A Strategic Framework for City Cluster Development

In the light of CCD's benefits, a strategic framework can be useful to guide officials in deciding whether or not to pursue CCD. The framework should answer some basic questions:

- What key factors should be assessed in identifying CCD potentials?
- What are the barriers to effective and efficient CCD?
- How can the barriers be mitigated so that CCD can be accelerated?
- What strategies can achieve effective and efficient CCD?

Experiences in Asia show that at least eight key factors need to be assessed to determine whether or not to use CCD as an instrument for urban-led, inclusive economic and social development:

- institutional and governance mechanisms;
- demographic, resources, and spatial factors;
- development planning coordination over time and jurisdictions;
- use of land resources and land tenure;

- economic growth potential and trade functions;
- taxation, intergovernmental transfers, and fiscal discipline;
- infrastructure and information networks; and
- role of private sector participation.

Most of these factors are multifaceted and closely linked with each other. Therefore, efforts to achieve socioeconomic development through CCD require a thorough understanding of how various economic, social, institutional, and technological resources can be mobilized cost-effectively. In general, an effective CCD plan is one in which the development objectives are achieved in compliance with both quantitative and qualitative performance standards. In contrast, an efficient CCD plan is one in which the development objectives are achieved with the optimal allocation of various material, human, and technological inputs. A schematic representation of a CCD framework is shown in the table.

Barriers to City Cluster Development and Measures to Mitigate Them

Institutional and Governance Mechanisms

One barrier to CCD is a mind-set among some public officials that associates urban growth with problems such as slums and squatters, lack of urban infrastructure and services, traffic jams, environmental pollution, and crime and violence. Another barrier is officials who are ideologically committed to local autonomy and therefore find it difficult to pursue CCD. Administrative fragmentation at the central and provincial or state levels also hinders interagency cooperation and coordination. The activities and advocates of civil society are often viewed negatively by officials, especially when those advocates demand governance reforms and campaign against graft and corruption.

Legal and regulatory measures and judicial precedents can also be barriers to CCD, as seen in cases where individual local government bodies enact ordinances, zoning codes, and land use regulations that differ vastly from each other, thus creating jurisdictional conflicts. Another barrier is extreme political partisanship among city authorities, especially if that partisanship is based on ethnic identity, religious affiliation, or ideological differences. Experiences in a number of Asian countries have shown that when local government

A Strategic Framework for Assessing Growth Potentials of City Cluster Development

Assess Key Factors	Analyze Barriers/Weaknesses	Step Up Mitigations as Development Opportunities	Strategize CCD
1. Institutional, legal and governance mechanisms; e.g., cross-border coordination	• Autonomous local units may resist CCD • Central and provincial or state governments may not favor CCD or anti-urban mind-set • Decentralization programs and local autonomy create fragmentation among local government bodies in city clusters • Failure to recognize unique conditions in a country may limit the usefulness of CCD	• Provide more information to local government officials about merits of CCD • Local government reforms • Coordinate through a development council • Allow strong political leadership and entrepreneurial abilities for more effective and efficient governance • Blind copying specific CCD initiatives without proper regard for unique conditions in a particular country or area should be avoided	• Use region-wide planning to usher in region-wide governance • Set up metropolitan authorities to improve area-wide development efforts • Use development plans to encourage unified governance structures • Allow participation of civil society in governance • Undertake selected observation and study tours to countries that have used CCD successfully

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Assess Key Factors	Analyze Barriers/Weaknesses	Step Up Mitigations as Development Opportunities	Strategize CCD
2. Demographics, resources, and spatial aspects for inclusive development: i.e., integration of rural and urban economy, and inclusion of urban or rural poor	• Minimal population size to form an agglomerated pattern of city regions • Geographic dispersal of inhabitants • Conventional perception on rural–urban dichotomy deters CCD inclusively • "Not-in-my-backyard" attitude hinders inclusive development efforts • Political conflicts based on local partisanship, ethnic affiliations, and ideological leanings threaten social sustainability	• Accommodate more rural-to-urban migrants • Harness civil society to strengthen inclusive development • Strengthen economic links between rural and urban areas • Improve the flows of goods and services both ways • Strengthen unified city cluster–wide efforts to reduce poverty through political will and availability of financial resources	• Encourage compact settlement patterns within 80 km radius from the core • Do not dichotomize urban and rural, but include both urban poor and underprivileged groups in area-wide development • Promote industrializing agroprocessing business and enterprises • Civil society groups can strengthen public participation in deciding on developing city clusters

