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World Markets Series

BUSINESS BRIEFING

World Urban Economic Development

*The official business and technology briefing for the
World Competitive Cities Congress 19–21 May 1999,
Washington, D.C.*

Includes exclusive CD-ROM



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World Competitive Cities Congress

19–21 May 1999. The World Bank Headquarters, Washington, D.C.

An initiative for the promotion of global urban economic development organised by the World Bank and the World Economic Development Congress.

The inaugural congress will play host to international mayors, key decision-makers from both the private and public sectors and eminent academics to foster dialogue on the best practices in becoming and remaining competitive in the global economy.

The congress will address the cutting edge issues affecting the senior managers of the world's leading cities, and will incorporate discussion on policy, investment plans, urban poverty, infrastructure and new project opportunities for investors.

The definitive forum for the international leaders in urban management and development.

Business Briefing: World Urban Economic Development, published on behalf of the World Competitive Cities Congress, brings together the views of government and business leaders on the issues and challenges facing the world's cities and megacities in the global business environment.



The World Bank

Since its incorporation in 1946, the World Bank has become the largest provider of economic development assistance and is today recognised as the leading worldwide development agency.

The organisation assists the developing world to attain stable and sustainable growth. It encourages communication and co-ordination between leading private and governmental international bodies in the promotion of economic reform and long-term growth and investment.

In 1997, the Bank launched the Urban Partnership, a forum for information exchange and the promotion of urban economic development. The inaugural World Competitive Cities Congress is one of the main initiatives developed by the Urban Partnership to address the challenges and opportunities facing today's cities.

As we enter the new millennium, the World Bank has repeated its pledge to improve the quality of assistance in its goal to quash poverty in the volatile global economy.



World Economic Development Congress

An international initiative to promote the dissemination of information and encourage a dialogue for the development of infrastructure and national economies.

Key players from government, multilateral agencies and the private sector involved in infrastructure development convene annually at executive summits, briefings and congresses to forge partnerships and develop international strategies on investment, technology and expertise.

This year, the World Economic Development Congress and the World Bank have come together to address the challenges and issues facing the government and business leaders of the world's cities and megacities. This collaboration has resulted in the first World Competitive Cities Congress, the ultimate platform for information exchange.



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The World Markets Research Centre is an established information provider of solution-focused services through in-depth, comprehensive industry analyses and the leading online country risk analysis service.

The highly acclaimed Business Briefings Series consists of a rich and diverse portfolio on international publications. The Briefings bring together the views and expertise of eminent industry and market leaders providing authoritative coverage and appraisal of each market. Each publication is tailored to reach a specific sector and is researched, written and designed to provide strategic analysis, stimulate ideas and support investment decisions.

Ist Annual World Competitive Cities Congress

19–21 May 1999

In Strategic Partnership with 

WEDNESDAY, 21 MAY 1999

- 12:00–1:00pm **MAYORS' SUMMIT LUNCHEON**
By Invitation Only
- 1:00–5:00pm **MAYORS' SUMMIT**
By Invitation Only
Hosted by: The City of Washington, D.C.
Mayor Anthony Williams District of Columbia
Co-Chaired by: Jack Miller Vice Chairman, Health Care and Public Sector, KPMG
Professor Sir Peter Hall Bartlett School of Planning, University College London
- 5:00–6:30pm Evening Reception for Mayors and Congress Participants

THURSDAY, 20 MAY 1999

- 7:00–9:00am Registration & Refreshments
- 7:30–8:45am Business Breakfast for Mayors and Congress Delegates
- 8:55am Chairman's Welcome
Jack Miller Vice Chairman, Health Care and Public Sector, KPMG
- 9:00am Opening Address
Mayor Anthony Williams District of Columbia
- 9:10am Special Keynote Address
James Wolfensohn President, The World Bank
- 9:30am Keynote Session A
POLICY AND FINANCE FOR CITIES IN THE NATIONAL AND GLOBAL ECONOMY
The Challenges of City Development in a Framework of Federal Policies and the Global Economy
Alice M Rivlin Vice Chair, United States Federal Reserve and Chair, Financial Responsibility and Management Authority, Washington, D.C.
Mexico City Case Study: Governance and Urban Economic Development
Mayor Cuahtémoc Cardenas Mexico City
Barcelona Case Study: Governance and Urban Economic Development
Pasqual Maragall Former Mayor, City of Barcelona
Financing Strategies: Efficient Use of Municipal, Federal and Private Finance
George Peterson Senior Fellow, The Urban Institute
Discussion on Examining the Critical factors in Urban Competitiveness
Led by: Janice Perlman Founder and Executive Director, Mega Cities Project Inc
- 10:50am Refreshments & Networking Break
- 11:20am Keynote Session B
CASE STUDIES: ASSESSING COMPETITIVE CITY STRATEGIES
Chaired by: George Brouwer Director, Industry Group for Government and Non-Profit Organizations, KPMG

Washington, D.C. as a Competitive City
Mayor Anthony Williams District of Columbia
Rio de Janeiro: Making Competitive Cities Accountable
Mayor Paulo Fernandez Conde
City of Rio De Janeiro
Sofia: Privatization and Accessing International Capital Markets
Mayor Stefan Sofianski City of Sofia
Prague: Renaissance City in the New European Economy
Mayor Jan Kasl City of Prague
Discussion led by: Angela Griffin Leader of Urban Sector, The World Bank

1:00pm Luncheon
Luncheon Address: Creative Cities and Economic Development
Professor Sir Peter Hall Bartlett School of Planning, University College London

2:30pm Choice of Two Concurrent Sessions

2:30pm–4.00pm Critical Issue Session A
ACCESSING DOMESTIC AND INTERNATIONAL CAPITAL MARKETS FOR MUNICIPAL FINANCING
Case Studies of International Bond Issues
Sol Garson Secretary of Finance, City of Rio De Janeiro
Case Studies: New York City
Mark Page Deputy Director and General Counsel, New York City Office of Management and Budget, New York City
Case Studies from The Netherlands
Mayor Luigi van Leeuwen City of Zoetermeer
Assessing the Appetite of the Investment Community for Municipal Bond Issues
David Masten-Rosen Managing Director, Bear Stearns
The Role of the Rating Agencies at the Sub-national Level
Jane Eddy Managing Director, Standard & Poor's
Discussion led by: Juan Costain Principal Financial Specialist, The World Bank

2.30pm–4.00pm Critical Issue Session B
OVERCOMING THE POLITICAL OBSTACLES TO MOBILIZING PRIVATE FINANCE AND PARTICIPATION IN INFRASTRUCTURE
Chaired by: George Brouwer Director, Industry Group for Government and Non-Profit Organizations, KPMG

Privatization and Marketization Of Public Services In Indianapolis
Gaining Consensus Between City, Regional And Federal Authorities
Mayor Stephen Goldsmith City of Indianapolis

Examining the Potential for Applying of the UK Private Finance Initiative at the Local Level in Other Countries
Adrian Montague Chief Executive, UK Treasury Taskforce for the PFI
Delivering Infrastructure in Growing Cities: Clarifying the Evolving Role of the Multilateral Agencies
Shahid Yusuf Economic Advisor, The World Bank

	Assessing the Current Availability and Terms for Private Investment Capital Everett Santos <i>Managing Director, Emerging Markets Partnership</i> Discussion led by: Declan Duff <i>Director: Telecoms, Transport and Utilities, IFC</i>	Dr William Mitchell <i>Dean, School of Architecture and Planning, MIT</i> Case Study—Manchester.Net: Harnessing Multimedia for Economic Development, Public Service Delivery, Education, Cultural Innovation The Honorable Richard Leese <i>Council Leader, Manchester City Council, UK</i> Case Study- Kuala Lumpur: Financing and Developing the Multimedia Super-Corridor Tan Sri Dr Othman Yeop Abdullah <i>Executive Chairman, Multimedia Development Corporation</i> Discussion Leader: Dr Saskia Sassen <i>Professor of Urban Planning, University of Chicago</i>
4:00–5:00pm	ROUNDTABLE DISCUSSIONS & NETWORKING BREAK Private Finance Initiative: Examining the Potential for Applying the UK Private Finance Initiative at the Local Level in Other Countries Facilitated by: Adrian Montague <i>Chief Executive, UK Treasury Taskforce</i> Water & Wastewater: Models for Overcoming the Political Challenges of Privatization Facilitated by: Vincent Gouarne <i>Chief: Water and Sanitation Division, The World Bank</i> Municipal Bond Issues and Credit Ratings at the Sub-National Level Facilitated by: Marcela Huertas <i>Financial Specialist: Capital Markets Development, The World Bank</i> Municipal Financing Strategies and the Implications of Federal Fiscalism Facilitated by: George Peterson <i>Senior Fellow, The Urban Institute</i> Avoiding the Y2K Bug For City Governments: Ensuring You Are Prepared Facilitated by: Carlos Braga <i>Program Manager: Information for Development, The World Bank</i>	10:50–11:00am Refreshment Break 11:00am Choice of Two Concurrent Sessions (Choose C-2 or D below) 11:00am–12:30pm Session C-2 Building Government-Private Partnerships in Developing Competitive Digital Infrastructure for Urban Development and Public Services Chaired by: Jack Pellicci <i>Vice President Global Public Services, Oracle Corporation</i> Case Study: Rotterdam: Using IT to Enhance Existing Industrial Base Mayor Hans J Simmons <i>City of Rotterdam</i> Case Study: Singapore One: Evolution of an Intelligent City Dr Leong Keng Thai <i>Director General, Telecommunications Authority of Singapore</i> Case Study: Dublin, Ireland: Utilizing IT to Attract Foreign Investment, Create Industrial Zone and Develop Human Resources John Travers <i>Chief Executive Officer, Forfas, Ireland</i>
5:00–5:30pm	Keynote Session REINVENTING GOVERNANCE AND THE PROVISION OF SERVICES Transparent & Participatory Governance: A Key to Competitive Cities in the Global Economy Klaus Toepfer <i>Under Secretary-General and Acting Executive Director, United Nations Centre for Human Settlements (HABITAT)</i> Transforming City Government: The Critical Role of Public Management Jack Miller <i>Vice Chairman, Health Care and Public Sector, KPMG</i>	11:00am–12:30pm Critical Issue Session D DETERMINING THE OPTIMUM POLITICAL STRATEGIES AND PARTNERSHIPS FOR COMPETITIVE CITIES Regional Cooperation in a Prospering Area – The Region of Bonn Sigurd Trommer <i>Chief Executive Officer, City of Bonn</i> Assessing the Strategy Employed by Frankfurt to Develop a Major Financial Center and Build Alliances with Other Cities in the Region Deputy Mayor Glaser <i>City of Frankfurt</i> Case Study: Washington, D.C. Larry Herman <i>Partner, KPMG</i>
5:30–7:00pm	Reception to Launch the World Competitive Cities Award	
FRIDAY, 21 MAY 1999		
8:00am	Breakfast & Networking	
9:00am	Keynote Address Rebecca Mark <i>Chief Executive Officer, AZURIX and Vice Chair, ENRON Corp.</i>	12:30pm Luncheon Luncheon Address Gerhard Schulmeyer <i>Chief Executive Officer, SIEMENS Corp.</i>
9:20am	Critical Issue Session C Smart Cities: Harnessing The Power Of Communications And Information Technology To Build Competitive Local Information Platform Session partner:  Session C-1 Building Competitive Local Information Infrastructure For Metropolitan Development And Public Services Chaired by: Jack Pellicci <i>Vice President Global Public Services, Oracle Corporation</i> Determining the Leadership Agenda and Architecture for A 'Smart City' and Fitting Your Community into Global Information Infrastructure in the Networked Economy	2:00–3:30pm Critical Issue Session D STRATEGIES FOR OUTSOURCING KEY FUNCTIONS: REDUCING COSTS AND GAINING EFFICIENCIES Led by: Phil Garland <i>National Solutions Leader-Outsourcing, KPMG</i> Larry Belinsky , <i>Senior Manager, KPMG</i>
		2:00–3:30pm Critical Issue Session E STRATEGIES FOR MARKETING AND PROJECTING CITIES FOR ECONOMIC DEVELOPMENT Led by: Charles Landry <i>Specialist Consultant, The World Bank</i>
		3:30pm Close of Congress

World Markets Series

BUSINESS BRIEFING

*World Urban Economic
Development*

MAY 1999

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Robert Kinzie, Chairman, Iridium

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Foreword from World Congress, LLC

On behalf of World Congress, LLC, and our publishing partners, the World Markets Research Centre, it is our pleasure to present you with this limited edition copy of *World Urban Economic Development in 1999*.

This important publication is being produced in conjunction with the 1st Annual World Competitive Cities Congress. This Congress is an initiative for urban economic development jointly organised by World Congress and The World Bank and hosted in Strategic Partnership with KPMG.

The World Competitive Cities Congress involves a select audience of mayors and senior government decision-makers from the world's key cities plus policy experts and senior executives from leading providers of investment capital, services and technologies for infrastructure, public services, city administration and management.

The Congress allows the exchange of ideas and insights with peers from across the world. In particular, the Congress focuses on building partnerships between the public and private sectors that will enhance a city's competitive positioning.

The 2nd Annual World Competitive Cities Congress will be held in May 2000 and we look forward to you joining us at that important event, as well as at other World Congress events including:

Eighth Annual World Economic Development Congress
22–24 September 1999, Washington, D.C.

Second Annual Conference on Capital Markets Development at the Sub-national Level
November 1999, New York

Please contact Malcolm Locke on (tel) +212-869-7567 ext. 15 or (e-mail) m.locke@worldcongress.com for more details on how you can participate, or visit www.worldcongress.com for continuous programme updates.

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Foreword from the World Bank



I would like to extend a very warm welcome to all delegates, participants and sponsors of this inaugural World Competitive Cities Congress. The breadth of the agenda is a measure of just how much there is to hear, to share and to learn. To us at the World Bank and to our partners in this event, DC Agenda, George Washington University and the World Economic Development Congress, it is clear that rapid global urbanisation is changing our world. This congress, which we hope will become an annual series, is inspired by the need to create such occasions where all of us working to advance cities might co-ordinate our efforts.

The focus of this first congress is the Competitive City, and it is difficult to envisage a more timely or pressing issue for discussion. The combination of urbanisation, democratisation and globalisation are set to usher in an urban age in which over 80% of the world's population will live in cities by 2015. That number alone should alert us to the scale of our task.

But what these breathtaking predictions often obscure is that over 90% of this expansion will take place in the cities of less-developed countries. Of the 17 cities that now have populations in excess of 10 million inhabitants (the so-called 'megacities')¹, 13 are located in countries of the developing world. If we were to take just two of those cities – Rio de Janeiro and São Paulo – we would be considering an economy greater in size than that of all the Andean countries combined.

By 2015, another nine cities will reach megacity proportions, all of them in the developing world². We can be sure that wherever we work, whatever we do, our futures will be inextricably linked to the futures of our cities in a way not experienced by previous generations.

This city phenomenon presents us with a series of challenges:

- we must choose to become part of forging this urban age;
- we cannot let the situation swell over us;
- increasing pressures on land, infrastructure and social services will need to be addressed; and
- we must ensure that the poor and the vulnerable, the children, the elderly and the disabled will not be forgotten.

1. *The seventeen megacities referred to, in descending order of population size, are: Tokyo, Mexico City, São Paulo, New York, Bombay, Shanghai, Los Angeles, Calcutta, Buenos Aires, Seoul, Beijing, Lagos, Delhi, Osaka, Karachi, Rio de Janeiro and Cairo.* (Source: United Nations)

2. *The nine cities referred to are: Dhaka, Hangzhou, Hyderabad, Istanbul, Jakarta, Lahore, Metro Manila, Tehran and Tianjin.* (Source: United Nations Urban Agglomerations Data, published by United Nations Department of Economic and Social Affairs – Population Division.)

We will have achieved nothing if we change the face of those at the margins of our societies from rural poor to urban slum dwellers, street children and those forced to drift between the city and its fringes.

We must work to ensure that, as cities grow, they do so in an equitable and environmentally sustainable manner. Efficient and responsive government structures will be critical. We need to develop strategies to ensure that cities and local authorities remain accountable and represent the interests of their communities at all levels, both powerful and less so.

All groups in society – government, private sector, civil society, employee organisations, religious groups and non-governmental organisations – must be consulted and must participate if urban development is to be equitable and sustainable. This is true even at the level of a village; in a city it is surely imperative. I am convinced that poverty alleviation and sustainable development must be pursued through partnerships and co-operation. An inclusive, multi-sectoral approach needs to find a balance between the macroeconomic and financial realities that we must work with and the structural, social, and human aspects without which there will be little improvement in the quality of life.

The urgency of our task and the importance of our success lies in the numbers: three billion people still live under US\$2 a day, 1.3 billion people are without access to safe water, 130 million children still not in school. Of these, urban populations account for a greatly increasing percentage. We must act now. These numbers are unacceptable. They will not wait on our debate. In the next 25 years, another two billion people will be added to our world.

The World Bank has, for the last 27 years, played an active part in the debate about urban development. Since a specific urban lending portfolio was launched in 1972, the World Bank has approved urban loans totalling over US\$25 billion. These loans have assisted cities in every part of the world and in every aspect of urban development. Over those 27 years, we have noted the changes and observed the energy of city officials who have readily taken on the challenges of greater decentralisation and the responsibilities of planning their city's future.

Cities can be the engines of national growth, propelling economies as they compete with other global cities. The World Bank is no mere spectator in this global revolution. We are working in over 6,000 cities and the experiences of our past efforts now form the vision for future assistance.

Guiding our institution is a newly minted *Global Urban Strategy*. This document outlines our comprehensive approach to the many issues involved and takes its lead from the dynamism and commitment exhibited by our clients and partners in development. We hope that the ideas expressed in this will contribute to a common currency of knowledge and provide the platform for further and greater successes.

The World Bank recognises that it cannot – nor should – work alone. All of us assembled for the World Competitive Cities Congress have a critical part to play. The experiences, the lessons and the best practices that we will discuss in the coming days will all form vital parts in a global effort. The future of an urban world depends on comprehensive efforts, ours importantly among them.



James Wolfensohn
President
World Bank



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Dear Conference Participants,

I would like to welcome each of you to Washington, D.C., our nation's capital and the hub of commerce, technology, business, government and culture. The reason you are here – as participants in the 1st Annual World Competitive Cities Congress – is to share ideas and also learn about strategies and tactics to rejuvenate capital cities.

While you are here, you will see that Washington is experiencing a remarkable rebirth. Our government, the business community and our citizens are working together to make the city work for all our people. We are working as partners to attract new businesses and residents and to restore our schools and neighbourhoods.

Together, we are making progress. There is a new sense of optimism in our city. Business and financing incentives abound and our capital city is becoming more competitive. Wall Street has renewed confidence in our city's ability to manage government operations and its finances.

Capital cities face formidable and unique challenges as we enter the 21st century. How will capital cities fare in the next century? What actions and strategies are required for transforming and remoulding these metropolitan areas? How will city leaders cope with burgeoning populations and urban sprawl? How best to provide housing, clean water, schools and safe neighbourhoods for city residents? The list is a long one.

This meeting of the minds allows visionary leaders from around the world to share ideas and solutions to common challenges. I am sure you will come away with a sense of solidarity because we are faced with similar obstacles that will surely test our resolve and our resources. Enjoy your time in Washington, D.C. and rest assured that this is your home away from home.

Sincerely,

A handwritten signature in blue ink that reads "Anthony A. Williams". The signature is written in a cursive, flowing style.

Anthony A Williams
Mayor, Washington, D.C.

The Changing Prospects for Cities in Development – The Case of Vietnam

a report by

Tim Campbell

Advisor in Urban Development and Manager, Urban Partnership, World Bank

Tim Campbell is the World Bank's Advisor in Urban Development and Manager of the Urban Partnership, which was established in 1997 to shape the World Bank's urban development agenda through the preparation of an urban strategy, development of products and establishment of partnerships in urban development around the world. Previously, he was a member of an Advisory Group working to enhance the quality of the Bank's efforts in urban development and decentralisation in Latin America and the Caribbean.

Mr Campbell is the author of numerous publications related to urban development, with the emphasis in the last few years on decentralisation. Before joining the World Bank in 1988, Mr Campbell conducted research at the University of California at Berkeley and taught at Stanford University

Recent trends in urban affairs around the world are changing the needs of client countries and the way development assistance agencies do business. Decentralisation, democratisation and reform of intergovernmental finance among borrowing nations mean that more and more national development business moves through subnational levels of government. And, because cities contribute in important ways to national development, even modest improvements in productivity can have large effects in national welfare.

For example, the economies of the two major urbanised deltas in Vietnam – the Red River Delta and the Mekong Delta – produce nearly 70 per cent of the nation's GDP. By improving the fiscal balance of the cities, as Haiphong and Ho Chi Minh City have done in, for instance, strengthening tax collection and by taking other measures, such as clearing away obstacles to property transactions, the cities can improve both their fiscal balance and their competitiveness vis-à-vis other cities in the region.

Moreover, because of a growing emphasis on participation in governance, cities in many parts of the world are showing that they are prepared to play new roles and assume new responsibilities. City executives are increasingly proactive, and the most promising among them are making substantive contributions to the national development agenda, in poverty alleviation, environmental quality, trade and job creation. At the same time, the World Bank and other development assistance agencies are overcoming an institutional lag in capacity, having turned away from urban problems during the decade of debt in the 1980s.

A New Focus on Cities

The World Bank has developed a strategy for urban development and launched a Cities Alliance (the "Alliance"), conceived to focus the energies of the development community on the rich promise that well-managed cities can offer in the future. The Alliance is a bold and ambitious initiative aimed at

fostering new tools and new approaches to move out in front of the cycle of need that drives a reactive response from cities, nations and development institutions. As a party of this Alliance, the World Bank has launched a series of city development strategies (CDSs) (see below). The Urban Partnership, in the World Bank, developed and pioneered the first of these in Haiphong, Vietnam. The Haiphong strategy, described below, established a prototype – geared to improve the competitiveness of the city – and this approach will be further refined and adapted to meet the needs of specific cities around the world.

