



Remarks by

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Introduction

Distinguished delegates, ladies and gentlemen. Let me welcome all of you to this second plenary session of the World Urban Forum 3. I would also like to thank our hosts, UN-Habitat and the Government of Canada, for organizing this event. I am very pleased to be moderating this morning's session.

Thirty years ago, many were gathered right here in Vancouver for a United Nations conference that established the United Nations Commission on Human Settlements, the forerunner of UN-Habitat. It is probably no coincidence, then, that the World Bank began supporting urban development at approximately the same time. We carried out our first lending operations in this sector in 1972. We were all responding to the same facts, the same issues, and the same challenges.

Today, however, I would like to use my time to focus on the next 30 years, and on the actions all of us need to take. I say this, though, knowing that our vision of the future must always be informed by, and built upon, our experience of the past.

The big picture: what is going to happen in the next 30 years?

Every one in this room knows the numbers about population growth and urbanization: that this phenomenon will continue on a massive scale, especially in the developing world. The urban population of developing countries will double, from approximately 2 billion today to over 4 billion in the next 30 years. During this same period the developed world's urban population will rise as well – but only by about 11%. What does this mean? It means that the magnitude of urban population growth being faced by the developing countries is about ten times that of the developed world.

What you might not know, however, is that, based on current trends, cities in the developing world will spread out to occupy about three times their present land area. As incomes rise, people demand more space and amenities. This, in turn, determines the cost of many things: urbanization, infrastructure needs, and energy intensity, to name a few. It is very clear that the policies and investment strategies of decision-makers worldwide will have to be closely examined to ensure they contain policies for effectiveness and sustainability.

The demographic trends also mean that poverty will increasingly become an urban phenomenon. If current policies prevail, we can expect social exclusion of the poor to increase and slums to grow. From one-third to one-half of urban dwellers will live in slums, and most will work in the private but informal sector.

Ladies and gentlemen, let me give you another perspective on the challenges we are facing: these two billion new urban inhabitants will require the equivalent of planning, financing, and servicing facilities for a new city of 1 million people, every week for the next 30 years. However, these will not be nicely planned, new cities at all, but rather, without smart interventions, the unplanned and unrecorded expansion of existing slum

settlements – poorly located, with un-serviced new ghettos, often on the urban periphery. Poverty will deepen and despair will grow.

As you can easily see, the challenges are daunting.

The challenges – how should we address them?

Not only do these new “weekly” cities need to be created successfully, but existing urban areas must be managed according to a strategy of sustainability if cities everywhere are to realize their potential to alleviate poverty.

Unfortunately, the problem we face is formidable in two important respects. First, as I’ve outlined, the magnitude of the challenge is unprecedented. Second, we (and I mean the broader international community), still have a way to go in offering integrated approaches to sustainability that takes full account of the economic forces at work.

Adding to this problem are romantic notions about the virtues of rural living, about how migration can be stopped or curtailed, or about how people can be “directed” to live where urban planners want them to live. These ideas still prevail and undermine efforts to get responsible officials to focus on the inevitable and (might I say) desirable urban expansion. As a recent report commissioned by the World Bank has made clear, attempts by governments to control rural-urban migration flows have all ended in failure. We think it is time, rather, to focus on the positive impacts of urbanization, and to introduce policies to make cities more inclusive and more efficient.

There’s also reason for me to suggest that the discussion or the debate on urbanization in the developed world does not necessarily address the real problems facing developing countries. Developing country cities will expand ten-fold compared to those in richer countries, but many of the basic characteristics of these developing world cities, such as density and prices, are already much higher than in the west. We need an approach that is grounded in the reality of the developing world. Cities also need accurate, comparable, and trusted indicators that measure their performance and quality of life.

We can observe the still ambivalent attitude that prevails in policy circles about urbanization. This occurs despite unambiguous evidence that successful urbanization is not simply associated with welfare improvements but may even be a necessary condition for achieving them.

For example, increases in agricultural productivity will not raise incomes unless those agricultural areas are connected to markets (through cities and towns). Improvement in the general welfare of people also requires that the surplus rural labor find productive work in the urban areas to which they migrate. People migrate to cities because they think their life will be better. And, statistically and historically, they are right.

