

# VII. FINANCING URBAN DEVELOPMENT

## A. EVOLVING ROLE OF LOCAL GOVERNMENTS

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**W**e have been talking about how can we translate our visions and dreams into reality. One of the very important aspects in this process is resource management. Resources are of various kinds: institutional, human, and financial. Financial resources are very important and, in my long experience, financial management is one of the weakest areas in municipal management.

In the ADB we have recently introduced the project performance management system, which aims to link the long-range objectives with the medium- and short-term objectives, and to facilitate monitoring the broad development impacts of the projects. The monitoring system needs to be developed in such a manner that it links the various objectives to key result areas. The management information system needs to incorporate financial information appropriately. During our earlier discussions, we were also talking about the need to cut across the jurisdictions of individual work units to create an integrated mission and vision across the organization. As we discussed the other day, it frequently happens that staff involved with

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accounting and finance never go to the field. They don't see the customers. A greater exposure of these staff to clients and customers would give them a better understanding of the purpose of their work. They would be able to develop linkages with other units and generate a greater cross-fertilization of ideas within the organization.

Some years ago I was involved with the development program in Dhaka. Both the World Bank and ADB were trying to strengthen the financial reporting, accounting, and other management systems within the Dhaka Municipal Corporation. It was agreed that the position of the Chief Accounts Officer should be upgraded, and the number of staff dealing with accounting should be increased. During project implementation I noted that many of the senior staff in the accounts section were seconded from the Central Audit and Accounts Service. They never settled in this job, stayed in the position for only a few months, and treated this only as a transition during which their main interest was to look for another job. With such frequent staff changes and a lack of commitment, financial management and accounting remained a relatively weak area.

We have had considerable experience in Indonesia working with the local, provincial, and central government agencies on urban development projects, including local institutional development action plans and revenue enhancement plans. During the implementation process, the emphasis remained on physical targets and achievements, including contract awards and disbursements. Inadequate attention was given to the outcomes and impacts, including progress on these action plans. Even the Bank's review missions tended to neglect this area in the earlier phases of the implementation of projects. Toward the latter part of the projects more emphasis was placed on the institutional and financial aspects, but the actual accomplishments

remained lower than appraisal estimates. The Bank's project performance reports have consistently identified the need for more emphasis on the institutional and financial aspects to ensure sustainability of benefits.

One other subject of relevance in this context is that there is a lot of wealth generated in cities. The challenge for municipal managers and administrators is to tap into this wealth and utilize it for basic services and poverty alleviation programs in a cost-effective manner. Linkages of vision, mission prioritization, and local resource mobilization are important. In my view, one area that has received inadequate resource mobilization is land administration. We need to do a much better job of realizing greater resources for urban development from better land taxation.

A constant theme in many projects is decentralization. However, while the central governments have often surrendered many of their functions to local authorities, this has not been accompanied by fiscal decentralization. The Bank is now working with governments to develop various funding mechanisms for regional and local development, including the municipal development fund in the Philippines and the regional development account in Indonesia. However, the basic message is the importance of self-reliance at the local level. While the higher levels of government will be helping local authorities, it is important that greater efforts be focused on resource mobilization at the local level.

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## B. FINANCING THROUGH PARTNERSHIPS

### **Keshav Varma**

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I want to talk about partnerships. Why partnerships? Why not exclusivity? Why do partnerships happen? Why do partnerships not happen? What do partnerships do?

In the South Asian context, partnerships are very important for creating sustainability and relieving corruption. Local self-governments have to realize that they are confronted with a pattern of extremely complex issues. When I was the Municipal Commissioner in Ahmedabad, the urban development budget of the state government of Gujarat was exactly 0.8 percent of the total budget. If this is total funding available for urban development, we have a problem. The magnitude of the problem has to be understood. Only then can we find solutions.