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Assess Key Factors	Analyze Barriers/Weaknesses	Step Up Mitigations as Development Opportunities	Strategize CCD
3. Development planning issues	• Planners use mainly physical planning methods and resist city-region planning • Weak planning capacity or lack of data resulting in plans that cannot be implemented • Zoning codes and standards too focused on local issues	• Support more data gathering and dissemination • Train more planners • Use Asian Development Bank technical assistance to help use comprehensive plans in city clusters	• Adopt an area-wide approach suitable to usher in governance reforms • Formulate plans and adopt comprehensive city cluster plans for a longer-term perspective • Formulate a comprehensive plan in a participative manner and consider inputs from all stakeholders
4. Land resources and land tenure	• Strong adherence to private property • Private ownership of land makes it difficult to leverage land for CCD financing • People's resistance to "land grabbing" for project use • Failure to repeal legislation on land issues will delay CCD programs	• Capture tax revenue from increased values of land and property resulting from infrastructure provision • Implement tax reforms to capture economic value of land and land tenure • Use land readjustment • Use land banking schemes	• Use land readjustment mechanisms to unlock the economic value of land resources and to increase property values through improved urban infrastructure provision • Revise tax laws to facilitate use of land into a development financing resource by unlocking its location "use value"

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Assess Key Factors	Analyze Barriers/Weaknesses	Step Up Mitigations as Development Opportunities	Strategize CCD
5. Economic growth potentials and trade functions	• Low level of economic productivity • Lack of industrial–commercial activities • Economic growth potentials and impact limited to a confined area	• Tap intellectual capitals and resources from existing academic and research institutions as a stepping-board • Locate SEZs near a bigger city to tap into spillover growth benefits • Promote economic sustainability by formulating and implementing a city cluster local economic development strategy	• Concentrate infrastructure investments in one area to attract more enterprises • Attract foreign and domestic investors by offering tax incentives and other benefits in a city cluster or SEZs • Strengthen urban-led development strategy
6. Taxation, fiscal issues	• Low revenue-generating capacity of local government bodies • Dependence on higher-level fund transfers and grants-in-aid • Credit ratings are low and do not support capital improvement • Difficulties in standardizing tax rates among local units in cluster • Local units resist allocation of funds to metropolitan or regional governance structure	• Install area-wide tax reforms to increase efficiency of tax collection • Train local officials in revenue-raising techniques, budgeting, and fiscal accountability, to attract PSP in financing urban infrastructure and services • Make financial burden more equitable by sharing local resources	• Improve tax collection machinery • Invite more PSP investments • Set up mechanisms to enhance transparency and accountability • Pull the resources within the cluster by consolidating a city cluster approach, for a higher credit rating

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Assess Key Factors	Analyze Barriers/Weaknesses	Step Up Mitigations as Development Opportunities	Strategize CCD
7. Infrastructure and informational connectivity	• Poor urban infrastructure and services • Lack of coordination in infrastructure provision • Difficulties in coordinating services among local units pursuing selfish goals	• Tap central and provincial or state governments to provide more infrastructure	• Encourage PSP for infrastructure investments; • Set up area-wide transportation systems and regional water and sanitation systems that limit pollution
8. Private sector participation	• Low level of PSP interests • Lack of mechanisms for PSP • Lack of transparency and accountability • Widespread rent seeking • Competition among local units to attract investors can result in non-observance of environmental laws and regulation	• Facilitate PSP by streamlining procedures • Tap banks and other financial institutions for investments • Limit environmental pollution by developing cluster-wide environmental standards supported by strong enforcement	• Provide mechanisms for more PSP in the financing of urban infrastructure and services • Set up SEZs and industrial parks

CCD = city cluster development, PSP = private sector participation, SEZ = special economic zone.

Source: K. Choe and A. Laquian. 2008. City Cluster Development: Toward an Urban-led Development Strategy for Asia. *ADB Urban Development Series*. September.

bodies view each other with suspicion and cynicism, it is extremely difficult to set up CCD initiatives such as establishing regional agencies to manage urban services (e.g., regional waterworks or energy systems), working out a common system of taxation, or developing systems to improve the credit rating of cities within a cluster.

Anti-urban bias among local officials can be mitigated by providing them with information that shows the positive correlation between higher levels of urbanization and higher levels of economic growth. CCD supporters may also share with officials key research results that indicate successful cases in which the urban and rural sectors are closely linked to achieve area-wide development. Financial institutions like ADB can support observation and study tours and workshops to countries that have successfully pursued urban-led development strategies to show the merits of CCD. They can also help generate and disseminate information by supporting research projects, monitoring and evaluating urban projects and programs, publishing the results of such efforts, and making them available to staff members, developing member country officials, and the public.

Initiating institutional and governance reforms in cities where local officials are strongly committed to local autonomy is a difficult task. However, one possible strategy is to carry out a comprehensive development planning exercise that will show how overall regional development efforts are closely interlinked. The exercise might also highlight the positive outputs that can be attained by intergovernmental cooperation, which can eventually enhance CCD.

