Indonesia conducted by FY 2006.</p> <p>To have the improvement of the city-level business climate included as a primary objective of two Project Concept Notes by FY 2005.</p>
Improving metropolitan and periurban infrastructure planning and management.	<p>To select one important metropolitan agglomeration outside of China and initiate a partnership to develop an integrated infrastructure and management strategy that covers the central core and periurban areas by FY 2005.</p> <p>To establish a partnership with JBIC/JICA/ADB in FY 2005 to work jointly on a selected agglomeration.</p>
Developing sustainable programs to improve conditions of the urban poor.	<p>To have long-term programs of basic services and tenure improvements with clear coverage targets and an affordable financing strategy adopted in Vietnam and one other country by FY 2006 and in a third country by FY 2007.</p> <p>To commence an annual High-Level Regional Conference on Basic Services to the Poor and Tenure in FY 2005.</p> <p>To complete a city-level Poverty Report Strategy Paper in one city of Vietnam by FY 2006.</p>

Source: [[pls advise]].

Benchmarking the EAP Group's Progress in Implementing the Business Strategy

Table 6 shows the objectives and the near-term targets that the EAP group must achieve to have a successful outcome for its current business strategy.

Country-specific Strategies

This section discusses specific country circumstances and priorities in the urban sector for which the EAP Region will take action. The business strategy is different from country to country but roughly clusters into three groups: (1) the middle-sized countries of Indonesia, the Philippines, and Vietnam; (2) China; and (3) the smaller countries of Cambodia, Lao People's Democratic Republic (PDR), Mongolia, and the Pacific Islands. The strategies for the middle-income countries are quite different from the strategies of the small IDA-eli-



gible countries where the emphasis is on helping achieve the MDGs. Each country group is discussed below. However, it must be emphasized that even within groups, unique country circumstances mean that timing, policies, and institutional arrangements are necessarily somewhat different, even if objectives and approaches are similar.

Business Priorities for Indonesia, the Philippines, and Vietnam

The following four business product lines are priorities for EAP in Indonesia, the Philippines, and Vietnam (see [table 7](#)):

- Improving urban governance, management, and institution building
- Promoting sustainable local government finance
- Improving access to basic services to the urban poor
- Developing new approaches to urban/regional planning, land management, and infrastructure provision

Urban Governance and Institution-building Business Line

The need to improve urban management and make service delivery more efficient is a glaring problem for cities in the Philippines, Indonesia, and Vietnam. Every project in these countries should advance this aim. Improving urban management and service efficiency means capacity building by working with domestic institutions to develop enhanced domestic training capability, developing local consultants, bringing in the private sector (including the local private sector), and working with nongovernmental organizations (NGOs). It also means working to develop systems that actively support local-level capabilities through national training institutes; providing guidelines for local services and local administration in such areas as budgeting and accounting; developing benchmarking systems; and establishing norms for public information disclosure on procurement, loans, budgets, and accounts. It may mean working with local government associations, establishing communication networks among local governments, developing e-government systems, and so forth. Unfortunately, there are few resources for developing specific country-level strategies for capacity building.

The USDRP project in Indonesia is the best example of a project specifically designed to support urban management. The Philippine Local Government Finance and Development Project (LOGOFIND) had a number of important TA and training components, but to date these are stalled in part by the local counterparts' budget issues. AAA is needed to develop country-specific approaches and to compare strategies across countries for capacity building. This AAA should lead to recommendations that will be supported with future lending operations.

Sustainable Finance Business Line

Foreign borrowing (whether from multinationals or foreign capital markets) is not a sustainable source of the large amounts of capital needed to support urban growth in these countries. Sustainable finance requires that local governments tap the domestic private banking and bond markets for their capital investment requirements and that local revenues are raised to cover recurring costs and any debt service. The following three levels of reform are needed:

- An intergovernmental framework to define the rules of the game
- Reform within individual local governments to improve mobilization of resources
- A borrowing framework for local governments.

The urban development unit's efforts in Indonesia, the Philippines, and Vietnam will focus on the two latter points. (The EAP Region's PREM unit should take the lead in developing the intergovernmental framework.)

Past efforts by the urban development unit have focused primarily on resource mobilization, with some attention to financial intermediaries. Although a great deal more needs



