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EXTERNAL ASSISTANCE FOR URBAN DEVELOPMENT

A SCOPING STUDY FOR FURTHER RESEARCH

Homi Kharas
Laurence Chandy
Joshua Hermias

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INTRODUCTION

The *World Development Report 2009: Reshaping Economic Geography* (World Bank, 2008) describes an estimated billion slum dwellers prevailing in the developing world's cities—a reminder that cities are central to efforts in tackling poverty. The pervasive effects of poverty, illiteracy and mortality in urban slums have long been recognized (World Bank, 1979). However, the ongoing process of urbanization has put this reality into sharper focus; the share of the world's poor inhabiting urban areas is expected to reach 50 percent by 2030 (Ravallion et al., 2007). United Nations Millennium Development Goal (MDG) 7 responds to this problem by calling for "Cities Without Slums," and setting a target "by 2020, to have achieved a significant improvement in the lives of 100 million slum dwellers." Yet the latest evidence[1] suggests there are 100 million more slum dwellers than in 1990 as rapid urbanization offsets modest progress in improving the lives of those already in cities.

The *World Development Report* also identifies cities as being vital to economic growth. Cities are recognized for their capacity to provide scale economies, efficiencies in logistics and in the provision of public services, dense labor markets that foster training and skills acquisition, innovation and creativity, diversification of production, lower environmental footprint through densification, and ultimately greater freedom for the individuals who inhabit them. But cities do not provide these benefits automatically, or for free. City management is a complex undertaking of institutional development and governance, planning, partnerships and consultations with the myriad stakeholders within cities, and considerable amounts of financing. When this management is found wanting, the many benefits of cities are never fulfilled. Indeed cities may have an equal capacity to generate social problems as social benefits. Analysis of developing country cities indicates that neither policy frameworks nor infrastructural investments have kept up with urban growth, that the wrong choices with long-term consequences are being made, that lessons from city development are being ignored, and that as a result, cities are developing with problems ranging from corruption to a degraded environment (Cities Alliance, 2006).

That cities can rightfully claim to provide a nexus between poverty and economic growth suggests that the urban development agenda would be a natural draw for the international development community.

There is certainly widespread agreement about the *need* for action. There is advocacy on the *modalities* through which assistance can be made—namely via policy support and investments. There are a number of international *organizations* dedicated solely to promoting urban development.[2] Yet to the contrary, there is a sense that urban development is losing priority for donors, that funding is declining, strategies are not acted upon, and that new approaches are needed (International Housing Coalition, 2008).

This paper reviews what has been happening with external assistance for urban development. First, the paper documents the stagnation in the share of aid going into urban projects and programs. It then documents what has been learned from experiences in urban aid and how strategies have evolved.

Next, the paper places urban development in the broader context of changes in the global aid architecture. It suggests that trends to improve aid effectiveness—a poverty focus, an aversion to risk, local ownership and managing for results—have tended to move in a different direction from the realities and constraints of urban interventions, making it harder for advocates of urban development to make their case heard. Donors who are trying to discipline their activities by applying broad principles of effective aid are likely to be put off supporting urban development by these apparent inconsistencies.

The opportunity for the urban sector appears to lie in its rich experiences with partnerships. The paper analyzes partnerships between donors and other stakeholders in urban interventions and suggests there could be considerable learning for the urban sector from past successes and failures. It puts forward an analytical framework to allow a comparison of different partnership approaches.

Lastly, the paper concludes with areas for research that need to be explored if urban development is to gain greater prominence in the international donor community.

URBAN AID: KEY FACTS

Needs and resources

There is no globally accepted figure for what would constitute an appropriate level of resources for meeting urban development needs.

The Zedillo Report (U.N. High-Level Panel on Financing for Development, 2001) which serves as the U.N.'s official attempt to cost the MDGs, estimated that there was an *additional* resource requirement of about $4 billion per year to achieve MDG 7, Target 11: to improve the lives of 100 million slum dwellers by 2020.

The Asian Development Bank (2006) estimated that its clients would need $1,520 per household to upgrade water supply ($400), sanitation ($700), solid waste management ($120) and slum upgrading ($300), with an additional requirement of $48 per household for annual maintenance expenditures, based on its experience with slum upgrading projects in Asia.[3] If these same estimates are applied globally taking the average household size as four, they imply a $3.6 billion cost per year from 2004 to 2020 to achieve the MDG target.

U.N.-HABITAT provides a narrow cost estimate for MDG 7, Target 11 of $184 billion, with an additional $1300 billion requirement for proactive investments in land-development for the poor, so that new slums do not emerge (U.N.-HABITAT, 2004a).

Target 11 itself may be modest. The total slum population worldwide is considered to be over one billion people, or one third of the urban population of developing countries. In Sub-Saharan Africa, the slum population is thought to be around 200 million people, or almost three-quarters of the region's urban population. It is also growing fast. Between 2004 and 2020, almost 200 million new slum dwellers may be added in this region. Across the developing world as a whole, the growth of slum dweller numbers is lower as urbanization is already more advanced, probably close to 2.2 percent, in line with the rate of urbanization in general (Cohen, 2004). Even that would mean an additional 415 million slum dwellers between 2004 and 2020. Thus, even if MDG 7, Target 11 is met, the absolute number of slum dwellers may continue to rise strongly through 2020.

Urbanization is of course about much more than just reducing the number of slum dwellers. It is also about achieving efficiency in the growth and management of a city. Financing requirements for major city infrastructure such as urban roads and mass transit systems dwarf those required for slum upgrading. The Asian Development Bank (2006) estimates that $60 billion per year is needed for its member countries' cities to function optimally. Extrapolating this to the world would indicate urban public investment needs of around $120 billion per year.

How do these benchmarks fair against recent ODA for urban development?

It is far from straightforward to obtain comprehensive measures of ODA for urban development. By definition, all investments can be located somewhere in space, either in an urban or rural area, ignoring, for now, the blurred boundaries between these two areas.[4] Yet if one aggregates urban and rural projects in the DAC's database of ODA, only 9 percent of projects is covered. Evidently, locational tags are not systematically used in aid data recording. Even if they were, it would be far from clear what this could tell us about what constitutes an urban project. Should, for instance, investments in city schools be classified as an "urban" investment or only as an "education" investment?

We have developed a series of ODA for urban development that uses the DAC's Creditor Reporting System (CRS). The intention is to isolate those loans, grants and credits that sponsor projects expressly targeting "urban" objectives, rather than recording ODA that happen to be located in an urban area. Projects that fit this category respond directly to aspects of urban policy, planning and management.

Based on this definition, we include two types of projects in our urban classification. The first type encompasses projects that are "explicitly urban." In the CRS, there are three DAC-defined purpose codes that meet this criterion: urban development and management; low-cost housing; and housing policy and administration management. In 2007, loan, grant and credit commitments from bilateral sources (including the EC) that were marked with these project codes were $885 million, with a further $233 million coming from multilateral sources. Added together, this $1.1 billion is around 0.9 percent of the $120 billion total ODA committed in 2007. $1.1 billion represented a two-fold increase from commitments in 1995 ($566 million). That said, total ODA in 2007 was also double its 1995 level; the *share* of explicitly urban commitments has not changed significantly over the last 12 years. An upsurge in 1998, when explicitly urban aid rose to $1 billion out of a total aid volume of $60 billion, turned out to be temporary.

The second type of project included in our urban classification is those judged "implicitly urban." These are projects that contain one of a set of key words, or the name of a developing country city, in their CRS title, short description or long description.[5]

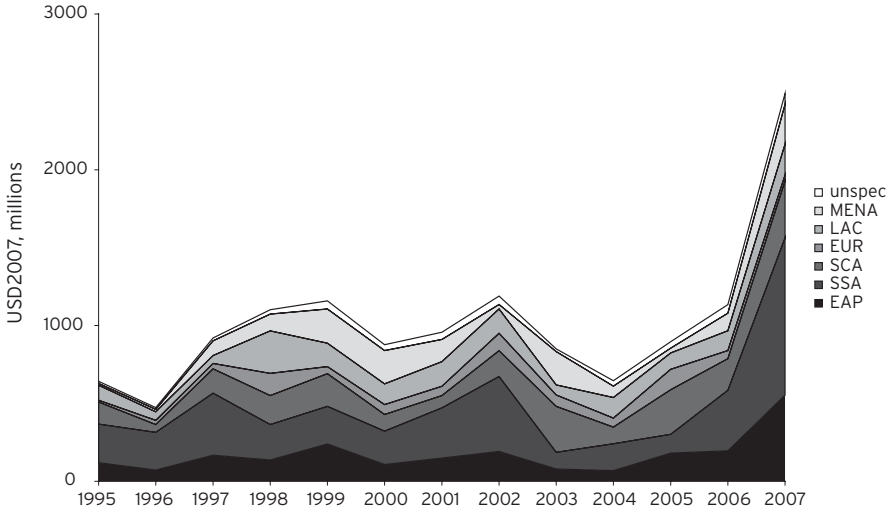
Adding the implicitly urban projects to the explicitly urban projects more than doubles our estimate of urban aid in 2007. In that year, there was $840 million of implicitly urban projects from bilateral sources and $500 million from multilateral institutions. Interestingly, the latter rose to $500 million after being zero for the period 1995 to 2006, suggesting that the rise may have been due to a change in classification, as opposed to changes in aid flows.