The Case of Vietnam – Towards a Strategic Vision

The World Bank was invited by the Government of Vietnam to develop a strategy for Haiphong, an industrial port with a population of a little over one million in the heart of the Red River Delta, one of the nation's richest rice-growing regions, lying in the northern part of Vietnam. The city is known for its leadership and innovation. For the past several decades, the city has made its living as a steel and shipping centre for the cities and towns in the northern region, including Hanoi. In addition, Haiphong is perched on the edge of Halong Bay, near Cat Ba island. The bay is a natural inlet 40 miles long and is studded with hundreds of giant limestone formations which tower hundreds of feet into the air. It is one of the world's most beautiful natural formations and is a UNESCO World Cultural Heritage site.

A city development strategy for Haiphong has to begin with an understanding of its rapidly changing productive structure – one that is moving from heavy industries to labour intensive, light manufacturing exports. The most important finding of the Haiphong analysis is that the city has an as yet untapped potential in the promotion of light manufacturing exports and a stronger service-based economy. These options promise to complement, perhaps eventually outweigh, the benefits of promoting export processing zones and industrial parks, at least in terms of rates of return on

investment. The city's strategic interest is not, at the moment, being directed to support the creation of jobs in labour-intensive export of shoes and garments nor in the development of a 'softer' services basis to support future growth. Rather, the city's strategic attention is turned in the direction of heavy industry and industrial parks. The changing nature of the city's needs and small-scale production, in addition to neighbourhood infrastructure and maintenance, suggests that a broader range of options can be developed to give Haiphong a more robust and competitive economy.

City Development Strategies – New Approaches to Urban Development

To help civic leaders articulate a shared vision for the city's future, CDSs aim to set out community visions, priorities and actions and help guide the allocation of resources. CDSs are intended to:

- identify and develop city consensus-building processes to take stock of a city's unique attributes and to establish priorities, strategies and actions for development;
- assess the city's economic growth prospects and

link these to the city's employment as well as to the surrounding region and the nation;

- assist local authorities to outline financing and investment strategies, taking into account city-based resources and revenues, as well as private sector investors and financial sector partners; and
- build capacity and share knowledge acquired in formulating and implementing city development strategies among the broader urban community worldwide.

At the same time, environmental and governance issues are inextricably linked to successful investments. There are measures which need to be taken on both these fronts to improve the city's prospects for growth and its efficiency of management and governance. A key strategy for all these objectives is for the city to become more actively involved directly at the neighbourhood level, where public infrastructure is under-capitalised and where the city has already demonstrated excellent results in improving sustainable service delivery – for instance, in improving water supply and other services in neighbourhoods and residential blocks.

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Proximate Steps

The analysis concludes that the city has ample scope to broaden its development strategy to include a services orientation to complement shipping and steel. Further, the city has the financial and revenue base to afford to increase its capital investment to support new components, but it should weigh trade-offs in spending on a few large investments – such as new bridges – or many smaller ones – such as streets, drainage and other neighbourhood improvements. In concrete terms, the city can take one or more of the following actions:

- develop tradeable services – tourism, banking, finance, culture and other branches – and services to support growing exports;
- expand the current development strategy for the city to include ways of supporting small-scale city-building actions designed to fill in gaps in existing neighbourhood infrastructure to support labour-intensive manufacturing exports and create new amenities to begin creating a services city;
- create a business council of local and regional figures, with international consultants, to develop an action plan to modernise the city as a business environment;
- bring Haiphong's environmental quality to within the quality standards of internationally competitive cities in the same rank, and mobilise interest and community participation to identify environmental problems, set priorities and agree on concrete steps to move forwards;
- mobilise local neighbourhood groups to participate in the creation of facilities and services (called hereafter the “city bricks programme”) needed to improve health and welfare and to support small-scale improvements (streets, lighting, draining, water and sewerage);
- use the city bricks programme to strengthen links between government departments (possibly by using community-based programmes) to achieve greater efficiency in city government (in identifying needs, applying city revenues, implementing projects, etc.);
- invest in solid waste landfill and educate citizens about recycling and payments;
- create a strategic general plan for the city – perhaps featuring the city bricks programme, but making sure that the plan covers the four

main areas of successful cities – and set a course to obtain necessary resources for the city to reach its full potential.

The Development Strategies in Vietnam illustrate the benefits – in effectiveness and impact – in recent work being carried out in client countries of the World Bank under the Cities Alliance:

- The findings of very rapid growth in light manufacturing in the Red River Delta surrounding Haiphong also widened the scope of analysis to a regional perspective, because manufacturing and trade involves workers far outside the city of Haiphong. In effect, rural workers, as well as urban residents, benefit from improved urban economies, and so competitiveness of cities leads to benefits far from the urban landscape.
- The regional perspectives adopted in the above work – both in Haiphong and in Ho Chi Minh City – have led to a fresh focus on the connection between cities and rural populations (through markets, trade, remittances and the like). This perspective helps to break down the typical, and wasteful, fights in development assistance organisations about rural versus urban development. The regional perspective also leads to a new appreciation of the role of city-based regions in national development, in places like the Red River Delta and the Mekong Delta. A regional approach to development could treat these areas as more coherent entities, around which programmes of development assistance might be organised. But this is only one possible idea for organising assistance, and no conclusion has yet been reached on the next steps.

Competitive Cities in the Future

The Vietnam examples illustrate an approach that is now being taken in dozens of cities around the world, with and without donor assistance, in response to the emerging emphasis on urban development. However, unlike the 1970s, when cities were growing even faster than they are today, the urban focus now responds to a more competitive international environment of trade and deal-making.

Cities are now working in their own self interest and engaging the private sector in a more constructive dialogue. National leaders and development assistance agencies, as Vietnam has shown, are finding ways to join in this partnership and advance the common interests of urban and regional development. ■

Urban Development – The New Development Frontier

a report by

Angela Griffin

Urban Sector Manager, World Bank

The world is rapidly urbanising. It is estimated that, within a generation, the majority of the developing world's population will live in urban areas. This means that the existing urban population of the world – which is currently approximately 2.5 billion – will double within a generation. At the same time, political and fiscal decentralisation is underway in all regions, with the result that, as cities are growing in size, they are also gaining more and more political and economic influence.

Globalisation will increasingly transform some cities from engines of national growth to engines of global growth. In several developing countries, such as the Philippines, Brazil and India, large urban metropolitan regions have emerged that account for a significant share of national GDP. These metropolitan centres increasingly have more in common with other global metropolises than with other cities in the nations where they exist. Increasingly, these metropolitan centres are playing a more autonomous role in the global trading system. By creating an environment of openness framed by international rules, globalisation has made regional autonomy more feasible.

The new inter-governmental relationships being established as a result of this new paradigm of urbanisation, decentralisation and globalisation are not always perfect. In most cases, municipal authorities are being burdened with more responsibilities without the necessary authority or capacity to finance and manage municipal operations. The income gaps between cities are also widening. Cities that have the administrative and financial strength to tap into the global economy are benefiting, while the less-prepared cities are being left behind.

The interaction of urbanisation, decentralisation and globalisation is creating many opportunities for cities, but it is also laying some potentially dangerous traps. This new paradigm is, without a doubt, bringing about positive change in cities around the world, but that change must be carefully managed if opportunities are to be created for all citizens. Urban poverty – visible in every city in the world – continues to be a clear danger. Local government

capacity is one of the most important factors in determining whether a city is able to use the new paradigm to its advantage. Not surprisingly, it is an area that is receiving considerable attention from the international development community.

Development organisations, such as the World Bank, also view the current opportunities as a double-edged sword. They can capitalise on the emerging opportunities and help their client countries bypass multiple stages of development. At the same time, however, missed opportunities can result in a significant set-back to a country's development goals. The challenge for development organisations is to find more effective ways to work with local governments, helping them realise the benefits of the new paradigm. For donor organisations – those that have been used to dealing with central governments – this will represent a significant change in direction.

The World Bank's Response

A New Global Urban Strategy

The mission of the World Bank (the “Bank”) is to fight poverty and to help people help themselves and their environment by providing resources, sharing knowledge, building capacity and forging partnerships in the public and private sectors. To achieve this in the cities of the 21st century, the World Bank has developed a new Global Urban Strategy (the “Strategy”). The Strategy is a result of a multi-disciplinary effort that has received guidance and input from a Bank-wide steering committee and a variety of Bank partners, including central and local governments, academics, donor agencies, non-governmental organisations (NGOs) and private-sector companies. At the heart of the Strategy is a realisation and acceptance of the ‘city’ as a client. This change of perspective has very significant policy implications on the Bank's operations. The Bank's new client – ‘the city’ – requires customised products and tools, different types of lending instruments and, perhaps most importantly, different sets of skills. The Bank has made a decision to take on this challenge and help shape the cities of the 21st century through the implementation of the Strategy.

Angela Griffin provides leadership in strategy and priorities on an institution-wide basis for World Bank work in the urban and government sectors. Prior to joining the World Bank in March 1998, Ms Griffin worked in local government for 29 years. She has held three chief executive positions, since 1985, in municipalities in the UK and New Zealand, the most recent being Chief Executive of the Wellington City Council. Ms Griffin has fulfilled a number of additional roles in her career, including establishment of the Women's Enterprise Development Agency in the UK, vice president of the Wellington branch of the New Zealand Institute of Management, and Chair of the local branch of the UK Society of Local Authority Chief Executives.

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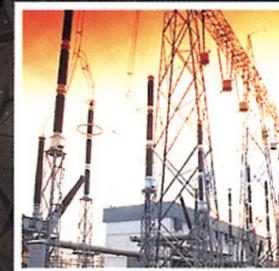
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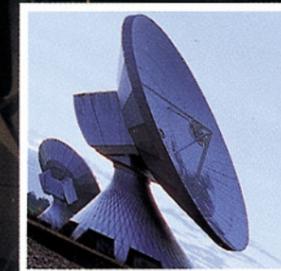
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The aim of the Strategy is to develop sustainable cities that fulfil the promise of development for their inhabitants – in particular, by delivering upward mobility for the poor – and contribute to their country's long-term development. The vision of sustainable cities is based on four interrelated dimensions: livability, competitiveness, bankability and good governance and management. The first two are desired outcomes, while the latter two are the requirements for achieving the desired outcomes.

Livability

Livability represents the household's criteria of a city that works. In particular, attention is paid to ensure that the poor achieve a healthy and dignified living standard and share the resources of society. The agenda for improving livability includes reducing poverty and inequality, creating a healthy urban environment, enhancing personal security, establishing an inclusive civil protection system, creating opportunities for broad political participation and making cultural and recreational amenities available to all.

Good Governance and Management

Good governance and management is defined in terms of accountability, integrity and transparency in the exercise of authority – outcomes that are generally promoted by the trends towards making local offices contestable through elections and separating the governance and management roles. The framework for intergovernmental relations, and sharing of responsibility, between the local and public and private sectors, are also central to the structure of incentives for municipal government. The agenda under this dimension of the Strategy will include work on intergovernmental assignment of functions, expenditures and revenue sources.

Implementing the Strategy

Building Blocks of the Strategy

Local government capacity building is the most critical building block for achieving the goals the Bank is setting for itself in the Strategy. The Bank's



The mission of the World Bank is to fight poverty and to help people help themselves and their environment by providing resources, sharing knowledge, building capacity and forging partnerships in the public and private sectors.

Competitiveness

Competitiveness is defined in terms of the creation of an enabling environment, for and within cities, that permits firms and individuals to become productive. The agenda under this dimension of the Strategy aims to ensure that the benefits of urban agglomeration are achieved and the diseconomies (caused by congestion, pollution and crime, for example) are minimised.

Bankability

Bankability is defined in terms of financial soundness, as reflected in a municipality's respect for hard budget and its efforts to mobilise fully and use judiciously even a weak resource base. For the smaller number of cities that are capable of accessing capital markets, bankability is defined in terms of achieving creditworthiness. The foundation of bankability involves a clear and internally consistent system of local revenues and expenditures, balanced by transparent and predictable intergovernmental transfers, good financial management practices and appropriate conditions for municipal borrowing.

experience in urban development makes it clear that the goals of the strategy will not be met if the Bank fails to build the capacity of local governments to deal with the challenges that confront them today. Local governments need help in carrying out their responsibilities under the new paradigm. They need help in establishing effective and transparent financial management and budgeting systems, incorporating citizens' views into their decision-making process and executing their role in facilitating private sector activity. The Bank is currently developing products and tools that will help the local governments in these important areas.

Partnership building is another important cross-cutting aspect of the Strategy. The Bank will partner local government associations, NGOs and professional organisations in implementing the Strategy. These organisational units allow members to share information. They serve an important professional development function, and they help cities lobby state and central governments for policy change. From the point of view of development organisations such as the World Bank, the partnerships are also important information nodes. The Bank is a unique reservoir of

knowledge from all corners of the world and is taking its knowledge management role very seriously, recognising that knowledge management activities can significantly improve the performance of Bank client countries. The partnerships provide an excellent channel for supplying information to, and building consensus among, stakeholders such as city managers and mayors, citizens and the private sector. In 1997, the Bank, in association with several partners, launched the Urban Partnership to marshal expertise and resources from around the world to address the concerns of cities in the 21st century.

Products/Tools and Initiatives Developed to Implement the Strategy

The following products/tools and initiatives have been developed to address specifically the needs and problems of cities in the 21st century.

- City Development Strategies – a dynamic process of profiling city options, the Bank engages a city's key stakeholders in a long-term process to concretely define and prioritise actions to resolve their city's problems.
- Street Children Initiative in East-Central Europe – research and programme identification to help cities in transitional economies solve the problem of an alarming rise in urban child poverty, homelessness, child prostitution and drug use.
- Disaster Management Facility – a global partnership with other donors and private industry to encourage better mitigation and preparation for natural disaster emergencies.
- *Urban Age*, Global City Magazine – the *Urban Age* magazine provides a global forum in which world cities, their leaders and private citizens exchange ideas, knowledge and information. This international quarterly magazine has 40,000 subscribers in 187 countries, and is published in six languages: English, French, Arabic, Spanish, Russian and Mandarin.
- Cultural Heritage – a partnership that allows cities to pursue culture-led initiatives that capitalise on the role that culture plays in urban development and economic development.
- The Cities Initiative – a new World Bank–United Nations Centre for Human Settlements (Habitat) partnership that will help cities develop holistic city strategies to establish development and investment priorities and to implement city-wide and nation-wide programmes to provide services for the poor.
- Partner Search – a facilitative approach to

partnership building; currently two Bank partners, the Bertelsman Foundation of Germany and the UK and Australia Chapters of International City/County Management Association, are seeking partners in cities in developing countries.

National Urban Strategies and the Comprehensive Development Framework

The Strategy recognises that national legal and policy frameworks can unleash or undermine the potentials of cities, and it attempts to build a constructive relationship between cities and national governments through National Urban Strategies (NUS). The NUS will help to develop the policy framework that can allow the cities of the 21st century to come into their own – they will help create the enabling environment for livable, competitive, bankable and well governed/managed cities. The NUS will be developed and incorporated into the Comprehensive Development Framework (CDF). Proposed by Mr James Wolfensohn, President of the World Bank, the CDF is a holistic approach to development, presenting a long-term view of the structural, social and human aspects of development. It attempts to present these important issues in the form of a matrix that tracks progress in sectors that are essential to bring about long-term sustainable change in a country. The CDF also maps the development players, such as governments, donors, private sector and NGOs, to help provide a better framework for donor co-ordination. This new approach to development is designed to allow the developing countries and their partners to think more strategically about the sequencing of policies, programmes and projects and the pacing of reforms. The Bank and its partners are planning to apply the CDF in select pilot countries. The Strategy will be implemented in the pilot countries to build urban partnerships that can focus the policy dialogue on key bottlenecks to urban development and jointly monitor the impact of the policies on the long-term development of the country.

Conclusion

The new paradigm resulting from the interaction of urbanisation, decentralisation and globalisation presents great opportunities to cities in developing countries. These opportunities, if capitalised upon, can help countries bypass multiple stages of development. The capacity of the local government is a key determinant of the ability of the city to capitalise on these opportunities. The World Bank is preparing to meet the biggest developmental challenge of the 21st century by implementing a new Global Urban Strategy that can help improve the livability, competitiveness, bankability and governance and management of cities. ■

Creative Cities and Economic Development

a report by

Professor Sir Peter Hall

Professor of Planning at the Bartlett School of Architecture and Planning, University of London



Professor Sir Peter Hall is Professor of Planning at the Bartlett School of Architecture and Planning, University College London. From 1991 to 1994, he was Special Adviser on Strategic Planning to the Secretary of State for the Environment, with special reference to issues of London and South East regional planning including the East Thames Corridor and the Channel Tunnel Rail Link. He is a member of the Deputy Prime Minister's Urban Task Force, established in May 1998. He received his Master's and PhD degrees from the University of Cambridge and has taught at the London School of Economics; the University of Reading (1968-88), where he was Dean of the Faculty of Urban and Regional Studies; and the University of California at Berkeley (1980-92), where he is Professor Emeritus of City and Regional Planning. Professor Hall is the author or editor of nearly 30 books on urban and regional planning and related topics.

Cities have always been creative places. From their very beginnings in the Middle East 5,000 years ago, they were the cradles of every advance in the arts, in science, in medicine, in philosophy. The Athens of Pericles, in the fifth century BC, was the scene of a unique creative explosion that produced Socrates, Plato, Aristophanes, Euripides, Herodotus, Thucydides and others too many to list. Renaissance Florence emulated Athens almost exactly 2,000 years later, rediscovering the naturalistic art of classical Greece and Rome and developing it over two centuries into the peaks represented by Leonardo da Vinci and Michelangelo.

No city ever quite replicated the multifarious achievement of Athens, but other European cities followed Florence in achieving supreme excellence in one field. London, in the time of Shakespeare and Marlowe, created the modern drama. Vienna was without rival as the city of music from 1750 to 1900; likewise Paris as the capital of painting between 1870 and 1910. Then, in the 1920s, for a few brief years, Berlin flourished across a huge range: in theatre, in cinema, in the visual arts.

What made these places so creative? Why did their golden ages seldom last for more than a century, and often less than that? Why did so few of them have second golden ages – and what is the explanation for those that managed the trick, like London? Economics provides part of the explanation. These cities were both large and rich, though not always the biggest or the wealthiest of their time. In all save Athens, the wealth accrued to a favoured few, who provided the patrons either as individuals or collectively. They were usually the kinds of rich people who had made their money recently, sometimes in very risky enterprises, and who were willing to back new and revolutionary ideas in art.

But, as in every economic explanation, there also had to be a supply side. To a remarkable degree, the artists were also new and self-made people. Many of them were immigrants to the city, sometimes from the surrounding countryside, very often from far distant places in the empire which the city ruled,

and sometimes even from outside. They were essentially outsiders who were trying to establish their footholds in the city. And sometimes the patrons were outsiders too, like the non-citizens in ancient Athens or the Jews in Vienna. That outside-trying-to-be-inside spirit was very important in explaining the kind of art produced by artists like Christopher Marlowe or Pablo Picasso or Bertolt Brecht.

Artistic and intellectual creativity is justly celebrated and prized, but there is a more mundane creativity too, the kind that produces new technologies and new forms of commercial organisation, thus generating great new firms and even entire new industries. And this form of creativity, too, is distinctly urban – as witness Manchester in the 1780s, Berlin in the period from 1840 to 1900, Detroit around 1900 or the San Francisco Bay Area around 1950. These cities were far less well known than the artistic cities; they were upstart places where money was being made, not spent. They were full of risk-taking entrepreneurs and brilliant technicians, and it was the union of the two that produced Siemens in Berlin, Ford in Detroit or Hewlett-Packard in the Bay Area.

There is a third kind of creativity too: the kind that consists in providing practical and sometimes imaginative solutions to the problems that are thrown up by rapid urban growth and urban size. Rome in the early centuries AD was an outstanding example, bringing food and fresh water to serve a population of one million people. London and Paris in the nineteenth century solved the problems of public health and public order in different but related ways. New York at the turn of the present century developed new technologies that allowed the city to grow vertically at the core and horizontally at the edge. Los Angeles, a few years later, rejected that image of the city, determining to be different: the first dispersed city based on universal automobility. These cities, it can be argued, did what they did because they had to: the price of failure would have been catastrophic. But many developing cities in the world today, at the

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end of the 20th century, do not seem to have succeeded in following them – at least yet.

How will creativity manifest itself in the 21st century city? There are at least two clear trends. One is the progressive convergence of artistic and technological creativity, two forms that have traditionally been held to belong to different people and to opposite sides of the brain. During the century that is passing, there have been two outstanding early examples: the motion picture industry of Hollywood, from around 1910, and the popular music industry of Memphis, Tennessee, around 1955. It is no accident that both are American, because both were popular arts reproduced through new technologies, and both were created by quintessential outsiders. Hollywood was the creation of Jewish entrepreneurs, all first-generation immigrants: Memphis music was a unique union of two strains of music produced by the poorest and most isolated groups in the entire United States, the black cotton farmers of the Mississippi delta and the white hillbillies from the Appalachian mountains to the east. They could only have come into being where social and racial barriers were weak and crumbling, and where there was an acceptance of – even a belief in – experimentation.

It is no accident, perhaps, that the United States has so far proved equally outstanding in the development of the new multimedia industries that are developing on the basis of the marriage of computing and telecommunications. The basic technologies here are the Internet, developed in the 1960s by the American armed forces for military purposes, and the World Wide Web, actually discovered in Europe. But again it has been American ingenuity that has developed the many commercial platforms that have exploited the new technologies in the 1990s, such as Netscape and Yahoo!