Table 7. Specific Directions for Middle-Sized Countries

Concept	Indonesia	Philippines	Vietnam
Urban management, governance	The USDRP APL attempts to improve urban management and governance at the local government level and covers capacity building, urban finance, local economic development, and land. It will foster transparency and accountability as well as benchmark performance. This will be complemented by UPP, which will facilitate accountability and cooperation between local government and communities.	A planned lending operation will involve the League of Cities to help implement plans drawn up through CDS studies. This operation aims to promote municipal management and the local government knowledge agenda (possibly including e-government). It will also help mayors address improvements to the investment climate.	CDSs are planned for two cities with the possibility of follow-up operations. Longer-term engagements with a specific city (e.g., Darang) are being discussed (through a city development project).
Promotion of domestic finance for local governments and local government corporations	The USDRP will improve local finance by (1) improving budgeting, accounting, tax administration, and better cost recovery from tariffs and fees; (2) defining policies for local government borrowing; and (3) developing a specialized financial intermediary based on market principles to increase the availability of domestic private capital to local governments. APL 1 or 2 may support demonstration of pilot bond issues by carefully selected local governments or local institutions in advance of the implementation of the longer-term framework. Bond pooling approaches are also possible.	Priorities include enhancing access to market-based domestic finance. This involves (1) removing the impediments to private bank lending, (2) restructuring MDFO as an independent institution, (3) considering the role of bond pooling, and (4) improving local government management and resource mobilization. If government makes progress on the policy issues, an Urban Sector Adjustment Loan may be possible.	Efforts are needed for improving municipal creditworthiness and developing institutions to facilitate market-oriented municipal borrowing in Vietnam. There has been one bond issue by a local government (HCM City). A second HCM City bond is under preparation. The Bank could assist specific domestic credit access initiatives to pilot test approaches that would eventually lead to more market-based lending and broaden access to more cities.
Urban/regional infrastructure planning	Three projects are being developed to improve management of services that cross the boundaries of different administrative jurisdictions. These projects will promote an integrated, regional approach to infrastructure planning and local economic development and promote the achievement of urban-rural synergies. The first, the East Java Development Project, will address currently unclear institutional relationships between provincial and local governments. The second, the Yogyakarta Regional Development Project, supports strategic urban/rural linkages and regional integration to promote the role of cities as engines of regional economic growth. The third, the Western Java Environmental Management Project, takes a regional approach to improving environmental quality.	Metropolitan Manila is so important to the national economy that improving its functioning and that of the surrounding periurban areas through well-planned, regional-scale infrastructure services needs to be a national priority. This would involve working with the Department of Public Works and Highways and responsible local governments to improve infrastructure planning and develop realistic financing plans. Moving forward will require partnerships with other official development assistance institutions and clear interest from the affected national and local bodies.	The rapid growth of the periurban areas surrounding Vietnam's towns and cities requires new regional approaches to planning and infrastructure development. The Bank should make an effort to join with JBIC and ADB to carry out a regional development plan for one of the main metropolitan centers, such as Hanoi. A new lending product to finance the outcomes of urban/regional planning for one of the development triangles is being considered.

Table 7. Specific Directions for Middle-Sized Countries continued

Concept	Indonesia	Philippines	Vietnam
Scaling up urban poverty	<p>The UPP series of projects attempts to improve governance at the community level and to help develop representative local institutions that improve collective decision-making and provide level services.</p> <p>The third UPP in the series is under preparation, which will make UPP a national program.</p>	<p>A LIL is being prepared to test approaches for bettering the conditions of the urban poor by improving basic services and tenure in slum and squatter areas. If the LIL is successful, a large-scale, financially sustainable program to upgrade slum areas can follow.</p>	<p>The VUUP will improve conditions of almost 2 million households living in low-income areas across four cities. The project is supporting the development of a National Urban Upgrading Program, which would systematically improve and regularize all slums over time.</p>
AAA	<ol style="list-style-type: none"> 1. Specific detailed analyses of priorities such as local taxation, resource mobilization, local government civil service reform, land policy, urban social safety nets, and local economic development need to be addressed. 2. Other topics include understanding the travel needs of the poor and public transport reform. Mobilizing private finance for urban transport infrastructure needs to be supported by TA in the identification and design of possible private financial initiatives. 	<ol style="list-style-type: none"> 1. A roadmap is needed for urban infrastructure to support urban growth in Metropolitan Manila and the surrounding periurban region that includes the institutional coordination framework for making progress. 2. A review is needed of how MDFO should operate as a corporation. If progress is made, the Bank might consider support through a Sector Adjustment loan. 3. Also needed is an urban poverty assessment to provide a long-term vision for dealing with slums and land management. 4. A plan is needed for mainstreaming CDS in the Philippines. 5. A strategy is needed for capacity building and urban management support. 	<ol style="list-style-type: none"> 1. The Bank is updating its Infrastructure Sector Strategy, including the development of policy reform agendas and national investment plans with government that would provide the basis for sector lending. 2. The Bank should continue its support of the joint government/donor Urban Forum (partnership). 3. The Bank should assess the feasibility of providing lending support to help stimulate market borrowing to subnational capital markets. 4. The Bank should give advice on new approaches to integrated urban and regional infrastructure planning and development. 5. The Bank should develop urban public transport strategies, particularly bus systems and traffic management strategies. 6. With increased lending in environmental sanitation, the Bank should carry out an infrastructure study or options for wastewater management as well as sustainable financing strategies. 7. In an increasingly decentralized environment, the Bank needs to develop a strategy for municipal capacity building.

Source: [[pls advise]]

to be done to improve resource mobilization and expenditure management, a more aggressive start must be made in establishing longer term borrowing frameworks, especially in the Philippines and Indonesia, using each urban and water resource lending operation to move forward. This requires not only long-term strategies but also a willingness to take risks with pilot transactions in advance of a fully implemented long-term framework. In Vietnam, support to pilot domestic bond schemes in HCM City may be a first step in initiating the longer term process of developing an overall borrowing framework in that country. Establishing a national level financial intermediary in Vietnam for lending to local governments should be considered.

The experiences of the developed world with bond banks, European local government financial agencies, and structured finance instruments for pooled bonds should be discussed in all three countries. Assistance in establishing rating agencies may be needed. The use of new World Bank instruments to promote pilot transactions, including the Bank's guarantee instrument, contingent loans, and other options, should be considered. Long-term continuing AAA is needed to develop and refine country-specific approaches and to establish a dialogue with clients. APLs and sector-adjustment instruments may also be needed to establish the long-term framework.