The rate at which urbanization is taking place, and the disparity between the developed countries and the developing countries is frightening. Why, for example, is child mortality high? Policy planners in urban areas are so insensitive to the issues that they do not really care unless you dramatize the whole problem. Look at the investment needs for developing countries. The World Bank estimate of the required urban housing infrastructure investment over the next 30 years is

- Africa — \$1 trillion,
- Latin America — \$500 billion, and
- Asia — \$2.3 trillion.

The gap between needs and availability is \$100 billion to \$200 billion. Current annual private sector investment is \$25 billion. Planned World Bank annual investment over the next five years is \$3 billion in East Asia alone. What are we talking about, 1 percent of investment? Therefore, there is a need for convergence and there is a need for partnerships.

When I started working with the Ahmedabad

Municipal Corporation, it functioned in total isolation. How the Corporation worked was a mystery, and that was the biggest problem. In such a situation people can indulge in wholesale corruption. The land deals in which bureaucrats and politicians dealt separately with builders led to corruption. Unless you create partnerships that contribute to transparency you will never be able to deal with these problems. I believe the fundamental issue of city management is partnership.

You cannot function effectively by excluding the city because it is very close to you. The city is all around you. It is not like a member of parliament or a senator whose constituency is far away. Here your constituency is right beside you. The response of the city, the negative as well as the positive, is a very immediate issue. I want to describe one partnership relevant to all of us, one that deals with the poor — the urban poverty partnership.

The population of the city of Ahmedabad is 41 percent poor. These people are located in 2,412 locations. Traditional poverty-oriented programs aimed at alleviating poverty in Ahmedabad were a mockery. Because budgets were allocated at the state level, the Municipal Corporation received insufficient finances to do anything substantial, and \$1 million-\$2 million would go annually to slum areas and make no difference. In fact, the kind of investments that were being made created more problems than solutions.

Ahmedabad is the seventh largest city in India, and next to Bombay the second biggest trade center in India. The population is 3.6 million. The number of households living in slums is 225,000. Eighty-three percent of slums are located on private land, 10 percent are on municipal land, and 7 percent are on government land. Annual growth rate of the population is

*Unlike members of parliament or senators whose constituencies are far away, local government officials cannot avoid working in partnership with their constituents, who are right beside them all the time.*

higher in slums, double that of other areas. These characteristics typify urban slums across Asia.

The purpose of the partnership we formed was to integrate the slum into the mainstream of society by physically upgrading the slums in the city within a finite time frame of seven years, improving the quality of life of urban poor in terms of health, education, and skill upgrading.

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We decided to face the totality of the problem all at once instead of going slowly over time. Because we were going to work this problem out over the next seven years, it was going to cost \$100 million. Money, in fact, was not the problem. The problem was the mind set. We didn't want to take on one or two slums and leave 2,408 for the next year. If we kept on managing like that we would never address the problem. So we took on the whole problem.

The municipal corporation did not have the professional competence to address the problem. We had to create partnerships of trust, we had to create a partnership with the beneficiaries themselves. Therefore we came up with the partnership concept where the beneficiary would pay for upgradation. It wasn't to be a top-down concept. The beneficiary would pay for 33 percent, the private sector would pay 33 percent, and the Corporation would pay the other 33 percent. The whole program would be taken to the slums not on the shoulders of the municipal managers, but through NGOs and a separate institution.

The women in the slums played a very major part, and I think the help of the women completely changed the level of confidence. In a society where open defecation occurs 70-80 percent of the time and women cannot relieve themselves with dignity between sunrise and sunset, medical and health problems are inevitable. The public toilets in the city were in such a mess that we created 50,000 individual toilets in two years in the city. The pay-

and-use concept was first started in Ahmedabad based on this public toilet. This project was enthusiastically supported by women's groups, and these groups were equal partners with us.

What it meant was the NGO was getting the credit. The private sector also got credit for its contribution. The community gets the benefit as well as the credit, and although political loyalties were often divided, everyone embraced this partnership. Why? The partnership is the community, the slum dwellers, and the private sector. We included the top NGOs in the world in our programs. The part played by NGOs was absolutely critical in bringing us a level of quality and professionalism that had never before existed.