True, this is a game anyone can play, and advances are being made in Europe and Japan and Israel. But, significantly, some of the key locations for the new industries are the cities: Los Angeles, San Francisco, New York City, London. That is because the development of new ideas demands serendipity and synergy between minds, and it is easier to find this in great cities. It is also because there is a special relationship between multimedia and other activities that have always been clustered in great cities: the media, including the live performing arts, advertising and public relations and tourism.

Cities, at least in the developed world, are no longer locations for mass-production manu-

facturing: they are places for high-tech research and development and prototype production for creative and cultural industries of all kinds, from theatres and museums to publishing and broadcasting, for tourism, for command and control functions in government and transnational corporations and for specialised finance and business services. And in all these, creativity plays a crucial role: witness the innovations in the financial sector in the 1980s, such as securitisation and corporate bonds, and the role they have played in hugely extending the total volume of business.

One point is certain: reports of the death of the city have been much exaggerated. Some cyber-gurus have predicted that the virtual world of the Internet will dissolve the traditional agglomeration economies that underpin urban economies, but it is surely significant that the most thoughtful among them finally reject their own hypothesis. The fact is that creative synergy seems to demand face-to-face interaction; indeed, the historical evidence seems to suggest that the more people communicate remotely (whether by phone, fax or e-mail), the more they finally need to meet each other. It is for this reason that all the graphs of personal business travel – by plane, by high-speed train and by car – climb ever upwards, paralleling the growth of telecommunications traffic – or that the business hotel and convention businesses are booming.

Communications are thus vital for the creative city of the 21st century. A major international airport hub is a necessity, as is a position as a key interchange on the developing high-speed rail systems that are proliferating in Japan and Europe, and must soon develop in other parts of Asia and in America. But increasingly, and intriguingly, there is another key requirement, which is quality of urban life. Just as cities had to guarantee pure water and sewerage systems for their people a century ago, in order to keep them alive, so they now compete to make their cities attractive to visit and to live and work in. For, in a post-industrial service economy, this becomes one of the key locational factors, first in bringing in business and leisure tourists and then in attracting large-scale inward investment.

Thus, urban regeneration becomes a device which simultaneously achieves several objectives: it clears the ruins of the lost industrial economy; provides new flagship buildings to act as symbols of an urban renaissance; and provides a high-quality urban ambience for visitors and residents alike. Barcelona, Bilbao and Glasgow are outstanding European examples of this approach and San Diego, Seattle, Toronto and Boston have developed North American approaches in the same idiom.

This double reinterpretation of the role of the creative city – the marriage of art and technology on the one hand, the physical urban renaissance on the other – is so far seen mainly in the cities of the developed world, above all in Europe and North America. But it has obvious implications for the developing world, especially for the burgeoning metropolitan cities of the newly-industrialising middle-income countries of Asia, Latin America and the transition economies.

First, as the experience of the most successful late-20th-century cities has shown, urban economies can now run the entire gamut of development in a little more than a generation. In doing so, cities like Hong Kong and Singapore move first from labour-intensive production, through more sophisticated high-technology manufacturing, to advanced services. At each stage, technological and organisational innovation is shown to be crucial – as Singapore has publicly announced, the end result is a knowledge-based economy based on continuous innovation and thus on high-quality human capital.

Second, in the later stages of this process, quality of urban life becomes a crucial factor. Not for nothing

have Singapore and Hong Kong invested heavily in rapid transit systems and planned new residential areas and in extensive parks and waterfront recreation areas. But it is not just a matter of a clean and well-planned modern environment, for this could produce a sterile city. It is surely significant, for instance, that both Asian and Latin American city administrations are increasingly concerned about protecting and even to restoring their historic urban patrimony, and that conservation is now high on the policy agenda in a way that was not evident 20 years ago.

Of course, urban quality does not guarantee creative genius. As is often said, Nobel Prizes can and do come out of slum laboratories, and great undiscovered artists will always languish in garrets. The interesting facts, however, are that, increasingly, universities build laboratories to retain and attract international star scientists, while the garrets occupied by the starving artists soon become immensely fashionable and expensive. Creativity is no longer an incidental miracle that happens occasionally in exceptionally-favoured cities; in a globalised economy where no place can rest on its laurels for long, it is now a central part of the business of being a successful city.

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European Cities: Engines of Growth on their Way into the Third Millennium

a report by

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Social Cohesion or Economic Competitiveness in European cities – a False Dichotomy?

In the last decade, there has been a transformation in the perceptions of the role cities play within the EU. Cities are now high on the European agenda for a variety of reasons, detailed below.

- Traditionally, cities have been seen in their respective national economic hierarchies. Increasingly, they are seen in a wider European economic context at least.
- There has been a rapid growth in the development of networks between cities at a European level, designed to promote trading links, exchange good practice and promote the interests of cities at a European level.
- There has been growing awareness of the contribution and potential of cities to Europe's economic competitiveness. Cities are increasingly seen as economic assets, not liabilities, which need to be exploited not only at a national but also at a European level.
- There has also been, however, growing recognition of the double-edged character of much economic change in cities during this period. The search for economic growth has not always led to social equity; indeed, it has often contributed to increased social exclusion.

The twin challenges to European cities of competitiveness and cohesion are caused by four linked factors:

- globalisation and the loss of local control over local economies;
- economic restructuring and the information revolution which has created the divided service sector and its Porsche-hamburger economy;
- growing competition between cities and regions, which has created winners and losers within – as

well as between – cities; and

- the restructuring of welfare states and the loss of state support for vulnerable individuals and groups.

These structural changes are being exacerbated by cyclical factors such as global recession, as well as by the enlargement of the EU through membership of the accession states in the east. The precise forms that these developments take vary by country, region and city, but they pose similar challenges to decision-makers at urban, national and European levels. As a result, the major challenge for European cities into the next millennium will be to increase their economic competitiveness without at the same time increasing social exclusion. Cities, national governments and the European Commission will need to determine which urban strategies they wish to pursue and how to reconcile the two goals of competitiveness and cohesion. In the recent past, governments have alternated between policies either seeking to promote social welfare or strengthening individual or area economies. In many countries, the realisation is now growing that the two goals of cohesion and competitiveness are not mutually exclusive and that urban strategies need to focus both upon social need and economic opportunity.

This raises an important question for the EU: what contribution does, and should, the EU make to the development of European cities and what should its urban policy be? At present, the Commission does not have an explicit urban policy, but many of its actions directly and indirectly impact upon cities. Do they need refining and developing? If so, in what ways? Since the bulk of EU funds go to regions and cities through the structural programmes, Commission policy has, in the past, primarily focused upon issues of social and economic decline or backwardness. Given the challenges facing European cities, this balance has seemed appropriate. But the evidence presented in this conference has demonstrated the economic potential of many European cities. This raises the question of how the Commission can best capitalise upon the economic

potential of these cities and how it can use its funds, policy instruments and influential position to promote and extend the good practice found in these cities.

The European Commission's Policy Response to the Urban Challenge

During the 1990s, the European Commission has played an increasingly important part in meeting this challenge, encouraged by the European Parliament and many cities. Gradually, Commission policy has broadened and deepened to confront the complex mix of opportunities and problems European cities face. The Commission's growing involvement during this period can be traced both through its policy documents in this period – *Urbanisation and the Functions of Cities in the EU*, *Europe 2000*, *Europe 2000+* and *Towards an Urban Agenda* – as well as through the introduction and expansion of Urban Pilot Projects and the Community initiative, URBAN. The publication of *Sustainable urban development in the European Union: a framework for action* marks a further important stage in this process.

The framework represents the Commission's current thinking and planning for the future of European cities. In it, the Commission has proposed 24 actions to meet four broad challenges faced in our cities:

- strengthening economic prosperity and employment;
- promoting equality, social inclusion and regeneration;
- protecting and improving the urban environment; and
- contributing to good urban governance and empowerment.

The Commission plans to respond to them by encouraging and financing more integrated, area-based and partnership actions at national and local level and facilitating the exchange of good practice about urban regeneration through a range of institutions and networks. We can ask a series of questions:

- How good is the document?
- Are its arguments right?
- Does it offer cities enough support?
- How well does it fit with Agenda 2000 and the future of the union and structural funds?
- What are the likely next steps and who must take them?

The process has presented some political risks for the Commission. For example, there was a danger that:

- people would argue that the document did not contain enough substance – that the mountain

had laboured to produce a mouse;

- others might argue on the grounds of subsidiarity that the Commission should do less – not more – in cities;
- that the Commissioners would not be willing to use their internal political capital to push cities further up the Commission's agenda; and
- that the different parts of the Commission would not be united in their support of the policy.

In fact, those risks have in the main been avoided. The document has had a good reception. For example, national and local policy-makers in many European countries agree:

- its key principles are right;
- it builds upon good practice at European and national level;
- it is a significant move beyond the Commission's previous policy documents;
- nobody argued that the Commission should do less for cities;
- other Directorates have been robust in support of the framework;
- Commissioner Wulf-Mathies now seems convinced of the merits and political advantages of a more ambitious urban strategy.

There is clearly substantial support for the overall principles and framework. That is the good news. But what are cities concerned about? The genie has been let out of the bottle by the document and a number of big issues will not go away. The agenda is now wide open. In the coming months, European cities could have a lot to say. They should get ready to make their contribution count.

Mainstreaming the URBAN Initiative and the Reform of Structural Funds

Many cities are concerned by the link – or lack of it – between the framework document and the reform of the structural funds proposed in Agenda 2000. In particular, continental Europeans – mainly, although not exclusively, from the south – are concerned that the potential opportunities of increased support and resources are outweighed by the proposed demise of the Community initiative, URBAN. Many believe that URBAN has:

- delivered high quality projects;
- encouraged the principles of integration, partnership, targeting and subsidiarity in Member States which do not always practise those principles themselves;
- forged valuable direct links between the Commission and cities;
- had given Commission support to cities outside Objective 1 and 2 regions.

For many, URBAN has been a genuine success story, as well as a public relations triumph for the Commission which they believe should not be jeopardised. However, cities are not entirely united on this issue. In particular, the British, with their greater experience of the limitations targeted regeneration initiatives, recognise the value of projects supported by URBAN but are more sceptical of it as a policy principle. They encouraged the Commission to be brave and mainstream the principles of URBAN rather than marginalise them in a single Community initiative. The evidence from Britain of over 20 years is that, to achieve a genuinely integrated, partnership-based approach to urban regeneration, all the mainstream programmes and resources of all public agencies have to be involved. The economic and political weight of special initiatives like URBAN are relatively modest in relation to need or to the resources being invested in cities. As a result, however good individual URBAN projects are, they have a relatively minor impact overall upon cities.

The recent experiments of the Dutch, Danish and Irish governments with special urban initiatives also confirm this case. It is also true of the Commission programmes themselves. For example, many of the Directorate's policies on transport, agriculture, research and development, energy and social affairs have as great an impact upon cities as the urban initiatives or even regional policy carried out by DG XVI. Increasingly, these wider policies must be the focus of action in EU urban policy. In the longer term, cities should recognise that the URBAN initiative has probably served its purpose and that it is now time to move on. They will achieve more by concentrating their energies on the Commission's mainstream programmes and making them more sensitive to cities through revised guidelines than by attempting to rescue the more visible – but in the end less important – initiative.

The Search for Integration

The framework clearly represents a more integrated approach to urban issues by the Commission. The plan for a Commission inter-service group to encourage further integration is welcome. But it is clear – and has been accepted by Madame Wulf-Mathies – that the Commission has much further to go, including linking the European Social Fund (ESF) and the European Regional Development Fund (ERDF), to achieve a more integrated approach. Indeed, many, including Eurocities (a European association of metropolitan cities), argue that we need a Commissioner for Urban Affairs to really achieve such integration. This idea has received a mixed response from European politicians, whose national experiences of such an

initiative were mixed. But the idea is unlikely to go away. However, whatever happens, the Commission will have to begin to deliver on the expectations of greater integration raised by the document.

At the same time, it is very clear that Member States and local authorities still have to get rid of their traditional functional and departmental boundaries and their sectoral approach to policy-making to deliver a more integrated approach to urban policy. In particular, many Member States have yet to accept the key policy principles. It is important that, when revising the guidelines, the Commission should insist that Member States endorse those principles when applying for structural funds so that cities' interests cannot be ignored by unsympathetic national or regional governments.

Encouraging Partnerships and Area-based Regeneration

The framework document encourages horizontal integration between different partners in the public, private and community sectors, as well as vertical integration between different levels of government. In terms of partnership and the strengthening of the economy of cities, it can be argued that the document needed to provide greater incentives for the private sector to become more involved in urban regeneration. Business representatives have argued that, although the private sector was already playing an important role in urban regeneration, the document did not send strong enough signals to make businesses realise the potential opportunities of getting involved in regeneration and the economic threats to them if they did not.

Similarly, although the social partners in the community and voluntary sector received substantial ad hoc support from the Commission's programmes, the document should offer more long-term, sustained strategic support for the social partners. The proposals to encourage area-based regeneration initiatives, funded through Operational Programmes, are attractive. It is important, however, that these initiatives are made to work properly. Many countries, including the UK, France, the Netherlands, Ireland and Denmark, have recent experience of these approaches. European cities must learn from their successes but try to avoid their failures.

Housing – a Missing Link Between Competitiveness and Cohesion?

Housing remains a central issue for urban policy. There is a huge demand for the Commission to recognise that, next to jobs – for which it has responsibility – housing – for which it does not – was the most important element of urban policy. There is

substantial support for the view that, if it cannot finance mainstream housing activities, the Commission should at least support housing-related regeneration activities, including, for example, training programmes, community capacity building, the provision of community facilities and environmental improvements. Again, there is considerable experience to build upon in different countries which cities and the Commission could pull together so that we do not reinvent the wheel.

Sustaining the Political Link Between Cities and the Commission

The probable demise of URBAN and, hence, the loss of direct links between the Commission and cities is a potential problem for some cities. It could mean that, in future, cities will have made their cases indirectly through regional and national government structures and intermediaries. To sustain the gains of the past years, cities will need to find a new way of putting their case directly to the Commission. In turn, the Commission will have to find a way of receiving and negotiating cities' demands. This will demand political goodwill and institutional creativity at both a local and national level.

However, cities will also need to develop better links with their own national governments. Cities cannot expect the Commission to deal with all the problems or opportunities that European cities face. These will have to remain essentially a national responsibility. The crucial issue is to determine where the Commission can genuinely add value to cities, rather than adopting the begging bowl policy which demands European money simply because social exclusion exists in cities. Also, as Commissioner Wulf-Mathies has argued, the cities must pull more together in their common cause rather than asking for special attention for the interests of the large, medium or smaller cities as they sometimes do.

At the same time, European cities need to decide what priorities they want for an EU urban policy. They must, in particular, consider the relationship between economic competitiveness and social exclusion and determine whether they want a more needs-based urban policy which focuses on social exclusion or one that is more opportunity-oriented and which focuses on the economic changes and the potential of cities. A number of commentators have argued that, in the implications of some of the major economic trends, shifts like IT had been overlooked in the Commission document and that it should be anticipating the policy consequences of those emerging trends rather than simply reacting to familiar forces. The Commission will need greater clarity from cities on what they really want on this crucial issue.

Integrated Urban Development Plans – The Shape of Things to Come?

Arguably the most significant part of the framework document is the Commission plans to introduce Integrated Urban Development Plans. These will require that cities are integrated into regional development plans, as a central feature of structural fund negotiations, in future. Although confined to Objective 1 and 2 regions, this is an important breakthrough, which places cities at the centre of regional policy. In the short term, they would attract more support and resources for cities. But in the longer term, the plans could be a lever to achieve much better working relationships between cities and their regions. This idea has enormous potential, the implications of which have not yet been explored.

The challenge is to develop the right spatial architecture for urban policy so that different levels of government – European, national, regional and local – can make the best intervention – whether at neighbourhood, city, sub-regional or regional level. The proposal for Integrated Urban Development Plans opens that important debate. The approach is already being explored in a number of countries – for example, in France, with Contrats d'agglomération, and in the UK, with the Local Government's Association plans for wider conurbation strategies in its New Commitment to regeneration. Both echo the essential principles of Territorial Action Plans proposed by Eurocities itself. There is much to be worked out. That must be part of the next phase of work.

Next Steps and for Whom?

There is now a lot to play for. The important momentum that has been started must not be lost. The principles have been accepted but the crucial thing now is to put them into action. In terms of high politics, the battle to support the cities must be sustained. All European cities should rally to Wulf-Mathies' plea to exert pressure upon national governments so that they support the Commission's more ambitious strategy. It will also be important, as Commissioner Wulf-Mathies has suggested, that the next two Presidencies – the Finnish and the German – keep the urban issue at the top of the Union's agenda. More specifically, over the next year, the Commission will have to develop and make operational many of the crucial principles and implicit commitments which it and the Commissioner have made. To help it do so, there will be plenty of consultations and working groups in the coming months. Another Urban Forum will almost certainly be called. For the cities, this is an important opportunity to make a sustained, constructive and detailed contribution to this crucial phase of the debate. For their citizens' sake, they must not miss it. ■

World-class Local Economies

a report by

William Barnes and **James Brooks**

*Director, Center for Research and Program Development and International Program Manager,
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As a local leader, you're concerned about your local economy. You know that the condition of the local economy determines the quality and quantity of jobs available to local residents, the financial base of government to provide needed services and infrastructure and the overall quality of life in local districts. And you know that it is a real challenge to keep your local economy strong. This is especially true today.

The highly competitive global economy that has emerged in the closing years of the 20th century places new demands on local economies and local leaders. To sort through these new demands and take a fresh look at what you are doing – and could be doing – to help your local economy compete, you will need to achieve progress on three fronts: business growth and job creation; economic opportunity for all; and effective governance of your local economic region.

What is "World-class"?

No matter what your city's location is or its size, the global economy is all around you – on your main street, in your districts and in your schools. Your local economy is a part of it, just like every other local economy around the world. Your job as a local leader is to accept this fact, to help others accept it and to ensure that your local economy lives up to worldwide standards. You want your local economy to be what author Rosabeth Moss Kanter calls "world-class".

World-class means being competitive – meeting the highest standards set anywhere for goods and services and for residents' quality of life. These are the two sides of the world-class coin; each plays an essential part in success. A world-class local economy is not just a great place to work and do business. It is also a great place to live – a place where all residents have opportunities to participate and succeed. And it is a place where the capacity and the will exist to address problems and create the future. NLC President Greg Lashutka, Mayor of Columbus, Ohio, defined "world-class" in his 1996 State of the City address:

"A world-class city is a place where government and the private sector are almost always in harmony and focused on a common agenda for sustained progress. It's a city with physical infrastructure that supports daily life and work as well as the social infrastructure that can solve problems and manage the future."

Achieving a world-class local economy is an important objective for large and small cities alike. As Council member Fred Guerra of San Marcos, Texas, stated in the NLC's 1993 Futures Report, *Global Dollars, Local Sense*, "Small cities can do it too. We can buy into the global economy."

The local economy is:

- the key factor in determining your area's competitiveness and the quality of life for residents;
- the gateway for your city and your city's districts into the global economy;
- the window through which outsiders see your city; and
- a region that includes many governmental jurisdictions.

To compete successfully, a world-class local economy requires:

- jobs and business growth;
- effective governance for the region; and
- economic opportunity for all.

Think and Act Regionally

How do you achieve a world-class local economy? One key is to think in terms of the real "local economy": the whole region. It is only on a regional basis that local governments and other stakeholders can come up with the resources needed to meet worldwide standards – and avail themselves of all that

the region has to offer. Working on a regional basis also enables you to address problems in parts of the region that may be standing in the way of regionwide success.

Just as cities must accept the reality of the global economy as a key factor in local decision-making, so they must also accept the reality that regional economies are the real economies in the United States today.

In NLC's 1994 study, *Local Economies: The U.S. Common Market of Local Economic Regions*, William R. Barnes and Larry C. Ledebur observe that, from an economic perspective, the US is overlaid with "Local Economic Regions". These are mostly metropolitan-centred, integrated economies, of which central cities and suburbs are interdependent parts.

Cities and their suburbs, according to Barnes and Ledebur, are "all in it together." "They are not two distinct economies," the authors assert. "They are a single economy, highly interdependent and with their fortunes inextricably intertwined."

Columnist Neal R. Peirce refers to these metropolitan-centred regional economies as "citistates". He says that these entities "must perform as critical actors more on their own in the world economy than anyone would have dreamed since the birth of the nation state." As David Rusk writes in *Cities Without Suburbs*, "the real city is the total metropolitan area – city and suburb."

For local leaders, performing on your own in the world economy means focusing on regional approaches to problem solving. It means accepting that central cities, suburbs and rural communities are interdependent parts of a local economic region, and that they need each other to survive and thrive. William R. Dodge makes the case for regional approaches in NLC's 1996 report, *Regional Excellence: Governing Together to Compete Globally and Flourish Locally*:

"A practical, integrated and functioning economy is not constrained by political subdivisions. The mobility of capital and labour, as well as the tendency of industries to cluster together, has made the local economic region the working unit of the global economy."

NLC's National Municipal Policy has incorporated these perspectives on behalf of the nation's cities.

NLC believes that all economics begin locally. There are interlocking relationships among core cities, suburbs, edge cities and contiguous rural areas which make up local economic regions that together fill out

our nation's geographic borders. The real US economy is the linked, interdependent system – the 'common market' – of local economic regions. The critical task for local leaders, then, is to view both the global and the local economy from the standpoint of the region. Looking inwards, you will see the many parts that comprise the local economy – the various communities and stakeholders, the assets and liabilities they bring to your competitiveness efforts and the potential problems that must be addressed in order for the region to prosper. Looking outwards, you will see the world as it exists today – a highly competitive global arena in which your region and others compete for world-class status and success.

Adopting a regional approach to the challenges of the global economy means accepting that your city's future is tied to the performance of the local economy of which it is a part. And it means working together with neighbouring cities and towns to nurture the economy you hold in common.