Developing local intermediary institutions will also help the EAP group to use its own resources more efficiently. In addition to the possible financial leveraging, the group's goal also should be to leverage staff time. In small and secondary cities, local officials do not know about the World Bank and do not understand its processes and procedures. Using an intermediary partly avoids the impractical attempt to try to have Bank staff appraise all projects in secondary towns and cities.

Urban Poverty Business Line

The rapid urbanization of poverty in Indonesia, the Philippines, and Vietnam calls for an urgent response and a large-scale effort.

The EAP group is developing projects aimed at directly improving the living conditions and livelihoods of the poor in all three middle-sized countries. In each case the objective is to help the government develop a large-scale, long-term, financially sustainable program. Each successive Bank poverty project in a country should draw from the lessons learned in earlier projects and reflect institutional or policy adjustments as needed.

A third project in the Urban Poverty Program (UPP) series is being developed in Indonesia to deepen reform in communities already benefiting from the program and extend the program to new communities. In Vietnam, a first project is in the late stages of preparation. Of the three countries, the Philippines is farthest behind. A weak local administration at the central level of government means the Philippines has not seen a consistent national strategy. A LIL is being prepared to start a program in the Philippines that could be scaled up.

In all three countries, providing basic services in low-income housing and squatter areas is a serious national problem that needs to be managed more effectively. The Bank's role is to help develop sustainable solutions. Some of the common principles that should be followed based on past programs and on other global experience are listed below. Different country circumstances mean that the principles will be applied differently in the three countries.

- A national policy and strategy should be adopted and widely publicized.
- Local and national bodies should respect local government code. In practice, this means national coordination and promotion of services, but local implementation and mostly local financing. National guidelines and training for local officials in best practices are necessary parts of program promotion.
- Communities and community organizations should determine priorities within fixed program budget constraints. Higher levels of services should be allowed and encouraged if communities are willing to pay for them.
- Design and planning standards for infrastructure services need to be flexible (and lim-



ited by available budgets) to make a scalable solution affordable. Water and drainage network services provided in a community should be designed as parts of local networks that will connect to citywide networks.

- Cost recovery is an important target, but the ultimate goal is the long-term financial sustainability of the program. Subsidies are acceptable if they are clear, limited, targeted, and affordable by the level of government providing them when they are scaled up. The poorest residents may need safety nets that target individual families. National policy should specify the rules for national and local subsidies along with expected community payment. Any national financing should be consistent with broad national rules for project-level matching grants or loans. These programs should not be excuses for a national ministry to take over local government responsibilities just because the national level has the money.
- Tenure is important, and a strategy for land rights that fits with overall land management policy is necessary. In the Philippines, tenure regularization should be part of any project. In Indonesia and Vietnam, a broader land management and land registration policy needs to be developed; project-level infrastructure support in these countries is not necessary. In all countries, the goal should be to integrate communities into the fabric of the city and allow them to develop normally, not to preserve them in their current state.
- A parallel effort in land management and infrastructure provision in growth corridors is needed to prevent or restrain new illegal settlements from forming on unserved land.

The Cities Alliance has supported programs in each country and should be a partner in developing country poverty strategies.

Urban/regional Planning and Infrastructure Development Business Line

Urban/regional scale infrastructure planning that is designed to have a positive effect on accommodating urban growth around major cities is a central need in all three countries. This business line would require tackling large agglomerations such as Metropolitan Manila and the surrounding periurban provinces, Jabotabek, Greater Metropolitan HCM City, and/or Greater Metropolitan Hanoi. Provincial-level regional development projects in East Java and Yogyakarta in Indonesia are currently being planned and fit within this framework.

From a country perspective, the Greater Metropolitan Manila agglomeration is the most critical to national productivity among the various candidates and would have the greatest national impact if successful. However, tackling any of the agglomerations around large capital cities will mean dealing with political relationships between multiple provincial and local governments and national units. If the EAP group decides to move forward with Greater Metropolitan Manila, HCM City, Jabotabek, or Hanoi, a strong internal plan will be needed that overcomes concerns that the problems may be too big for the Bank to tackle.

A genuine partnership with JBIC and JICA, at a minimum, will be essential for success in this business line. Involving ADB and other bilaterals would be helpful. The effort may be so intensive that only one country of the three can receive support at a given time. Discussions should be held in all three countries with the aim of determining where the confluence of local interest and the likelihood of partnership suggest making a start. No good models exist in this area, and a great deal of innovation and hard work will be necessary for success.

Land management is a serious issue in all three countries. Land management affects poverty reduction, economic development, foreign investment, urban planning, and infrastructure efficiency. The Rural Development Department has handled most land management projects in EAP to date. Considering the differences in urban and rural issues, the EAP's urban development group should undertake AAA work on land issues in at least two countries to document the extent of the problem and its consequences and to identify practical steps forward. Project components that improve urban land management should be considered in future operations.



Business Priorities for China

Continuity and relationships based on trust and knowledge are important to the China program. They allow the Bank to work with Chinese authorities to test reforms of national significance with repeat city and provincial borrowers with whom a partnership has already developed. One key to success is for the Bank to offer the central and provincial governments and cities a strong analytical capacity to support their new urban development agenda.