Demographics, Resources, and Spatial Factors

The size of the population in urban settlements that form a city cluster is an important factor that determines if a CCD approach is feasible or not. Obviously, a megacity with a population of more than 10 million will require far greater resources to develop than a small city with a population to 100,000 surrounded by villages. The extent of the geographical area encompassed by the settlements within a city cluster will also have a direct effect on development costs. If the distance between the various settlements within a city cluster is too great, it can serve as a barrier to CCD (some planners recommend a "1-hour travel perimeter, or a concentric zone no greater than 80 km radius" to encompass an ideal CCD territory). Conversely, a sparsely populated area that does not have significant urban nodes will be more difficult to develop using CCD than an

area that possesses a number of high-density urban centers in which industrial, commercial, and residential clusters already exist.

High levels of urban poverty, as reflected by a significant proportion of the population living in slums and squatter communities, can inhibit CCD. This is especially the case when low-income people occupy public or private land that is needed for urban infrastructure and services. High rates of rural–urban migration that swell the numbers of the urban poor can also be a problem. However, experience in the PRC and Viet Nam has shown that punitive measures to prevent or control migration are not effective in the long run. More "accommodationist policies"—for example, providing urban services in low-income areas, building affordable housing, and conducting skills development and training—can better serve as mitigating measures. Providing urban infrastructure that attracts enterprises to invest in the city cluster is also an excellent strategy for expediting growth and development.

Development Planning Coordination

Most cities in Asia have master plans, but despite the acknowledged usefulness of planning to achieve CCD, a number of barriers deter its use. Some barriers are internal to city systems; others are linked to the external environment. Foremost among the internal factors is the shortage of trained planners in Asia. Most Asian planners have backgrounds in architecture, engineering, or surveying, and view the city as being made up of objects to be designed and built from a narrow technical perspective. Lacking an understanding of the economic forces and sociocultural factors at work in CCD, they find it difficult to identify the complex linkages that make up the whole city region and are unable to formulate good comprehensive development plans.

Another barrier to CCD is the lack of data on which to base comprehensive development plans. Basic population data, for example, are based on periodic censuses, but in rapidly growing cities, the census information is often out of date. Census data are collected using formal political boundaries as enumeration units, but city dwellers can be undercounted because the built-up areas of urban settlements often extend beyond their formal boundaries. Information needed for transportation planning, including the distance and time covered by daily commuting, the split in usage among the various means of transportation, and the average amount spent on trips, is often fragmentary or unavailable. Procedures for estimating,

for example, water use, unaccounted for water, and volumes of solid waste created per person, are often rudimentary and result in inaccurate data. Most important of all are serious shortages of such industrial and commercial data as the types and degrees of production interlinks among enterprises, sources of raw material inputs, channels and scopes of markets, and factors that determine why some enterprises cluster in specific zones and others do not.

A procedural barrier to the use of planning to achieve CCD is the non-adoption of master plans by the proper governmental bodies. In some instances, plans are regarded as merely indicative and not as authoritative statutory enactments. Without legislative approval, the plans do not have the force of law; i.e., local government bodies within a city cluster are unable to pass ordinances, zoning codes, and land use regulations with which the plan should conform. Another barrier to CCD is that many plans lack measures for achieving environmental sustainability and cultural conservation. Built forms are considered more important than natural elements, and the plans fail to consider complex biological and species-specific interrelationships. Ecologically sensitive areas such as marshes are developed, land reclamation destroys mangrove swamps, and natural drainage systems such as open streams and canals are turned into concreted culverts. Natural environmental protection functions are diminishing, and other cultural structures are demolished to make way for high-rise buildings of steel and glass. The resulting built-environment becomes more vulnerable to natural disasters.

Lack of valid and reliable information on which to base comprehensive plans may be mitigated by tapping the resources of academic and research institutions in the CCD area and encouraging them to conduct basic, in-depth studies on urban issues. Financial institutions such as ADB may be requested to include in projects funds for urban sector surveys, monitoring of a project's progress, and evaluations of a project's outputs and impact. To strengthen planning capacity, some in-service training programs should also be incorporated into projects and programs to strengthen the technical and professional capabilities of local planners and managers.

Use of Land Resources and Land Tenure

In Asian countries where cultural norms accord a high value to land ownership, the difficulties of acquiring land for public development efforts hinder CCD. In India, for example, efforts to set up special

economic zones to accelerate urban development have been stymied by demonstrations, and even violent riots, by farmers who object to alleged "land grabbing" by public officials and foreign investors. In the Philippines, public works projects have been delayed by squatters who invade the land on which the projects are to be built and refuse to be resettled unless they are provided with land, housing, and urban services in acceptable areas.

