

THEMATIC AREA 1: FOCUSING ON THE CORE ELEMENTS OF THE CITY SYSTEM

29. ***A City System Approach to Urban Development.*** Understanding urban development through a city system approach represents a departure from previous strategies. Like all systems, a city system is fundamentally dependent on the smooth functioning of its constituent elements. For the purposes of this Urban Strategy we focus on what are the most essential, core elements of the city system – management, finance and governance – all of which fall within the domain of local governments. These three core elements need to function well in order for a city to deliver on its mandate. And when they don't the prospects for city residents, particularly the urban poor are worsened. Good management and information systems, coupled with good leadership are fairly ineffectual if not equipped with adequate financing. Similarly, a city without a commitment to good governance and accountability will have difficulty in mobilizing tax revenue from its citizens or financing from the market. While all thematic areas of this strategy are important to cities and urban development, the core elements of the city system remain the most basic and central focus in the decade ahead. In this section, the Strategy examines the three core elements of the city system: management and service delivery, governance, and finance.

The City System from a Management Perspective

30. ***If urbanization is to be harnessed for its potential to deliver growth and improved livelihoods for urban residents, cities and local governments will need to be positioned to exploit that potential.*** Yet, a recurring theme across most of the regions in the developing world is the ambiguity and confusion over the roles and mandates of national, state and local government actors in the delivery of services at the local level. Great strides have been made in recent years in devolving authority to the local governments, as many countries have increasingly pursued decentralization. Table E-2 in Annex E illustrates this trend of decentralized service delivery across several regions. For many, however, this process has been characterized by mixed signals, inconsistent legal and regulatory frameworks, and often marked by wide discrepancies between assigned and *de facto* responsibility for delivery of services. This is often the result of a mismatch between expenditure and revenue assignments, conflicting mandates between national, state and local actors, and unevenness in capacity across local governments. Getting the legal and regulatory framework right is a challenge and could benefit from deeper engagement by the Bank and client governments in this domain.

31. ***The complexity of the city system in a metropolitan setting is compounded when institutional arrangements are unclear.*** In major metropolitan areas such as Manila, Mumbai, Cairo, and Sao Paulo, no metropolitan-scale organization exists to take clear responsibility for prioritizing metro-area investments, mobilizing capital to finance investment, or implementing metro-wide financing strategies like development fees that would recover the cost of capital investments. Resolution of this discrepancy would help to address the plight of the urban poor, many of whom live in peri-urban, unserved areas. The mismatch between metropolitan-scale investment needs, on the one hand, and the lack of metropolitan-scale institutions to undertake strategic decisions and implement plans, on the other, points to a key weakness in many country urban strategies. This could be addressed by amalgamating municipalities into a single municipal government that covers the entire economic region (as Greater Amman and Greater Hyderabad Municipal Corporation did recently), or by creating special regional or metropolitan authorities, or, on the financial side, by establishing special regional investment funds into which designated revenues would flow that can be used to finance key regional investment projects.

32. ***Technology penetration at the city and local government level has been mixed and uneven, but holds great potential in improving city management.*** The advances of technology over the past decade have been utilized to great benefit by cities around the world. These

advances enable cities to use GIS technologies for infrastructure service planning, waste collection and sewage monitoring, and for poverty mapping; pre-paid digital metering systems to improve local revenue collection; automated municipal financial management information systems to strengthen budget reporting, billing collection, capital investment planning and increased accountability to citizens and national governments; road traffic management systems; and connected closed circuit television (CCTV) for police surveillance to reduce crime. Advances in green technologies as they penetrate the market are also beginning to pay dividends, using smart infrastructure design that is more cost-effective. Effective application and adaptation of such technologies in cities over the decade ahead will be a key element of the urban agenda.

33. ***The past decade has witnessed the emergence of mature and capable civil society organizations and NGOs with whom cities have forged important partnerships.*** The nature and relationship of local governments and NGOs over the past decade has evolved considerably. NGOs and community groups have grown in power, participation and sophistication. Today cities often boast about having achieved a reduction in crime, launching a new neighborhood revitalization effort, or extending social services to the poor through partnerships with NGOs or community based organizations within the city. Such partnerships are vital, particularly in addressing the needs of the poor. In a number of cities in sub-Saharan Africa, for example, community groups assisted in the establishment of a basic system of street addressing that helped improve service delivery and establish civic relations with local governments.¹³ In Kenya, community land trusts have been formed and in Thailand, cooperative housing schemes have been created as local, incremental solutions to housing needs, both with the encouragement of local governments.