Environmental sanitation will continue to be the main entry point and platform for Bank support across a number of business activities. This involves continued institutional reform to increase the efficiency of sewerage and sewerage treatment, drainage, solid waste management, air quality and river basin management. At the same time, the urban program will see several evolutionary shifts in its business activities during the next five years (see table 8).

An Even Greater Focus on Governance and Institutions for Improved Municipal Management

Each project, whatever the nature of the specific investments financed, will focus on assisting with structural change and developing market institutions and policies needed for improved urban governance and service delivery. These include regulations and regulatory bodies that are part of a properly functioning market economy, tariff reform, and the development of land markets (which have key links to financial markets in China). They also include policies (1) to improve competitiveness and the local business climate and (2) to address issues of urban and regional planning, especially in the periurban districts of large cities.

Controlling air pollution and solid waste will feature more prominently in the overall program, as will water supply policy. Bank projects will help local governments define urgently needed systems for management and maintenance of the existing assets built during the investment wave of the past 20 years. Sometimes structural change will involve shedding functions. For example, the Bank can help with innovations such as maintenance concessions that may be considered along with development of a local private-service industry. Chinese authorities are increasingly willing to seek the Bank's support in programs to protect its unique cultural assets and in development strategies that incorporate social and cultural opportunities and heritage protection.

Depending on the location of the Bank's intervention, specific projects may involve re-development of old industrial bases, especially in northeast China.

Chinese cities wishing to maintain the edge of entrepreneurship will require new communications strategies to keep abreast of customers, competitors, and new manufacturing and services technology. Especially needed are city-to-city communications, links to associations of mayors and city officials, and information and communications technology (ICT) investments. Although local officials in China are generally qualified technical professionals, they would benefit from capacity-building efforts related to traditional city management functions of planning, including financial planning of a market economy, as well as newer functions of managing technology. The WBI Environmental and Urban Management Program has been a successful example of capacity and knowledge building.

Increased Assistance to Secondary Cities Programs at the Provincial and Urban Subregional Scale

The shift from single-city projects to provincial-scale, secondary-city projects and multijurisdiction periurban projects will accelerate. This will allow the Bank to spread the effect of its projects and to support provincial-level policies and institutions. Two types of programs need attention:

- The development of the smaller towns associated with a large central city that are part of a single urban–periurban agglomeration
- The development of independent secondary cities and towns whose development is not associated with a large central city.



Table 8. Specific Directions for China

Concept	Recommendation
Urban Environmental Management	The main theme of Bank support to China in the urban sector will continue to be urban environmental management.
Municipal management and capacity building	There will be continuing use of environmental investments as a platform to improve municipal management and build local capacity. This includes reform of municipal institutions and utilities, regulatory reform, financial management and policy reform, cultural heritage protection, city-to-city communications and networking, ICT, and e-government.
Provincial-regional scale planning	The shift from single-city projects to province-wide secondary city projects and regional metropolitan area projects will accelerate. The Bank will have an effect at the metropolitan regional scale and will support policies and institutions addressing urban/regional planning and management of large, multijurisdictional urban conurbations. The Bank will also support province-level secondary city projects of larger scope than in the past. The proposed Chongqing Small Cities Urbanization and Environment Project is an example of a new type of integrated regional urban development project. These trends will require developing intermediaries to help appraise and supervise larger numbers of disbursed local entities and to allow the leveraging of Bank staff time. Work in the poorer central and western provinces is expected to increase, but important policies will be tested in the more advanced eastern regions.
Developing financial institutions	Work will rely on pilots in Shanghai and other advanced provinces and will emphasize improved access to domestic capital markets to finance environmental infrastructure in both large and small cities. The Bank will consider intermediaries that can wholesale Bank support.
Motorization and demand management	The areas of urban transport in which the Bank can be of greatest assistance are traffic management design and implementation, public transport reform, demand management, and new roads at the periphery of rapidly growing cities to channel growth.. The aim is to continue to leverage investment in physical facilities to secure the reform agenda.
AAA	<p>An expanded AAA program needs to consider:</p> <ul style="list-style-type: none"> • Small-town development strategies and the use of intermediaries • Interjurisdiction planning and management at the regional and metropolitan scale • Urban planning and management within the context of the market economy • Maximizing the fiscal and economic potential of the land and housing markets • Managing migration • Subnational infrastructure financing, including specialized institutions for lending to local entities • Moving from retail to wholesale in urban transport • Strategies for capacity building • The e-government agenda

Source: [[pls advise]]

Both situations will require new institutional models for planning, administration, and financing.

There are numerous successful examples of secondary-city projects for which the Bank has identified and appraised subprojects. In the coming years, the Bank will need to work with Chinese authorities to develop workable provincial intermediaries that can appraise subprojects and on-lend Bank funds, because it will be increasingly difficult for the Bank to



appraise in advance subprojects that the many small and medium-sized municipalities need in one province. The proposed Chongqing Small Cities Urbanization and Environment Project is an example of the type of regional small-city development project that may be typical in the future, and for which a new framework, including a framework for on-lending Bank funds (wholesaling), should be developed. In the case of small towns that are influenced by large metropolises and are part of a single urban cluster, new and better integrated planning approaches are also critical. Projects in periurban agglomerations are also likely to need new Bank interventions to assist the urban poor.