Our estimate is that for most of the last decade, ODA for urban development has been modest, averaging less than $1 billion per year (see Figure 1). In 2007, there is a sharp spike upwards from $1.1 billion to $2.4 billion, but this is accounted for largely by a single institution: IDA. Given the difficulties with classifying ODA into urban and other categories, any single agency figure must be treated with caution.

Regardless of which definition is used for urban ODA, the figure is undoubtedly small compared to the needs identified. Furthermore, it does not seem that the global focus on urban issues, which was the intention of MDG 7, Target 11, has had much of an impact on increasing urban aid. In fact, as Figure 1 shows, urban aid may have fallen after the year 2000 when the MDGs were adopted, before starting to recover after 2004. Nor is it clear that the sharp rise in urban aid recorded since 2007 reflects actual flows, as opposed to changes in classification. Stren's claim that there has been a secular decline in urban development assistance may be an overstatement, but the broad conclusion would seem to be that urban aid has flat-lined (Stren, 2007).

A key challenge for the donor community is to develop (and operationalize in its reporting of data) an unambiguous definition of what constitutes urban aid. Other cross-cutting thematic areas, such as gender, currently use markers in the DAC system, identifying those projects where gender is a "principle target," "significant target," and where it is "not targeted." A similar system for urban projects would be a useful first step.

Figure 1: Urban commitments by region

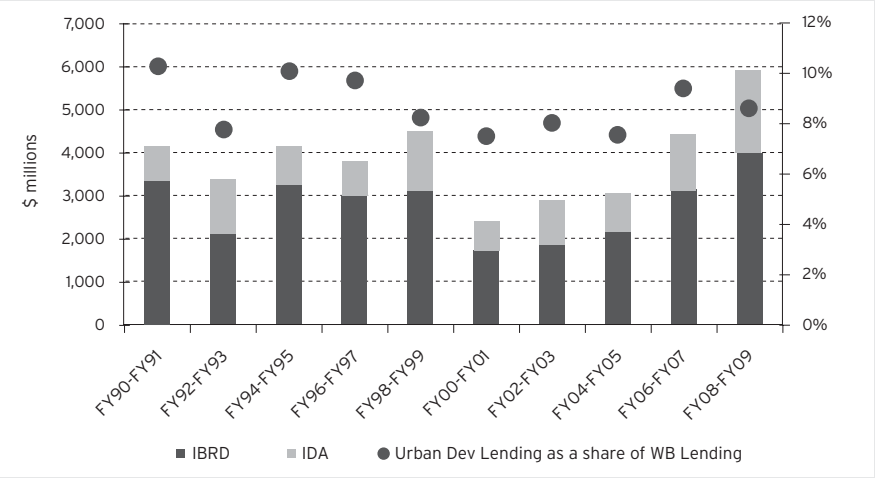


Source: Authors' calculations, based on DAC's Creditor Reporting System (CRS)

Box 1: IDA's urban portfolio

To understand the difficulty of classification issues with urban aid, consider the case of IDA. In the newly released Urban and Local Government Strategy report, IDA reports having spent ~$1.4 billion in FY06-FY07 and ~$800 million in FY04-FY05. This compares with figures of $680 million and $160 million for IDA spending on urban projects in the DAC-CRS database.

World Bank Urban Development Lending and share of total IBRD/IDA lending



Note: Adjusted using constant dollars, 2007 = 1
Data is based on Urban Development Thematic Codes and only includes IBRD and IDA lending.
Source: Extracted from the World Bank Business Warehouse System, and published in World Bank, 2009a.

Principal donors

Unlike many other aid activities, there are only a handful of large donors who are active in urban projects. The multilateral agencies tend to dominate urban aid. In terms of intensity—the share of urban projects in their portfolio—the IDB's Special Fund leads the pack with 8.5 percent of its commitments devoted to urban projects between 1995-2007 (see Figure 2). Other significant multilaterals include the Asian Development Fund (3.5 percent) and IDA (2.1 percent). Among bilateral agencies, France (2.5 percent), Sweden (2.4 percent) and the U.K. (2.2 percent) have significant urban programs. Other donors' involvement are more modest. The African Development Bank has only a 0.3 percent urban share, despite the importance ascribed to urban issues in the continent (Commission on Africa, 2005). Nevertheless, Sub-Saharan Africa consistently accounts for about one third of total urban aid (see Figure 3).

Ranked in terms of absolute volume, the top five urban donors account for 58 percent of total urban aid, and the top 10 donors account for 83 percent. This makes urban aid relatively concentrated, meaning that the sector should avoid the large coordination costs that burden other sectors, such as health. In principle, this should enable a more straightforward division of labor among agencies involved in urban aid.

Learning from urban project evaluations

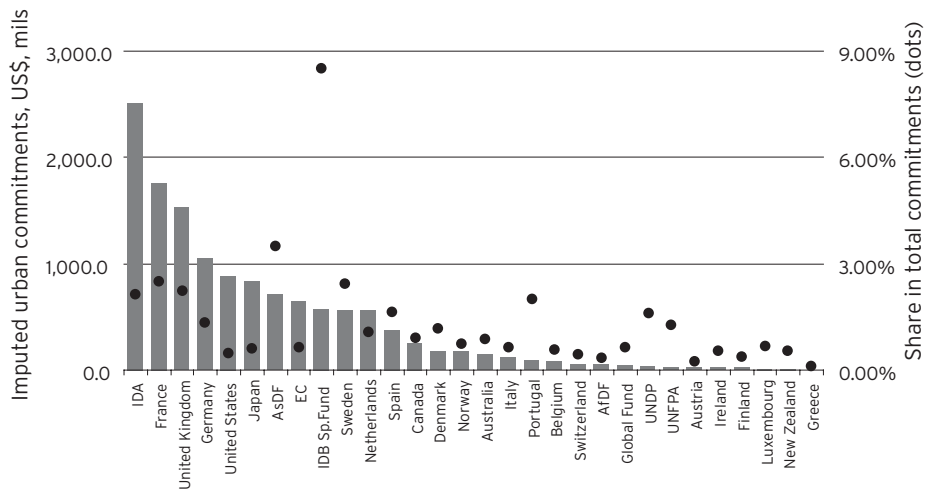
Urban aid suffers from the same macro-micro paradox in the evaluation of its impact as that which bedevils the aid business writ large.[6] The World Bank's new urban strategy paper (World Bank, 2009) explains that while "over 80 percent of (its) urban portfolio is rated *satisfactory* or above" based on evaluations at a project level, the aggregate impact of Bank interventions has been limited. The Asian Development Bank, reviewing 88 completed urban projects from its 1995-2005 portfolio, found a higher percentage of *satisfactory or better* urban projects (76 percent) than non-urban projects (67 percent) (Asian Development Bank, 2006). Looking into the details of the evaluation scores, the lowest scores were systematically in the category of *sustainability*.

How can donors move from successful micro interventions to impact at a macro level? A shift to larger scale interventions would not appear to be the answer. That approach was tried in the 1970s through the World Bank's sites and services projects which were judged inherently risky and too complex. The next generation of urban projects narrowed the focus to single sectors, smaller target populations and more limited objectives (Martine et al. 2008).

One type of intervention that has moved in and out of favor within the urban sector is land titling. Based on evaluations, donor-funded attempts at land titling have repeatedly been shown to be costly, slow, vulnerable to corruption, and complicated by local values and perceptions regarding land use (Martine et al. 2008). Buckley and Kalarickal suggest alternate methods for establishing secure tenure, such as land readjustment, swaps and community/group titles (Buckley and Kalarickal, 2006). The effectiveness of the latter, however, is contested by Gulyani and Bassett, who document the slow pace of progress, high cost and lack of suitability of introducing intermediate legal forms for urban land in Sub-Saharan Africa (Gulyani and Bassett, 2007).

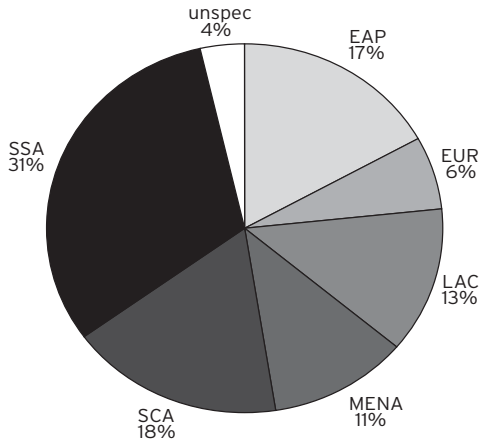
Buckley and Kalarickal note that "titling does not seem to be the most important first step" and go on to describe additional problems such as public land usage, property sales regulation, and zoning which

Figure 2: Imputed urban commitments, 1995-2007



Source: Authors' calculations, based on DAC's Creditor Reporting System (CRS)

Figure 3: Urban commitments by region, 1995-2007



Source: Authors' calculations, based on DAC's Creditor Reporting System (CRS)

could overwhelm the benefits created by formal tenure. The implication is that reforms must be properly integrated or sequenced to have a sustainable impact. This is confirmed by Durand-Lasserve and Selod who identify successful interventions as those where tenure is linked with reforms in land administration, allocation, and conflict resolution (Durand-Lasserve and Selod, 2007). Early urban projects tended to sequence land titling first and infrastructure later. Lessons from recent evaluations such as Buckley and Kalarickal

and Gulyati and Bassett, emphasize the reverse order, suggesting that provision of infrastructure gives communities a stake in the physical environment, making titling easier to implement at a later stage.