Land is a development resource and a crucial part of CCD. The cost of setting up urban infrastructure and services goes up when land is privately owned and the government has to buy it at fair market value, especially when land speculation is rampant or corrupt individuals who know of development plans ahead of time buy the land and then sell it to the government or private investors at inflated prices. Even in countries where the state can use eminent domain to acquire land for public development purposes, protracted and expensive litigation may hinder CCD initiatives. Public efforts at land banking, whereby governments buy land at low prices and reserve it for future development, are hampered by lack of funds. Land banking has been shown to contribute to increasing land values because the banked land is withdrawn from the market. Alternatively, the land readjustment method could be used, where land tenure could be maintained but a smaller area of developed land may be returned to the original occupants.

Economic Growth Potentials and Trade Functions

The lack of economic and trade resources in an area is a barrier to CCD initiatives. Obviously, city clusters that already have concentrations of economically robust industries and commercial enterprises are prime candidates for CCD because the authorities can build on these resources to accelerate economic growth. Examples of the types of enterprises that can be used to enhance CCD include information technology, high-tech research and development ventures, light industries, and manufacturing firms that use raw materials located in the area. Logistics and service industries, including banking and finance, insurance, and securities trading as well as tourism development, are also excellent bases for CCD. The existence, or potential introduction, of these types of enterprises is a sound basis for CCD. For the areas that lack these types of economic functions or resources, the CCD approach can be opportune by expanding the urban fields to nearby centers of development, because the spillover

effects from the developed center can be tapped.[1] Another major consideration is the presence of renowned institutions of higher education and research centers that can supply the human resources for energizing CCD.

Taxation, Intergovernmental Transfers, and Fiscal Discipline

In most Asian countries, local government units derive the great bulk of their income from internal revenue transfers and grants-in-aid from higher levels of government. While central and provincial or state governments may use such fund transfers to initiate CCD activities (for example, financing urban infrastructure and services), the lack of capacity of local government bodies to raise revenue is a barrier to CCD because sufficient funds for future operation and maintenance of those activities cannot be assured. The urban infrastructure and services that are the backbones of CCD require large amounts of capital, which is often obtained through domestic and foreign borrowing. However, many central governments do not usually allow cities and municipalities to borrow for long-term investments. Even when they do allow borrowing, they are often extremely reluctant to provide sovereign guarantees. Finally, lack of transparency and accountability among local officials (as seen in cases of graft and corruption) is a critical barrier to financing CCD projects.

Another barrier to CCD is that many local leaders do not appreciate that entrepreneurship is required to provide infrastructure and services for urban development. Concerned with the political repercussions of their actions, local leaders avoid risky ventures and focus on the day-to-day operations of city governments. Some leaders lack an understanding of capital markets and financing. As a result, most projects, when implemented, entail high cost overruns. Budget deficits are quite common when local leaders pursue grandiose projects and neglect to consider costs.

In North America and Europe, real estate taxes are usually an important source of local revenue. This is not usually the case in Asian countries, for several reasons. First, land ownership may be hard to establish because of lack of cadastral surveys and reliable land-titling systems. Second, land registers indicating legal land

[1] Examples are (i) Suzhou's Sino-China Industrial Park tapping into the proximity to Shanghai Megacity, and (ii) Guangzou–Shenzen clustered development taking advantage of Hong Kong, China.

ownership are often incomplete and are not regularly updated. Land registration is also vastly complicated by complex inheritance laws (communal lands or lands subject to customary, or adat, laws are particularly serious complicating factors). Third, land appraisals are not conducted regularly, and assessments are usually set at rates that are generally much lower than fair market value. Finally, land management systems are peculiarly prone to graft and corruption because the complex rules and regulations governing land give administrators a great deal of discretionary power and they are able to exercise their judgment arbitrarily, usually for a fee.

Infrastructure and Information Networks

Providing urban infrastructure and services is the main instrument for a successful CCD initiative. Unfortunately, most cities in Asia are plagued with such infrastructure problems as poor road networks, inadequate water supply, unpredictable energy provision, overloaded transportation systems, and inefficient solid-waste management systems. These inadequacies are a barrier to CCD. Infrastructure and information networks are also important assets when developing a city cluster. For example, the Shenzhen special economic zone in the People's Republic of China was located about 20 km from Hong Kong, China, and the Suzhou Industrial Park was located about 85 km from Shanghai to take advantage of the links to the big cities that acted as "incubators" for fostering CCD. Conversely, physical remoteness from sources of development inputs and external markets acts as a barrier to CCD. Finally, sustained CCD requires efficient links between the city cluster and the outside world. In an increasingly globalized economic system, the lack of communications and information technology serves as a barrier to obtaining accurate and timely information about development prospects. It limits a city cluster's ability to attract foreign direct investments and curtails the capacity of local producers to reach external markets for the goods they produce.