Support to Urban Financial Reform

Sustainable funding of urban investments depends on improving access to domestic capital markets. Private participation is not a solution to the financing requirements in the absence of a clear legal and regulatory framework. Further, many infrastructure facilities such as secondary roads may best be bought with tax revenues rather than with tolls or user fees.

State regulation and assistance would be necessary for healthy expansion of credits from the domestic capital markets as a means of financing infrastructure investments by municipal entities. The government should encourage

- Credit pooling or credit insurance at the provincial level
- Specialized funds to invest in infrastructure
- Syndication practices by banks.

Moreover, the government should prepare regulations for and begin allowing general obligation municipal borrowing. Specialization would permit institutions to identify and evaluate the unique features and uncertainties of local government investments. In designing enabling regulations for such institutions, the Bank must facilitate their main virtues: the ability to tap the domestic credit markets based on their understanding of local government and the ability to pool risks and avoid excessive contingent liability.

Specialized local government financial intermediaries will likely be provincial-level institutions rather than national institutions. The Shanghai APL breaks new ground in that it is the first operation to address the issue of increasing municipal environmental institutions' access to the domestic private capital markets.

For domestic bank loans, a rediscount or insurance facility authorized by the center to cover the maturity risk of provincial institutions would be useful not only for the borrowers but for the health of the banking system. The state, however, should not insure against credit default risk. The state should take measures to define prudent limits for local borrowing and limit local government's contingent liabilities. Future Bank operations should continue to pilot test mechanisms and policies.

Improved Urban Planning, Traffic, and Demand Management Along with New Facilities Primarily at the Periphery of Rapidly Growing Cities

Development of improved urban design and appropriate urban planning regulations is a priority for many cities in China. There is increasing understanding of the importance of improving the built heritage of historic cities. The Bank will continue to help by providing technical assistance and financing.

There are cross-sector synergies between urban transport and urban planning, land-use management, air quality, and metropolitan-level management that can be exploited in Bank operations. Including urban transport in urban development projects makes sense and may help in wholesaling these approaches as the urban program moves to multicity approaches. Areas of urban transport in which the Bank can be of greatest assistance would appear to be those of traffic management design and implementation, public transportation reform, and the more difficult area of demand management, in which little progress has been made to date. The aim should be to continue attempting to leverage investment in physical facilities to secure the reform agenda.



Even with four projects per year, China's large size means that the Bank must make difficult choices about the location of its urban projects in China. One possibility is for the Bank to focus its efforts on the poorer interior provinces to maximize the poverty impact of its support. Poverty impact should be an overriding criterion, and the largest part of the program should therefore address the special needs of poorer provinces. However, in China it will be possible to test many significant urban policies and reforms in the advanced provinces that are most likely to be able to handle them before spreading them nationwide.

Rather than focusing attention exclusively on the poorer interior regions, where innovation, especially in urban finance and institutional restructuring, is less likely, the Bank should balance its program geographically when opportunities for influencing national policy arise. Of course, models developed in one province may not be suitable for another. The Bank needs to help China develop approaches specifically adapted for the socioeconomic conditions in the western and interior provinces.

The Bank's role in different provinces is shifting. In coastal cities it must increasingly provide more knowledge than money. In interior cities, where most of the poor live, the Bank should scale up its urban lending program. The Shanghai APL is a good example of the type of knowledge and policy-based program appropriate for Bank support in the eastern provinces.

Bank budget support for urban analytic work on China has been sorely limited in the recent past, with most work undertaken as part of project and investment program formulation. A Bank-supported AAA program needs to be developed. Among the important issues that require continuous attention are the following:

- What institutional frameworks and financial intermediaries are most suitable for supporting the infrastructure investment needs of small and medium-sized cities?
- What is the strategy for wholesaling Bank assistance to large numbers of medium-sized and small towns?
- What mechanism can be used to move from retail to wholesale in urban transport?
- How is urban poverty changing, and what kind of policy response is necessary?
- How should future migration to cities be managed?
- What steps can be taken at the local level to improve the business climate and promote job creation?
- How can the Bank help improve interjurisdiction urban planning and infrastructure management at the urban regional and metropolitan scale? What changes are needed to make urban planning and management effective within the context of the market economy?
- How should the Bank develop the land and housing markets to maximize their potential fiscal and economic benefits?
- What strategy should the Bank adopt for capacity building? What domestic organizations can be partners? How can the Bank best work with local associations of mayors?
- What is the e-government agenda, and what is the Bank's role in it?

Business Priorities for Small Countries

In the smaller countries of Cambodia, Lao PDR, Mongolia, and the Pacific Islands, the priorities include the nexus of urban management, capacity building, land management, and urban finance; the secondary priority is improving services to the urban poor (see table 9). Initiatives to deal with these issues will have to be bundled together in Bank operations, considering the limited size of the lending program in the small countries.

The Bank does not have an urban program in Laos, a heavily rural country. Given rapid urbanization rates, however, it would be wise to carry out AAA to help the government develop a poverty and service-delivery strategy for Vientiane and provincial towns.