In *Global Dollars, Local Sense*, the NLC Advisory Council states that regional collaboration is "vital" if America's cities and towns are to compete effectively in the global economy. This point has not been lost on many leaders across the country, as James A. Brooks observes in NLC's *Leading Cities in a Global Economy*: In practice, many local and state officials are focusing on regional approaches to problem solving. They have concluded that central cities and their suburbs are interdependent parts of a local economic region, and that they need each other to survive and thrive.

Local Is Global

Recognition of the efficacy of regional problem solving has coincided with increasing awareness of the impact of the global economy on cities and towns. A recent survey of city officials by the NLC and the Meyner Center for the Study of State and Local Government, at Lafayette College, found that nearly three people in five (59%) view the rise of a competitive global economy as having positive impacts on cities. Significant proportions of the respondents reported positive impacts in their cities from social and cultural contacts with foreign cities (70%), foreign tourists (63%), foreign direct investment (50%) and legal immigration (47%). Clearly, many cities are already coming to terms with the fact that the global economy cannot be ignored; that it can play an important part in local economic success; and that global and local are one and the same. Consider the facts below.

- World trade in goods and services now exceeds US\$4 trillion a year, up 13-fold in real terms since 1950.

- The US remains the world's largest trading nation, with US\$975 billion in merchandise imports and exports in 1992, up from US\$466 billion in 1980.
- The share of the US civilian workforce whose jobs are supported by exports rose from 7.6% in 1986 to 11% in 1992. By 1993, the jobs of 10.5 million Americans were supported by exports, up from 6.7 million in 1986.
- The US is the top-ranked international direct investor, with an estimated US\$486 billion in cumulative investments abroad at the end of 1992.
- The US is also the largest host nation for foreign investments, with US\$404 billion in 1992 – up nearly 500% since 1980.

The stakes for cities and towns in addressing the global economic reality portrayed in these statistics are high. Whether they are competing for production facilities, major conventions, transportation hubs or tourism dollars, local economies are at the front lines of the global economy. And even if they are not directly or extensively involved in non-US trade, cities and towns must still accept that the rules of the game have changed – that global competition is for real and has yielded tough new standards by which cities and businesses are judged.

In October 1996, local leaders from across the country gathered at an NLC Symposium in Columbus, Ohio, to wrestle with these issues and develop competitiveness strategies for the future. Hosted by Mayor Lashutka, the two-day symposium brought together city officials, economic development experts, non-profit representatives and others for a first-ever discussion of “Achieving World Class Local Economies”. In a presentation at the symposium, Rosabeth Moss Kanter, author of *World Class: Thriving Locally in the Global Economy*, painted a picture of the challenge facing local leaders: it is not that every business is suddenly international in scope. But standards are changing. Awareness of standards is changing. Companies and individuals are shopping internationally for goods and services and also for places – places where brainpower flourishes are incubators for social advances as well as technological ones. For long-term economic advances to take hold, according to Kanter and others, it will be up to local leaders to embrace the changes needed to achieve world-class local economies. What it takes is a commitment to a new level of performance and competitiveness for the local economic region. This means doing everything you can to create schools, roads and highways, neighbourhoods, a government and a workforce that are all world-class. The fact is

that your city's success in the global economy hinges on its ability to address the full range of issues facing local leaders, from poverty and homelessness to education, transportation and crime. At the same time, your success in resolving difficult local issues will improve your city's economic prospects. In *Paths to Economic Opportunity: Case Studies of Local Development Strategies to Reduce Poverty*, NLC's Phyllis Furdell observed:

“Social and economic progress are inextricably linked. In recent years, it has become increasingly clear that we cannot solve social problems such as crime, drug abuse, family break-up, malnutrition, and homelessness without solving the associated economic problems first... Conversely, economic progress depends on social progress. Without serious and efficiently targeted investments in childcare support, early education, better school-to-work transitions, dropout prevention, and adult retraining, a large proportion of today's and tomorrow's workforce will be unable to contribute to the economy.”

Guiding Principles

The challenge for cities and towns in the global economy was described by the NLC Advisory Council in *Global Dollars, Local Sense*: Communities cannot isolate themselves from the globalisation process; such a strategy would be counterproductive. Community leaders will face the new realities and seek creative ways to ensure that all of their constituents benefit from the global economy. City and town officials must be catalysts for change, so that their communities will not be victims of change.

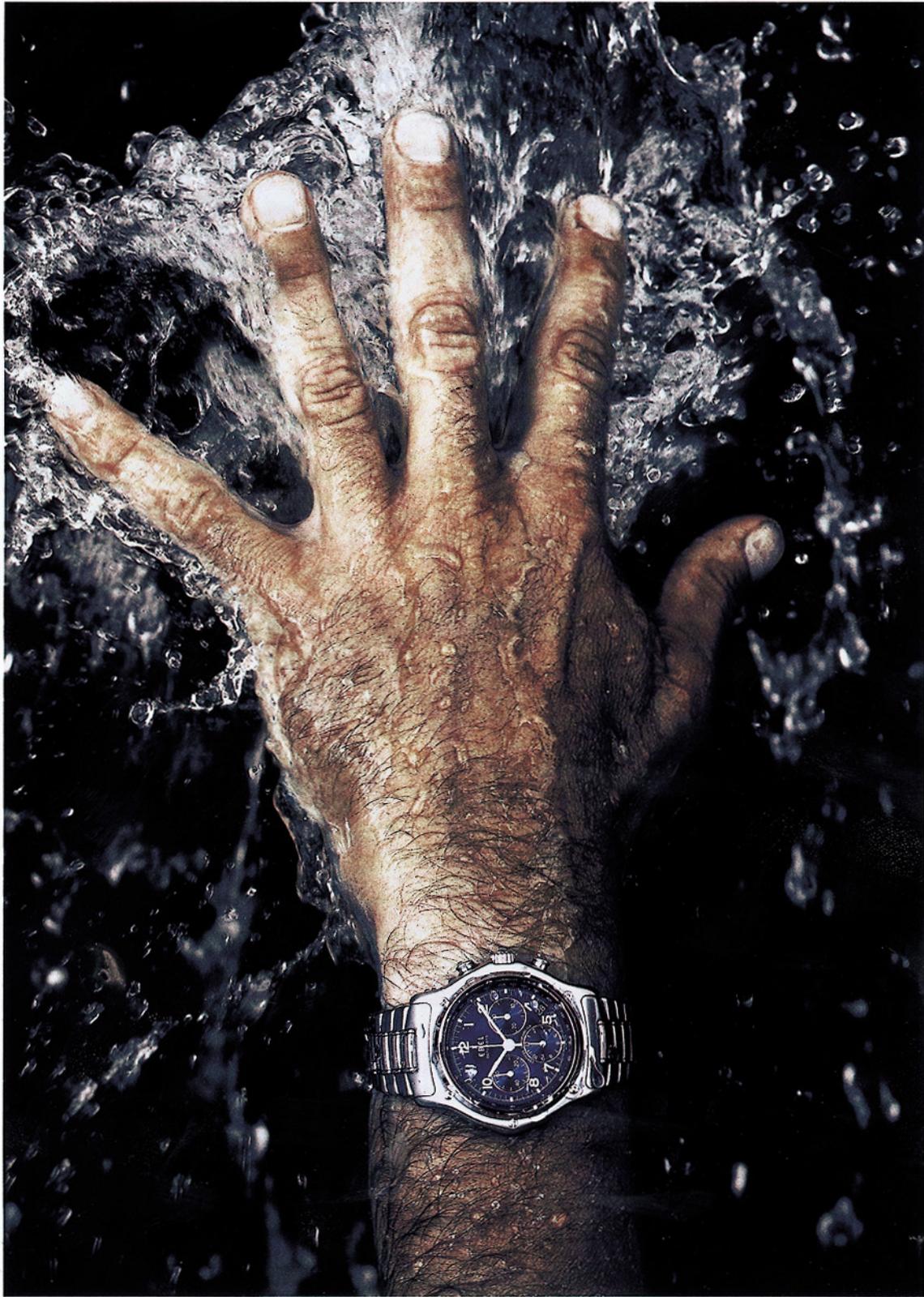
This article is taken from a guidebook that was created to help local leaders fulfil their role as catalysts for change. In the guidebook, we present seven “Guiding Principles for Leadership” Together, the principles redefine “economic development” into a framework of local economic policy. They provide one way of looking at the wide range of activities that local leaders and others can undertake to improve competitiveness. They are intended not as individual steps to be taken one after the other but as various components, or pieces, of a strategy for success.

In order to achieve a world-class economy you, as a local leader, need to follow the steps laid out below.

- Know your local economic region – your ability to achieve a world-class local economy depends, to a significant degree, on your government's acceptance that a regional approach is the right approach to economic development and governance.

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HARRISON FORD AND HIS CHRONOGRAPH

portrait by Hans Gissingner

Success also depends on a good working understanding of the inner workings of your region's economy – how the parts connect and interrelate and how the economy affects the quality of residents' lives.

Develop frameworks for action and understanding – an understanding of the need to achieve a world-class local economy must extend beyond local government. Citizens, businesses, the media and community organisations must all see how global competition affects the local economy and how a regional approach is the right approach to economic development and governance. It is up to local leaders, therefore, to speak out about the local economy and to create processes and forums that allow diverse stakeholders to address these issues and develop strategies for success.

- Build partnerships and governance capacity – for regional approaches and global frameworks to succeed, local governments need to reach out across jurisdictional lines and work together to achieve shared goals. But governments cannot do it alone. Businesses and community organisations must also play a part, drawing on their special strengths and resources to help you improve competitiveness and quality of life throughout your local economy.
- Connect local and global – a world-class local economy is built on the understanding that local is global and vice versa. Working with citizens and business and community leaders, local officials can take action to develop and affirm basic strengths – including quality education, a sound infrastructure and a healthy environment – that position the local economy as world-class. Local leaders can also find ways of connecting more directly with the global economy through trade missions, sister city relationships and other outreach programmes.

Promote opportunity and inclusiveness – worldclass means that all citizens have the opportunity to participate and succeed in the local economy. As a local leader, you can help others understand that distress in one part of your local economy inevitably affects the other parts – and that opportunity and inclusiveness are keys to success.

You can also promote connections between economic development and anti-poverty efforts and engage key community stakeholders – especially business – in reducing economic insecurity.

Engage the state and federal governments – your local economic region plays an important role in

the economic fortunes of your state and the nation as a whole. As a result, the state and Federal governments have an important stake in helping you achieve a world-class local economy. Your job is to show state and Federal officials why and how they should be contributing to your local economy's success. This is about more than applying for the right grants; it is about framing your work with other levels of government as a partnership to improve competitiveness and quality of life.

- Be strategic – every community has a unique blend of strategic assets to build on in achieving a world-class local economy. These may include telecoms, schools, transportation systems, training and workforce development programmes, business clusters, childcare and more. The key is to look at what you have got on a regionwide basis and to gauge how these assets, both collectively and individually, can play a part in your economy's success. Then it is a matter of “connecting the dots” and investing in those assets that will get you where you want to be. ■

The National League of Cities (NLC) is the largest and most representative organisation serving municipal governments in the US. Founded in 1924 as the American Municipal Association by ten state municipal leagues, today its direct members include 49 state municipal leagues and more than 1,500 communities of all sizes. Through the membership of the state municipal leagues, NLC represents more than 1,800 municipalities.

Although most of the nation's larger municipalities are members of the league, more than 75% of NLC's direct members have populations less than 50,000, and small cities, towns and villages play an equal and key part in the activities of the organisation.

In its activities, NLC encourages full participation by the entire city leadership team, not just by one or two top officials. Through NLC, mayors and city council members join together to establish unified policy positions, advocate these policies forcefully and share information that strengthens municipal government throughout the nation. NLC's diverse membership is one of its greatest strengths, and the organisation's non-partisan structure takes full advantage of the broad base the membership provides.

Acting on behalf of local governments, NLC's own goals include influencing national policy and building understanding and support for cities and towns. Through a wide range of programmes and services, NLC assists both local leaders in their jobs as policy-makers and public servants.

For more information about NLC, please contact the Center for Public Affairs at (202) 626 3120, or by e-mail at pa@nic.org

Competitiveness Diagnosis and Definition of a Plan of Action for an Industrial Area

a report by

Professor Ferran Lemus

Associate Professor of International Trade and Global Markets, Pompeu Fabra University, Spain

Framework of the Study

In the middle of 1998, GFE Associats was commissioned to evaluate the competitive position of Mataró's productive fabric and to lay down the strategies and future measures to be undertaken. Mataró, an important city situated in the hinterland of Barcelona, has a large industrial sector within its productive base and a considerable presence of activities belonging to sectors that are 'mature' or in decline. The city has very good roadway communications, a magnificent climate and is close to Barcelona.

Maresme county, of which Mataró is capital, accounts for 4% of the GDP of Catalonia, while the figure for the city of Mataró itself is 1.5%. Within Catalonia, the number of inhabitants accounts for 5.3% and 1.7% respectively.

The current processes of economic globalisation and internationalisation are posing new challenges of competitiveness for regions and cities with a considerable industrial component, while at the same time highlighting the need to design and link together strategies and measures to improve the provision of resources for the territory and to promote more competitive work by local companies.

On the basis of work by Michael Porter (*The Competitive Advantage of Nations*, 1990), we developed a method for analysing national economies by incorporating strategy and business factors as basic elements of the competitiveness of a zone. In Michael Porter's work, the economy was divided into microclusters, which we took to be groups of companies that engage in the same activity and/or related activities within a specific geographical setting.

The competitive advantage of a zone will be determined by the position of its economy as a whole, and of the clusters which make it up, in relation to four groups of factors:

- the situation of the factors of production (human resources, capital, infrastructure, etc.);
- the situation of demand (trends, sophistication, etc.);
- the support sectors (providers of services,

distributors, etc.); and

- the inherent structure of the sectors and the strategies of the companies forming part of them.

The interrelations between these four groups of factors are structured into the so-called Porter's "diamond" of competitiveness.

On the basis of the competitive advantage of the entire geographical sphere and identification of the clusters (or microclusters) and potentially interesting emerging sectors to be analysed, the diagnosis will be set out and the lines of action deriving from it framed into objectives that are as specific as possible. Although government measures play a significant role, the measures and strategies adopted by companies are the main factors in the competitive development of the productive fabric. This implies that the success of the actions and lines of strategic change proposed will depend largely on the involvement of the various local agents – primarily the government and businessmen.

Methodology Applied

The classic definitions of the competitiveness of a country associate it with various indicators such as labour productivity, return on capital devoted to industry or the positioning of its goods and services in world markets. Such definitions are clearly none too viable for measuring the competitiveness of the productive fabric of a smaller geographical area such as a municipality or a city.

The competitiveness of the productive fabric will depend on:

- the actual sectorial structure of the municipality;
- the situation of the territory's structural factors; and
- the state of the resources available and the strategies adopted by the local productive fabric.

This article presents this methodology adapted to a local setting. Together with generic factors, such as the dynamism of the national or regional economy and the fiscal and monetary framework, competitiveness – the ability of companies to position themselves in the markets and to generate greater added value – will be



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measured by a number of more specific factors which the possible strategies, and measures used to improve them, can be based on. These factors can be gathered under three broad groups:

- the business concentration, which expresses the dimension, structure, location and specialisation of the zone in particular economic activities that can be correlated with certain external features;
- the zone's provision of resources and infrastructure, within which the importance of the quality and quantity of investments and government action in the zone and the quantity and quality of the zone's human resources should be stressed; and
- the competitiveness of the companies that form part of the zone's productive fabric – factors that measure this competitiveness are market-access strategies, quality-improvement programmes and human resources policies.

Once the competitiveness of the municipality as a whole has been analysed, the key clusters and emerging activities for the future of the city's productive fabric will be identified. These will form the subject of a more specific diagnosis revolving around the basic factors that determine their competitiveness.

The field work was structured around:

- the use of databases and specific studies of the zone in question;
- in-depth interviews of the main agents in the local economy (local government, companies and sectorial representatives etc.); and
- the carrying out of a survey on the competitiveness of the business fabric of the zone based on 150 interviews covering the main factors of competitiveness and strategies to determine the make-up of the zone's productive structure.

Principal Results

The present situation of Mataró's productive fabric presents a number of threats and opportunities, around which future strategies and action plans would have to be structured.

Outstanding amongst the weaknesses or threats hindering better competitive positioning of the municipality are the considerable industrial one-pointedness (highly centred on activities with little added value), the small dimensions and scant capacity for action of local companies and the lack of internationalisation of the city's companies. These, together with the lack of a commercial strategy and of innovation policies, are the main shortfalls of the municipality's business fabric.

On the other hand, the municipality is located strategically between Barcelona and the northern part of the Catalan coastline and is one of the main centres of population and economic activity in the second metropolitan orbit. This means that it presents a number of strengths and opportunities around which future lines of action can be structured. Significant future potential for the city's economic development lies in:

- a notable improvement in the area's access routes and infrastructure;
- a growing tendency towards tertiarisation of local economic activity; and
- the dynamism of the municipality's emerging sectors (services for companies, construction, leisure, etc.).

Definition of the Plan of Action

The city is currently experiencing a time of change, in which its future depends on taking advantage of the present economic dynamic and the opportunities offered by the new metropolitan setting. As the county seat and one of the major nuclei of population in the metropolitan hinterland, the city has an opportunity to gain a place as a major commercial centre and a focus for leisure and entertainment services and activities. At the same time, the city's sizeable industrial fabric, the new roadway infrastructure, the municipality's business tradition and the potential for development of new economic sectors makes Mataró a strategic element in the new metropolitan productive setting.

The Plan of Action drawn up is structured as follows:

Strategic Lines – main horizons which orient and define the will to act of the municipality's productive fabric. The Strategic Lines are structured and rendered viable by the definition of Objectives, which develop the Strategic Line within a highly specific orientation.

Measures – sets of projects that make it possible to fulfil the Strategies and Objectives.

Actions and projects – the most specific elements of the Plan, mainly involving work that can be carried out in the short term and which has immediate effect.

Strategies

In order to take advantage of the opportunities detected, and at the same time face up to the threats and weaknesses identified in the diagnostic phase, we drew up three strategies directed at designing and developing a new, more modern and competitive productive fabric, with higher added value of the economic activities carried out within them.

Strategy 1: To Design a New Productive Fabric Based on Activities of Higher Added Value

The measures proposed within this strategy focus on activating and developing the synergies necessary to make a qualitative leap in the current economic structure of the municipality. The four basic measures within this strategy are:

- to facilitate reconversion of the least competitive sectors without this leading to a net reduction of jobs;
- to boost diversification of the economic base;
- to provide the present business fabric with tools for internationalisation;
- to increase the capacity for action of local companies by encouraging processes of company concentration; and
- collaboration between SMEs.

Strategy 2: To Structure the New Strategies and Infrastructure to Ensure the Future Competitiveness of the Zone

The objective of this strategy is to modernise and improve company support infrastructures so as to ensure the competitive capacity of the local productive fabric. The measures defined here are directed at improving the range of industrial sites available, both

quantitatively and qualitatively, boosting and improving local business-support infrastructure and improving the area's human resource pool.

Strategy 3: To Develop New Transversal Activities to Generate Tangible and Intangible Capital in the Municipality

The underlying objective of this third strategy is to take advantage of the opportunity that will be generated by the new dynamics of the metropolitan area to increase the intangible capital of the city whilst widening the research base and accumulated know-how of the area and designing a new 'intelligent' city. The highly attractive geographic setting and the new socio-economic situation in the metropolitan hinterland are destined to be factors of attraction for business research and development activities and a foundation for the implementation of a project of metropolitan scope.

The action plan was approved recently and we will follow its evolution closely in order to compare and contrast the results as they are achieved and correct those processes which do not live up to the expectations entertained.

We hope to have occasion to recount the successes achieved. ■



The image shows a screenshot of the 'World Markets Online' website. It features a world map with a red hand icon holding a globe, a table of stock prices, and a search bar. The text 'world markets online' is prominently displayed at the bottom of the screenshot.

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Global Competitiveness Strategy: A Micro-Economic Place-Based Approach

a report by

Gene Park, Ted Lyman and Dr Egan

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Gene Park is an associate in ICF Kaiser's ESG. His areas of expertise include economic analysis, policy development, industry research and institutional analysis. He has played a central role in US policy studies as well as studies for international organisations, including Scottish Enterprise and the Province of Alberta, Canada. Prior to his work at ICF Kaiser, he worked as a research assistant at the Berkeley Roundtable on the International Economy. Mr Park has a Master's Degree in Urban Economic Development from the University of California.

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Dr Egan is Project Manager with the ESG, which he joined while completing his doctoral dissertation in 1996. He has extensive research experience relating to regional economic development, with a special focus on information technology and structural economic change. His dissertation, *The Spatial Dynamics of the US Computer Software Industry*, was the first long-term study of the relationship between the software industry and regional economic development.

Introduction

This paper reviews how a set of place-based approaches can be used to improve economic competitiveness strategy in developing regions. As the global economy has expanded, virtually every country has recognised the critical role of export earnings to economic development. Similarly, increasing trade liberalisation through the General Agreement on Tariffs and Trade, Association of South East Asian Nations and the Southern Common Market are creating new opportunities and challenges in reaching export-based economic development goals. If a country's or region's industries are not competitive, increasing globalisation may undermine traditional sources of export earnings, particularly those dependent on resource-based and labour-intensive industries. At the same time, the opportunities to participate in an increasingly integrated world economy are too significant to fall victim to the ineffectual practises of the past. The question is: what type of policies should developing economies deploy to improve competitiveness?

Experience shows that macro-economic development strategies alone, while critical, cannot guarantee success. While economic and political stability encourage foreign investment, provide a level playing field for domestic producers and can, in effect, "get the prices right" to allow market forces to operate more freely, they do not in themselves guarantee rising wages and living standards.