34. ***Crime and violence can represent a serious drain on a city's resources, diverting them from important services and social programs.*** High levels of inequality, poverty, unemployment, lack of access to adequate health care, use of alcohol or drugs and political or ethno-conflicts are all contributing factors. The effects of crime and violence can be a critical constraint to economic growth. These constraints are manifested in increased costs to the judicial system, foregone earnings, costs of private security, loss of city competitiveness, as well as damage caused to physical capital, limitations on mobility and erosion of social capital. According to the World Bank's Enterprise Surveys—which are undertaken mainly in urban areas — 23 percent of the firms rated crime, theft, and disorder as major constraints to doing business.¹⁴ This problem is most acute in Latin America (34.5 percent of firms), and in Sub-Saharan Africa (27.9 percent of firms). Estimated costs of crime and violence in Brazil and El Salvador are 5 percent and 25 percent of GDP respectively. In Mexico, an estimated \$9.6 billion in lost sales, jobs and investments in 2007 is attributed to crime and violence.

Profile 1: Reducing crime and violence in Medellin, Colombia. Much has been achieved through targeting youth with personalized professional assistance programs, including training and income generation, enhancing access to cultural and recreational facilities, and long-term policies that improve access to public services.

35. ***Urbanization increases the complexity of city management and those cities that are succeeding have generally relied on robust data collection and analysis to underpin policy making.*** Many cities gather information and data. Yet no single standard or comprehensive system to measure and monitor city performance exists today. Standardized indicators enable cities to benchmark their performance against peers, measure improvements over time, and make evidence-based policy decisions.

¹³ Farvacque-Vitkovic, et. al., 2005.

¹⁴ This compares to 15.5 percent rating Business Licensing & Permits as major constraints, 18.3 percent for Transportation, 21.3 percent for skill levels, 31 percent for Access to Finance, 34.5 percent for Corruption, and 36.5 percent for Tax rates. <http://www.enterprisesurveys.org/>

36. ***Capacity building to improve management at the local government level is essential.*** However, such approaches need to go beyond the provision of training to include reforms that change the “rules of the game,” using incentives and rules-based policy frameworks. Providing resources to the local government tier on a performance basis can help instill a sense of competition for resources and potentially the incentive to reform. These reform measures can be in areas of financial management, accountability, local revenue collection effort, economic performance, and a host of other areas. Other methods that have proven successful are professional certification programs for municipal staff that help to elevate, professionalize and promote the development of the civil service profession. The key is to design a system that recognizes heterogeneity across the local government sector and provides an equitable basis for local governments of all sizes and capacities to participate. Block grants linked to performance criteria are one way of providing such assistance.

The City System from a Service Delivery Perspective

37. ***Urban transport infrastructure and services provide the backbone of an efficient city system.*** Rapidly growing urban populations and rising numbers of private vehicles are overwhelming the roads in many cities, resulting in increased congestion, low mobility, more accidents and poor air quality. Responses to these intra-urban challenges should include an emphasis on coordinating land use planning and transportation (transport-led development to ensure access and mobility to jobs for all city residents, including the urban poor), and promotion of affordable public transport with incentives for proper maintenance. An additional consideration is how urban transport systems can enhance mobility and access to work for the urban poor. Urban-rural and inter-regional linkages are also important considerations in enabling a city system to function beyond the core of the city through connective infrastructure.¹⁵

38. ***A critical issue in urban management is the inadequate or unequal provision of basic infrastructure—water, waste disposal, and power—to the urban poor.*** Over 50 percent of the urban population in South Asia and 40 percent of the urban population in Sub-Saharan Africa still lack access to sanitation services.¹⁶ An estimated 1.7 million deaths worldwide were attributed to unsafe water, sanitation and hygiene.¹⁷ This is particularly evident in densely populated urban and peri-urban areas where poor sanitation results from squalid living conditions. Statistical data at the national and even city scale mask large discrepancies in service levels by socio-economic status or area of the city. For example, over 80 percent of Africa’s urban population has access to an improved water source, but that statistic in some cities is less than 20 percent. These deficiencies have real economic consequences. In the case of Latin American cities, poor or missing infrastructure is estimated to have reduced urban economic output by 10 to 15 percent.¹⁸ The burden seems to be even higher on small firms and home-based enterprises, who cannot afford more reliable privately-sourced services, such as power generators and wells for water.