All this reflects a steady process of learning and the accumulation of increased knowledge on urban interventions. This leads Buckley and Kalarickal to conclude that "many of the larger debates about what works, and more importantly what does not work, in shelter policy have largely been settled." The question then is whether these lessons are being adequately reflected in agency strategies.

Urban strategies

Urban issues are broad and complex. Aid agencies engaged in urban work have developed strategies to try to give greater focus to their work. These strategies have identified priorities for intervention and have discussed the instrumentalities for intervention. In both cases, there has been an evolution across donors and over time.

The narrative on the objective of urban development fluctuates between seeing cities as an engine of economic growth and viewing urban interventions as a means of reducing poverty, especially by slum upgrading.

The Asian Development Bank has opted for a strategy targeting mega-cities and city clusters (Asian Development Bank, 2008). Over half of the world's mega-cities are in Asia, and Asian mega-cities are expected to see the most rapid growth. As Asia's larger cities have expanded geographically, they have, at times, literally bumped into each other, creating urban corridors which create agglomeration economies and poles around which surrounding rural areas can also develop.

The Asian Development Bank's City Cluster Development approach looks to bring about transformation by positioning analysis and interventions at the level of regions containing multiple urban areas, instead of focusing efforts on an individual city basis. It stresses integrated infrastructure and services, harmonized taxation and common solutions to local externalities.

By contrast, the Inter-American Development Bank has focused on small and medium cities. Its main priority has been to address the large informal sector in these cities and to expand and improve the provision of services and income earning opportunities for its participants.

The World Bank also focuses on secondary cities. The key pillar of their 2000 urban strategy was the recognition that local government failures in urban policy affected urban outcomes as much as traditional urban market failures, such as inadequate land markets and limited access to finance. That strategy noted that the World Bank needed to move beyond small-scale interventions that, while narrowly successful, had proved to be unsustainable and non-scalable. The strategy conceded that the reliance on these interventions was due in part to the limited analytical work that had been done on urban issues during the 1990s.

In its new strategy, the World Bank has tried to straddle both sides of urban development, incorporating city competitiveness, management and economic growth together with urban poverty and slum upgrading (World Bank, 2009). Like the previous strategy, the new strategy has still to define operational indicators and metrics of success.

The World Bank's 2000 strategy had highlighted the problems associated with donors' tendency for fickleness and susceptibility for fashion. It noted how the Bank's operational expertise in urban development

had been steadily built up in the 1970s and early 1980s, only to become weakened and fragmented after its reorganization in 1987, and the need for it be rebuilt. This proved easier to diagnose than to rectify. The new 2009 draft urban strategy noted that despite an improvement in analytical work, the sector still did not command much attention from senior corporate management.

The way in which aid agencies organize their work is an important ingredient in their ability to implement sector strategies effectively. The Agence France de Developpement, an agency that has doubled its urban lending since 2000, created a dedicated Infrastructure and Urban Development unit to implement its strategy. Urban development officially accounts for only one-third of the unit's activities, but its goals influence the remaining share by linking urban interventions with those for infrastructure and services, thereby ensuring a high degree of integration and coordination in the pursuit of urban poverty and growth objectives. A strength of AFD's urban work is their explicit effort to promote decentralization of government structures, based on French experiences with integrating municipal goals into national development strategies, and generating innovative financing for cities.

USAID is another agency that has developed an urban strategy, which incorporates both growth and poverty agendas. Its urban programs team provides technical assistance and help in developing innovative financing for cities under the catchy moniker, "Making Cities Work." That the most recent "What's New" story on the USAID urban Web site is dated November 4-6, 2007, indicates that its urban work may suffer from low priority and lack of continuity.[7]

To summarize, the major urban aid donors have developed relatively well articulated strategies and each has identified its own niche in which it can claim a comparative advantage. The weaknesses seem to lie more in implementation and maintaining a high visibility and priority for the sector at the corporate level, which would allow donors to move beyond few small-scale interventions. The following section reviews what has been happening in the debate on aid effectiveness to better understand the broader institutional constraints and issues that urban development confronts.

AID ARCHITECTURE AND URBAN AID

Urban aid does not occur in a vacuum. It is undertaken by agencies who are concerned with broader issues of aid effectiveness. This section briefly reviews recent trends in implementing effective aid and positions urban aid against this backdrop. It suggests that the general trends in efforts to improve aid effectiveness have moved in a different direction from urban strategies, making it harder for advocates of aid for urban development to make their case.

Results and empirical drivers

Perhaps the most important driver of aid effectiveness over the past decade has been the focus on empirically measured results. This stemmed in part from the success that many donor countries had in reforming their own public sectors and in changing the way in which public agencies operate through a focus on outcomes and performance measures.

In the aid context, the introduction of results-based management has been part of a broader effort to counter "aid fatigue" and to counter the narrative derived from multiple studies that showed only limited economy-wide benefits from aid (Roodman, 2007 and Mosley, 1987).

Results-based management was implemented early on by USAID (United States); DFID (United Kingdom); AusAID (Australia); CIDA (Canada); Danida (Denmark); the UNDP; and the World Bank. While project-based indicators were already well-established in most donors prior to its introduction, the challenge has been to develop and incorporate country-level and agency-level indicators (DAC Working Party on Aid Evaluation, 2000). As donor agencies have been asked to report results to an increasing number of stakeholders, such as parliamentarians, civil society watchdogs, auditors and the public at large, pressure to adopt a strong results-focus has only grown and come to characterize donor activities at multiple levels.[8]

Application of results-based management to urban aid runs into several practical difficulties. It is hard to generate country-wide results, as the statistical systems in many recipient countries do not systematically collect data on urban areas. There are no established indicators as to what constitutes a well-functioning city, so each project may use its own set of indicators, complicating efforts to aggregate to the national level. A few variables, like average city traffic speed, crime and pollution are commonly used, but these are not systematically collected in all cities. In fact, even basic definitions, such as what constitutes a city, a slum, or safe drinking water, are subject to interpretation and differ within and across countries.

Complicating matters even further is the recognition of the importance of management capabilities in successful urban projects. If urban management and policies are keys to success, they must also be measured. But while it may be feasible to have some sense of capability in a single national-level ministry, it is near impossible to assess this across the range of cities and towns in any given country.

Consider the World Bank's *Urban and Local Government Strategy* of 2000. That strategy was based on four analytical pillars: livability; good management and governance; competitiveness; and bankability. None of these four pillars can be simply and readily measured or benchmarked against international standards. In each case, detailed analysis and specialized surveys are required to assess progress. The indicators fail to meet common criteria for results-based management purposes: data that can

be collected easily, in a timely fashion, at reasonable cost, and consistently across time and space.

Urban projects have therefore found it relatively easy to provide project-level data, but relatively hard to provide estimates of country-level impact and agency level impact. In other sectors, country-level results based on international statistics can be measured, and efforts have been made to link specific project interventions to those results. For example, in education, there is national data on a number of indicators such as gross enrollment rates and dropout rates. There are even measures of quality, such as scores based on international tests. But for the urban sector, there are too few national statistics on, for instance, the "health" or "livability" of cities, or the degree to which they are generating scale economies for economic growth.

In general, the learning and managerial decision-making in urban projects has not come about from results-based processes, but from networks of shared experiences, such as the Cities Alliance, and from more traditional evaluation procedures.

Without the ability to aggregate results, and without the ability to attribute aggregate results to specific interventions, it is hard for urban projects to fit within results-based management systems. The broad trend and pressures toward introducing these systems into aid agencies may make it harder for managers to select urban interventions, while still meeting institutional demands to implement results-based management.

Direct poverty alleviation

One consequence of results-based management has been a much sharper focus on poverty alleviation as the prime objective of development agencies. Both the World Bank and DFID squarely placed poverty alleviation as their primary function, and other agencies have followed suit. But poverty is ill-defined. While accepting the principle that poverty is multi-dimensional, almost all international definitions of poverty focus on income or expenditure measures.

This is as much a matter of expediency as of intent. Income or expenditure data is available through household surveys for most countries. The data are generated using well-accepted sampling and collection techniques. But a key draw-back of the data is that they only measure nominal variables and they do not measure welfare directly.

Box 2: Colombia's SINERGIA program

An example of the problems encountered with integrating urban issues into results-based management systems comes from Colombia, a country which is among the most advanced in implementing results-based management in its public sector.

A successful program called *Bogotá, Cómo Vamos?* (Bogotá, how are we doing?) sought to improve accountability by monitoring changes in people's quality of life. Organized as a public-private partnership, the program was credited with helping to improve that city's fortunes. In 2003, the national evaluation system, SINERGIA, suggested that the program be implemented nationally. But after two years of technical work, the civil society participants in the national program left the partnership and the program never got off the ground on a national scale (Castro, 2009).

Using the common international definition of poverty of those living under a poverty line of PPP$1.25 per person per day, most global poverty today—approximately three-quarters—is rural. By this measure, the rate of urban poverty in most developing countries is lower than the rate of rural poverty. This is, in part, a reflection of reality; urban incomes are generally higher than rural incomes, and urban growth is generated predominantly by massive migration from rural to urban areas—an act that presupposes a superior level of income, allowing migrants to freely make the choice to move.