Although we clearly understand the powerful and positive economic role of urbanization, the policy response has been too weak. There are far too few countries that have

development strategies that put sustainable urban development at the center of thinking. We believe that this needs to change, and we believe that this needs to change urgently.

The Approach

Successful management of the global urban expansion will require many actions. Further, it is how these actions work in concert that matters most. Perhaps, the key lesson for developing countries is that they need systems that work. The systems that are at the heart of successful urbanization are the systems that effectively deliver public goods. Making those systems work well should be the focus for government and the area of concentration for those of us who seek to aid cities throughout the world.

Let me note that we've learned a lot about public goods in the last 30 years. We've learned that effective public goods systems are absolutely necessary to induce private investment, to create jobs, to get people to save and to use the financial system, and even to engage in productive life as citizens.

“Public goods systems”, as I am using the term here, include much more than traditional concepts of public sector services. It requires that we look well beyond public investments and that we explicitly treat policies and institutions as essential elements of any strategy.

Developing country cities increasingly look to the donor community as important international partners. In addition to generating knowledge and helping cities take advantage of international best practice, donors may have the independence to promote closer cooperation among the different levels of government, which is often required. The real responsibility for a decisive policy shift, however, must lie, first and foremost, with national governments and with mayors and city managers.

Let me now to turn to some of the detailed ideas and actions that go into what we see as a successful urban strategy.

The Basic Building Blocks of a Strategy

As we move from what might be termed a more fragmented, or technical, view of urbanization in the development process, there are many things that still need to be worked out. Our recommendations are based on our experience from the past 30 years, where we have granted about 400 loans for urban development totaling approximately \$28 billion. And our recommendations are also based on some urban research that the World Bank and other donors are currently supporting.

Our views are also very much informed by ongoing dialogue with the hundred plus countries, and thousands of local governments, with whom we work around the world.

Under each of the categories I'm about to enumerate, let me mention three points. First, I suggest the key policy challenge in each sub-sector. Then, I note which public goods are

most critical for urban development. Finally, I'll mention the *key institutions* where capacity needs to be in place and where we should focus our support. The list is intended to be illustrative rather than exhaustive.

These are the sub-sectors:

- Business Environment and Competitiveness are perfect examples of a new responsibility for local governments that does not correspond to our traditional ideas of municipal infrastructure. In this respect, *the key policy challenge* is how to create a business friendly legal and regulatory environment that supports private sector investment and jobs. Property rights, which can be provided in many ways, and their enforcement, are therefore, *key public goods* that support this policy. Understandably, cadastral systems, the bureaucracies that manage them, and the courts that enforce them, *are the key institutions*.
- Transportation and Connectivity may look like familiar public policy goals. However, for modern urban governments, we would probably phrase *the key policy challenge* as being: how to efficiently increase mobility and connectivity. Coordination of investment plans with the ability to reserve right of ways in advance, and the enactment of balanced regulation of public and private providers, *are key public goods*. The regulators and multi-jurisdictional coordinators *are the key institutions*.
- Water and Sanitation, again, looks familiar, but the *key policy challenge* does not. How to efficiently use available water in stressed regions is an issue that many fast growing cities will have to face. In many developing countries, the prevailing policy environment penalizes the poor in terms of access and in terms of price. Rules (and their enforcement) on pricing and inter-jurisdictional sharing of water sources *are key public goods* in this sub-sector. The regulators and the utilities *are the key institutions*.
- The intersection of Local and Global Environmental issues in urban areas creates the *policy challenge* of balancing the economic benefits created by cities with the environmental and resource costs they impose. Cities use 75% of the world's resources and generate 70% of our greenhouse gases. Although almost all of the world's new energy production is for growing urban areas, it is already true that many of the most polluted places on earth are the backyards, school-yards, and streets of cities, especially in developing countries. More attention to *public goods*, like clean air and water, is needed in local, national, and international policies. The *key institutions* to monitor and enforce such standards are local governments. National and international institutions need to help empower cities to address the complex environmental and energy issues that they face today.
- The functioning of the Urban Land Market is arguably the most consistent bottleneck undermining long-term city development. Many cities have land markets governed by out-of date legislation, and the use of land as a form of political patronage and outright corruption are far from uncommon. The *key policy challenge* clearly becomes how to assure a supply of affordable and well-located urban land to

accommodate urban expansion. In that context, appropriate regulations in respect to land-use, zoning, and building as well as enforceable property rights *are key public goods*. The local agencies that manage these public systems are *the key institutions* we need to focus on.