Role of the Private Sector

Private financial and technological resources can be tapped for CCD. However, inadequate public mechanisms for encouraging private sector participation in urban development schemes can serve as a barrier. At the most basic level, a widespread impression by public officials that private entrepreneurs are mainly motivated by profits

may inhibit private sector participation. At the same time, the negative effects of such an attitude are exacerbated by the perception by entrepreneurs that public officials are mainly interested in "rent seeking" and not in the public good.

While many Asian governments have adopted private sector participation mechanisms, including leasing, franchising, ownership, and management arrangements, cases of serious anomalies continue to deter private sector participation in CCD. Lack of clarity in the processes and procedures for carrying out investment projects results in costly delays. Procurement and purchasing mechanisms are often made unduly complex to make room for the exercise of arbitrary power that enables bribery and other forms of graft and corruption. For private entrepreneurs to recoup their losses from such illegal practices, they may cut corners or deliver substandard performance. All these serve as barriers to private sector participation in CCD.

Approaches for Developing City Clusters

Ways to mitigate and overcome the barriers to CCD are needed. Based on experiences in a number of Asian countries, some approaches have been found useful. To optimize the potentials of CCD, some strategic approaches are identified and suggested below.

Integrated Development Planning

One basic feature of CCD is that it requires planning a whole urban region rather than confining activities within the boundaries of a local government unit. Comprehensive development planning, therefore, must overcome the barriers created by political and administrative fragmentation and emphasize the interlinks among cities in the cluster. CCD recognizes the interrelationships between urban and rural areas. Planning for CCD focuses on the socioeconomic, technological, and environmental aspects of urban life. It considers the economic strengths of each city and fits them into a synergistic whole. It links the settlements in the cluster by trunk infrastructure and services to enhance mobility of people, goods, and services within the cluster. It reserves green areas for urban agriculture and open spaces to serve as lungs for the whole cluster. It protects and conserves the natural environment to achieve ecological sustainability.

When done properly, comprehensive planning can be an effective instrument for area-wide management of urban affairs. The setting of clear and measurable development goals to be achieved

within the plan period (for example, per capita income of $20,000 by 2025, as in the Chongqing, PRC, city cluster plan) can motivate local officials and citizens to support the plan. Specifying the types of urban infrastructure to be built and indicating milestones when each stage is expected to be accomplished give citizens a clear idea what to expect. Well-conceived plans also provide task managers with benchmarks for monitoring and evaluating progress. Calculating and setting the financial, material, and human resources required to achieve planned goals provides a clear and realistic assessment of resource needs.

To achieve CCD, a comprehensive plan has to be formulated in a participatory manner; inputs from all stakeholders—civil society groups, the business sector, government bodies, and community residents—should be considered. In some cases, the formulation of a plan is regarded as a technical exercise that is carried out by government agencies or private consulting firms. An overly technical process, however, may fail to resolve contentious issues that need to be addressed by in-depth discussions and conflict-resolution processes. To ensure a full participatory process in formulating a plan, information about key issues, public hearings, and community consultations must be extensively conducted and disseminated.

Formulating ambitious plans for CCD and then failing to adopt them out is an all-too-common practice. Metro Manila, for example, still has no approved metropolitan plan despite several efforts to formulate one. The process of formulating a plan can serve as a precursor to the establishment of good governance mechanisms, as has been the case in Delhi, where the 1985 plan prepared under the National Capital Region Planning Board Act stipulated the concurrence of the constituent states in the National Capital Region and local government units in Haryana, Rajasthan, and Uttar Pradesh. In city clusters where local government bodies are fragmented, as in Greater Dhaka, attempts to set up a region-wide governance mechanism will most likely be resisted. However, starting the process of governance reform by formulating development plans that are less controversial may elicit better cooperation. If the planning process is successful, it may encourage local officials to be more receptive to a region-wide governance.

Institutional and Legal Structures

One of the greatest challenges in implementing CCD is how to balance power and authority among autonomous local governments and the central government. In most Asian countries, local

government bodies are strongly committed to local autonomy. In India, the 73rd and 74th amendments to the constitution decentralized authority to urban and rural local government bodies. In the Philippines, the Local Government Code of 1991 devolved authority and power to provinces, cities, municipalities, and barangays (the lowest level of local governance). Decentralization resulted in the fragmentation of local governments. In city clusters, this fragmentation makes cooperation and coordination of decision making on issues of common concern extremely difficult (Laquian 2002a).