In contrast, the global competitiveness strategy approach described in this paper provides an overarching framework for guiding economic development programmes aimed at improving the competitiveness of a specific region or nation. The global competitiveness approach emphasises four interrelated themes, which are linked in that they have a microeconomic focus on global competitiveness and involve initiatives, investments and forms of organisation which are place-based – specific to the economic reality and competitiveness needs of regions or countries.

Market focus – Many traditional commodities that nations depend on for exports are experiencing a

price decline which will only continue in the future. These commodities include not only raw agricultural products and minerals but also many types of labour-intensive manufacturing goods. At the same time, new geographic markets are opening around the world and specialised niches are differentiating former 'mass-markets'. In today's global economy, finding the right niches and trading partners are more critical than ever. Industries that can take advantage of new market opportunities will reap the rewards of more lucrative markets but those that fail to adjust will see declining prices and market share.

Industry clusters – Experience and empirical analysis have shown that groups of related industries which are concentrated geographically – 'industry clusters' – tend to be more resilient and competitive. Related industries in close proximity often can share scarce resources such as skilled labour, management expertise, producers of intermediate goods and service providers.

Economic foundations – Undifferentiated factor inputs (land, labour, capital) are insufficient in explaining economic growth and prosperity. A new set of 'economic foundations' are increasingly recognised as essential to economic development which will be discussed later in this article.

Linking economic foundation development to industry clusters can create a competitive advantage that is far more sustainable than cost advantages. Economic foundations are maximised clusters, if spatially concentrated. This phenomenon, sometimes referred to more generally as 'external economies', partly explains the success of many dense, urban economies.

Public/private governance – The right institutional mechanisms must be in place for these new economic development initiatives to succeed. Public/private collaboration is particularly important to ensure that the provision of vital services matches the needs of the private sector. This is especially critical for developing countries which tend to have less robust economic foundations and more limited resources. Together, these components form the basis of the place-based

global competitiveness approach. This new understanding of what makes economies successful recognises that regions and nations need co-ordinated and comprehensive frameworks, not simply studies, to guide concrete initiatives to build their economies. By using the place-based global competitiveness approach, developing countries and regions can develop effective strategies to address key constraints to economic growth and achieve other critical policy objectives. Examples include:

1. Decreasing dependence on commodity exports – developing competitive forward and backward linkages through global competitiveness strategies can increase local value-added to manufacturing, agribusiness, resources, and services.
2. Creating jobs – high unemployment is a major source of poverty in many developing countries. Promoting industry clusters through a global competitiveness strategy can dramatically increase employment opportunities. Free zones now account for a large share of manufacturing jobs in many regions. The positive impacts on employment from the free zones can be enhanced by increasing the competitiveness of potential local suppliers of intermediate goods and service inputs.
3. Building more competitive firms – privatisation and trade liberalisation increase the importance of developing competitive industries. Sectors, such as tourism, which can provide valuable foreign exchange, can be targeted for growth.
4. Improving terms of trade – many developing countries suffer from a narrow export base, therefore terms of trade are sensitive to commodity price swings, such as oil on the import side and agricultural products for exports. Increasing production in a wider array of sectors for both domestic and export markets can help improve and stabilise the balance of trade.

In short, while macroeconomic reforms can create the necessary preconditions for economic growth, it is competitive industries that reduce poverty and create wealth and jobs. Place-based global competitiveness strategies can help developing countries attain the variety of economic development goals outlined above.

The Importance of Place-Based Strategies in the Global Economy

Increasingly, the economic performance of regions around the world is diverging from that of their surrounding nations: some urban and rural regions are moving far ahead, while others are being left behind. In the US, as the graph below indicates, metropolitan regions have diverged in their average

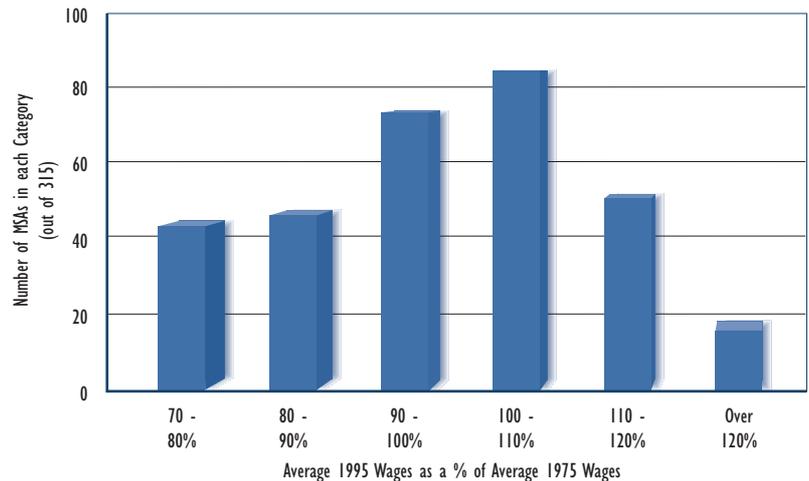


Figure 1: Wage Performance in 1975 and 1995 in US Regions

wage level since 1975, with over 50 metropolitan regions having real average wages either 20% better or 20% worse off than they were 20 years ago.

Why should this level of regional economic divergence persist, and even widen, after 50 years of regional convergence in incomes? Today, the most significant economic connections occur within regional concentrations of industries and supporting activities. These economic regions often cut across local administrative and political jurisdictions and are driven by global trade, investment and technology flows. The success of regions from Silicon Valley to China's Pearl River Delta illustrates how individual regions can by themselves increase foreign investment and prosperity. Regional organisation and initiative can clearly make a difference, whatever directions their national economies evolve.

A major factor in regional divergence has been the development in recent years of worldwide production networks, in which regions specialise in different intermediate stages of final products, be they computers, automobiles, furniture, food or apparel etc. The rise in international trade of both goods and services reflect this heightened level of inter-regional economic interdependence and the consequent success of regions which perform well in this new context.

Elements of Global Competitiveness Strategy

Market Focus

The rapid integration of global markets is creating new opportunities for nations and regions that are prepared to compete in the world market. To exploit the new opportunities of the global economy, industries must learn to focus on global market opportunities. While strategies aimed at increasing

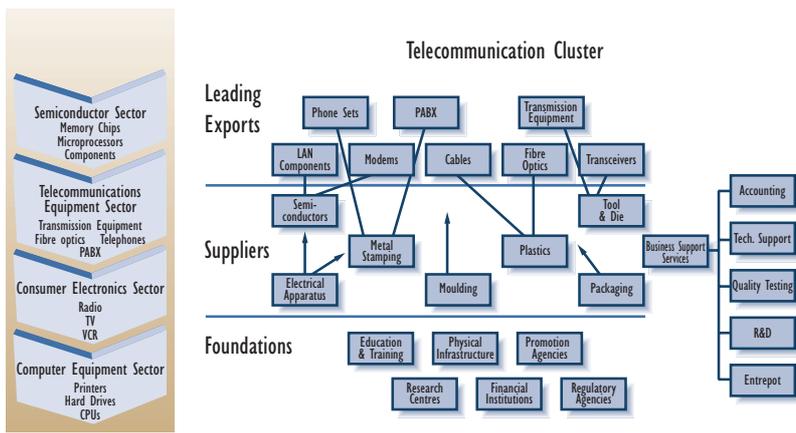


Figure 2: Example of an Industry Cluster

productivity, including micro-economic strategies, are a key component to improving competitiveness, production strategies alone are inadequate. The ability to understand key markets around the world is vital today. Many small or inadequately organised industries in developing countries, however, lack this capacity despite its increasing relevance to their future prosperity. In north-east Brazil, for instance, many regional farmers lack the market intelligence necessary to determine which crops they can produce most competitively and where they might market their goods. In contrast, other regions have managed to gauge accurately market trends and exploit new export markets. Mexico, for example, successfully analysed the market potential of papaya in the US and has seen its exports soar.

Industry Clusters

Despite the increasing regional specialisation and interdependency associated with globalisation, many regions in recent years have developed upstream and downstream linkages to key industries within the region. Firms benefit from proximity and close relationships to qualified service and commodity input suppliers. Proximity helps build critical mass in local labour markets, helps justify increased infrastructure investment, builds a local market to attract more outside suppliers, can improve the flows of market and technological information to local firms and improves the overall responsiveness of the local industrial system.

The important developmental difference between broad clusters and narrow segments of production chains is that clusters are dynamic, innovative regions which are capable of adjusting to – and in fact producing – innovation which expands the production chain and the value added at each stage (see Figure 2). Regions with a more narrow focus are often subject to economic decline when these changes occur because they cannot adapt as quickly without the support of intermediate suppliers and key service providers.

Using industry clusters rather than single industries as the unit of analysis can provide the basis for a new approach to economic strategy. Focusing on related vertical and horizontal linkages, industry clusters provide a means of extending a region’s industry development efforts along the value chain from manufacturing assembly towards higher value-added activities, such as research and marketing services.

Examples of successful clusters around the world abound. A high concentration of related software, computer and electronics manufacturers, suppliers, researchers, specialised workers and services has contributed to the success of Silicon Valley in the US and has had a similar effect in Bangalore’s high-tech economy in India. Each of these software clusters are linked to different international production chains in electronic components, consumer electronics, other software and the increasing variety of downstream industries with dedicated software suppliers. Other regions specialise in segments of production chains related to natural resources – providing minerals or primary agricultural products, for example – and can increase their competitiveness through higher levels of processing and niche marketing.

Economic Foundations

Successful industries, especially those which have developed into clusters, are supported by economic foundations that deliver the ‘soft’ inputs required to move up the value chain. Key economic foundations include:

- worker skills and education;
- sources of technology and R&D;
- capital finance;
- business climate; and
- physical infrastructure.

Often, these can be benchmarked against other regions to provide a picture of the relative strengths and weaknesses in a given region. Once public and private leaders know which economic foundations are critical to their industries and clusters and how they compare to other regions, they can take steps to actively shape their future economy by developing economic foundations. If foundations are developed to be responsive to the needs of industries, competitive advantage can be created.

Our research and experience have identified two special categories of regional economic foundations: quality of life and social opportunity. A quality environment is increasingly critical for high value-added economic activities, such as research and development and headquarters functions. A lack of social advancement becomes a long-term drain on the economy and often points

out weaknesses in the educational system. In other words, poor social and environmental performance represent long-term weaknesses in the region's economic foundations.

At the same time, social and environmental concerns are often represented in their own right, independent of their effects on economic development, by powerful constituencies. The need to achieve consensus in economic vision and strategy makes it increasingly imperative to respond to these issues in devising economic strategy. The types of place-based techniques described in this paper can be used to identify the likely effect of growth on both social opportunity and environment.

For example, different industry clusters offer different levels of economic growth potential, have different environmental effects and contribute in different ways to problems of social exclusion and inequality (see *Figure 3*).

Public/Private Governance

Competitive regions and nations have always been characterised by the ability of enterprises to work together. The particular aim of public/private collaboration is to keep economic foundations in step with the changing market requirements of industries and industry clusters. Industry cluster strategies need to place particular emphasis on mobilising public and private sector stakeholders, as well as concerned non-governmental organisations, to work together to implement new initiatives. New organisations are often necessary to enable leaders from different sectors, departments and localities to work together more effectively.

Typical Steps in a Place-Based Economic Development Process

The experience of the last decade has shown how place-based initiatives can help developing regions and countries meet their economic development challenges. Although initiatives must be tailored to meet the specific challenges of each region, they typically include the following components:

1. Industry Market Outlook – analysis of domestic and world markets serves to highlight key industries with high market growth potential for possible focus in a strategic plan. Trade patterns can be analysed for each market segment to identify specific geographic regions that might be targeted during implementation phases.
2. Industry Cluster Analysis – quantitative analysis can identify established and emerging industries and established clusters through a four-step

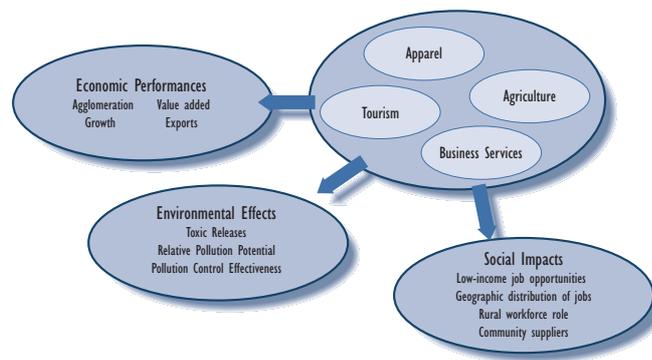


Figure 3: Regional Clusters

process: identification of industries with common markets; determination of shared supplier industries; identification of key occupational needs; and analysis of patterns of spatial co-location. In addition, industry supply gap analysis can identify the key suppliers required to enhance competitiveness.

3. Organisation of regional working groups – industry working groups can be organised for each key industry, consisting of business, government and university leaders, to identify economic foundation needs and industry problems.
4. Strategic plan – using diagnostic results, a strategic plan featuring action initiatives is prepared. The plan addresses highlighted issues, such as industry-specific training and supplier attraction plans, and is designed to become the basis of economic action.
5. Implementation – a plan, in order to be successful, must go beyond recommendation to implementation. Such an implementation programme involves identifying and empowering key organisations and leaders to take responsibility for overseeing implementation.

ICF Kaiser International

ICF Kaiser International, Inc. is one of the world's largest consulting, engineering and programme management companies. It provides fully integrated capabilities to clients in four related market areas: environment, infrastructure, industry and energy. The company combines the strengths of ICF Incorporated, a consulting firm, and Kaiser Engineers, Inc., an engineering and construction company.

The Economic Strategy Group (ESG) is a business unit that develops and implements economic strategy, focusing on regions encompassing metropolitan areas, states and cross-border economic complexes. For nearly 20 years, ESG has applied a set of action-oriented approaches to economic strategy that have been successfully used in:

- leading economic centres: Charlotte, North Carolina; Austin, Texas; Los Angeles County; Greater New York Metropolitan area; Silicon Valley; Hong Kong; Florida; Arizona; the Mid-America region; Osaka, Japan;
- emerging economies: the north-east region of Brazil; Tianjin, China; Malaysia; Bangalore, India; Chihuahua, Mexico; and
- transforming economies: Slovenia; Slovakia; South Hungary; Jena (former East Germany); the Middle East

These efforts have been sponsored by state and local governments, business leadership groups, public/private consortia, partnerships between national and local governments, international agencies and private sponsors. Consulting assistance was requested at a time when the sponsoring nation or region's economy was undergoing a major competitive challenge that called for a dramatic rethinking of strategy for the future. The ESG:

- analyses the region's economic drivers;
- examines the strengths and weaknesses of the area's industrial clusters;
- assesses markets for the products and services of the clusters;

- mobilises local stakeholders in identifying industry requirements and organising for action; and
- provides recommendations in the form of strategies and action implementation steps aimed at creating a higher value added economy.

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Democratic Governance in the Information Age

a report by

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Introduction

The dawning of the global information age is having a dramatic impact on governance. Governments are acknowledging the need for significant internal reengineering to improve efficiencies and to deliver more transparently high quality government services to citizens. Information technology (IT) is playing a key role in many of these reengineering efforts. Traditionally, benefits accruing to governments from technology integration have been viewed in terms of cost savings and return on investment from specific projects. However, in an exploding information-based economy, governments must deal with a complex range of issues, including regulation/deregulation, licensing, incentives and risk management among the web of providers and carriers (networks, content, cable, broadcast, wireless voice and data and telephone). In this paper, we want to explore briefly some of these issues then illustrate them with specific reference to reengineering efforts in South Korea.

Governance and Digital Democracy

It is increasingly clear that governments are in the information business and that the politically and economically successful systems of governance will be those which manage information effectively on a global scale. For example, the combination of high-speed and relatively low-cost computing and communications, the end of the cold war and the rise of a global economy all suggest that physical location will matter less in the 21st century than it has in the current one. Already, cities such as London, New York, and Tokyo, like the large multinational corporations, are acting, in many ways, as independent actors in the emerging global political economy. Thus, a city may be a part of a nation-state and yet act in significant ways quite independently of that nation-state.

While physical location is mattering less, it is still true that people must be somewhere. It is just that where

they are will increasingly determine the 'government' services they will expect. A person should be as able to renew their New York driver's licence from Montevideo as from their home in upstate New York; and if they happen to be in Antwerp they will expect the same (or better) quality of healthcare as if they were 'home'. All this poses significant challenges to traditional systems of governance. Governments will, in the literal sense, become more virtual. That is, governments must govern without always being physically present. As a simple example, smart traffic lights permit the control of traffic without requiring the physical presence of a police officer (thus offering the possibility of reassigning these resources elsewhere).

Factors that are shaping governance demands include the following:

- The global political economy is becoming increasingly bit rather than atom-based. Most of the traditional techniques deployed by governments have been based on their abilities to exert controls over atom flows. Import tariffs tax movements of physical goods. Health practice regulation is based on the assumption that healthcare providers will have their atoms near those requiring medical care. Yet, advanced communications networks are not contained within simple geographic boundaries (for example, how will the bit-flows be taxed or controlled?), and telemedicine promises to enable care to be delivered (infrastructure permitting) where the need is, rather than where the appropriate physician happens to be at the time.
- The end of the cold war means that the rigid state-based territorial divisions of the world are becoming transformed in often puzzling ways.
- Growing influences of global cities, transnational corporations¹, international organisations and non-

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1. Authors define 'transnational corporations' (TNCs) or 'stateless corporations' using the following criteria: first, the scale of annual sales of TNCs exceeds the GNP of small Third World countries; second, more than half of companies' profits are made outside their home country; third, there is the presence of interlocking ownership and the existence of multiple identities and multiple loyalties; lastly, there is a strong degree of distancing itself with a fixed nationality. See Business Week, 14 May 1990.

governmental organisations have eroded the conventional authority of the nation-state substantially. Nation-states are finding it necessary to delegate and decentralise their conventional areas of jurisdiction to local, regional power groups as well as international organisations. Each government has to deal with the effects of transnational power and the consequent challenges posed by growing global economic interdependence, thereby legitimising new international organisations, such as the World Trade Organization (WTO), to support global governance.

- In this context, the conventional bonds between the nation-state and its business units have become looser and consequently the national identities of the business corporation and national interests have become blurred. An appropriate question on the relationship between each nation-state and its business corporation would be: “Does it make any difference what a company’s nationality is as long as it provides a job?”
- The rise of a global political economy, coupled with the worldwide trend toward decentralisation of political authority from national to local government, means that cities (and regions) face new challenges and opportunities.

Together, these factors suggest that successful governance will increasingly require thoughtful IT planning, sophisticated deployment, management of information assets and the knowledge of how to incorporate different levels of authorities and agents within the nation-state boundary. In addition, there will be a need for new local, national and international legislation to provide a regulatory climate in which information-based economies can flourish.

Building these governance institutions for the 21st century is one of the most challenging tasks faced by societies worldwide. Moreover, these challenges are occurring at precisely the time when global competition is fierce and resources scarce. The globalisation of today’s world rewards those governments who are attuned not only to the best administrative practices in the conduct of their own affairs but also to those practices of governments in their region and around the world. In the Global Information Age, with markets playing a preponderant role in the distribution of resources and, ultimately, power, governments worldwide are undergoing a major process of adaptation – a reengineering process known in the US as ‘government reinvention’.

This process of reinvention goes beyond mere devolution of power, downsizing, outsourcing and creating new regulatory environments: it presupposes a change of paradigms, a redesign of governance (the

relationship between government and the people) and a complete transformation of the way government works internally as well. The basic principles on which this process is built include:

- putting citizens first;
- making citizens into customers of government;
- implementing initiatives to promote transparency and accountability in administration;
- reducing the cost of government by downsizing, outsourcing and improving government efficiency;
- empowering government employees through training and a reward system based on performance, productivity and creativity; and
- simplifying bureaucratic processes and cutting red-tape.

IT can be an effective tool in the translation of these principles into concrete steps of reform, by allowing governments to perform their functions in more transparent and innovative ways. It becomes a tool in the managing of information, more specifically in the creation, gathering, manipulation, distribution, protection, interpretation and storage of information.

In the process of reinventing government and strengthening democratic institutions, IT can play an important role in many different areas: first and foremost, in the citizens’ access to government information and the consequent possibilities of participation that this entails. There are many examples already implemented both in the US and in other countries around the world. In the US, most state governments have created websites with basic information concerning the history of the state and the structure of the state government and information about elected officials, state agencies and state courts. They have also put all laws, codes and regulations online. These sites are becoming increasingly more interactive, providing not only information but, in many cases, actual services. This one-stop approach to government information and service delivery is proving to be extremely effective: individuals and businesses need to make a single contact with their government and, in turn, they (hopefully) receive a co-ordinated and effective set of information and services to satisfy their needs. A very good example of this approach in the US is the US Business Advisor (<http://www.business.gov/>), a one-stop website containing federal government information relevant to businesses and business transactions, with the purpose of making the relationship between government and businesses more productive. Many communities in the US have established public access of this information in various other ways. Examples include Info/California’s use of stand-alone kiosks in shopping malls, grocery stores and libraries; and the Community Voice-Mail in Seattle (Washington), which uses a two-way messaging system that allows homeless

people and other individuals without access to a telephone to receive messages from programme counsellors or potential employers.

The Case of Korea

South Korea, where President Kim Dae Jung has explicitly embraced the objective of transforming the country into an information society as a way of responding to Korea's recent economic woes, provides an interesting example of the subtle interplay between governmental reform and the information age. In this regard, a most salient feature is the extremely large difference between Korea's administrative centre, the capital city of Seoul, and other provinces and local cities regarding their levels of informatisation. The Hyundai Economic Research Institute's survey on regional informatisation index documents these differences. Seoul has the highest level of informatisation, with an index score of 169.47. Scores then drop to 94.24 for the capital city of Incheon and Kyunggi province. This is followed by the

city of Choongcheong province (90.53); the city of Taegu and Kyungbook province (85.32); the city of Taejeon and Choongnam province (80.36); and, finally, Chejoo province (the home of President Kim) has the lowest score at 58.02.² The government index of informatisation also marks discrepancy between the centre and the periphery: Seoul 125.05; Pusan 118.09; and Choongcheong 63.01 (the lowest).