Table 8. Specific Directions for China

Concept	Cambodia	Lao PDR	Mongolia	Pacific Islands
Capacity building and improved management and revenue mobilization	The focus on establishing institutional and financial arrangements will make improvements to the water sector sustainable. Output-based aid and design-build-lease contracts are being tried to involve the private sector in provincial and periurban areas. Priorities in all projects would be new capacity building for local officials, developing better planning systems through a CDS exercise, and developing transparent systems of procurement and budgeting.	The proposed AAA to help the government develop a poverty and service delivery strategy for Vientiane and provincial towns should identify a capacity-building action plan.	Mongolia has limited capacity to prepare and implement urban development programs, so training needs to precede change. The priority objectives for training are in the area of participatory and transparent urban governance. The Bank will assist in enhancing Municipality of Ulaanbaatar finances (including intergovernmental transfers, property and other taxes, and user charges and fees) as a means of improving financial sustainability of municipal services.	Key needs are strengthening responsiveness to local communities in planning and decision-making. Appropriate land-use planning is also central. However, institutional arrangements for land-use management are weak throughout the Pacific Island region.
Scaling up urban poverty	The objective of the program in Cambodia is to help the government achieve the urban, water, and sanitation MDGs. This means moving from 35 percent coverage to 70 percent coverage in water by 2015 and improving land tenure in slum areas. If the institutional and financial targets are successful, the country can develop a 15-year program.	Any future urban work in Laos will focus on improving basic service delivery, especially in low-income communities. The first step is to initiate a review of services and the needs of the urban poor in Vientiane and provincial capitals.	The second Ulaanbaatar Services Improvement Project is part of a series whose objective is to improve the quality of life of the urban poor in the ger areas of Ulaanbaatar. The program provides basic urban services, such as water supply, sanitation, drainage, laundry and bath houses, and access roads and pathways, in a sustainable way. The next in the series should deepen achievements in Urban Poverty (UP) and begin to extend improved services to provincial capitals.	Customary land ownership traditions restrict access by utility agencies to low-income communities where tenure is not secure. Policies and innovative institutional arrangements are needed to integrate these communities into the urban social and economic mainstream. The Bank's considerable experience in community-based, low-income community upgrading could be instrumental in helping Pacific Island countries address this large and growing problem, where the political will exists.
AAA	An urban poverty mapping exercise and strategy is needed to lay the groundwork for the following series of urban poverty projects. This survey should consider land and services issues in squatter communities and should be done jointly with government, NGOs, and other donors.	It is necessary to develop a poverty and service-delivery strategy focused on Vientiane and provincial capitals.	Mongolia must further develop approaches to municipal management, capacity building, financial management, land management, and engagement of the private sector in managing services. Also necessary is a review of needs in provincial capitals.	There is a need for preparation of clear strategies on a broad range of urban management issues. Options are also needed on programs to improve land tenure and service provision to low-income communities. Consideration should also be given to mobilizing support for an appropriate CDS-type activity in selected towns.

Urban Management, Capacity Building, Land, and Finance

The Cambodia program is testing some innovative attempts to use output-based aid and design-build-operate contracts for water in provincial and periurban towns. Involving the private sector in operations has the potential to improve service delivery significantly. A CDS for Phnom Penh is being planned that will identify municipal, institutional, and policy constraints to improve urban management. This will be the entry point for further support to the municipality in future operations.

Mongolia has limited capacity to prepare and implement urban development programs. Thus, training needs to be an important part of these programs. The priority objectives for training are developing more participatory and transparent urban governance and teaching project preparation. The Bank will help enhance Municipality of Ulaanbaatar (MUB) finances (including intergovernmental transfers, property and other taxes, and user charges and fees) as a means of improving financial sustainability of municipal services.

In Pacific Island countries, strengthening urban governance and management involves strengthening the responsiveness of government to local needs and the role of communities in planning and decision-making. Indeed, the community-based approach to managing coastal erosion under the Bank-financed Asset Management Project in Samoa is a successful example of this approach. Appropriate land-use planning is central to effective environmental management, which is a prerequisite for successful long-term economic development. However, institutional arrangements for land-use management are weak throughout the region. Many Pacific Island countries are vulnerable to natural disasters and, while much attention and assistance is being provided, much clearly remain to be done.

Improving Services, Including Access to Basic Infrastructure, for the Poor

In Cambodia and Mongolia, water and sanitation needs have been the entry point for improved urban services.

The objective in Cambodia has been to help meet the Urban and the Water and Sanitation MDG targets. Institutional reforms are being tried that, if successful, would make a long-term national program feasible. The next projects in the series for Cambodia should aim to (1) consolidate the reforms in the water sector, (2) actively involve the municipality of Phnom Penh in the work in low-income areas, and (3) deal with issues of land regularization and access roads.

In Mongolia, both the municipality and the water company are involved in efforts to improve conditions in ger areas. Financing service expansion, modest standards, cost recovery, land management, and charging for land occupation are key issues being tackled to develop a sustainable ger-upgrading program.

Bank-financed infrastructure operations in the Pacific Islands presently involve a highly effective asset management project for road works in Samoa, which has generated interest for similar assistance in Fiji, and emergency reconstruction activities in Tonga and Samoa. Preparation of an adaptation program related to sea-level rise under way in Kiribati also has clear relevance for urban communities throughout the Pacific. In many Pacific countries, the most dramatic population growth has been in informal periurban settlements. The lack of secure tenure heightens the vulnerability of these communities. Policies and innovative institutional arrangements are needed to integrate these communities into the urban social and economic mainstream. The Bank's considerable experience in community-based, low-income community upgrading could be instrumental in helping Pacific Island countries with the political will to address this large and growing problem.