One main feature of decentralization schemes is the devolution of authority and power to the smallest local government body. However, while small local government bodies may be good vehicles for democratic public participation, often they do not have the financial and human resources to deal effectively with CCD issues, which results in slow economic growth. Their tax base is not large enough, and they rely heavily on grants and aid from higher levels of government. Their local budgets are often insufficient to attract qualified professionals and managers. Granting local autonomy prematurely to such small units when governance capacity is still weak, therefore, becomes an obstacle to CCD because it makes the adoption of such city region governance structures as metropolitan authorities or regional planning bodies extremely difficult.

Supporters of decentralization see it as a necessary element of grassroots democracy, believing that people participate more actively in public decision making when issues involve local concerns. When urban agglomerations expand and form city clusters, however, some of the issues are beyond those of purely local concern. Ideally, a higher-level metropolitan or second-tier governance structure can be set up to deal with area-wide concerns. Since the issues involved in running urban region governance mechanisms directly affect the lives of residents of the entire region, levels of local citizen participation may actually become irrelevant under region-wide arrangements.

The congruence of institutional and legal structures is crucial to the smooth functioning of city clusters that encompass urban settlements straddling different nation states, or within areas of special status such as a single nation state, for example, in the Singapore–Johor–Riau growth triangle in Southeast Asia and, to a lesser extent, in Hong Kong, China, and Macau, which are special administrative regions within the PRC. Agreements on such crucial elements for pursuing CCD as assured supplies of water and energy have to be worked out. The flow of people across borders has to be strictly managed and controlled. The establishment of transportation

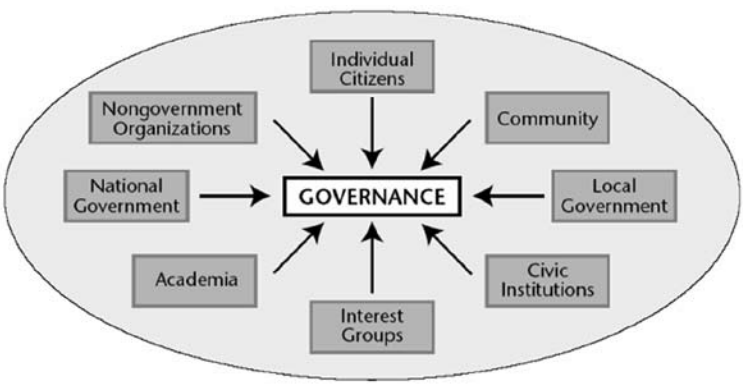
systems to ease the flow of goods across borders has to conform to legal and institutional regulations in all the areas within the cluster. However, as exemplified by the two cases cited, the advantages and benefits of institutional and legal arrangements that facilitate CCD are often so marked that governments are willing to implement them.

Governance of City Regions

One key to good governance is balancing citizen participation in formulating and adopting policies and programs. Efficient execution of such policies and programs requires an effective administrative structure. Some city clusters such as Metro Manila vest policy making in a metropolitan board composed of the mayors of constituent local government bodies and make policy execution the responsibility of a regional development authority. Others such as Beijing and Shanghai have unified governance mechanisms with full authority to manage all affairs within the city cluster. The first model has the advantage of popular participation in decision making, but the process may result in delays and unwieldy compromises to respond to partisan interests. The second model may be more efficient because of the speedy decisions and efficient execution of programs and projects, but the lack of active civic participation in decision making may lead to adoption of ineffective or unpopular programs and projects (Laquian 2002b).

Governance in city clusters can be made more effective by the active participation of civil society through nongovernment

Figure 8: Basic Elements of Urban Governance



organizations (NGOs) and various civic associations. For example, such local organizations as Civic Exnora in Chennai and Waste Concern in Dhaka have had considerable success in collecting and disposing of garbage. In Metro Manila, NGOs and community groups have launched waste sorting and composting to reduce the volume of waste that would otherwise go to disposal sites. In Jakarta and other Indonesian cities, kampong residents have set up such community projects as building and maintaining footpaths, cleaning and dredging canals, and building communal toilets. In Bangkok, the "eyes on the streets" program has mobilized children in community efforts to keep city streets clean. In Karachi, community groups have constructed their own sanitation facilities. Most important, civil society groups have enhanced people's participation in public affairs by, for example, encouraging them to vote, airing their views on controversial issues, and exposing cases of graft and corruption.

Local leadership is a key element in good governance. A review of governance practices in a number of Asian city clusters has highlighted the need for entrepreneurial urban officials with the political will to pursue area-wide urban reforms. The political support of provincial or state officials is particularly important for CCD's success . In most Asian countries, urban development is a provincial or state function. Central governments may set national development policies, but the authority to intervene in urban affairs through comprehensive planning or governance schemes is vested in provincial or state governments. Therefore, policy mandates and financial resources from provincial or state governments are key factors to successful CCD.