39. ***Institutional arrangements and policies regarding tariffs and pricing of services remain a critical area of focus for sustainable service delivery.*** Due to inefficiencies, water service providers in many cases generate revenue on only one-third of the water they produce. Service coverage is often not available in poor urban areas where tanker water for off-network users can cost several times as much. As rapid urbanization occurs, it is critical to expand access and improve the quality of water and sanitation services in urban areas, including better targeting of any subsidies to the poor, but to do so in sustainable ways by ensuring the use of efficient delivery mechanisms, including approaches that support public utilities and private sector

¹⁵ World Bank 2007b.

¹⁶ World Development Indicators, See Appendix B, Figure 4.

¹⁷ World Bank, 2004a.

¹⁸ Freire, Polese 2003.

providers, where appropriate, that include a focus on cost recovery and efficient water resource management. The private sector will also play an important role in mobilizing investment capital. Achievement of the Millennium Development Goal of reducing by half the proportion of people without sustainable access to safe drinking water and basic sanitation by year 2015 will require a doubling of annual investments from US\$15 billion to US\$30 billion. This financing cannot be covered by the public sector alone.¹⁹

40. ***At the household level it is often women who suffer most from weak urban service delivery.***

A lack of basic services and infrastructure can affect women more than men because women are the primary collectors, transporters, and managers of domestic water as well as the promoters of home and community sanitation activities. Women in cities depend more heavily on public transport than men and use transport in different ways, such as off-peak travel and trip chaining to multiple destinations. At the same time, women also

Profile 2: Gender perspectives in urban development and local governance. Women can be impacted more heavily than men by deficient public transport, inequitable land tenure, and a sidelining of the informal economy. Several projects highlight how gender perspectives can be incorporated into urban projects.

typically demonstrate greater interest in preserving new facilities and are more effective in mobilizing the community to carry out maintenance tasks, resulting in greater sustainability of project outcomes. In FY2008, the World Bank's Urban Sector had the highest number of projects among infrastructure sectors that include actions for reducing gender disparity. Globally, gender equality action featured in 37 percent of financial commitments of urban operations (nearly US\$577 million out of nearly US\$1.6 billion), and 7 projects out of 26. The aim is to continue this trend through inclusion of gender screening in the design of urban operations more systematically, underpinned by gender disaggregated data on beneficiaries.

41. ***Local governments operating in conflict-affected and fragile states face a unique set of circumstances, including ambiguous and undefined roles during transitional periods.***

But in most cases it is cities and local governments as the front line service providers that are relied upon to continue delivering services during conflict and in the immediate post-conflict reconstruction period. As people displaced by conflict return and resettle, they often relocate to cities, which can offer safer environments and better economic opportunities. As a result, the Urban Sector is responsible for delivering the greatest number of Emergency Recovery Operations in the Bank. Going forward, greater attention will be given to urban interventions in conflict-affected environments.

Profile 3: Post-conflict urban reconstruction in Cote d'Ivoire.

Investments in cities, particularly the government and rebel capitals, are a crucial part of demonstrating a peace dividend for both sides. This project highlights recent approaches to post-conflict reconstruction.

The City System from a Governance Perspective

42. ***The governance agenda is expanding in urban operations.*** A recent review of the urban portfolio indicated that over the last six years there has been a 60 percent increase in the volume of lending and capacity building assistance for urban governance. However, much of this support has been focused on supply-side dimensions, including improvements in systems and internal capacity, with less emphasis on demand-side governance, including participation in budgeting, investment planning and increasing voice of citizens on service delivery. A key finding of this evaluation also indicated that including participatory budgeting approaches in project design can often slow down implementation of investments. Such participatory approaches, which are vital to ensuring effectiveness and impact, should be introduced in the pre-

¹⁹ World Bank, 2004a

investment phase of the project cycle and would benefit from CDS and other upstream instruments that are designed to be participatory.

43. ***Responding to the Governance and Anticorruption (GAC) Agenda.*** Preliminary results from a recent benchmarking exercise of the three elements of the GAC Agenda – governance and political economy analysis, attention to fiduciary issues and use of demand side approaches -- indicate that urban operations and analytical work performed well in comparison to other infrastructure sectors. This is not surprising given the urban focus on local governments, which are the front line service providers to citizens and thus an important level of government in which to promote good governance practices. Collaboration between Urban Teams, WBI, Social Development Teams and PREM in recent years has raised this agenda to the forefront. This work has included implementation of the PREM-designed Subnational PEFA (Public Expenditure & Financial Accountability) Assessment Tool, portfolio reviews of urban governance, and case studies of good urban governance in land administration (Urban and SDV).