But reality is more complicated than this. Urban poverty measures assume all expenditures are welfare improving. If the rental rate for a room in a slum goes up, and real urban wages stay the same, measured urban poverty will decline simply because the slum dweller pays more for the room. The same is true for transport to and from work. If a slum dwellers' transport expenditures go up, so long as these are compensated by nominal wage increases, urban poverty is presumed to have decreased by virtue of higher total expenditures.

Price differentials, an inability to differentiate input expenditures such as transport costs from consumption expenditure that are welfare improving, and the absence of measures of urban diseconomies such as crime and pollution, all bias estimates of urban poverty downwards.

Not surprisingly, researchers have concluded that rural development is far more effective as a strategy to reduce poverty than urban development. In their discussion of China's success in reducing poverty, Ravallion and Chen provide a type of analysis that has become mainstreamed: "Rural economic growth was far more important to national poverty reduction than urban economic growth" (Ravallion and Chen, 2004).

Of course, from a donor perspective, what is important is not which sector contributes more to growth, but which sector delivers the best bang-for-the-aid-buck in terms of poverty reduction. Somewhat surprisingly, the cost estimates for improving the lives of slum dwellers turn out to be very close to the amounts needed for rural poverty alleviation. The Millennium Villages Project, for example, budgets $120 per person per year for five years (or $600 per person) as a threshold minimum investment to raise people above the poverty line—a figure in the same ballpark as the urban estimates provided by Cities Alliance and the Asian Development Bank. However, a bigger difference may lie in the timeframe over which results are anticipated. The Millennium Villages estimate of a five-year investment may be hard for urban investments to match. Urban development is likely to be a longer-term process given the complexity and scale of urban issues and the momentum of urban migration. Long-term approaches do not tally well with results-based management.

Given the above, it has become hard to assert that urban development should be a priority for aid agencies dedicated to poverty reduction.

Ownership and dialogue

Country ownership is one of the founding principles of the Paris Declaration on Aid Effectiveness, to which 91 countries subscribed in 2005. This principle, in essence, argues that development priorities should be set by countries themselves, through consultative processes between the executive and legislative branches of government and with active civil society participation.

In return for respecting country ownership, donors expect to participate actively in a process of policy dialogue with recipient officials. This combination of dialogue and respect for sovereignty epitomizes the modern day development partnerships through which aid is ideally channeled.

For urban development, the dialogue is complicated by the decentralized nature of many interventions. The emergence of secondary cities as the drivers of urban population growth—about half of total urban growth occurs in cities with populations under 500,000—has meant that urban projects must deal with a variety of different places (U.N.-HABITAT, 2006b). To a certain degree, this is what is happening. Cohen reports that the international portfolio of urban aid has reached over 11,000 cities and towns, in one form or another (Cohen, 2001). This would suggest that almost half of the world's cities and towns have been touched by an international urban aid initiative. But clearly, maintaining a dialogue over such a broad portfolio is problematic. For example, the largest network of cities, the United Cities and Local Governments, has only 1,000 members. Without strong and active organization of mayors and cities within and across countries, it is hard to pursue an active policy dialogue.

A review of Poverty Reduction Strategy Papers, documents that are intended as an overarching guide to public investment and aid planning, demonstrates the point that without strong, central, urban ministries, countries are unlikely to have well-articulated national urban strategies (Baker and Reichardt, 2008). From a sample of nine country PRSPs from 2005, most took a view of poverty as a predominantly rural issue, and only two countries (Honduras and Albania) identified urban development as a national priority for poverty reduction.

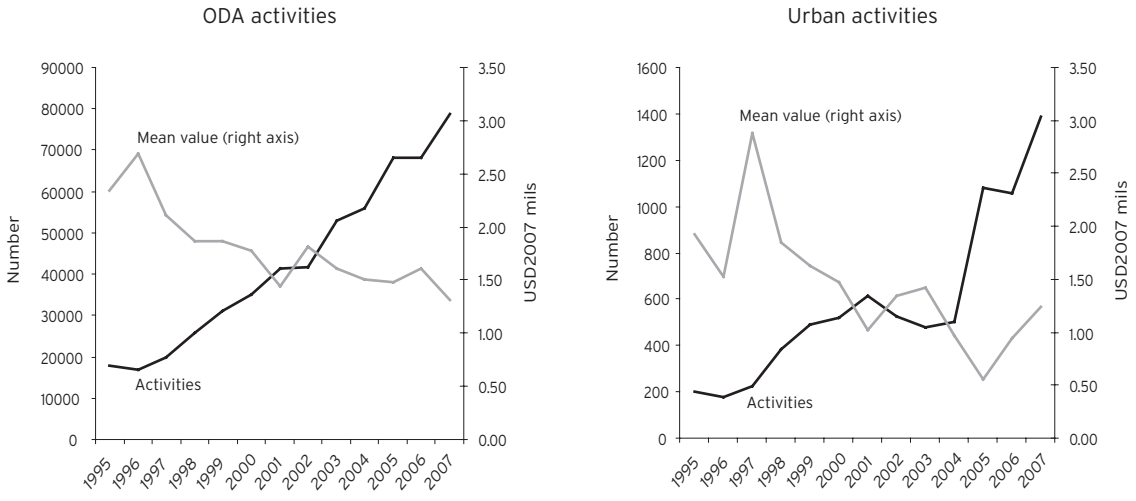
The issue is further complicated by the great heterogeneity that exists across cities and towns. The prominence of different issues, the resources available, the legal and administrative constraints, and the capacity for action fundamentally differ from location to location, requiring a tailored approach to urban development. That is costly. In fact, urban aid has fragmented over time. The number of annual activities has soared from 200 in 1995 to almost 1400 in 2007. Meanwhile the mean urban project size has fallen from $1.9 million to $1.3 million (see Figure 4). The median urban aid project in 2007 cost only $90,000. In this respect, urban aid is performing no worse that aid projects in general. Small and falling project size and very small median activity size is a characteristic of all aid in 2007. Urban aid is very close to the average for all activities.

The new strategic thinking on urbanization positions it more as a national agenda than as a local agenda. The *World Development Report 2009* argues that there is a portfolio of places in each developing country and that urban development needs to be thought of in terms of this overall portfolio, rather than in isolation. That would imply taking a national view and a national approach toward the sector. This may ultimately provide an opportunity for renewed urban aid, given that resource provision for international aid is predominantly a function of country-level dialogue.

Risk aversion, governance and corruption

Urban projects deal with complex social and environmental issues and involve a range of non-market transactions, especially in land. This exposes them to corruption and complexity.

Figure 4: Number and mean size of urban aid commitments, 1995-2007



Source: Authors' calculations, based on DAC's Creditor Reporting System (CRS)

While it is hard to generalize about corruption levels between local and national governments, there is a sense that local governments may display more petty and bureaucratic corruption. In Bolivia, for example, fiscal decentralization proceeded well in advance of institutional strengthening at the local level, resulting in considerable local corruption (Klitgaard and McLean Abaroa, 2000). Local governments are more susceptible to elite capture than national governments. In general, the sequence of establishing the rule of law and citizen empowerment *prior* to decentralization is recommended in anti-corruption strategies (Shah, 2006). That makes it hard to pursue local urban strategies when the pre-conditions for governance are not in place.

When properly implemented, urban projects can create considerable value added, especially for landowners who benefit from rising land prices. Indeed, the rate of urban development depends importantly on the clarity of property rights allocation and enforcement.

Consider the case of China where sale of land use rights provides 25 to 75 percent of local government revenues. Work units and municipalities can acquire land through an administrative process (often for small sums of money), and then after limited development, sell the land use rights at market prices. The difference between acquired land prices and developed land prices is a pure "rent" that is determined by zoning and other procedures, rather than by specific value adding activities. Not surprisingly, a large black market for land has emerged in China (Ding and Knaap 2003). That has also spawned a number of cases of civil unrest as farmers have reacted violently against the corruption and forced takeover of their land.

China is an extreme example, but one that illustrates the general point. When land values and acquisition

depend on administrative decisions, the scope for corruption is particularly great. International aid donors are notoriously risk averse. It is not surprising then that they can be nervous about urban interventions.

The new focus of international aid on governance and management provides opportunities as well as challenges for urban development interventions. In China, systematic benchmarking of 120 cities across a range of indicators has helped to spur better governance, even in the absence of aid resources flows.[9] India, Indonesia, Russia, Mexico and Colombia are among other countries where a competition between cities and local governments has been used as a tool for governance reform and to turn the focus on to urban management.

Nevertheless, governance challenges for urban aid can be especially complex. Perhaps because the risks of lending operations are so high, the new World Bank strategy for urban and local government explicitly shies away from advocating for higher lending levels for urban development and reform, instead stressing non-lending interventions and technical assistance: a new urbanization review; financial management and credit rating assessments for cities; institutional reforms bundled with investments in programmatic operations. The U.N.-HABITAT has only recently developed a transparency toolkit and anti-corruption guide to improve local governance (U.N.-HABITAT, 2004b and U.N.-HABITAT 2006a).

A World Bank project in Albania involving the demolition of buildings in a coastal village in Jale is an example of the damaging effects that are possible when these complex projects go awry (see Box 3).