Innovative Financing

Most local government bodies in Asia are heavily dependent on central and provincial or state governments for financing urban development schemes. To achieve CCD, intergovernmental fiscal relationships need to be rebalanced, so that local government bodies (LGBs) can raise the funds to meet most of their needs. This calls for such measures as delegating more power over taxation and borrowing to LGBs. LGBs within a cluster can be authorized to tap the resources of both foreign and domestic entities for urban infrastructure projects. These resources can include assistance from international and regional financial institutions, especially those that offer low-interest and concessional loans. Long-term loans with or with-

out sovereign guarantees can be easier to obtain when LGBs within a cluster band together and thus obtain a higher credit rating.

Innovative financing approaches are needed to overcome some of the barriers to raising financial and other resources necessary for CCD. One approach is to coordinate action on financial reforms among cities within a cluster. Income generation processes have to be rationalized, through standardizing assessment procedures, computerizing tax rolls, providing technical training for revenue personnel, and passing strict laws to discourage corruption. When such reforms are carried out across an entire city cluster, it becomes extremely difficult for speculative investors to pit one local unit against another to gain tax privileges and concessions. Area-wide tax reforms distribute the tax burden more equitably among residents. The credit rating of a governance unit with authority over an entire city cluster, formed by the united local units, is much higher than the credit rating of those individual local units.

CCD makes possible the formulation, adoption, and implementation of an integrated capital budget for an entire cluster by sector and by territory. It facilitates allocation of resources based on an area-wide assessment of demand and careful appraisal of the financial capabilities of the entities competing for the resources. Budgets can be implemented by local and cluster-wide agencies based on commonly agreed-upon objectives and performance standards. Monitoring and evaluating the effects and impact of development programs can be carried out more effectively if they are based on measurable outputs agreed on by units within the cluster.

Opportunities for using public–private partnership in financing urban infrastructure and services are significantly enhanced when area-wide ventures are used in city clusters. Experience has shown that public–private partnership approaches can tap the capital resources, technological expertise, and managerial and financial talents of foreign and domestic investors and divide the risks between the public and the private sectors. A review of projects in a number of Asian city clusters show the usefulness of awarding to private investors contracts, franchises, and concessions for providing urban infrastructure and services. Various financing schemes, including build-operate-transfer, build-own-manage, and build-own-operate-transfer, have proved to be eminently suitable for providing infrastructure and services. These approaches have greatly facilitated CCD.

Small local government units that form a city cluster can use output-based aid (OBA) approaches in the form of performance-based

subsidies that complement or replace user fees. OBA-supported projects—for example, those operated by the World Bank in India—involve contracting out to private companies, nongovernment organizations, or community-based organizations basic services provision in such areas as roads, water, or health and sanitation. Subsidies are linked to the delivery of specified outputs (for example, per kilometer of road maintained or per connection made in a waterworks network). The OBA approach has been found most useful in supporting small-scale projects, but it can be scaled up for larger projects in urban and suburban areas within city clusters (World Bank 2007).

Growth Potentials and Economic Functions of Clusters

The primary means for developing special economic zones (SEZs) and other economic functional enclaves is the provision of the infrastructure to support the planned economic functions. Scale is another important consideration in using SEZ as an instrument of an urban-led development strategy. As shown in the PRC, for a SEZ to be successful, it must be large enough to make an impact not just in a city where it is located but also in the whole region of influence. Infrastructure and services should be of a size to benefit from economies of scale, agglomeration, and location. Foreign direct investments and domestic counterpart funds need to be large. The vision for the SEZ should be regional, or even global, and not purely local. In the PRC, the central government has had to stop a number of local government officials from setting up mini-SEZs on their own. In an effort to emulate the large SEZs, these local officials fenced off parcels of land, put in some roads and water and sewer systems, and then advertised the availability of these enclaves to potential investors. However, investors did not respond. So many of these small SEZs were set up in the Pearl River Delta that agricultural productivity suffered because the fenced-off lands were withdrawn from cultivation. The central and provincial governments eventually prohibited the setting up of unauthorized SEZs and enacted strict regulations on the conversion of agricultural land into urban uses (Lin 2002).