The City System from a Finance Perspective

44. ***National governments have increasingly devolved service delivery and expenditure responsibilities to the local level but have retained control over significant revenue sources.*** Central governments have tended to maintain decision-making power over which taxes can be levied locally, the tax rates that can be imposed, and the service fees that local authorities can charge for basic service delivery. It should be pointed out that local governments often do not tap the full range of local revenue sources available to them, and in developing countries collect only a proportion of the revenues legally due under the taxing arrangements that are in place. As a result most local governments have a narrow fiscal base, with sharply limited discretion over own source-revenues. Even when local authorities have the legal authority to mobilize own-source revenues, they have been reluctant to fully exercise this discretion.

45. ***The Decentralization Paradox.*** The resulting gap in local government budgets has been filled by transfers. This has produced what might be called the ‘decentralization paradox.’ Decentralization that is designed to increase the role of local governments in service delivery has increased their fiscal dependence on inter-governmental transfers. The Bank’s Independent Evaluation Group (IEG) examined 20 decentralization initiatives that Bank projects have supported. In 15 of the 20 countries, after decentralization local governments received more than 75 percent of their total revenue in the form of transfers. Even countries with longstanding decentralized fiscal systems have tended to move in the direction of greater reliance on transfers to finance local budgets. Moreover, all of the 20 country interventions involved a focus on local revenue mobilization. The results of this assistance were decidedly mixed. Only 5 of the 20 countries were judged to have achieved significant and sustainable increases in local revenue generation. In 7 of the 20 countries, local own source revenues actually declined during project implementation. In the remaining countries, own-source revenue gains were found to be marginal. Political resistance stemmed from central officials reluctant to relinquish control over revenue sources, from finance ministries convinced that revenue could be collected more efficiently as national-level taxes collected by national-level entities, and from local governments that preferred receiving transfers to raising local taxes and fees.

46. ***The track record of the past decade helps define the direction of a desirable urban strategy for subnational borrowing.*** Development of domestic credit markets should be given priority as a source of subnational finance. With the possible exception of the largest international cities, local governments generate their revenues in local currency. They should be encouraged to avoid incurring obligations in foreign exchange, which makes them vulnerable to exchange rate fluctuations and volatility. The local governments impacted most severely by the global financial crisis are those in Eastern Europe and Central Asia that face loan repayments in

foreign currency. Now that there are multiple, effective models of national regulatory frameworks, countries should promote local government borrowing only after putting in place a national framework that establishes debt limits and identifies appropriate borrowing procedures.

47. ***It is widely understood that financing of urban infrastructure investments cannot be accomplished by government alone.*** Attracting private capital and mobilizing capital markets either through direct private participation in urban infrastructure or through bonds or lending that allow subnational governments to tap private capital for financing infrastructure is essential. The global financial crisis has disrupted these flows of private capital (See Table E-3, Annex E), and it is therefore important to assess future prospects for attracting private capital into urban infrastructure investment and the policies that can support it. The Bank's Subnational Finance Program has provided new financing and facilities in recent years at the sub-sovereign level and would need to respond to an increasing demand from a number of countries to fill the gap left by constrained liquidity in local financial markets.

48. ***One of the lessons to emerge from the financial crisis is the advantage of having multiple channels of credit provision.*** Under the best of conditions, both commercial banks and specialized municipal banks can compete with capital markets (bonds) as local government lenders. If these different institutions operate on a level playing field, municipal borrowers benefit from the competition. A natural sorting out often has taken place in countries where this type of institutional competition occurs. Small cities and towns benefit from the assistance that specialized municipal banks can provide in project preparation and budget management. Large cities often find it cost-effective to go directly to the capital market, without bank intermediation. Commercial banks tend to occupy a middle ground, expanding or contracting their role as suppliers of capital based on their relative cost and duration of funds. When credit markets come under pressure, as in the present crisis, local governments benefit from having as many different channels as possible by which to access private savings.

49. ***The current squeeze on private credit markets also makes it appropriate to re-assess the role of publicly sponsored Municipal Development Funds and public financial intermediaries.*** As credit suppliers, these institutions can operate in a variety of ways. They can lend central or state government resources to local authorities. They can borrow from the private market based on their own creditworthiness, and on-lend to the local level at lower interest costs than many local borrowers could obtain on their own. They can on-lend donor funds targeted for local government investment. They can also blend government grants with market-rate private capital to reduce the cost of investment capital to local governments. However, their track record has been mixed and a strong regulatory framework and arms-length distance from government influence in credit decisions is essential.