Box 3: Independent inspection panel report on the World Bank's Coastal Zone Management Project, Albania

"The World Bank Board of Executive Directors today considered a Management Report and Action Plan that responds to an independent Inspection Panel investigation of the Integrated Coastal Zone Management and Clean-Up Project in Albania, which was requested by families harmed by the April 2007 demolition of buildings in the Albanian coastal village of Jale. The Management Report acknowledges serious errors in project preparation and supervision, along with errors in communication with the Board of the World Bank, and presents an Action Plan for addressing those issues identified by the Panel.

"'*From basic project management to interactions with the Board and the Inspection Panel, the Bank's record with this project is appalling,*' said World Bank Group President Robert B. Zoellick, who has requested the Bank's Acting General Counsel investigate matters, and who separately has referred matters to the Bank's Department of Institutional Integrity (INT). '*We take very seriously the concerns raised by the Inspection Panel and we are moving promptly to strengthen oversight, improve procedures, and help the families who had their buildings demolished. The Bank cannot let this happen again.*'"

Source: World Bank Web site, accessed November 2009. See World Bank, 2009b.

PARTNERSHIP DESIGN AND ATTRIBUTES

A fifth trend linked to the aid effectiveness agenda is the use of partnerships, where donors carry out their work in collaboration with other stakeholders. Partnerships intuitively offer a way around some of the problems associated with today's aid architecture, such as fragmentation and coordination. As a result, they have acquired considerable currency within the donor community and a growing literature has emerged, lauding the benefits of new partnership models over traditional approaches (Smillie, 2008).

In contrast to other aid effectiveness trends, partnerships have found particular traction in the urban development field, both for growth and poverty focused interventions. This is one area where the urban sector remains a step ahead of other higher profile development sectors. While donors have certainly played a part in promoting this approach, they are by no means at the center of it. New urban partnership models have, at different times, combined the efforts of a range of different stakeholders: urban residents including slum dwellers, often arranged into community-based organizations (CBOs) or other informal alliances; charities or NGOs; the private sector; local and central government; and international foundations.

Despite their promise, partnerships are no panacea for urban development. Transaction costs can be high, even more so when there are a large number of members in the partnership (Cities Alliance, 2006; Baker and McClain, 2009). Allocating risk between members can be complicated, but balancing benefits can be just as hard. Those benefits must be large enough that any one member feels it is in its interest to remain in the partnership, net of the costs it incurs. The possibility of one member foregoing its partnership obligations can impose additional risk on other parties (Annez, 2006). Exacerbating these risks are potentially high levels of mistrust between members (Buckley and Kalarickal 2006). That said, it is argued that parties that have traditionally been opposed to working with one another have altered their approach in recent years, rendering partnerships more feasible (Cities Alliance, 2003).

While one can point to a number of partnership-based interventions in urban development, these remain largely isolated. There exists no adequate framework or means of differentiation which would allow an analysis of what works and what doesn't. The purpose of this section of the paper is to address this deficit.

Box 4: Partnerships or multi-stakeholder alliances?

Throughout this section, we refer deliberately to "partnerships," as opposed to alternative terms such as "multi-stakeholder alliances," when others use these interchangeably. For some, partnerships will automatically be associated with Public Private Partnerships (PPPs)—a particular type of partnership model discussed in more detail later in this section. Developing countries began experimenting with PPPs from the early 1990s. However, they met with only mixed success in implementation.

Our use of the term "partnership" incorporates a much broader set of collaborative models, beyond PPP. The different models which we explore describe complex and invested relationships between different parties—not the loose, occasional arrangements that might be implied by an alliance. This highlights the point that the occasional absence of a legally binding contract, or a reliance on members who operate largely in the informal sector, should not be seen as limiting the depths of ties that can be developed between parties collaborating on urban interventions, or the variety of different models that can successfully emerge.

Analytical frameworks for partnerships

To understand better the role of partnerships in urban development, we first require a better sense of what partnerships are and the purposes they serve.

A viable partnership depends on all members sharing a common understanding of the ingredients for success (Warner and Sullivan, 2004). First, members must voluntarily engage in the partnership, evidence that each has something to gain by their collaboration. Second, members are expected to share a mutually agreed goal, while each is individually accountable for the particular contribution they make to that end. Third, members bear reciprocal obligations to one another, reflecting the unique relationship that holds between any two members in the partnership. Finally, the total output of the partnership is expected to exceed that which each member could achieve acting alone. This value-add is what justifies the partnership.

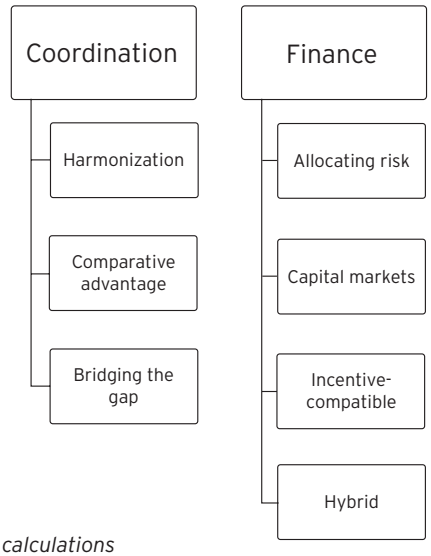
The interest in partnerships within urban development can be explained by two common factors. The first is the need to bring order and coordination to complex urban interventions. Urban needs comprise a mélange of different development issues—housing, health, security, land, poverty, water and sanitation, private sector development—which cannot easily be siloed and addressed separately. Furthermore, many urban problems are made more complicated by operating at the interface of the formal and informal sector. Tackling multifaceted, complex issues inevitably leads to the involvement of multiple actors. The question is how each of these actors' efforts should be organized. How partners are arranged to work together is a key determinant in partnership design.

The second factor is finance. Partnerships offer the potential for greater access to funds, not just by combining different sources of capital, but by leveraging partner characteristics, such as a stronger appetite for risk or credit-rating. Painter estimates that incorporating the private sector into government and donor efforts can raise the value of investments upwards by seven or eight times (Painter, 2006). Others have stressed that slum dwellers' own financial resources are far from trivial and the challenge is knowing how these can be effectively mobilized (Cities Alliance, 2003; de Soto, 2000). Partnerships can be designed in different ways in order to generate financing benefits.

We propose a simple, two-step framework to help analyze different urban partnerships, based on the above factors: coordination and finance (see Figure 5). The first step distinguishes three different ways in which partnerships arrange their members for better results: harmonizing partners' activities; effecting a division of labor based on comparative advantages; or "bridging the gap" that separates urban service providers from their customers. The second step distinguishes four ways in which partnerships can enable greater financing: risk-allocation models which are concerned with efficient risk mitigation, capital market models which are focused on achieving scale, incentive-compatible models which operate by altering behavior, and hybrid models which seek to mobilize untapped resources. Any successful partnership should have a clear sense of how it fits into the framework: how it intends to arrange its members to enable successful cooperation and how the partnership will enable greater financing.

This framework provides a simple and orderly way to view the variety of different partnerships that have been employed in urban development interventions. Therefore, the framework can provide a basis for a comparison and assessment of different urban part-

Figure 5: A two-step framework for analyzing urban partnerships



Source: Authors' calculations

nerships in future work. In addition, it may serve as a useful tool in the design of future urban partnerships.

Coordination

Harmonization

The harmonization of partners' activities can range from the simple, such as information exchanges, to the more sophisticated, such as co-sponsored pilot projects. Such partnerships offer value in an urban setting where a large number of actors involved in delivering services can easily cause overlap and the role of different layers of government are often poorly defined.

At the sub-national level, such partnerships have combined a range of different stakeholders. This has enabled different service providers to share the same distribution networks in an effort to share costs (Karamchandani et al, 2009) or to partner to provide fully-integrated services. For instance, in Ribeira Azul, Brazil, CONDER, a public development company responsible for infrastructure development, partnered successfully with AVSI, an NGO specializing in social interventions, to deliver housing and infrastructure improvements alongside programs in health care, child nutrition, education, training, and employment generation (Baker, 2006). Elsewhere, partnerships between suppliers of materials and lenders have proved valuable in enhancing the effectiveness of slum upgrading projects (Baker and McClain 2009) while NGOs engaged in urban development often collaborate to enable more effective advocacy and to learn from each others' approaches. Finally, municipal authorities from different cities can partner, whether to share best practice or to combine resources (Stren, 2007). For instance, eight cities surrounding Bangalore issued a joint bond in 2005 to finance the Greater Bangalore Water and Sanitation Project—a city-wide initiative to expand the provision of water connections, including within slums.

Similar partnerships can emerge internationally. Slum/Shack Dwellers International (SDI) is an alliance of urban poor and homeless federations comprising groups from 11 countries across three continents. SDI started out arranging community exchanges within India but has since expanded to a much more ambitious set of activities that includes the formation of saving and credit groups for women, leading negotiations with municipalities, and the design of model houses to promote norms and standards. Another example is the Cities Alliance—one of the leading international voices on urban development, comprising a coalition of cities and their development partners. The Cities Alliance seeks to facilitate the work of donors in urban development by promoting dialogue, building the financial and institutional capacity of local governments, and co-funding the development of city strategies and various slum upgrading projects. Even at this macro level, the scope for further harmonization-based partnerships is arguably great (Baker 2008).

Comparative advantage

One means of achieving greater coordination in a partnership is by according specialized roles to each member based on what each performs best. In urban partnerships, a member's comparative advantage can take various forms: its resources, experience, relationships or reputation. In the case of service provision, roles can typically be arranged into three broad categories: policy and planning, finance, and delivery.