A corollary to scale in the establishment of SEZs is concentration. Since most developing countries do not have sufficient resources to successfully set up many SEZs, concentrating these resources in only a few projects has been found to have greater impact. For example, the PRC, despite its size, has established only six SEZs—in Hainan Island, Shantou, Shenzhen, Xiamen, Zhuhai,

and the Pudong development zone in Shanghai. By doing this, it has been able to achieve a scale that makes these SEZs successful. The PRC's policy of concentration differs from the strategy in India, where at least 404 SEZs have been formally approved to be set up in various parts of the country, another 167 have been approved in principle, and an additional 193 had been notified that their schemes were under consideration. That the establishment of SEZs in West Bengal and other states has been met with protests and violent demonstrations from farmers who lost their lands to the schemes warrants a cautionary note on the development of SEZs in India.

One shortcoming of SEZs and other development enclaves is their complete isolation from their hinterlands. Because SEZs are essentially considered foreign territories for the production of items for sale abroad, they are surrounded by high fences and access is subjected to strict security measures. In the Subic and Clark SEZs in the Philippines, for example, thousands of workers enter the fenced compounds at 7:00 am and troop out at 5:00 pm, overloading the city's transportation system. Workers live outside SEZs and are responsible for their own housing, causing inflation in housing costs and even the emergence of slum and squatter communities in the areas around SEZs. They avail themselves of public services offered by local governments around the SEZ, but these local governments do not benefit from the productivity of the SEZs because taxes and other resources generated within the SEZ go to the central government. SEZs have excellent facilities, like hotels and guest houses, for foreign investors, who enjoy tax-free privileges. Supplies and materials for these facilities, however, are imported from abroad instead of being purchased from suppliers in adjoining towns and cities. This insular nature of SEZs, therefore, considerably limits their developmental effects and impact on other urban settlements in the city cluster. In Gunnar Myrdal's terms, they do not create positive spread effects but instead unleash negative backwash effects. If SEZs are to be used in a CCD plan, provisions must be made for linking their development to their hinterlands, and the benefits from their operations should be shared with all of the other settlements in the cluster.

Land Resources Development

As cities expand to form urban clusters, economic activities and services aggregate around productive urban nodes, which may be

called localization of economies. Localization of economies is encouraged by cost savings due to proximity to production facilities, access to markets, and lower labor costs. As localization of economies intensifies, more land will be needed, which dramatically increases local land values. Since land in the PRC is never sold but instead is leased (usually for 50–70 years), the government continues to retain control over land use and charge the fees for using the land. According to Article 18 of the PRC's Administration Law on Real Estate (1994), all fees paid for the use of land by developers are incorporated in a locality's budget and are specifically earmarked for construction of infrastructure and land development. A revision of the law in 2004 allocated 30% of the fees to the Ministry of Finance and 70% to the local government body. Developers pay land use fees in full upon approval of the land conversion into urban use, and constitute an important source of local revenue. The considerable financial proceeds from land development have enabled many local government bodies in the PRC to construct urban infrastructure and services. However, many local officials understand that land development schemes have some limitations. For instance, the financial proceeds are one-time benefits, and unless they are efficiently invested, they do not create a continuous stream of revenue.

In addition to land use fees, the PRC levies a land tax based on the area of the land involved in a transaction. For land used by foreign enterprises, a value-added tax is levied on the additional value gained from the transfer of the land from public to "private" use. Other incomes "unlocked" by use of the land for urban development include proceeds from a business tax, a deed tax on the land transfer, and a stamp duty on contracts and certificates linked to transfers of real property. In fact, analysis of development schemes in the PRC reveals that for most local government bodies, the major "counterpart asset" in joint venture schemes has been the value attached to the use of land.

In countries where land is privately owned, as in India and the Philippines, efficient CCD initiatives can be promoted by public policy. For example, land banking—whereby the government purchases raw land when it is still relatively cheap and then reserves it for future development—has been widely practiced. If the government needs land for a development project, it can use eminent domain to take over the land, provided its use will contribute to the general welfare. Idle land can be taxed by the government to raise revenue and to discourage land speculation. In some countries, land swaps—whereby the government exchanges pieces of land with

equal values for those that it needs for development projects—are used. Private entrepreneurs have also been allowed to develop raw land, and parcels of the land are later allocated to them as compensation for their efforts.

An interesting method of increasing local government revenue that has been widely practiced in Latin America is the use of taxation to capture the additional value that accrues to land as the result of the development of infrastructure and services. For example, land parcels along a newly built road may be reassessed to reflect their enhanced value. The challenge then becomes how to increase tax collections. Increasing tax collections can be carried out by making periodic assessments based on the purchase price of homes in specific sections of a city and then imposing taxes based on the prevailing market values. In cities in many developing countries, real estate taxes are not efficiently collected because land ownership cannot easily be determined. In such cases, simple methods of carrying out cadastral surveys, determining true land ownership, compiling land registries, computerizing property rolls, and setting up accurate assessment and real estate tax collection systems that are transparent and free of corruption can dramatically increase revenue from land taxes and property improvements.