There are several factors explaining this gap between centre and periphery. First of all, Korea's information policy was articulated as a strategic national administrative and economic policy. Informatisation was understood, firstly, as a construction of high-speed government information network (KII-G) to be completed by 2010 rather than as an infrastructure to serve private industry and citizens. All the major scholarly conferences that we participated in last year focused on the issue of the realisation of electronic government rather than that of how government can encourage and incorporate informatisation in the civil sectors. Thus, informatisation seems to be

2. *The regional informatisation level index with its average 100 is composed of three major indexes: social, economic and government. The social index is based on the number and annual sales of regional cable telecommunications services, and number of subscribers, the number and annual sales of the value-added telecommunications lines, distribution of computers and ISP spread of computers. The economic index is the information expenditures as a proportion of total expenditures in local and regional information and telecommunications industries. The government index includes the proportion of informatisation-related public officials, distribution of computers in the public offices and the informatisation budget as a proportion of total budget in the local and regional offices.*

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understood mainly as a reengineering of government efficiency. The Ministry of Information and Communication, established in December 1994, is, however, currently implementing the Blueprint for Korea Informatisation Infrastructure as a single and integrated network to be jointly utilised by local and private sectors. The estimated cost of this network is about US\$60 billion.

The national government has played the most significant role as both the creator of information demands and the architect of Korea's information economy. Public and private local actors have generally not been able to initiate their own informatisation policies due to both the centralised political, cultural and administrative structure and to the lack of financial autonomy. Such a strong presence of central government's leadership in national informatisation helps to explain why the national government tried to implement an Electronic Resident Card even in the face of severe resistance from citizens. This centralised, top-down style of an informatisation implementation plan has served as an obstacle to local innovation. For example, local and regional actors, both private and public, are still waiting for the construction of the central government's promised integrated database.

Of course, local autonomy in Korea is still in the very early stages despite its revival in 1993. The level of financial autonomy in the regional and local administrative units remains very low, with around half of the budget provided by the central government. Only on two occasions have local citizens actually elected their representatives. Local development of information infrastructure in such areas as virtual communities, local digital politics and electronics has been meagre. Electronic services from local government agencies have been modest and confined to such areas as the issuing of records with individual identification cards, land documents and automobile registration. Widespread developments of local information infrastructure will depend on more developed local autonomy in politics, economy and informational culture.

The political culture on the issue of freedom of information can provide an example of the sometimes slow process of informatisation in Korean society. Only very recently has the Korean government institutionalised the free access and transparent management of information. The three most important statutes related to freedom of information were enacted in the 1990s: the Public Information Dissemination Act, in 1996; the Basic Act Relating to Administrative Regulation and Civil Affairs, in 1993; and the Administrative Procedure Act (APA), in 1996. A principal objective of the APA is to promote the fairness, transparency and reliability of public

administration through the establishment of provisions for common administrative procedures and citizen participation. The APA incorporates detailed procedures concerning the proper steps for administrative actions and guidance, advance notification, public hearings and the submission of opinion by interested parties. Interestingly, the main driving force behind the APA was not initiated by the government but arose from the civil pressure and demand for an institutionalised base of citizens' access to the information over which the central government has a monopoly. The state leadership and control over society established and embedded in political culture throughout Korea's long history may prove to be a distorting factor in the direction of a Korean version of an information society.

In the information age, successful governance will depend upon a fragile balance between formal political institutions and the competencies, norms, values and ethics of both citizens and public officials, that is, between government and civil society. The informal and highly normative sense of community and trust that permits decentralised societies to function is based upon subtle premises of citizen and administrative competence. Thus, it is critical for Korean society that it build the kind of civil society that will provide the social fabric necessary for the balanced power relations with the state and that informatisation be the most important tool as a means of building a consensus for legitimate democratic system.

Overall, South Korea is ranked in the middle group of countries in the area of informatisation. In the areas of information and telecommunications industry policy and government network systems, Korea appears to be gradually catching up with the leading group of Western countries. However, since the generic framework of state and society relations will mainly influence the actual implementation of the goal of creating an information society, it is critical that Korea's civil society should be strengthened.

Conclusion

The Global Information Age poses severe challenges and almost unlimited opportunities to the world's systems of governance. In particular, developments in information and communications technologies are driving both the process of economic globalisation and the related pressures for governmental reengineering. In this paper, we have examined some of these pressures both abstractly and with specific reference to reform efforts now underway in South Korea. Evidence from the Korean case supports the more general observation that information-age reform efforts must be simultaneously directed at the institutions of government and the civil society in which that government is embedded. ■

Fiscal Innovations and Urban Governance

a report by

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Over the past decade or so, the developing and transitional economies have made use of an interesting array of fiscal instruments to strengthen the finances of local governments. Driven by the twin objectives of carrying forward the decentralisation goals and meeting the widely prevalent fiscal crises, these instruments have typically included adjustments in the local tax rates and user charges, efficiency improvements in local tax administration and enforcement, use of innovative revenue sources, new intergovernmental fiscal arrangements, contracting out of services and an increase in long term borrowing etc.

Somewhat similar developments are beginning to be observed in India. A 1992 amendment to the Constitution marked a major development in the direction of rationalising the state-local fiscal relations. Independent of the Constitution (seventy-fourth) amendment, attempts have been made in several states and cities of the country to change and reform the system of property taxation. Innovative financial and institutional arrangements have also been made, albeit sparingly, in the provision of such urban infrastructure and services that have historically been in the public domain and provided by the public sector. Several local governments have begun to use market-based rating systems for assessing their capacity to compete for financial resources in the capital market. Many others have focused on changing their financial accounting and management systems.

The issue is: have these fiscal instruments and other measures led to improved governance of cities and towns; have these measures helped to promote accountability, transparency and participation at the local level; or have these instruments served primarily as revenue-raising tools to bolster up the finances of local governments?

Using cases of three innovative fiscal initiatives, (reform of property taxation system in Andhra Pradesh, issuance of bonds by the Ahmedabad Municipal Corporation and public-private participation in the provision of infrastructure to Tirupur), this study attempts to address the above-stated issues and explore the interconnections between fiscal innovations and urban governance.

Introduction: Exploring the Connections between Finance and Governance

Numerous studies have been carried out in recent years on the finances of local governments in the developing economies.¹ Apart from a few exceptions, these studies are focused on one single issue: what should be done to improve and strengthen the finances of local governments? What instruments should be used to make the local governments financially viable? What should be done to enhance their creditworthiness so that they can access the capital market and enter into such financial arrangements as would permit them to meet their growing expenditure responsibilities?

Mention should be made at the outset that the issue of the finances of local governments has historically been a matter of widespread concern in most developing economies, mainly on account of the extremely unsatisfactory state of their finances and their high level of dependency on the central and provincial or state governments. Its growing importance in recent years has, however, been spurred by a large-scale reappraisal of the role of local governments that has taken place in a number of developing countries. Recent years have seen almost universally strong trends towards decentralisation and consequential reallocation of functions and responsibilities between the different levels of governments.² In this context,



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1. All references to local governments in this study refer to urban local governments. These include municipal corporations, municipal bodies and other forms of city/town governments.
2. Recent studies have shown that as a political phenomenon, decentralisation is widespread in developing and transitional economies. Of the 75 countries with population greater than five million, all but 12 claim to have embarked on some transfer of political power to local units of government. See William Dillinger, *Decentralization and its Implications for Urban Service Delivery*, *The World Bank* (1994: Washington, D.C.), and Roy W Bahl and Johannes F Linn, *Urban Public Finance in Developing Countries*, *The World Bank* (1992: Washington, D.C.).

questions have been asked about the role, functions and responsibilities of local governments: should the local governments be concerned – as provided for in the classical formulation – with resource allocation functions, such as the provision of public goods, whose benefits are likely to be limited to local jurisdictions or should they assume responsibility for functions such as economic stabilisation, income redistribution and poverty reduction?³ Drawing justification from the principle of subsidiarity, many developing countries have favoured a decentralised organisation of responsibilities where a function is assigned to a higher level of government when it is in a better position to carry it out compared to a lower level of government. With the application of this principle, local governments in many countries are experiencing fundamental changes in the division of authority vis-a-vis the higher levels of governments and vis-a-vis the market.

The Notion of Subsidiarity

... just as it is wrong to withdraw from the individual and to commit to the community at large what private enterprise can accomplish, so it is likewise unjust and a grave disturbance of right order to turn over to a greater society of higher rank functions and services which can be performed by lesser bodies on a lower plane. This is a fundamental principle of social philosophy, unshaken and unchangeable. Of its very nature the true aim of all social activity should be to help members to the social body, but never to destroy or absorb them.

Papal Encyclical Quadragesima Anno

In many countries, the role of local governments has undergone a major shift on account of the new fiscal realities facing them. These realities, characterised by severe limitation of financial resources, have led to

the downloading of a large number of functions and responsibilities to local governments, often unaccompanied by devolution of fiscal powers and financial resources.⁴ As a result of both these trends, towards decentralisation and fiscal pressures, local governments have come to acquire, in a number of countries, economic and social responsibilities that are often new and unanticipated. This has led them to ask: are these their legitimate responsibilities, and what should the local governments do to generate resources in order to meet expenditure on such responsibilities? What kinds of new fiscal and other instruments should they bring into use?

A second development that has brought the issue of the finances of local governments to the forefront is the increased mobility of capital, technology and other factors of production across nations, combined with the worldwide trend towards globalisation. Although theories about the local effects of globalisation and global restructuring processes are partial and far from robust, indications exist that there is considerable local sensitivity to such processes. In several instances, the fiscal problems of city governments have been compounded by global economic restructuring and shifting locations of labour and capital.⁵ A few studies that have analysed such effects have shown that globalisation has, on the one hand, led to the reformulation of relations between the public and private sectors at the local level and, on the other hand, increased competition between cities and city governments for domestic and external investments.⁶ Cities in many developing countries are at the centre of globalisation, and are being called upon to enhance their competitiveness and to respond to the challenge of the opening up of the national economies.⁷ Globalisation has accelerated the demand for city-based infrastructure and services, and has led the local

3. *In the classical formulation, the public economics literature assigns three roles to the public sector: (i) macro stabilisation; (ii) income distribution; and (iii) resource allocation. The public economics model assigns the first two of these roles to central government. Subnational governments enter the picture only with respect to the third role of government – resource allocation. See R Musgrave and P Musgrave, Public Finance in Theory and Practice, McGraw Hill (1984: New York). Views on fiscal federalism and decentralisation in general are constantly changing between nations and, across time, within particular nations. See Vito Tanzi, Fiscal Federalism and Decentralization: A Review of Some Efficiency and Macroeconomic Aspects, Annual Bank Conference on Development Economics, The World Bank (1995: Washington, D.C.), and Wallace E Oates, "Fiscal Decentralization and Economic Development", in National Tax Journal, Vol. 46, No. 2 (1993: Washington, D.C.).*
4. *Such downloading is uniquely observed in transitional economies where budget cuts and public sector restructuring implemented by higher levels of government have trickled down to the local level. The fiscal pressures have created a chain reaction as one level of government undertakes to reduce its transfers to the next level of government. See for further discussion, Environment and Planning, Vol. 12, 1994, and A R Hobson and France St-Hilaire, Urban Governance and Finance : A Question of Who Does and What, IRPP, (1997: Quebec).*
5. *Janice Caulfield, Taxation and Equity within Metropolitan Areas, presented at the OECD/Sweden Workshop on Governing Metropolitan Areas: Institutions, Finance and Partnerships (1997: Stockholm).*
6. *See Fu-chen Lo, Changing Patterns of Global Production, Technologies, and the World City System, The United Nations University (1996: Tokyo), and Fu-chen Lo and Yue-man Yeung, Emerging World Cities in Pacific Asia, The United Nations University (1996: Tokyo).*
7. *See Om Prakash Mathur, "Governing Cities : Facing Up to the Challenge of Poverty and Globalization", in Patricia McCahey (ed), Cities and Governance, University of Toronto (1996: Toronto).*

governments to innovate new financial and other partnership arrangements for meeting the increased infrastructure and service requirements.

Yet another development that has made a vital impact on the finances of local governments is the global thrust towards governance. Governance has acquired a new meaning wherein it is seen as a process of setting priorities and sets of actions not only by the government but by other stakeholders as well – the non-governmental sectors, business, industry and, in fact, the civil society as a whole.⁸ In its new formulation, governance is much more than making available to citizens certain social goods, such as water supply, conservancy services, primary health, roads and street lighting; it is concerned as much with the institutional arrangements (who does what), the financing modes (how the different functions are financed, for instance, via tax, non-tax, grant or debt financing), cost recovery mechanisms, fixation of accountability and the like. Good governance requires a proper choice of fiscal instruments, choice clearly falling on those instruments that have a wider civil society acceptance and which are likely to lead to greater accountability and transparency. It has added a new dimension to the fiscal behaviour and responsibilities of local governments.

As these pressures have mounted, local governments in the developing countries have resorted to using a mix of fiscal instruments and arrangements for raising resources and better managing the patterns of expenditure. Experience in the developing countries indicates that these have typically included putting into use innovative sources of local revenues, improved efficiency in local tax collection, reduction in capital expenditure, new intergovernmental fiscal arrangements, selling local (municipal) assets, deferment of maintenance, expenditure control and management and long-term borrowing. In many countries, strategies in this sphere have meant adoption of such options as privatisation, public/private partnerships and implementation of market-oriented cost recovery approaches.⁹ Many countries have established municipal

development funds (MDF) to compensate for the lack of long-term capital for urban infrastructure.

Changes of a somewhat similar nature have been observed in the system of local government financing in India. As in the case of much of the developing world, the finances of local governments in India¹⁰ have historically been in a dismal state. Recent estimates have shown that the locally-generated tax revenues comprise only 4.6% of the total revenues raised by the central government and 8.05% of revenues raised by the state governments.¹¹ On a per capita basis, the municipal governments raise only about one-fifth of the revenues raised by the central government. Considering the fact that the municipal areas produce over 50% of the country's GDP, it is evident that the municipalities are not able to establish effective linkages with activities carried out within their own jurisdictions. Much of the GDP gains from city-based activities accrue to either the central or state governments.¹² Furthermore, the municipal governments are able to finance no more than 60% to 65% of their recurrent expenditure out of their own, locally-generated resources. For historical reasons, user charge as a principle for charging for services is applied, at best, on a limited scale.

Table 1: Revenues of the Central, State and Municipal Governments 1991–1992

Government	Total (Rs. billion)	Per capita (Rs.)
Centre	833.2	986.8
States	484.6	573.9
Municipalities	39.0	205.3

Source: Finance of State Governments, 1993-94. Reserve Bank of India (Bulletin 1994).

In the allocation of fiscal powers, the municipal governments in India have access to revenue sources that are characterised by low levels of elasticity and buoyancy, with the more elastic of them constitutionally falling within the domain of the central and state governments.¹³ Moreover, the municipal governments enjoy little autonomy in

8. McCarney et. al., "Towards an Understanding of Governance : The Emergence of an Idea and its Implications for Urban Research in Developing Countries", in Richard E Stren (ed), Urban Research in the Developing World (1994: Toronto).

9. An interesting table on local choices of fiscal strategies is contained in Terry Nichols Clark (ed), Urban Innovation: Creative Strategies for Turbulent Times, (1994: Sage Publications). Also, see Jeffrey I Chapman, Long-Term Financial Planning: Creative Strategies for Local Government, ICMA (1967: Washington, D.C.), and OECD, Infrastructure Policies for the 1990s (1993: Paris).

10. India is a federation of union and states; the subject of local government falls within the domain of states who are responsible for their creation, constitution and assignment of functions and fiscal powers.

11. Redefining State-Municipal Fiscal Relations : Options and Perspectives for the State Finance Commissions, National Institute of Public Finance and Policy, (1995: New Delhi).

12. The inter-governmental allocation of the sources of revenue is structured in a way that much of the gains from activities undertaken in cities accrue to the central and state governments.

13. The Constitution of India does not directly assign any tax powers to local governments. The state governments, out of the tax powers that they enjoy under the Constitution, allocate a few taxes to local governments.

adjusting the tax bases, tax rates and even the procedures for tax administration and enforcement. The entire local tax and non-tax system is thus obsolete and has seriously constrained the efficient functioning of cities and their governance.

The municipal governments in India have encountered increasing demographic and social pressures in recent years. During the census decades 1971–1991, for instance, urban population in the country increased at annual rates varying between 3.1% to 3.8%, and doubled from 109.1 to 217.6 million persons. This demographic expansion was accompanied by a phenomenal increase in the number of persons below the poverty line, which rose from 60.1 million in 1973/1974 to 83.3 million in 1993/1994. This phenomenon, which is also associated with the growth of slums and squatter settlements, has placed an enormous financial strain on local governments.¹⁴

Parallel to the developments in the other parts of the world, cities and city governments in India have come to also face the multiple challenges of decentralisation, globalisation and governance. The Constitution (seventy-fourth) Amendment Act, 1992 (the “Amendment Act”) has ushered an era of democratic decentralisation into the country, incorporating specific provisions for the empowerment of local governments.¹⁵ The Amendment Act has laid down, in the 12th Schedule of the Constitution, a list of functions that it considers appropriate to be performed by the municipal governments. Many of these functions – for example, planning for economic and social development, urban poverty alleviation, urban forestry and protection of the environment – are new and unanticipated, and they carry important redistributive and interjurisdictional implications.

The Amendment Act envisions, over a period of time, a major vertical and horizontal restructuring in the state-municipal fiscal relations. Questions have therefore arisen as to who and which level of government should finance such services as economic and social planning and poverty alleviation, and what should be the respective roles of the central, state and local governments in their financing. The idea of decentralisation to the local level as a way of improving government responsiveness and accountability is very much related to the notion of fiscal responsibility, which requires that governments making decisions on

expenditure programmes should assume responsibility for taxing those who benefit from them. Decentralisation is expected to also generate greater efficiency in service delivery and lower public spending.

Defining horizontal and vertical restructuring

Horizontal restructuring refers to the redefinition of public-private and reconstitution of local government roles vis-a-vis the market.

Vertical restructuring refers to revising the functional and fiscal relations between the different governmental levels.

Several cities in India are faced with the challenge of globalisation. Recent estimates indicate that cities – particularly the larger cities – have been the major destination for foreign direct investment (FDI) that has accrued or been committed to India in recent years. Several of these cities are in direct competition for such investment, which has accelerated significantly the demand for developed land, housing, roads, power, water supply, sewerage systems and other linked services and infrastructure. Indeed, the fruition of such investments is linked directly to the availability of infrastructure and services in cities and towns.

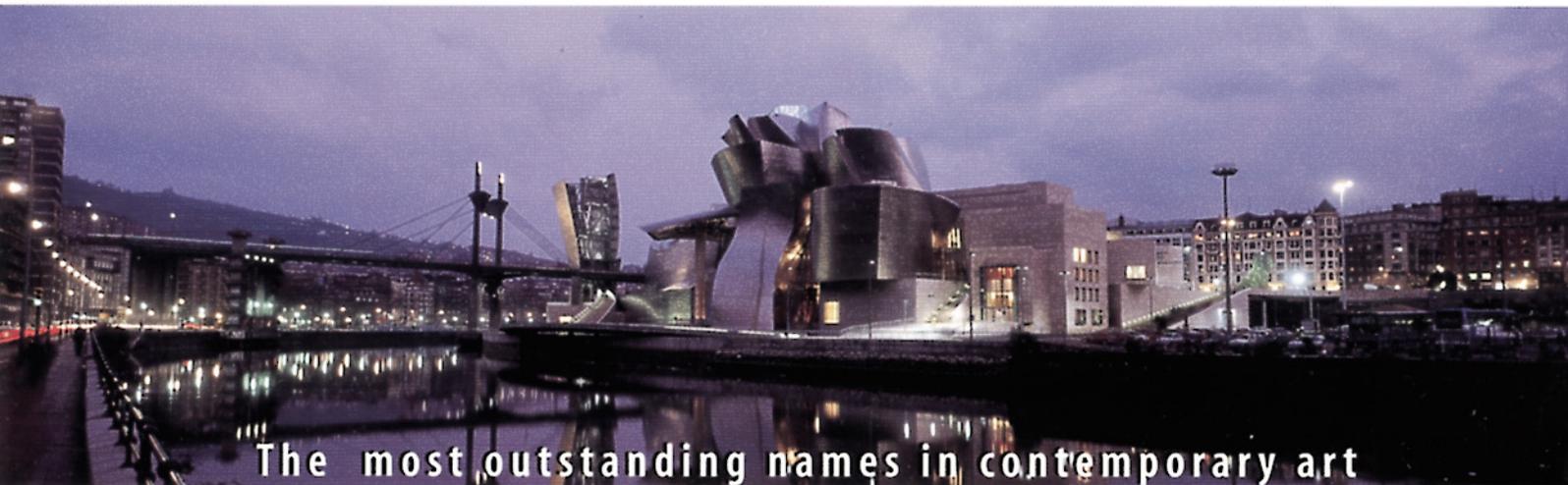
Given the increasing recognition that traditional sources – for example, public sector financing – are unlikely to be adequate for meeting the city-linked infrastructural needs, questions have arisen as to what the local governments should do in order to attract investment for the provision and upgrading of city-based infrastructure and services and as to what sources they should tap for raising new capital resources for financing infrastructure and services.

Mainly as an outgrowth of the provisions of the Amendment Act, India has, in recent years, also seen an increasing discussion on governance, in particular, on the relationship of elected representatives, bureaucracy and the civil society. What role should these stakeholders play in the governance of cities? Who should be responsible for determining local priorities? These discussions have implicitly brought in issues of accountability and of instruments that would be able to finance services for which the municipal governments in the new set-up are responsible for. Pressures have mounted on local governments, albeit in different ways,

14. For a fuller discussion, see Om Prakash Mathur, “State of India’s Urban Poverty” (1994: Asian Development Review, Manila).