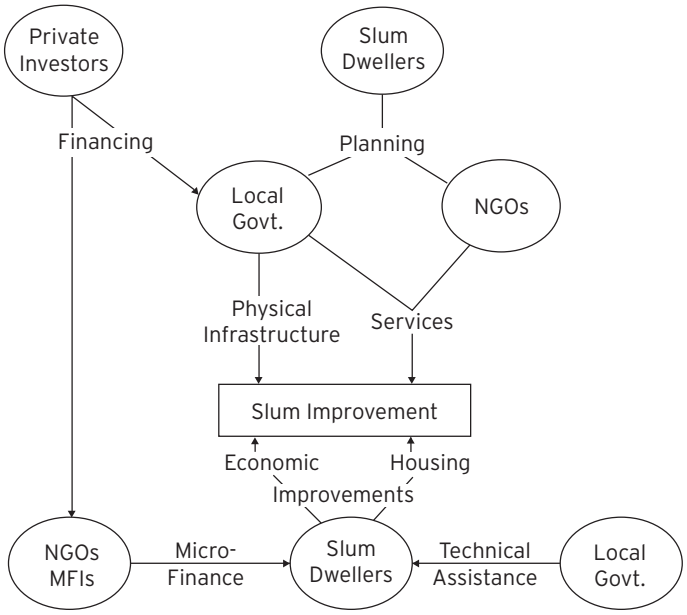
This is how partnerships are typically imagined by many of the leading advocates for partnership approaches in international development, such as the U.N., the World Economic Forum and the International Business Leaders Forum. The same framework approach has been applied in various sectors outside of the urban field, including health and information technology (UNESCO 2005).

While the composition of partnerships in urban development has been very varied, the role of different parties has tended to follow a similar pattern, implying their revealed comparative advantage. Municipal authorities have provided leadership in policy and planning, identifying urban needs and the strategies for addressing them, requiring the drafting of detailed capital investment plans. Donors have provided support to municipalities in policy development, including through capacity building. They have also involved themselves in financing through the provision of grants, loans, guarantees and other risk-management instruments. NGOs have taken part in a range of different roles: organizing urban dwellers and advocating for their needs; establishing innovative service delivery products; and carrying out service delivery. The private sector too has focused on service delivery, as well as project financing. The perceived comparative advantage of any partnership member will be undermined if it suffers from low capacity. If one party's capacity is especially low, its comparative advantage may effectively be cancelled out, eliminating the value they bring to the partnership.

Missing from this taxonomy are the urban poor themselves. Recent studies have placed special emphasis on the role of urban dwellers in partnerships, especially if results are to be sustained. While this idea is hardly new, there is an emerging consensus that the potential contribution of the urban poor to development solutions has traditionally been underplayed. Organized into CBOs, urban dwellers can play a meaningful role in planning, finance and service delivery.

Figure 6 depicts a model partnership arrangement for slum improvement, based on each party's perceived comparative advantage (Painter, 2006).

Figure 6: The roles of key participants in the Slum Improvement Process - A model partnership arrangement for slum improvement, based on comparative advantage



Source: Painter, 2006

Bridging the gap

In an urban setting, partnerships can be arranged to bridge the gap that separates service providers from their customers. In the absence of such a partnership, this gap is seen as a constraint to service delivery, especially for low-income customers. This phenomenon is loosely explained in terms of the cultural differences which divide the poor from traditional service providers—the government, utility companies or the formal private sector—and prevent the latter from recognizing low-income families as credible customers.

The root of these cultural differences is a litany of market failures. Information asymmetries mean that the poor are often unable to reveal their demand or to demonstrate their creditworthiness to service providers (Stein and Castillo, 2005). In addition, the absence of complete risk markets discourages service providers from attempting to extend services to new users, while rendering the poor ineligible to participate in many standard service arrangements (IADB, 2007). These problems are exacerbated by the fact that many urban services are pure or quasi public goods whose non-excludability creates opportunities for free riding, and that transactions costs—related to search, information and enforcement—incurred in their provision are typically high.

Another aspect of market failure is the unsuitability of standard business models for providing urban services. Most service providers have little experience in delivering differentiated products or employing price discrimination. The private sector's preference for low-volume, high-profit models, where transaction

costs are minimal, makes for a particularly poor fit (U.N.-HABITAT, Cities Alliance 2006).

A partnership can bridge the gap between service providers and urban dwellers in two ways. Either it can fill the gap with a third party, or it can shorten the distance between the two parties through some form of innovation. In both approaches, NGOs and CBOs are usually key. This reflects two defining characteristics associated with these institutions: their flexibility and creativity. In addition, their small size and new entry into these sectors may also be seen as advantageous (Karamchandani et al, 2009).

A word of warning before proceeding: enthusiasm for this particular characterization of urban partnerships has grown rapidly in recent years, tied to the hope that NGOs and CBOs, operating within a partnership, can lead to a breakthrough in urban development (U.N.-HABITAT, Cities Alliance, 2006). While this type of coordination undoubtedly provides new insights on the role of partnerships in urban issues, such expectations may prove hard to meet. More specifically, NGOs and CBOs remain little understood (Buckley and Kalarickal, 2006), and a great deal more empirical work will be required before the gap between service providers and the urban poor can be consistently overcome.

Third parties

The use of third parties to occupy the gap between service providers and low-income urban customers echoes a number of major policy recommendations. In reviewing the implementation of urban projects, the World Bank advises that responsibility and accountability for services "be devolved to the lowest appropriate level" (Buckley and Kalarickal, 2006). As traditional service providers are used to operating with a top-down approach, this devolution is likely to prove unfeasible without the introduction of a third party. Meanwhile, the U.N. recommends the use of partnerships in the "last mile" along the service delivery chain to link formal and informal actors (U.N. Millennium Project 2005).

One example of the use of third parties is the introduction of delegated management models in urban water supply where small-scale providers known as Managing Operators (MOs) serve as the interface between operators and end users. In Kisumu, Kenya, where this model has been successfully employed, MOs have succeeded in ensuring high rates of compliance for user payments, while responding quickly to requests for new connections and addressing minor leaks, due to their positioning close to the customer. As a result of these and other benefits, the MOs have been able to offer connection charges 63 percent lower than when the utility acts alone (WSP, 2009). Since MOs do not require specialized engineering skills to carry out their role, this is an example of "para-skilling:" where service delivery is disaggregated into more and less simple tasks, which are then assigned to different parties with different skill sets as a means for reducing costs (Karamchandani et al, 2009).

In Manila, the water company Mayniland Water Services has co-opted both NGOs and CBOs to occupy the gap between it and the urban poor. NGOs have helped to expand the number of household connections, while CBOs manage the distribution network, and both bill and collect user fees. Elsewhere, CBOs have lobbied utilities to provide water services and mobilized community savings to pay for a communal service (Baker and McClain 2009).

Innovation

The prospect of using innovations to address urban development is an exciting prospect. Standard approaches to urban development have often struggled

to extend services to the poorest families with targeted interventions often succeeding only in skimming the surface, below which the bulk of the poor remain (Prahalad, 2004). Innovations, making use of different service providers and unconventional partnerships, have been at the forefront of attempts to overcome this barrier.

Some innovations are remarkably simple. For instance, modest revisions to user payment schedules—such as allowing regular small payments and fixed-price arrangements—can accommodate informal saving institutions relied on by the poor. Others are more complex and require the coming together of creative forces with large amounts of capital.

One example of an urban innovation is the "Aquacard"—a special debit card used by urban residents to access water from a shared faucet. By using their card at the faucet, cardholders trigger automatic payment to the water utility via their bank. The Aquacard eliminates the need for a local water vendor—a third party solution—despite the large gap that exists between low-income customers and the utility firm. The absence of a local vendor reduces the cost of the service (Baker and McClain, 2009).

Finance

Allocating risk

Urban partnerships can be used to generate finance by attracting actors under conditions where risk is spread efficiently throughout the partnership. A classic example of this is PPPs.

PPPs are motivated by a belief in the efficiency and dynamism of the private sector, and the possibility of accessing vast pools of corporate finance. Access to this finance requires the government to take on a share of the risk burden associated with the investment. While this capital can help relieve the government of some of its fiscal burden, the intention is to crowd-in the total level of investment, rather than to substitute one type of capital for another.

PPP models are among the more formalized of modern financial partnerships, thanks to the large body of research focused on these models and the best practice approaches that have emerged from it. At the same time, even the more vociferous proponents of PPP models would concede that our understanding of PPPs is still developing, and many developing country governments have little experience in managing PPP transactions.

Through specially designed contracts, PPP services can be consciously targeted at the urban poor. For instance, governments can arrange a concession to provide services in a low-income area, and can demand that the concessionaire cross-subsidizes high and low-income customers to increase the financial viability of the service. Water has been provided in this way to households in Port Vila, Vanuatu (Baker and McClain, 2009).

Nevertheless, such models are not without problems. PPPs work best where country conditions are optimal: a robust legal framework, credible regulators and dispute resolution mechanisms, strong macroeconomic conditions, low political risk and high capacity within the relevant parts of government—hardly the description one normally associates with developing countries. While various tools can be introduced to overcome weaknesses in the environment—political risk insurance, credit guarantees, credit enhancements, local currency financing, arbitration rules, and off take contracts—these only add to the already high transaction costs associated with PPP contracts (Vives et al., 2006).