World Bank Strategy for Strengthening the Core Elements of the City System

50. ***City Management, Finance and Governance taken together represent the core area of the Bank's five Urban Business Lines.*** Not only is it the largest in terms of number of projects and volume of lending, but all other business lines in one way or another depend on these core elements of the city system to function effectively. The main areas of focus are outlined below.

City Management

51. ***A key area of support identified in the Strategy is the need to update and rationalize the legal and regulatory frameworks governing local government affairs.*** Although it is not a priority in all countries, those countries seeking policy guidance in this area would receive support in the form of policy notes and technical assistance, as appropriate. For countries in the midst of decentralization processes, the Bank's advisory services would be provided through joint urban and PREM teams using, where appropriate, the Decentralization Performance Assessment

Framework recently developed by PREM. This approach is intended to harmonize the Bank's guidance and advisory support to countries and to avoid sending conflicting messages.

52. ***Helping cities to strengthen data collection and management systems will be a key focus of urban development support in the decade ahead.*** The new Global City Indicators Program (GCIP), which was established by the World Bank with a number of other development partners, is envisaged as a facility that will help in that regard. GCIP is a voluntary program driven by cities themselves and was launched with the assistance of a number of global development agencies,²⁰ who recognized the urgent need for a single system for measuring and monitoring city performance and quality of life. Its aim is to provide a standardized set of indicators that will enable cities to compare and benchmark their performance against their peers. Using a web-based platform, GCIP provides an enabling framework for cities to learn in their preferred mode of doing so, namely through their peer networks of other cities. Following the pilot phase implemented in 2008, GCIP is now rolling out to all regions, working through the Bank's regional urban hubs in Marseille and Singapore and with regional partners, such as the Amman Institute for Urban Development, which serve as facilitators for the program.

53. ***Building on successful local government and community-based organization partnerships documented over the past decade, the Bank will actively seek to support cities and local governments in this area by sharing good practice experience and promoting programs that improve community engagement in addressing urban poverty, crime and violence and related areas that can benefit from such partnerships.*** Regarding crime and violence, for instance, practical measures supported through investment projects could include improving street lighting and renovating dilapidated public buildings or facilities to assist in bringing down crime and violence. Beyond this, several different approaches and programs have been assessed and determined to be successful, and this learning can be integrated into the design of new operational interventions, including: (i) situational prevention – Crime Prevention Through Environmental Design (CPTED); (ii) integrated urban community-based prevention programs, such as the “Stay Alive” Program in Belo Horizonte or “My Safe Neighborhood” Program in the Dominican Republic, which achieved 65 percent and 68 percent reductions in homicide rates in 6 and 30 months respectively; (iii) alternative community dispute resolution mechanisms (Community Peace Centers in Cape Town, South Africa, reported 49 percent improvements in dispute resolution in a 6 month period); and (iv) data and evidence-based policy making (Diadema, Brazil achieved a 44 percent reduction in its homicide rate as a result of restriction of alcohol sales, leading to sustained political support and replication by other municipalities).

54. ***The Bank can play a critical role in exposing clients to the benefits of information and communication technology (ICT) advances and support judicious efforts to promote the use of new technologies by cities where there is demand.*** Advisory support in this domain can help cities to improve service delivery, enhance productivity, reduce costs, and increase local revenues. The Bank will support this effort by preparing an Urban ICT Toolkit that would outline key program and policy areas where ICT integration can support cities, coupled with practical profiles of good practice examples from around the world. Working in partnership with WBI, the Bank would disseminate the Urban ICT Toolkit through the Singapore and Marseille Urban Hubs and through policy dialogue and engagement at the specific country dialogue.

55. ***In countries where there are severe infrastructure service gaps and backlogs, the Bank will assist by supporting preparation of inventories of these backlogs, coupled with support to local governments in conducting solid investment project economic analysis and capital investment planning to strengthen the provision of service delivery.*** This support would be provided in the form of pre-investment planning within the CDS framework and help to develop

²⁰ Including the ICLEI, the Government of Canada, OECD, World Economic Forum, UNHabitat, and the World Bank

bankable investment projects with associated budgeting for operating and maintenance recurrent cost implications.