In all of the small countries, the Bank needs to work with political leaders, first to identify opportunities for economic gain and improve urban efficiency and, second, to develop clear, policy-based investment programs. Financial sustainability and local resource mobilization will be part of any program design and will require constant attention during implementation of the programs.



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Annex A. Urbanization Figures



Table A.1. Total and Urban Population, East Asia and Pacific Region [Does the “m” in the table below stand for “mean” or “median”?]

EAP Region population	2000 m	2030 m	Increase m	Percentage increase
Total	1,877.0	2,301.9	424.9	22.6
Urban	664.8	1,230.1	565.3	85.0
Rural	1,212.5	1,071.8	(140.7)	(11.6)
Urban as percentage of total	35.4%	53.4%		

Note: East Asia and Pacific (EAP) Region combines Southeastern Asia and Eastern Asia less Japan. Data exclude Melanesia, Micronesia, and Polynesia.

Source: World Urbanization Prospects: 1999 Revision. [REFERENCES HAVE “The 2001 REVISION.” ADD “1999 REVISION”?]



Table A.2. *Historic and Recent Trends in Urbanization: East Asia and Other Countries Compared*

Trend	Developed Countries	All Developing Countries		East Asia and Pacific Region	
	1900–25	1975–2000	2000–25	1975–2000	2000–25
Share urban, beginning–end of period (percent)	26–40	27–40	40–53	20–35	35–51
Urban population growth over 25-year period (percent)	90	140	82	151	75
Annual growth rate (percent)					
Urban	2.57	3.56	2.43	3.75	2.25
Rural	0.05	1.12	0.20	0.60	–0.32
Total	0.87	1.92	1.23	1.45	0.74
Urban as percentage of total population growth	96	62	92	71	130

Source: Developed country data: Brockhoff and Brennon (1998); other data: *World Urbanization Prospects: 1999 Revision*. [The 2001 Revision?] All averages weighted by population.



Table A.3. Current Level of Urbanization

Current Level of Urbanization	Percentage Urban		Urban Population, (millions)		Growth Rate of Urban Population (percent) 2000–05	Percentage of Population in Largest City 2000	Gross National Income* Per Capita,	
	2000	2030	2000	2030			\$ 1999	Average Annual Growth Rate (percent) 1997–98
High								
Republic of Korea	81.9	90.5	38.4	47.9	2.67	26	8,490	-7.5
Medium								
Mongolia	63.5	76.0	1.7	2.9	2.28	NA	390	1.9
Philippines	58.6	73.8	44.5	84.1	3.14	25	1,050	-2.1
Malaysia	57.4	72.7	12.8	23.7	2.83	10	3,390	-8.0
Lower Medium								
Indonesia	40.9	63.5	86.8	179.9	3.57	13	600	-18.0
China	32.1	50.3	410.0	752.1	2.34	3	780	6.4
Myanmar	27.7	46.6	12.6	28.0	2.86	33	NA	NA
Low								
Laos	23.5	42.6	1.3	4.5	4.87	NA	290	1.4
Vietnam	19.7	33.7	15.7	38.0	2.86	30	370	4.3
Thailand	21.6	39.1	13.3	29.0	2.19	56	2,010	-8.6
Cambodia	15.9	31.9	1.8	5.5	4.16	51	260	-2.3
Papua New Guinea	17.4	33.0	0.8	2.6	4.01	NA	810	0.0
Regional averages								
Eastern Asia	38.5	54.6	571.7	933.0	1.90			
Southeastern Asia	37.2	55.9	192.7	397.4	3.17			
Total, EAP Region						10	1,010	-2.6

* Formerly gross national product. World Development Indicators 2001.

NA = not available.

Source: World Urbanization Prospects: 1999 Revision. [The 2001 REVISION?]



Table A-4. Largest Urban Agglomerations in East Asia Region (Ranked by Population, 1950–2015)

Rank, by Year	Urban Agglomeration and Country	Population (millions)
1950		
1	Shanghai, China	5.333
2	Beijing, China	3.913
3	Tianjin, China	2.374
2000		
1	Shanghai, China	12.887
2	Jakarta, Indonesia	11.018
3	Beijing, China	10.839
4	Metropolitan Manila, Philippines	9.950
5	Seoul, Republic of Korea	9.888
6	Tianjin, China	9.156
7	Bangkok, Thailand	7.372
2015		
1	Jakarta, Indonesia	17.268
2	Shanghai, China	13.598
3	Metropolitan Manila, Philippines	12.579
4	Beijing, China	11.671
5	Tianjin, China	10.319
6	Seoul, Republic of Korea	9.918
7	Bangkok, Thailand	9.816

Source: *World Urbanization Prospects: The 2001 Revision*. [Please provide full citation in references]DELETE



Annex B. Millennium Development Goals (MDGs)



Table B.1. Infant Mortality Rate

MDG Goal 4. Reduce child mortality

Target 5. Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate.