Contrary to expectations, experience shows that the introduction of private capital through PPPs has led to lower net investment levels in urban infrastructure, in those developing countries studied (Annez, 2006). Moreover, PPP models are hard to take to scale, with transaction costs incurred repeatedly as each transaction is perceived as being unique. For these reasons, PPP models have limited application in expanding services to the urban poor.

Capital markets

Capital markets offer another major source of finance for urban investments and the means for bringing large projects to scale.

One example of capital market partnerships is municipal bonds. Through the issue of bonds, municipalities can raise funds from private capital markets, which can then be used to finance development projects and programs. In return, capital markets demand a competitive rate of interest and a premium equal to the perceived risk associated with the instrument/issuer. A trailblazer in this type of partnership is the Indian city of Ahmedabad, which issued a Rs1bn bond in 1997 to help finance the upgrading of its water supply and sewerage infrastructure.

Attracting capital markets to urban projects often requires specially tailored design. For instance, the Ahmedabad municipal bond incorporated unique credit enhancement measures to increase the confidence of bondholders in the repayment scheme. This helped the bond secure an AA credit rating. As a result, the bond was the first successful attempt by a local government entity in India to obtain private capital without a state government guarantee.

One of the virtues of capital market partnerships is their ability to ensure high levels of accountability. In the case of municipal bonds, the response to the initial issue and the price of the bond in secondary markets reflects how markets assess the credibility of the municipality.

However, financial partnerships of this kind depend on certain conditions being met for their success. The first is access to information at low cost. Private capital markets will not be willing to buy and exchange municipal bonds unless they have sufficient information to determine the credit-worthiness of the municipality. A second condition is the ability to arrange and manage transactions successfully. Both these conditions can be improved through the co-option of additional members to the partnership. For instance, the Ahmedabad municipality employed Infrastructure Leasing & Financial Services Limited (IL&FS), one of India's leading infrastructure development and finance companies, to structure its transaction. It also benefited from the help of USAID-sponsored technical assistance in conducting fiscal and management reforms prior to the bond issue, and in supporting the credit-rating agency, CRISIL, to conduct its first municipal-level assessment (Vaidya and Johnson, 2001).

Capital markets potentially have an important role to play in financing innovation-based urban interventions. Such innovations typically incur high upfront sunk costs and the products may only materialize after a long incubation period during which time they can be developed, adapted, and tested. Microfinance, arguably the best known partnership-driven innovation to serve low-income individuals, took 30 years to develop a sustainable formula of group credit and joint liability group lending after experimental programs in Indonesia, Bangladesh and Brazil beginning in the 1970s (Karamchandani et al, 2009). The test for capital markets is whether they can provide the type of "patient capital" —non-commercial or soft funding—

which allows the emergence of specialist business models for serving low-end markets.

Even once such products are developed, the scale of fixed costs may obscure the fact that marginal revenues already exceed marginal costs. Firms without sufficient capital to enable products to be taken to scale, so that fixed costs can be spread over a large enough number of transactions, simply will not enter the market for service delivery to the poor. Adding to these pressures is the demand for full cost recovery. This is true not only of the private sector but of donors, who have deliberately modeled subproject financing arrangements on expected monetary returns (Annez, 2006; World Bank, 2007).

We submit that this description captures a fundamental constraint to the provision of affordable urban services, especially for low-income households. There may exist a whole range of possible services which have yet to be harnessed to their full potential due to a failure in overcoming fixed costs, defined here in the broadest sense. These fixed costs encapsulate not just research and development activities and general project finance, but the broader set of enabling roles typically associated with partnerships, which includes capacity building, planning, and information-gathering. In other markets where these costs are less onerous, the profitability of services is immediately revealed and the private sector is motivated to act. In the case of urban services, partnerships can overcome these costs if one party takes on the responsibility for subsidizing the fixed costs and so demonstrating the viability of new services.

In Mexico, the cement company, Cemex, took seven years to design and roll out its Patrimonio Hoy program, enabling low- and middle-income households to carry out improvements to their homes. The company's early investment was required to assess the needs and characteristics of low-income customers and to then develop service arrangements suitable for their consumption. Those arrangements contained a number of innovations: the teaming of customers (by customers themselves) into groups of three to enforce payment discipline; an initial phase to reveal customers' reliability; the mobilizing of funds from informal savings groups; the provision, at a low price, of technical expertise from architects and engineers, to advise on building projects; the rapid delivery of building materials to develop customers' trust; and the hiring of promoters to perform marketing and community outreach. In this case, the breakeven point was reached after three and half years and the initial investment repaid 18 months later.

Incentive-compatible

Incentive-compatible partnerships operate by providing (typically) financial incentives, paid for by the government or by donor agencies to alter the interests of key stakeholders in favor of preferred outcomes. The introduction of incentives by third parties may be required to secure the participation of the private sector in urban services, where market entry is otherwise discouraged by the difficulty in achieving full cost recovery (Annez, 2006). Incentives may also be required to overcome the power of vested interests that exist in many cities. These interests have a stake in perpetuating the dysfunctional management of cities in which formal service provision is rationed, leaving certain residents—usually those with the smallest voice and therefore the poorest—unserved and urban development goals unmet.

Various stakeholders may have a vested interest in limiting the reach of formal services in urban settings. An incumbent monopoly—whether state or privately owned—can extract rents by resisting efforts to liber-

alize markets, or by limiting services to high-income customers. Informal service providers can generate rents from those excluded from formal service provision—a problem often associated with slums where services are typically inefficient and provided only by "monopolists, quacks or crooks" (Karamchandani et al, 2009). This results in a "bottom of the pyramid penalty" for customers who must bear high costs, low quality, exploitative business relationships and usurious terms of credit. Bureaucrats can receive kickbacks both from formal or informal providers for maintaining the status quo.

Incentive-compatible partnerships can employ incentives against vested interests in one of two ways. Either the incentives can be targeted at the very stakeholders that have vested interests to alter their preferred outcome, or the incentives can be targeted at different stakeholders who work against the vested interests.

A big challenge for these partnerships is in the design of incentives to ensure they are effectively targeted. The most efficient designs are those that alter behavior while keeping decisions close enough to the margin for costs to be kept low.

Three incentive-compatible partnerships are explored here. The first is inter-city tournaments where urban centers compete against each other in orchestrated competitions to secure supplementary grants or other rewards. For instance, the Jawaharlal Nehru Urban Reform Mission (JNURM) provides grants to cities across India to finance urban infrastructure and basic services for the urban poor, on the condition that the cities first undertake reforms aimed at improving governance. In Romania, USAID funded a scheme in which municipalities competed to eliminate administrative barriers and to form public-private partnerships. In this instance, the reward for the winning cities was simply good publicity, sufficient nevertheless to encourage 29 municipalities to take part (Zinnes, 2009). Tournaments can be facilitated through simple benchmarking and information-sharing. For instance, the Economist Intelligence Unit ranks Chinese cities on their business environment, based on five metrics and Brookings' MetroMonitor assembles a similar set of indicators to rank the U.S.'s 100 largest metropolitan economies. The MetroMonitor is explicitly intended to promote public and private sector responses that can improve living conditions in America's cities.

A second model is Transferable Development Rights (TDRs). TDRs are awarded by municipalities to construction companies or landowners who facilitate the development of low-income housing on specially designated land, in line with the municipalities' strategies. TDRs provide the holder with zoning privileges to build properties on non-priority land. These can either be employed by the holder or sold on to developers. TDRs have been used in Mumbai to encourage government agencies to give up land illegally occupied by slum dwellers (Burra, 2005) and in Sao Paolo to incentivize construction companies to upgrade squatter settlements (Budds and Teixeira, 2005).

A third model is output-based aid (OBA). In this model, the private sector is rewarded ex-post for interventions that deliver against specific urban goals set by the government. The private sector marshals its own resources to achieve those goals on the basis of an agreed level of compensation from the government or a donor agency, should those goals be realized. OBA models represent an entirely new form of market design, reversing the traditional sequence of funding and delivery within aid contracts. In OBA models, no cost other than administrative overheads is incurred on the public—or donor—purse until desired goals are

fulfilled. A government or donor will not be able to compensate contractors for their contribution toward specified goals unless both the achievement of those goals and their correct attribution is clearly revealed. In Paraguay, an OBA program has been used to extend water services to rural households, with subsidies awarded by the utility company, SENASA, to construction companies and independent water providers on a per-connection basis. SENASA was supported by the World Bank, whose standard bidding documents were used as a template to design the contracts with the private-sector providers (Drees-Gross, et al. 2005).

Hybrids

Hybrid partnership models are characterized by their ability to combine alternative sources of financing with the resources of customers themselves. By demonstrating the value of customers' own resources, even in the case of the urban poor, hybrid models reject the notion of a straightforward funding constraint implicit in other partnership models, instead stressing other factors which prevent customers from commanding services. The challenge of these partnerships is to identify both what resources customers are able to contribute and how these can be mobilized.

Hybrid models employ the resources of the poor by adapting to their preferences. Thus, the models accommodate regular payments and informal financial institutions, while emphasizing the value of low-margin transactions when amassed on a large enough scale. Contributions in kind, such as sweat equity, can be promoted in lieu of payment. Other resources of the poor, such as peer discipline and local knowledge, are also drawn upon.