Urban Governance

56. ***The new strategy will emphasize a focus on expanding the use of demand-side governance approaches.*** These interventions will include provision of policy guidance and sharing good practice in the implementation of Service Delivery Surveys and Citizen Report Cards (working in collaboration with social development teams), in addition to documenting with WBI good urban governance practice examples for dissemination. Of critical importance will be the mainstreaming of these practices into the ways that cities and local governments routinely conduct their business, emphasizing a client-driven, end-user orientation in the provision of services.

Profile 4: City Service Delivery Surveys in the MNA Region promote Demand-Side Governance. A combination of focus group discussions and transect surveys revealed end-user perspectives on service quality, cost, and delivery mechanisms in cities across 5 MNA countries. End-users expressed concern about poor quality services, indicated willingness to pay more if quality was improved, and were in favor of privatization when they had prior experience with a private service provider.

Municipal Finance.

57. ***Bank Strategy for Intergovernmental Transfers.*** Clearly defined, untied revenue sharing between central and local governments can yield local government receipts that are transparent, legal entitlements. This will allow local governments to allocate the revenues received to expenditure priorities at their discretion and to share in the revenues of buoyant tax sources, like the VAT or income tax, that require uniform national administration, while retaining decision-making power over the uses of funds. The Bank has played a significant role in helping client governments in rationalizing intergovernmental transfer arrangements. In the IEG evaluation, clients ranked clarification of intergovernmental financing structures and improvement in transfer design as the Bank's most valuable contribution. Bank advisory support will continue to focus on two objectives: (i) greater use of untied revenue sharing, and (ii) introduction, where appropriate, of performance grants or municipal contracts that reward local governments for specifically defined improvements in local service delivery and management.

58. ***In the next few years, public institutions are likely to play an important role in filling the subnational credit gap, just as international institutions are helping to fill the national macro credit gap.*** This will create an opportunity for innovative design in using public institutions, like MDFs, to help channel private savings to the subnational market, without displacing private institutions already active in the market. The success of an urban credit strategy should be judged at a more macro level than has been common to date. The key question is whether the system is able to increase the absolute amount of private savings, as well as the share of private savings, being channeled to urban infrastructure investment. Participation of public credit institutions can contribute in fulfilling this goal, along with strategies that eliminate biases that favor public credit over private credit. In this regard, more effort is needed to structure and segment the municipal market into those who have capacity to access commercial credit and those that may need subsidies. In this area, Bank urban teams will work actively with their IFC colleagues in the Subnational Finance Program to develop instruments that enable market segmentation with the aim of removing subsidies provided to local governments that can access market-based finance, while at the same time providing needed technical assistance and support to those local governments that have not reached this stage as yet.

59. ***In cases where local governments have not yet reached credit-worthy status, using performance grants and municipal contracts can help by providing incentives for reform and capacity strengthening.*** Performance benchmarks may include

such items as timely preparation of budgets and financial reports, greater citizen participation in setting budget priorities, better maintenance of infrastructure assets, and measurable improvement in local service quality or coverage. Local governments that perform well or meet the contractual standard are rewarded with additional grant funds. Poor performers in principle should be penalized by a reduction in transfers. The reasoning behind performance grants is persuasive. However, there has not been extensive comparative analysis of the extent to which performance grants have achieved their objectives. Now that the Bank has a broad range of experience to examine, especially in Africa and parts of Asia, a systematic review of the ‘performance of performance grants’ is planned with the opportunity to share lessons learned with other developing countries.²¹

Profile 5: Municipal Contracts provide a formal framework to combine governance reforms with financing incentives to make wise choices about urban investments.

60. ***A flexible blend of financing instruments will be used to address a wide array of different circumstances.*** Wholesaling approaches will be applied when needed to expand reach and coverage to the growing populations in secondary cities. Intergovernmental transfers can serve as an on-granting mechanism to local governments that are not credit worthy within a specified reform program. Funds channeled through financial intermediaries should be based on market principles. Market-based financing to local governments can be extended through the Subnational Finance Program, accompanied by efforts to develop the market for private financial services, including removal of legal and regulatory obstacles, developing local currency instruments, and development of risk-sharing and guarantee instruments that facilitate local and international financial institution collaboration.

²¹ Detailed descriptions of the arrangements involved in municipal contracts and performance grants supported by the Bank are now available for Senegal and other West African countries (Farvacque-Vitkovic 2005, Farvacque-Vitkovic et al 2008) as well as Uganda, Tanzania, and Ethiopia and elsewhere, including the states of Andhra Pradesh, India and Punjab, Pakistan.