Country/ region	Years							2015 Target	Annual Percent Change	On Track?	Annual Percent Change to Achieve Target
	1990	1995	1996	1997	1998	1999	2000				
World	61	57	NA	55	NA	54	NA				
High income	8	6	6	6	6	6	NA	3	-3.8	No	
Low and middle income	66	62	NA	60	NA	58	NA	22	-1.3	No	
East Asia and Pacific	40	38	NA	37	NA	35	NA	13	-1.5	No	-1.3
Cambodia	122	108	NA	103	NA	100	NA	41	-2.1	No	-3.7
China	33	34	NA	32	NA	30	NA	11	-1.0	No	-1.2
Indonesia	60	46	NA	44	NA	42	NA	20	-4.0	Yes	-1.4
Korea, Dem. Rep.	45	61	NA	64	NA	58	NA	15	2.8	No	-2.7
Korea, Rep.	12	10	NA	9	NA	8	NA	4	-4.1	Yes	-0.3
Lao PDR	108	104	NA	98	NA	93	NA	36	-1.6	No	-3.6
Malaysia	16	12	NA	10	8	8	7.9	5	-7.7	Yes	-0.2
Mongolia	73	65	NA	62	NA	58	NA	24	-2.6	No	-2.1
Myanmar	94	83	NA	79	NA	77	NA	31	-2.1	No	-2.9
Papua New Guinea	83	67	NA	61	NA	58	NA	28	-4.1	Yes	-1.9
Philippines	37	35	NA	33	NA	31	NA	12	-1.8	No	-1.2
Thailand	37	31	NA	29	NA	28	NA	12	-3.0	No	-1.0
Vietnam	40	37	NA	37	NA	37	NA	13	-1.0	No	-1.5

NA = Not available.

Sources: World Bank staff estimates and United Nations Children's Fund.



Table B.2. Proportion of Population with Sustainable Access to an Improved Source of Drinking Water

MDG Goal 7. Ensure environmental sustainability.

Target 10. Halve by 2015 the proportion of people without sustainable access to safe drinking water.

Country/ region	Years							Target 2015	Annual Percent Change	Annual Percent Change to Achieve Target
	1990	1995	1996	1997	1998	1999	2000			
World	76	NA	NA	NA	NA	NA	81	88	0.6	
High income	NA	NA	NA	NA	NA	NA	NA	NA	NA	
Low and Middle income	73	NA	NA	NA	NA	NA	79	86	0.8	
East Asia and Pacific	70	NA	NA	NA	NA	NA	75	85	0.6	0.7
Cambodia	NA	NA	NA	NA	NA	NA	30	NA	NA	
China	71	NA	NA	NA	NA	NA	75	86	0.5	0.7
Indonesia	69	NA	NA	NA	NA	NA	76	85	1.0	0.6
Korea, Dem. Rep.	NA	NA	NA	NA	NA	NA	NA	NA	NA	
Korea, Rep.	NA	NA	NA	NA	NA	NA	92	NA	NA	
Lao PDR	NA	NA	NA	NA	NA	NA	90	NA	NA	
Malaysia	NA	NA	NA	NA	NA	NA	NA	NA	NA	
Mongolia	NA	NA	NA	NA	NA	NA	60	NA	NA	
Myanmar	64	NA	NA	NA	NA	NA	68	82	0.6	0.9
Papua New Guinea	42	NA	NA	NA	NA	NA	42	71	0.0	1.9
Philippines	87	NA	NA	NA	NA	NA	87	94	0.0	0.4
Thailand	71	NA	NA	NA	NA	NA	80	86	1.2	0.4
Vietnam	48	NA	NA	NA	NA	NA	56	74	1.5	1.2

NA = Not applicable.



Table B.3. Proportion of People with Access to Improved Sanitation

Goal 7. Ensure environmental sustainability.

Target 11. By 2020 to have achieved a significant improvement in the lives of at least 100 million slum dwellers.

Country/ region	Years							Target 2020	Annual Percent Change	On Track?	Annual Percent Change to Achieve Target
	1990	1995	1996	1997	1998	1999	2000				
World	49	NA	NA	NA	NA	NA	56				
High Income	NA	NA	NA	NA	NA	NA	NA		NA	NA	
Low and Middle Income	44	NA	NA	NA	NA	NA	52	72	1.8	Yes	
East Asia and Pacific	38	NA	NA	NA	NA	NA	47	69	2.2	Yes	1.1
Cambodia	NA	NA	NA	NA	NA	NA	18		NA	NA	
China	29	NA	NA	NA	NA	NA	38	65	2.7	Yes	1.3
Indonesia	54	NA	NA	NA	NA	NA	66	77	2.0	Yes	0.6
Korea, Dem. Rep.	NA	NA	NA	NA	NA	NA	NA		NA	NA	
Korea, Rep.	NA	NA	NA	NA	NA	NA	63		NA	NA	
Lao PDR	NA	NA	NA	NA	NA	NA	46		NA	NA	
Malaysia	NA	NA	NA	NA	NA	NA	NA			NA	
Mongolia	NA	NA	NA	NA	NA	NA	30		NA		
Myanmar	45	NA	NA	NA	NA	NA	46	73	0.2	No	1.3
Papua New Guinea	82	NA	NA	NA	NA	NA	82	91	0.0	Yes	0.5
Philippines	74	NA	NA	NA	NA	NA	83	87	1.1	Yes	0.2
Thailand	86	NA	NA	NA	NA	NA	96	93	1.1	Yes	-0.2
Vietnam	73	NA	NA	NA	NA	NA	73	87	0.0	No	0.7

NA = Not available.

Source: World Health Organization. [ADD FULL CITATION INFO. TO REFERENCES?]