One simple strategy for mobilizing the resources of the poor is to identify business models that provide services at reduced prices which the poor are better able to afford. Monitor has picked out four successful models intended specifically for private sector providers: a pay-per-use approach, in which the poor pay for each use of a group-owned facility; a no frills service, where services are pared down to meet only basic needs; para-skilling, as described in an earlier section; and shared channels, where service providers piggyback products or services on existing supply chains (Karamchandani et al, 2009). While only the last of these models requires a partnership, each are likely to benefit from third party involvement, whether to organize users into groups in pay-per-use schemes, to design no frills services, or to perform low-skill activities in the case of para-skilling.

Here, we provide three examples where hybrid partnership models have been used to extend access to urban services. The first partnership has been responsible for providing public toilet blocks that serve more than half a million low-income urban dwellers in several cities in India. The partnership is comprised of the relevant municipal government and an alliance of three informal institutions: the Indian NGO, the Society for the Promotion of Area Resource Centres (SPARC), the National Slum Dwellers Federation and Mahila Milan, a women's savings cooperative. In this partnership, the alliance took responsibility for the design and costing of the project, the city authorities provided the capital costs, while the communities who used the services took care of its management and maintenance, in addition to affordable user fees in certain cities. The communities' ability to manage and maintain the toilet blocks are a key part of the model's success. This was an area which had previously been neglected when the toilets were under the responsibility of municipal corporations, allowing the infrastructure to deteriorate to the point where they quickly became unusable. By demonstrating the value

of communities' ownership of the service, the projects have been acclaimed for reconfiguring the relationship between city governments and the poor, demonstrating the capacity communities have to contribute to their own solutions (Burra et al., 2003).

A second example is provided by the Baan Mankong (meaning "secure housing") program in Thailand. Like the public toilet initiative in India, this program supports locally-driven solutions in which urban, poor communities play a central role. The government provides infrastructure subsidies and housing loans direct to poor communities who then design and carry out improvements to their dwellings themselves. An additional role of the poor in this program is to conduct detailed slum surveys whose information is used to inform the planned changes in each community. These surveys are conducted with limited support from NGOs or community federations. Having slum dwellers collect information on the layout and composition of their own communities has proved to be a useful strategy for empowering the poor in many urban projects, furnishing them with information which is valued by all parties involved in providing services (Budds et al., 2005).

The final example of a hybrid partnership is a low-cost housing design, currently being attempted in India by Monitor. India faces an acute shortage of housing, with 60 percent of the country's population understood to be inadequately served by the formal housing market. Monitor have created a demonstration model of apartments intended for a middle-income subset of that population, who with limited collateral and no viable purchase options, must typically rely on extremely cramped (~150 square feet) rental properties, with highly insecure tenancy arrangements. The new apartments are considerably larger (500 square feet) but due to various innovations can be priced low at $12,500—an affordable sum for families with monthly earnings of $300. Among the innovations is a specially designed "cooking area" that is smaller than a minimum-sized kitchen as specified by building codes, but the title allows developers the flexibility to adopt a more compact design. Another innovation is to have tenants' employers involved in the payment of monthly installments. Each installment is paid directly by the employer to the housing finance company and deducted fully from the tenants' paycheck.[10] Managers of the apartment blocks may seek out multiple tenants from the same workplace to rationalize the number of transactions, thereby keeping transaction costs low.

FURTHER STUDY

The range of issues identified in this paper suggest that there are still significant unknowns about how donor aid could be used most effectively to scale up urban interventions and tackle the pressing problems of urban poverty, slums, and rapid urbanization in the developing world. Our paper suggests that two broad areas deserve further study: how to align urban aid more closely with the on-going movement in aid effectiveness so as to encourage aid agencies to pay greater priority to urban issues; and how to understand and leverage the variety of partnership models for better impact.

Aid effectiveness and urban aid

Develop indicators, measure results and provide metrics for urban development that can be readily collected at a city level and aggregated to the country level. The lack of a solid results chain for urban interventions remains a serious bottleneck. There are by now a number of international metrics and other indicators of urban development and management. These have been partially tested in developing country settings, but considerable work is required to build a consensus around one approach and then to develop the funding and implementation capability to collect, store and disseminate data in a cost-effective way.[11] At the same time, serious effort needs to be made to improve donor coding of urban interventions and their reporting to the DAC. Use of urban markers, as is done for gender, would be a valuable step forward. Consensus building on data and resourcing its collection is a classic public good. No institution is currently attempting a serious effort to do this globally, or to include the large number of secondary cities in the developing world.

Understand the political economy of urban interventions. Most urban projects remain small and targeted at specific localities. The choice of a local government with which to work—and indeed of partners with whom to engage—can be highly political and fraught with risks of corruption and local elite capture. The links between national urban development strategies and donor engagement with local municipalities are not well understood. In some cases, independence from the national government may be a prime objective of either the local authority or indeed of the national government itself. Frameworks for assessing how and when local engagements can be scaled up into national urban development programs need to be developed.

Build capacity and professionalism of city management. Donors work most effectively when they can engage in meaningful policy dialogue with counterparts, but city managers in developing countries are often bureaucrats or elected politicians with little understanding of the day-to-day business entailed in policy, planning, managing and administering a city. Cadres of professional city managers are needed. Although it is clear that urban development will be a major issue for many years to come, no donors are currently engaged in strategic thinking about the long-term, such as the establishment or strengthening of urban think-tanks and research centers in developing countries, or the establishment of urban development graduate programs. In advanced countries, Masters of Urban Planning, Masters of City (or Town) Planning, and Masters of Environmental Planning have become commonplace professional terminal degrees. The need and scope for expansion of such programs in developing countries would appear to be considerable.

Understanding partnerships

Investigate viable cost structures for hybrid partnership models. In recent years, a number of hybrid partnerships have succeeded in delivering services to low-income urban customers by adopting radically different cost structures from traditional service providers. Cost structures can be altered in various ways: addressing logistical bottlenecks to force down transaction costs, identifying lower cost inputs, repositioning the burden of fixed costs, sharing costs between different partners, and altering service products themselves (Karamchandani et al, 2009). However, despite some high profile case studies, there is little consensus as to what structures, if any, have been most effective, and the feasibility of replicating the same approach for other services. Some donors, keen to encourage these types of innovation and to see them scaled up, have established private-sector funding initiatives to support "social entrepreneurship" in service delivery.[12] These initiatives would benefit from a greater understanding of what has worked before and why.

Support the development of municipal bond markets. Municipal bond issuances in developing countries became considerably more widespread in the 1990s, but achieved varying degrees of success. Today, municipal bonds are an integral part of city financing in a handful of developing countries (Columbia, Mexico, Philippines, South Africa), but are either not used, or prohibited in others. Among the constraints regularly cited to the use of municipal bonds are excessive borrowing costs, an inadequate regulatory/legal framework and insufficient capacity to administer and to manage debt. However, these constraints alone aren't able to explain the checkered pattern of adoption. Donors, led by the World Bank and USAID, have offered their support to municipalities through technical assistance, policy development, loan guarantees and other credit enhancements. Expanding access to bond financing requires a greater understanding of the existing impediments and the enabling role that should be played by donors, rating agencies and other institutions, to enhance the financial strengthen of cities.

Explore new models for inter-city competition. An improvement in the availability of urban data, together with modest progress on the agreement of shared metrics to measure urban development, has led to an emergence of new inter-city competition schemes. These competitions are designed to give incentives to municipal authorities, working in partnership with other urban stakeholders, to improve the standard of living in cities and towns. It would appear that such competitions have great potential to radically alter how city stakeholders collaborate (Zinnes, 2009). However, the range of existing competition schemes remains fairly modest in scope. An analysis of existing models can help identify what the next generation of competition schemes might look like, and how donors can help in their establishment.

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ENDNOTES

1. MDG Indicators Web site: http://mdgs.un.org/unsd/mdg/Data.aspx, accessed November 2009
2. U.N.-HABITAT and Cities Alliance are among the most prominent.
3. All these expenditures would be needed for the household's inhabitants to escape the "slum dweller" classification. The U.N. operational definition of a slum is based on the household as the basic unit of analysis: "A slum household is a group of individuals living under the same roof in an urban area who lack one or more of the following five conditions: access to water; access to sanitation; secure tenure; durability of housing; and sufficient living area." (U.N.-HABITAT, 2006b).
4. This is more obviously true for physical investments, but non-physical investments can also be assigned a nominal space, even if this may be less germane to the investment's purpose.
5. Key words (not case insensitive) include "urban," "city," "cities," "slum," and "slums." The list of cities was drawn from the Economist Intelligence Unit's cost of living database. It included 76 developing country cities, including many capital cities.
6. For evidence of this paradox for the aid industry as a whole, see Roodman, 2007 and Mosely, 1987.
7. Making Cities Work Web site, accessed November 2009 (USAID, 2009).
8. For instance, the U.S. linked the level of its participation in IDA 14 to reforms in the World Bank to introduce greater management for results.
9. World Bank, 2006. Of course, China has the advantage of considerable domestic savings which can be mobilized for investment in cities and does not face the resource constraints of other countries, and so it is less dependent on aid.
10. Note, the employer simply facilitates the money transfer but does not take on any risk.
11. It may be necessary to benchmark cities first according to a classification. The *World Development Report 2009* proposed to separate small, market towns from medium-sized secondary cities and mega-cities.
12. For instance, see the Grassroots Business Fund--now an independent NGO but originally incubated over four years in the IFC.

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