15. The Constitution (seventy-fourth) Amendment Act, 1992 assigns a constitutional status to local governments, meaning that they stand protected by the Constitution from arbitrary dissolution or suspension. It provides for regular elections at municipal levels, with provisions in respect of elections having been brought at par with those at the level of states and the centre.

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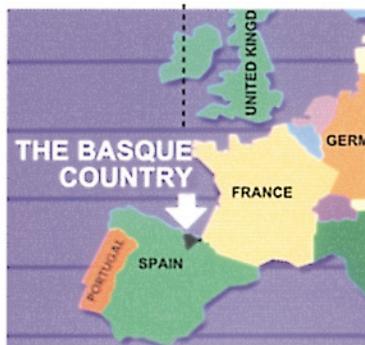
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leading them to consider how to better use the given tax bases, improve financial performance and management, apply more appropriate pricing systems and enter into financial partnerships in order that the infrastructure and services needs of cities can be effectively met.

These changes in the role and responsibilities of local governments are accompanied by important initiatives that are designed towards local fiscal strengthening, the most important of these being the Constitution (seventy-fourth) Amendment Act, 1992, referred to earlier. This initiative has confronted the states with a unique opportunity to redesign a system of local governance and finance that is coherent and adapted to today's needs. Specifically, it contains a provision for the setting up, in each state, of a Finance Commission to determine the principles governing:

- the distribution between the state and the municipalities of the net proceeds of the taxes, duties, tolls and fees leviable by the state, which may be divided between them, and the allocation between the municipalities at all levels of their respective shares of such proceeds;
- the determination of the taxes, duties, tolls and fees which may be assigned to, or appropriated by, the municipalities;
- the grants-in-aid to the municipalities from the Consolidated Funds of the states.

Independent of the Amendment Act, attempts have been made in different states and cities, selectively so far, to improve and strengthen the finances of municipal governments to enable them to raise additional resources and involve other partners in the provision of what have traditionally been labelled as municipal infrastructure and services.

In several parts of the country, the basis of property taxation has come under major review and restructuring. Property taxes have been an important and stable source of revenue for municipal governments but, in recent years, have suffered on account of a highly constrained system of valuation and assessment and poor administration and enforcement. Several states and cities are now attempting to reform the property tax system in order to enhance the revenue-yielding capacity of this important source. Several municipal governments have introduced changes in

the system of financial accounting and management in order to be able to streamline and better manage municipal expenditures.

A major development in recent years has been to privatise municipal services and involve the private sector in their provision, delivery and management. Similarly, a few municipal governments (for instance, Ahmedabad, Pune and Nagpur) have taken steps to access the capital market for financing their growing infrastructure needs.

While these actions are still limited to a few municipal governments, these are important landmarks in the history of municipal finance in India. The issue is whether these actions and fiscal instruments are serving revenue-raising goals or also leading to better governance of cities. To what extent have the fiscal initiatives led to or promoted accountability, transparency and participation? Have these been designed in a way that they have wider civil society acceptance? Is there any link between fiscal innovations and governance?¹⁶

The issue ranges over a wide spectrum of public finance concerns, including the nature of taxes that should be raised within cities and their distributional impact, questions of fiscal responsibility, accountability and control, debt financing and how local finance might be improved to limit economic decline and social disparities within cities. ■

Acknowledgement

This article is an extract from a study entitled Fiscal Innovations and Urban Governance, which can be found on the CD ROM accompanying this business briefing and which is a synthesis of the field cases prepared by Mr S P K Naidu, (Reform of Property Taxation in Andhra Pradesh), Mr P U Asnani, (Issuance of Bonds by the Ahmedabad Municipal Corporation) and Ms Usha P Raghupathi, (Public-Private Participation in the Provision of Infrastructure to Tirupur). The author extends his deepest gratitude to them for their painstaking documentation of the cases.

The author further acknowledges his gratitude to the Asian GURI partners, Professor Emma Porio (Philippines) and Professor Nazrul Islam (Bangladesh), the Toronto GURI partners, Professor Richard Stren and Professor Patricia McCarney, and his other professional colleagues in India who helped him, on several occasions, to better understand the connections between finance and governance. The author alone is responsible for the deficiencies of the study.

16. The ability of municipal governments to levy their own taxes, set and adjust user fees, and raise their own revenues with the approval of their own constituents is an essential, and often overlooked, aspect of effective participation democracy. See Mark H Bidus, *Municipal Development and Democracy in Central America, U.S. Agency for International Development (1995: Washington, D.C.)*.

Financing Cities: The View from the WDR 2000

a report by

William Dillinger and Shahid Yusuf

Senior Economist, Latin America Region, World Bank and Staff Director, World Development Report 1999/2000

This year's World Development Report (WDR) is about major global trends and their implications for future development policies. Many of these trends are relevant to the theme of this conference.

Trends of the 21st Century

Urbanisation

The first trend is urbanisation. At the turn of the 21st century, half the world's population will be living in areas classified as urban. As recently as 1975, this share was just over one-third; by 2025, it will rise to almost two-thirds. The fastest change will occur in developing countries, where almost three-fourths of those added to the world's population in the next century will reside in urban areas. Almost 1.5 billion people are expected to be added to urban populations over the next 20 years (see *Figure 1*). Most of this growth will occur in Africa and Asia. (see *Figure 2*). The speed of urbanisation and the sheer numbers involved will pose one of the major development challenges of the next century.

Localisation

The second major trend is – for lack of a better word – localisation. This refers to a growing dissatisfaction with centralised political power and increasing demands for local political autonomy. In some cases, this arises from disenfranchised ethnic groups; in other cases it arises simply from the emergence of an increasingly educated and urbanised citizenry who demand greater control over the government decisions that affect their lives.

One manifestation of localisation is the fragmentation of old states and the proliferation of new ones. In the last 40 years, the number of countries has more than doubled – from 96 in 1960 to 192 in 1998. The number of countries with fewer than one million people has almost tripled – from 15 to 43. Another manifestation is the increasing number of countries describing themselves as

democratic. This rose from 76 in 1990 to 117 in 1995. At present, two-thirds of all countries now claim to be democracies (see *Figure 3*). Yet another manifestation is decentralisation – the transfer of power and responsibilities to subnational tiers of government. The action has been grudging at times, more forthcoming at others when shedding expenditure responsibilities has made sense to fiscally restricted central governments. But the trend is clear, and the numbers speak for themselves. In 1980, out of the 48 largest countries of the world, only 10 had elected subnational governments. Today, the figure is 34 out of the same 48.

Half the countries that decentralised politically also decentralised major functional responsibilities (see *Table 1*). Brazil, Mexico and Poland have all decentralised primary education from the national to the provincial level, while healthcare has been decentralised in Colombia and the Philippines. Often, this has meant substantial increases in the subnational share of public expenditure: in Mexico it increased from 11% in 1987 to 30% in 1996; and in South Africa it increased from 21% to 50%.^{1,2}

Financial Globalisation

A third important trend is financial globalisation. The financial markets of the leading industrial nations have melded into a global financial system, permitting ever larger amounts of capital to flow across borders. Worldwide portfolio investment flows have shot up by nearly 200 times since 1970 – to more than US\$1 trillion in 1997. At the same time, mutual funds, hedge funds, pension funds, insurance companies and other investment and asset managers now compete for national savings. Although most of the resources have been generated in industrial nations, the consequences for developing countries will be far-reaching. This is because these institutional investors have diversified their portfolios internationally, enlarging the pool of available financial capital. In 1995, they managed US\$20 trillion, of which an average of 20% was invested abroad. This is a ten-fold increase in the funds

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Shahid Yusuf is currently Staff Director of the *World Development Report 1999/2000*. Prior to this appointment, he served as Advisor to the World Bank's Chief Economist. He was also Lead Economist for the East Africa Department and for the China Department. He holds a BA in Economics from Cambridge University and an MA and PhD in Economics from Harvard University.

1. IMF (*International Monetary Fund*), *Government Finance Statistics*, Washington, D.C., 1997.
2. IMF (*International Monetary Fund*), *Government Finance Statistics*, Washington, D.C., 1998.

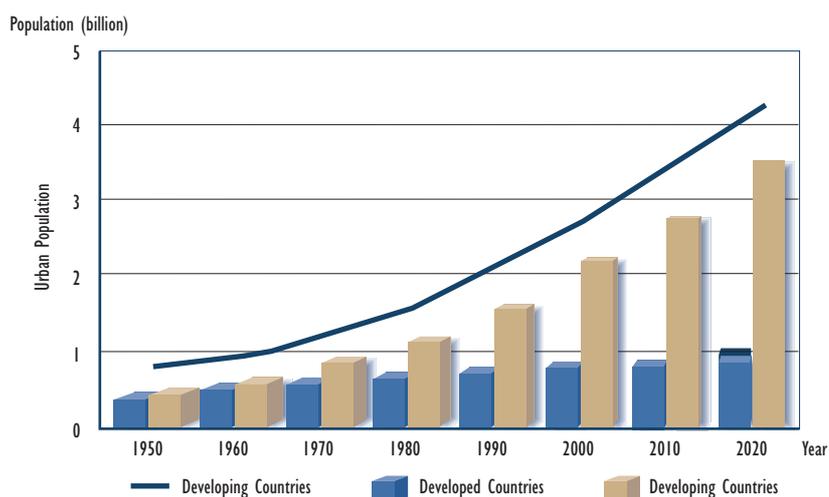


Figure 1: Most of the Urban Population will be in Developing Countries

Note: Developing and developed countries are based on World Bank definitions.

Source: United Nations, *World Urbanization Prospects, 1998*.

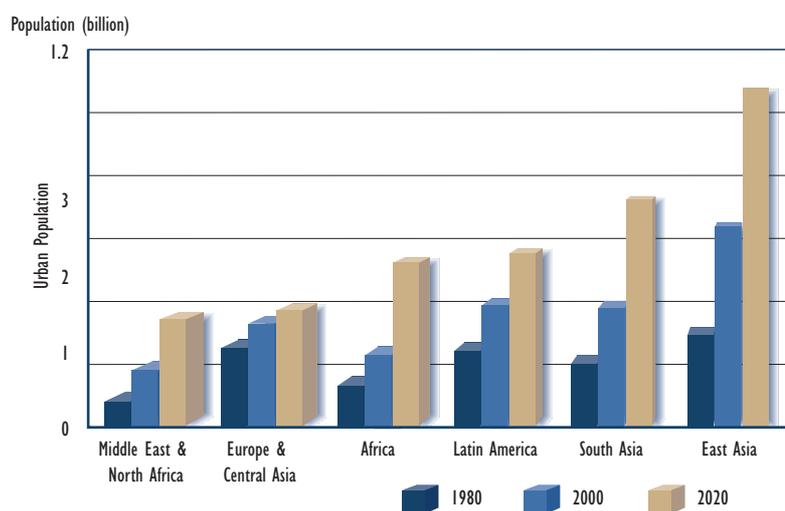


Figure 2: Urban Population is Increasing Fastest in Africa and Asia, 1980–2020

Source: United Nations Department of International Economics and Social Affairs, 1996, *World Urbanization Prospects, New York*.

under such management, and a forty-fold increase in their investment abroad since 1980 (see Figure 4).

The supply of financial resources is likely to become even larger over the next two decades, fed by pension and mutual funds in industrial countries. The value of global pension assets rose from US\$6 trillion in 1992 to US\$9.7 trillion in 1997. Although the rate of growth of pension assets in the UK and the US might drop to 6% to 7% a year over the medium term, the projected value of global assets for 2002 is a hefty US\$13.7 trillion.³ These resources will be aggressively seeking high returns throughout the world.

Implications for the Financing of Cities

These trends have important implications for the financing of cities. Firstly, rapid urbanisation will increase the demand for infrastructure finance. Absorbing the 2.4 billion new urban residents over the next 30 years will require massive investment in housing, water and sanitation, transport, power and telecommunications (see Figure 5). In dollar terms, the amount of investment will be substantial: Asia alone will need to invest US\$280 billion a year over the next 30 years.⁴

Past experience shows that the demand for infrastructure investment is particularly acute when a country is going through urban transition – the years of rapid urban population growth fuelled by rural-urban migration. Thus, demands will be particularly great in Asia and Africa, which are just beginning their transitions (see Figure 6).

Due to growing localisation pressures, much of the demand for investment is likely to fall on local governments. In most developing countries, it has traditionally been central governments that mobilised and allocated most resources for public infrastructure. Resources were mobilised through domestic taxation, domestic borrowing, forced savings schemes, external debt and donor assistance and were allocated through central government ministries or government-owned enterprises.

Localisation pressures are changing this. Responsibility for infrastructure provision is increasingly being decentralised to subnational units of government. In this respect, developing countries are beginning to follow the pattern already established in industrial countries. As shown in Figure 7, central governments' share of public investment spending is generally below 50% in countries with a GDP per capita over US\$5,000.

Where will the money come from? Some of it will come from the global capital pool. Well-run local governments offering solid returns will be able to supplement their domestic savings with resources from all over the globe.⁵ This is evident in local governments' growing use of Eurobonds.

But much of it will not and should not come from this pool. It is important to put infrastructure financing in perspective. To begin with, not all urban capital investment needs to be directly provided by

3. *The Economist*, 13 June, 1998.

4. Royston C Brockman and Allen Williams, *Urban Infrastructure Finance, Manila: Asian Development Bank, 1998*.

5. Athanasios Vanvakidis and Roman Wacziarg, Developing countries and the Feldstein-Horioka puzzle, *International Monetary Fund Working Paper 98/2, Washington, D.C., 1998*.

the public sector. Housing – including the on-site costs of water, sewerage, power and access – accounts for about 30% of gross capital formation.⁶ Much of that will continue to be mobilised and allocated within the private sector, and largely from domestic sources. In industrial countries, developers are required to provide on-site infrastructure as a condition of development approval. These costs are incorporated in the price of finished housing and are ultimately financed through the mortgage market, with no direct government involvement. In developing countries, poor and lower-income households often have to finance housing from their current income – adding space and infrastructure as their means allow. In both cases, capital is mobilised and allocated independent of government. Off-site costs of power, water supply and telecoms can also be financed directly by the private sector through concessions or privatisation.

Publicly financed infrastructure, however, will continue to be necessary – particularly for streets (where cost recovery is difficult), for social services (where cost recovery is undesirable) and for slum upgrading (where it is often both). Recent estimates for India suggest that urban investments will require public funding equal to nearly 2% of GDP – even though the private sector’s share of infrastructure funding, already 25%, is expected to increase to 45% by 2006.

There are many ways in which local governments can finance these responsibilities. One is through local taxation. In principle, local governments can generate current account savings from local tax revenue and use the savings for investment. Such savings may contribute much in some sectors, for example, water supply. However, they are not likely to finance the gamut of infrastructure investments, particularly at the peak of the urban transition. An alternative is for local governments to borrow. In principle, there is much to be said for financing infrastructure through debt. Roads, schools and pipelines have long useful lives, and debt spreads out costs of infrastructure to match its useful life. But where will they borrow? The experience of industrial countries directs our attention to domestic sources and two mechanisms in particular: municipal bonds and municipal funds.

Municipal Bonds

In the US and Canada, municipal governments rely on the domestic bond market. Bond debt by subnational governments in the two countries now totals more than US\$7.4 trillion.⁷ Several factors have

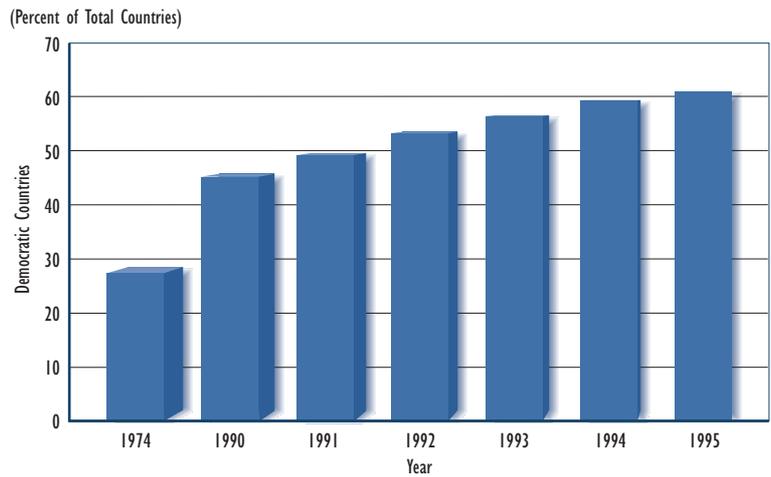


Figure 3: Number of Formal Democracies, 1974–1995

Source: Data for 1974: Larry Diamond, 1996, *Is the third wave over?*, *Journal of Democracy*. Data for 1990–1995 are from Freedom House, *Freedom in the World: The Annual Survey of Political Rights and Civil Liberties, 90-91, 91-92, 92-93, 93-94, 94-95* (New York: Freedom House, 1985 and years following); and *Freedom Review 27* (January-February 1996). A formal democracy is defined as one which meets the minimalist criteria for electoral (as opposed to liberal) democracy, for instance, one in which political decisions are reached by means of competition for people’s votes.

Table 1: Half the Countries that have Decentralised Politically since 1980 also Decentralised Significant Functions

Decentralising Politically	Bangladesh, Iran, Kenya, Korea (Rep. of), Morocco, Mozambique, Nepal, Nigeria, Pakistan, Romania and Thailand
Decentralising Politically and Functionally	Argentina, Brazil, Colombia, Ethiopia, Mexico, Philippines, Poland, Russia, South Africa, Uganda, Ukraine and Venezuela

Note: Sample includes all economies with populations of 20 million or more in 1997 that changed to multiparty politics between 1980 and 1995 (with the exception of Colombia and Venezuela, which already had multiparty politics at the national level but appointed governors and mayors (in the case of Colombia)). Source: Freedom House 1996, *Freedom in the World*, US Gov. CIA, *World Fact Book* and country-specific sources.

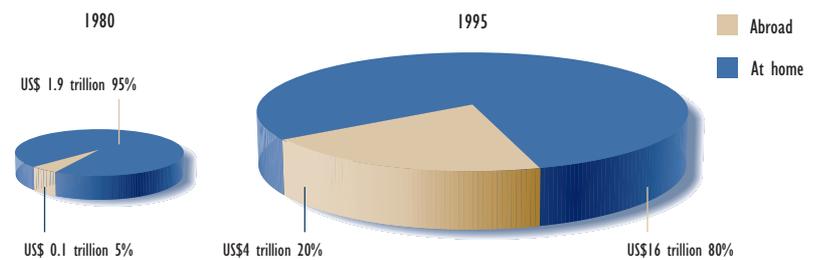


Figure 4: A Growing Pool of Institutionally-managed Funds are Invested Abroad

Source: International Monetary Fund (IMF), 1998. *International Capital Markets*, Washington, D.C.

been critical to the success of this approach. First, both countries have well developed capital markets. A long history of macro-stability has made private investors willing to make the kind of long-term financial commitments required for infrastructure finance. Investors are familiar with and confident in

6. Stephen K Mayo, *Housing: Enabling Markets to Work*, Washington, D. C.: The World Bank, 1993.

7. Mansoor Dailami and Danny Leipziger, *Infrastructure Project Finance and Capital Flows: A New Perspective*, Washington, D.C.: World Bank, 1998.

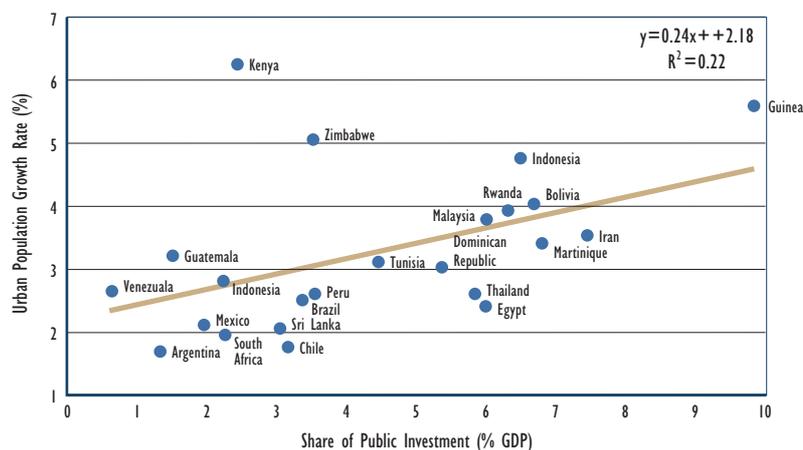


Figure 5: Rapid Urbanisation is Linked to Heavy Public Investment

Note: Sample shows developing countries for which data is available. Countries in transition and countries with population less than five million are excluded.

Sources: Government Finance Statistics, IMF 1998; World Development Indicators, The World Bank

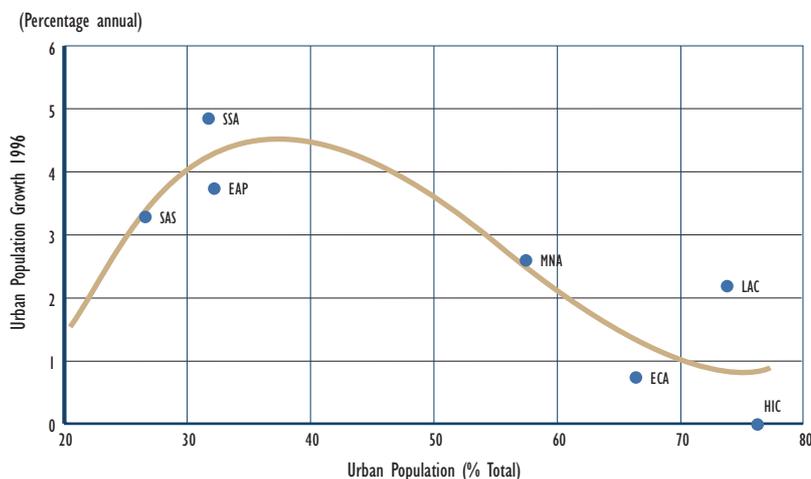


Figure 6: Asia and Africa Just Beginning the Urban Transition

Note: Developing and developed countries are based on World Bank definitions.