What we were trying to do in the slums was to provide water, internal roads, pedestrian walks, stone water drains, streetlights, solid waste management, and landscaping. All of this had to come through professional planning, not through casual planning by municipal engineers. We engaged professional planners. We handed over the total work of planning, contour planning, the integration of planning — what we call 'slum networking,' to professional planners.

The infrastructure planning in the slums would network with the infrastructure planning for the city. Therefore the city infrastructure was planned in such a way that it encompassed the slum planning. This was the first time slum infrastructure was being planned in a systematic way. Instead of somebody just providing a road or a streetlight, the whole area was being planned. I described this approach as 'landscaping.'

We have been working in the slums of Asia for the last 40-50 years. They have not changed. The degrading conditions in which people live are the same. We introduced the concept of landscaping so that the slum would stop looking like a slum after we had gone through the process

of development, and this has made all the difference.

Community development improved in the slums. It was all done by NGOs. Handing over the responsibility, however, is not easy for municipal commissioners to do. They do not like to relinquish their power. But one has to understand that by handing over functions to professionals you improve the functions. The role of the agencies is in the partnership, the community, forming neighborhood committees, and contributing to workforce development.

What we did was simplify the whole concept of tenure rights, the belief that you have to give tenure rights to people who live in slum areas. We said that for 10 years the Municipal Corporation of Ahmedabad was not going to touch anybody, whether they be on private land, state government land, Government of India land, or Corporation land. I was strongly criticized by many for this position, but I asked for one example in which the poor had been relocated in the city. There were no examples. We talked about never allowing tenure rights versus the political will to move people out. There were lots of skeptics. Nobody believed that the Board would pay, that the Ahmedabad Municipal Corporation would hand over its constituencies to a private sector trust, that this trust would be able to provide professionals to do the job, and so on. What I'm going to show is how a pilot project guided a total upgradation process. The project, which has been visited by staff from both ADB and the World Bank, is known as SHARDA — Strategic Help Alliance for Relief to Distraught Areas. It is also known as the Ahmedabad Financial Support Project. The World Bank worked with ADB over three years to co-finance development.

All of our municipal corporation engineers were extremely reluctant to hand over the work to

private sector and professional development contractors because it meant that the monopoly of the contractor-driven system would be broken. The planning process was very professional with the private sector looking at the whole thing. The NGOs were there, the whole process of municipal management was thrown open for all to see, and that is one basic strategy of municipal management. In the act of throwing open the curtain, it makes a difference to corruption. Political relationships become petty and insignificant. You are in the spotlight and the public expects something different from you. The partnership is expecting something different and this partnership very quickly gets cemented in the public gaze. This is very important if you want to create sustainability in the environment. And you have to create the strategy of opening the gates and then let everybody look, let the press in, let the critics in, let the international institutions in. Let the whole thing become a partnership and let everybody see a different level of awareness. It will be very difficult for the new management to bring it down.

Municipal bonds are also an important form of partnership. We had given 10 years tenure rights to Ahmedabad Municipal Corporation land. Our performance was credible. We had created a sense of pride and commitment in what we do. We had created a sense of mutual respect.

My 24 years of experience in the civil service have taught me this: if the civil servant creates a professional relationship and raises the level of management, the politicians are also very happy. The civil service is on a different level. Partnerships are based on respect, on professionalism, on accepting that the other side also has a point of view.

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invested money. In fact, the beneficiaries have paid in advance. You will be surprised to know that the Municipal Corporation of Ahmedabad is finding it difficult to keep up with the demand from the poor to professionally upgrade themselves. The tears of joy that you see there are, I think, the best reward that any municipal manager can get.

The partnership opens your finances and your performance to the public. You create different partnerships and these partnerships are the only way of creating sustainability in the environment.