- Urban Housing, especially for the poor, is always at the top of any mayor's list of problems that need to be addressed. The public sector response was traditionally focused on direct provision, but this has rarely succeeded in assisting those in need. Once it became clear that most families would find shelter solutions through the market, a *key policy challenge* became how to develop an enabling environment, a sustainable finance system for the housing sector and effective assistance to those unable to look after their own shelter needs.

Like most markets, the one for housing requires systems providing public goods in order for the market to function efficiently. Just as a responsive urban land market depends upon public goods like those mentioned above, the housing market also requires timely provision of infrastructure and a range of tradable property rights. Both can be thought of as *key public goods*. Policy coordination with land, infrastructure, legal, and financial systems are tasks for *institutions key* to good sector performance.

- Safety and Security would not have even been mentioned as a building block for an urban strategy prepared ten (let alone thirty) years ago. Today, however, we have become very much aware of the importance of this most traditional of public services. Whether our goal is the integration of the socially excluded or the attraction of investors to create jobs for urban residents, little progress can be made without safety and security. Therefore, a *key policy challenge* becomes how to balance safety/security within a political/social system and a regulatory environment that is conducive to economic growth. Safety, law enforcement, and the justice system are thus *key public goods*. The legislative and justice systems, along with enforcement entities, become *key institutions*.
- Governance has become a core development concept and our understanding of why efforts fail in the face of corruption and weak governance has become much more sophisticated. The governance agenda is as relevant for local officials as it is for national governments. The *key policy issue* is how increasingly widespread democracy at the local level can lead to real accountability between citizens and local government. The *public goods* supporting good governance are open and transparent government with a special focus on public procurement and fiduciary responsibility. *Key institutions* are budget offices, procurement units, and audit entities. The outcome should be a greater propensity of individual and corporate citizens to invest, because the risks are better known, become more measurable, and are more predictable.

Municipal or sub-national finance, part of today's theme, is where the principles mentioned above need to be used to support a framework where sub-sector policies, public goods, and institutions can play-out their mandates. We have long been focused on the relationship between decentralizing responsibility for services and public goods

and the design and structure of the fiscal system that supports each level of government to carry out its mandate.

In addition, since our charter at the World Bank makes national government our primary partner, and because our articles require a sovereign guarantee, we have had to be creative in assisting sub-national clients. We have been able to devise mechanisms within the World Bank family, like the International Finance Corporation's Municipal Fund. Facilities such as this enable us to have a more direct relationship with urban governments, but always with the support of the national government.

The structure of government has usually shaped the design of the fiscal system and, in turn, the viability of finance plans for urban development. Increasingly, we see fiscal authority being decentralized, and this should lead to an increased demand for greater local accountability. Our long-term financial objective, in this respect, is to assist urban governments and their utilities to become credit worthy so that they can access local capital markets to finance major infrastructure. Their success in being able to raise commercial finance is, in many ways, the most significant indicator of good urban governance.

Conclusions: the need to translate ideas to actions

Ladies and gentlemen: We all know that it's fairly easy to identify and recite the concerns that I've mentioned, but considerably more difficult to address them. The key, in my opinion, is to accept the reality of urban expansion — to set aside the debate about whether it is good or bad, and to help cities get ready.

There is a rapidly-narrowing window of opportunity to choose whether we want an alternative to the current policy environment where urban areas are dominated by the growth of unplanned and inefficient cities, with slums as the poster child of 21st century growth.

In our work we rely on people who have real world experience. We at the World Bank learn and rely on our clients who are practitioners such as our panelists this morning. They know how to translate these ideas into action – our conference theme.

Thank-you.