Why the bond? Why the need to raise this money? The \$35 million we raised could have been obtained through ADB, through USAID, through the World Bank. So why the bond?

When we were in the process of upgrading financial credibility, of creating professionalism, the question kept coming up. What happens if the management changes? Who is going to be in charge? Who is going to make sure that all we have done continues? Where are the safeguards?

In municipal management, the biggest safeguard is the people. Getting money from various international institutions was creating problems. We invited the Credit Rating Information Service of India Limited (CRISIL), a joint venture with Standard and Poors, to do a credit rating. We did not know what we were getting into. The state government did not know either. Neither did CRISIL, who told us they had never rated a municipal corporation. With the level of municipal risks, the level of financial risks, the political and management risks, nobody knew how to rate it. Some of their top financial experts came to the Municipal Corporation for three and a half months. We helped them in their 15-year projections. Our situation was that in the next 15 years, our income was supposed to rise at a level of 11 percent, and our expenditure to rise at a level of 12 percent. We had taken steps to completely change the

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recruitment qualifications of the municipal managers to cope with this. Only MBAs, chartered accountants, environmental engineers, and degree holders would become officers in the Corporation. We had already placed 40 MBAs and chartered accountants in the Corporation as part of the management executive training scheme that was to revolve every year. This was admired by the rating agency.

CRISIL looked at the environment, they looked at everything. Then the problems started coming in, the political party started questioning, administration itself started questioning. Why were we doing this? We were known to be financially unhealthy. We only owed money to the government and a few other institutions, and if a problem came up we could go explain it to these creditors. But who would explain to the people? It was *their* money we were going to put into this. It was a stand-alone concept with no other safeguards. The state of Gujarat had been seeking a guaranteed bond since 1978. But this was the first time that the credit rating was based on a non-guarantee of the state. It was a stand-alone concept. The state government did not come in. And when the credit rating came, it was an A+.

This created a problem for us for one and a half years. Bureaucratic egos clashed, we played our games, the state government played their games. Finally the politicians rescued the act by giving in. We had a bureaucrat who became the Principal Secretary for Urban Development. She said you will never be able to get clearance from the state finance department. We decided to go straight to the Chief Minister. We took the direct approach for the municipal bond and informed the finance department about it. The clearance came in. We then accrued income, met the repayment schedule, and the credit rating was raised to AA.

Then I joined the World Bank. The new

Municipal Commissioner is a very dynamic person who has continued with my programs.

The response from the cities was 'Why are you raising \$35 million? Why not raise \$100 million? We'll come forward and give it to you because this matters.' The response was 'We are investing in our own infrastructure. We are creating our own world. We are not contributing to the central government where the funds go for agriculture or other things. We are contributing for ourselves.'

The reception to our public awareness program was extremely enthusiastic. We spent \$1 million on an advertising campaign. The campaign had a message — the people and the partnership. The whole campaign was based on the position that we are doing well because we listen to people, we listen to the city. Partnership with the citizens is the essence of management. You have to go beyond communities, you have to establish a sense of pride and emotional involvement. Passion and pride and emotions affect management in a much bigger way than just rational thinking. You have to reach and create. You participate in festivals together, you participate in epidemics together. You have to be out there, with the people, on the street, because no file or paper work ever establishes relationships. We represent you, we were saying, we are the essence of your aspirations, your ambitions.

If you want to reach out to the environment and be competitive, change your paradigm. In Bombay, the Gujaratis from Ahmedabad started talking about their new pride in their city. Ahmedabadians in Washington and New York started coming back. At least 11 top-level heart specialists came and joined the medical college. More money, more investments started coming in. What had we done? We created an emotional partnership with the people of the city. This has sustaining value.

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The bond was oversubscribed, despite the fact that the interest rate was reduced by 2 percent. At 14 percent, it is the first real municipal bond in which the pride, the emotions, the passions, and the vested interest of the people was respected. This is what partnerships are all about.