Source: World Development Indicators, The World Bank, 1998.

the laws and procedures governing defaults and bankruptcies. Public disclosure guidelines and market intermediaries (for example, credit rating agencies and bond insurers) help investors process information on the risk of their investment. Local governments, moreover, have well-established financial track records and the autonomy to respond to changing financial circumstances rather than going into default.

In many developing countries, these conditions do not exist. Long histories of macroeconomic instability make long-term financial commitments extremely risky. Information about potential borrowers is unreliable and the legal framework needed to give investors recourse in the event of default is insufficient. At the same time, municipal governments are viewed

– often correctly – as a particularly risky investment. They lack the autonomy to raise revenues or reduce spending – particularly on personnel. In addition, local political commitment to long-term financial obligations is not well established. Under these conditions, even if long-term private savings were available, local governments would often be barred from the domestic capital market.

Even so, municipal bond markets are emerging in more countries:

- in Latin America, 52 municipalities and provinces accessed capital markets in 1991–99^{8,9};
- Asia’s local bond market is estimated at US\$477 billion; and
- all Czech cities with more than 100,000 people have issued municipal bonds.

Other developing countries with a municipal bond market include Poland, Russia, South Africa and Turkey.

The track record of these emerging municipal bond markets has been mixed. Much like the US in the 19th century, the initial years have been marked by defaults. Ankara and Istanbul have both defaulted on their bond debt, as have most Brazilian states. However, governments are taking measures to increase investor confidence. In Poland, for example, legislation on a municipal bankruptcy law and controls on the volume of subnational debt are now being considered.

Municipal Funds and Banks

The other long-term credit mechanism found in industrial countries is the municipal bank or fund (MDF), which has a long and successful history in Western Europe. European MDFs were typically founded to address a market failure: the unwillingness of private capital markets to provide long-term credit to small but creditworthy municipalities. In their initial years, many of them (including *Crédit Local de France*, the Spanish *Banco de Credito Local* and the British *Public Works Loans Board*) financed their operations through loans from the central government. In effect, central governments used their strong credit standing to raise money cheaply in capital markets and on-lent the proceeds to municipalities through the MDF. More recently, MDFs have sprung up throughout the developing world.

Under an MDF, the central government bears the ultimate risk of municipal default. Some governments

8. *A B Assesores*, Sub-Sovereign Capital Market Transactions in Latin America: Six Case Studies, 1998.

9. *Maria E Freire, Marcela Huertas and Benjamin Darche*, Subnational Access to the Capital Markets: The Latin American Experience, Washington, D.C.: World Bank, 1998.

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P&O and Stena – 1997, £400m merger of short sea ferry operations, advisor to both parties.

Railtrack – 1996, £1.9bn equity issue, advisor and global co-ordinator; an outstanding success and was voted European Deal of the Year by *World Equity* – one of the most complex privatization issues ever attempted.



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have responded to this risk by behaving as diligent investors, insisting on prudent lending standards and strict debt service enforcement. Others have not. In the latter cases, levels of default have been high. One mechanism for encouraging MDFs to act as prudent investors is to dilute the government's exposure with some private participation. Under Colombia's Financier de Desarrollo Territorial S.A. programme, for example, private banks originate all municipal loans and bear the full risk of default, with the government acting merely as a second-tier bank to provide liquidity. The Czech Republic's Municipal Finance Company acts along similar lines.¹⁰ (Indeed, many of the European MDFs have shifted to market sources to finance their operations and are in the process of privatisation.)

Whether the bond or the bank approach makes sense depends on the conditions in a particular country. Both can operate simultaneously, as they do in the UK. What is clear is that the solution lies not merely in the choice of an instrument but in a stable macroeconomy, a legal framework defining the rights and remedies of lenders and borrowers and a supply of creditworthy borrowers. Central governments, specifically, will need to adopt a legal framework for municipal borrowing, defining the

rights and obligations of lenders and creditors and a procedure for municipal bankruptcy. And they will need to do their part to enhance municipal creditworthiness by stabilising intergovernmental transfers and scaling back unfunded mandates and regulations that limit local expenditure flexibility. They will also need to work with local governments to facilitate municipal revenue mobilisation.

Local governments, for their part, can improve their attractiveness to borrowers by instituting accounting, auditing and disclosure standards that are compatible with international standards. They can also improve the quality of their collateral by allowing central governments to deduct debt service directly from intergovernmental transfers or by pledging a specific tax or other revenue source to service debt on a specific loan. Loan contracts can specify that the payment of debt service on a specific loan will be given contractual priority – or they can prohibit a municipality from issuing additional bonds backed by the same revenue source until a specific debt is retired. Actions are more persuasive than words, however. The most convincing evidence that a local government can offer to potential lenders is long, unblemished credit history.^{7, 10}

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Concluding Observations

I want to end on a somewhat cautionary note. In developing and transitional countries, the experience with subnational debt is mixed. Particularly in newly democratising countries, central governments are often under intense political pressure to provide debt relief to local authorities that find themselves in financial difficulty. Even when a debt is strictly a private transaction between a subnational borrower and a private lender, the central government's role in ensuring the stability of the financial system can draw it – albeit reluctantly – into the transaction. As a result, subnational borrowing is always plagued by the moral hazard of an assumed bail-out. The allocation of loans and enforcement of debt service tend to become politicised, and national taxpayers ultimately bear the financial risk of bad loans.

Private financing of subnational debt has not succeeded in avoiding central government exposure to subnational debt. When the consequences are a pending strike by public employees over unpaid salaries or the failure of a major bank, central governments have often stepped in to assume or restructure the debt of subnational governments that have borrowed too much. This sets up a cycle of perverse expectations, encouraging subnational governments to overborrow and domestic banks to overlend, secure in the knowledge that the national government will come to their aid.

A common central government reaction to this risk is to step up regulation. Governments in developing and transitional economies impose a wide range of controls on subnational borrowing. Some control the demand side, imposing an aggregate ceiling on subnational government borrowing keyed to debt service as a proportion of current revenue (Costa Rica) or expenditure (Russia).¹¹ National governments can also prohibit subnational governments from undertaking certain forms of debt, as in Mexico, where subnational governments may not issue external debt. National governments also regulate subnational borrowing through the supply side. In Colombia, the national banking regulation commission requires private banks to increase their reserves for loans to

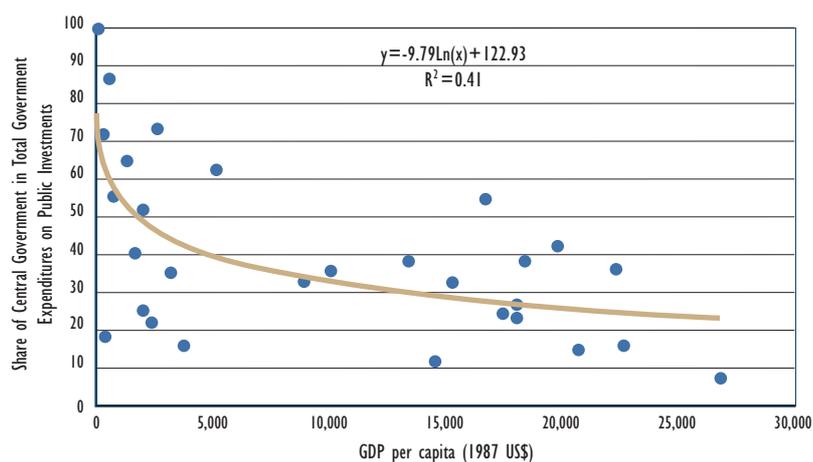


Figure 7: As Countries Develop, Central Governments' Share of Public Investment Falls

Note: Sample includes all the developing and developed countries when the share of central government investment in total government investment could be calculated in the mid-90s and mid-80s. The public investment is an average of the shares of central government in the mid-80s and mid-80s.

Sources: Government Finance Statistics, IMF 1998; World Development Indicators, the World Bank 1998.

subnational governments.

Recent evidence suggests that regulation alone is not enough, even in developed countries with sophisticated credit markets. In the US, for example, the most significant effect of formal fiscal restraints – such as various types of balanced budget requirements or debt limits – is to induce subnational governments to substitute non-restricted for restricted debt. Such constraints reduce somewhat the average levels of debt but they do not reduce the frequency of serious debt crisis.^{12, 13} Brazil, which also relies on ex ante regulation, recently completed the third restructuring of state debt in 10 years. Each debt crisis arose despite a blanket ceiling on subnational borrowing and a web of restrictions and controls on various forms of debt. Regulation failed to withstand the pressures of regional politics.

This implies that a laissez-faire approach may be more effective than a regulatory one. Allowing subnational governments to fail and forcing them to work out their obligations with their creditors may be a more effective method of subnational debt control than even the most sophisticated system of regulations.^{14, 15} ■

10. George E Peterson and Sonia Hammam, *Building Local Credit Systems*, Washington, D.C.: World Bank, 1997.
11. In Panama and Uruguay, a ceiling is established annually through national legislation. In India, state governments are permitted to borrow domestically only if they have no outstanding liabilities to the central government. (Since all of them do, the point is moot.) In Chile, local governments are altogether forbidden to borrow.
12. Jürgen von Hagen, A Note on the Empirical Effectiveness of Formal Fiscal Restraints, *Journal of Public Economics* 44: 199–210, North-Holland, 1991.
13. James M Poterba, State Responses to Fiscal Crises: The Effects of Budgetary Institutions and Politics, *Journal of Political Economy*, 102 (4): 799–821, 1994. Poterba did find that US states with rules that make it more difficult to run deficits adjusted more rapidly to fiscal shocks. These rules are self-imposed rather than mandated by the federal government.
14. Junaid K Ahmad, Decentralizing Borrowing Powers, *Prem Notes No. 15*, World Bank, Washington, D.C., 1999.
15. J Litwack, J Ahmad and R Bird, *Rethinking Decentralization in Developing Countries*, Washington: IBRD, 1998.

The City Marketing Process in Germany

a report by

Daniel Zerweck

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Daniel Zerweck is a member of the academic staff of the Department of Urban and Regional Planning at the University of Dortmund, faculty of Special Planning. His areas of scientific interest include urban and regional development planning, city and regional marketing, housing, geographic information system and internet-based planning and participation. Mr Zerweck also works as a freelance consultant, in particular in the fields of city market and internet presentation. His doctoral research focused on residential locations in metropolitan areas.

The goal of the following essay, as developed through single cases, is to define the city marketing process systematically. Many examples actually illustrate that the city marketing process does not follow an ideal process. However, from a scientific perspective and for the purposes of political consulting, it is important that a systematic approach is employed.

The first step in the discussion is to define the term “city marketing” since there is no uniform definition. First, a definition will be given followed by an explanation of the process of city marketing. A description of the significant details between marketing for firms and communities will be given in the conclusion.

Defining Marketing and City Marketing

Marketing is a term derived from the Anglo-Saxon language group that is presently used, predominantly in Germany, as a comprehensive concept of planning, action and controlling. Using systematically gathered information, all aspects of a business must be consistent with the present and future needs of the market, as well as consistently meeting the goals of a business.

Marketing was originally developed for consumer goods. It was later expanded and applied to municipalities. Currently, marketing serves two principal functions: on the one hand, marketing is a business management method with a market oriented business concept; and, on the other, it is an entrepreneurial function of sales.

Implementation is made through so-called marketing management. Marketing planning is the basis of professional marketing management and is synonymous with rational decision-making in marketing. Marketing goals are derived by a systematic situation analysis and the consideration of future market and business decisions.

Discussions concerning city marketing have increased in Germany since the second half of the 1980s. The term “city marketing” has gained in popularity, yet its frequent use has reduced its

conciseness and expanded its range of definitions. Therefore, the expression “city marketing” is used generically in relation with regional marketing, city marketing and central city marketing and management. However, the term “city marketing” is also used when marketing covers an entire city and all its relevant subjects.

City marketing encompasses more than public relations or site marketing. It is a management method whose purpose is to influence all internal and external factors using advertisement, project management and market analysis. The purpose of city management is to organise and lead the administrative system of a city so that the necessary decisions can be made for the orderly development of the city. City marketing is a comprehensive and action-oriented city management method that seeks to institutionalise, clarify and integrate processes of co-operative authority of all public and private decision-makers in the city under the application of functional, entrepreneurial marketing management in a politically administrative system city.

City Marketing Planning

Even if the following description of marketing planning places the process of marketing management in the foreground, it should be emphasised that, especially for city marketing, the institutionalisation – in other words, the meeting of different parties and the exchange of positions in the communications process – is of great importance. Contact and discussion between the parties is the first outcome.

Through city marketing planning, an attempt can be made to direct the activities of a city to certain subjects. Visions, models and goals of the city are developed so that strategic concepts are derived and concrete measures for implementation can be acquired (see *Figure 1*).

Concept Phase

The starting point, in addition to strategic and operative city marketing planning, is developed in

The City Marketing Process in Germany

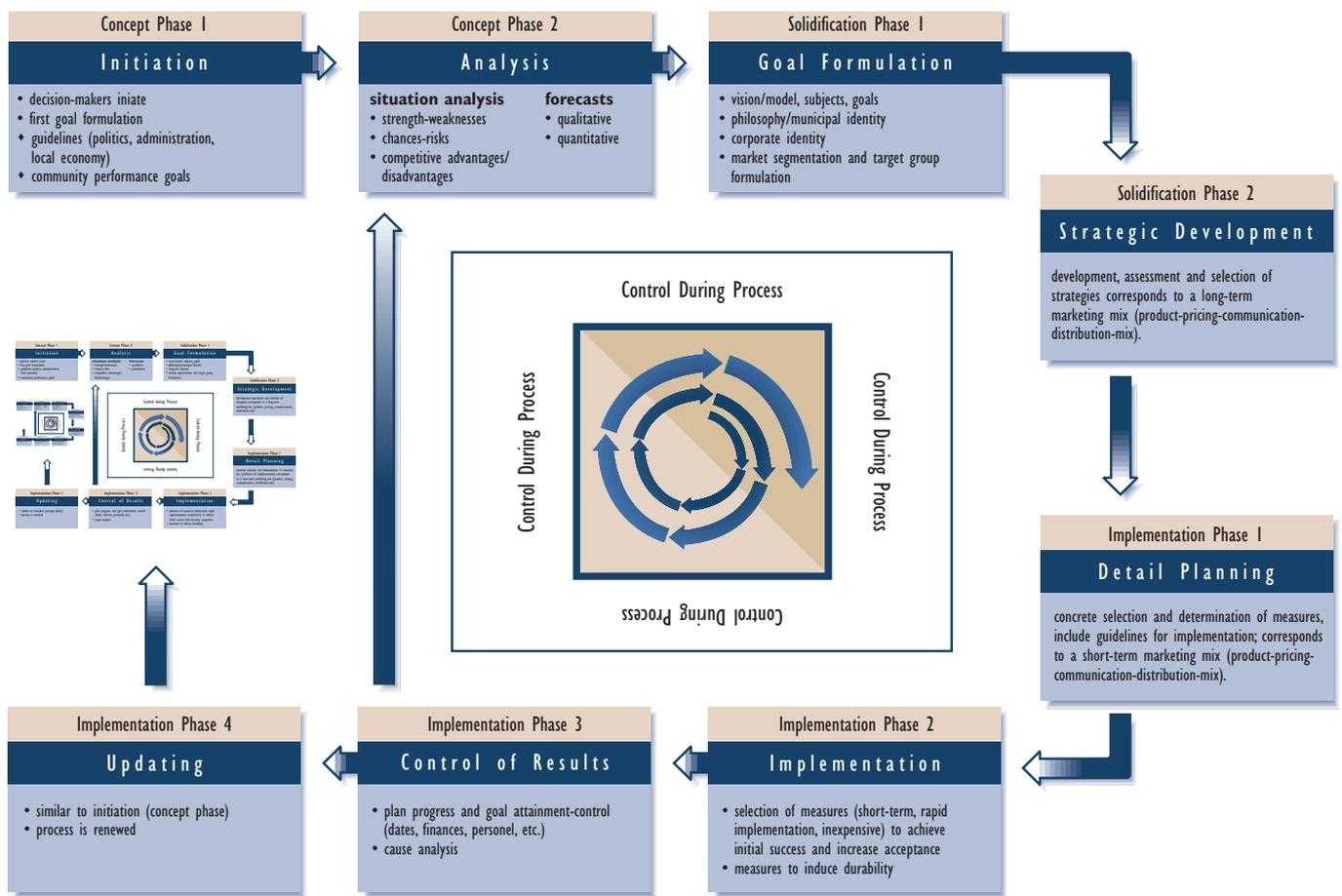


Figure 1: Phases of the City Marketing Process

Source: Author.

the concept phase. The concept phase can be divided into two subordinate components. The Initiation Phase is characterised by the normative framework in which city marketing is placed. In some instances, this phase can be developed in different forms. For a start, one or many parties may take the initiative for a city marketing concept. Studies in Germany¹ show that, in most cases, initiators are administrative heads or specialised economic development or urban development planning departments. The local economy can also initiate city marketing. This is especially the case for the “Central City marketing concepts”.

Questions concerning the understanding of the definitions and organisation of city marketing are closely tied to the Initiation Phase. More specifically, the question is posed of when and which interest groups should be involved in the process. In principal, the goals in which city marketing are to be attained are agreed upon. This could result in a rough vision of what the “city represents”, in which the city is set in a positive context with its competitors.

The Analysis Phase is the second step of the concept phase and is often referred to as a situation analysis. Information is gathered on:

- external factors, such as economic, social, cultural, legal, political, technological and ecological environments, as well as parties relevant to redevelopment and competing cities;
- internal conditions of the city – the strengths and weaknesses of the city are derived from an analysis of the potentials of the city in relation to the potentials of possible competitors and a chances-risks-analysis, together with a portfolio-analysis², is adopted;
- marketing instruments and the possibilities of influencing market occurrences, especially preferences and competitive advantages, are to develop; and
- the market reaction – in other words, the results of implementing alternatives and strategies, as well as methods of reactions to different situations.

1. Zerweck (1996). See also Grabow and Hollbach-Grömig (1998).

2. The above mentioned studies show that cities compare their strengths and weaknesses with competitors, yet an analysis of chances and risks are seldom undertaken.

Solidification Phase

This phase defines much of the strategic marketing planning and can be defined into subordinate components. In conjunction with the previously mentioned development of general goal formulations by initiators of the city marketing process, a situation analysis solidifies the city marketing goals. The goals serve as the basis for development strategies.

The main goals of each of the subjects for the specific city are formulated through the solidification of partial and subordinate goals.

Strategic subjects are unique to every city and must be selected. They have a high level of autonomy and should be formulated with the help of dimensions such as 'target groups', 'target group functions', 'substitute technologies' and 'spatial market coverage'. Also taken into account, within the framework of city marketing, are local (internal) target groups – for example, citizens – regional (external) target groups – for example, residents of the surrounding countryside – and super-regional (external) target groups – for example, tourists.

Two things must be taken into account when formulating a city marketing goal system. First, the goals must be compatible with each other. In other words, goal competitors must be avoided and complimentors of goals should be supported. Secondly, the development of goal systems in city marketing does not mean the development of overloaded goal hierarchies if the above mentioned definition of city marketing emphasises action. Goals are to be established with regards to the context, extent and time of the market segment. City goals can be differentiated by different aspects, such as financial ('the addition of new entrepreneurs'), spatial orientation (a mitigation of traffic problems), as well as psychological city marketing goals ('improved identification').

Once medium and long-term decisions concerning the implementation of marketing powers are produced and solidified goals are derived from the situation analysis, one is able to speak of city marketing strategies. On one hand, the strategy sets largely long-term policy behaviour and, on the other, it guides the construction of resources and abilities in the direction that seems to increase the competitive advantage of a city. Such strategies are always directed to build and concentrate strengths, prevent weaknesses and use synergistic potentials.

Implementation Phase

Translating strategies into operative city marketing plans is an implementation process. Two tasks are

presented here, the first being the specification of strategic contents in the form of tactical and operational measures which must be carried out. The Implementation Phase can further be broken down into the order of 'Detail Planning', 'Implementation' and 'Control'. A further step is the addition of a continuum, which, in principal, stresses that marketing is not linear and non-continuous but rather that it is a continuous and iterative process. The second task of operative city marketing planning is the advocacy of acceptance by members of the organisation.

Detail planning summarises the deployment of a short-term marketing mix. The marketing mix describes the interrelation between marketing instruments, such as the product, pricing, communication and distribution mix, with the purpose of formulating implementing measures for a certain point in time. The instruments must be classified and single instruments must be chosen and recombined. However, the combination of these instruments is not necessarily optimal.

Just as with the goal system, the measures of city marketing must be compatible. They must form a relatively contradictory-free, complementary measures catalogue. It is very important that measures are presented in an understandable and open form and are clearly explained. Included with each measure should be a clear implementation plan and a timeline. Equally important is the assignment of measures to the responsible institutions and individuals.

A decisive factor is the budgeting of the catalogue of measures. The relevant question for marketing on a community level is to determine which parties are involved or should take part in financing city marketing. This question is closely related to the claims, goals and institutionalisation of the city marketing concept. Lastly, a 'questionnaire' concerning the measures must be distributed and answers given for the following questions: What? Why? Who? When? How long? How expensive?

Wider implementation from a theoretical view is unproblematic after a catalogue of measures (often referred to as a marketing handbook) is made available. This does not mean, however, that any problems may arise in the practical implementation. As a general rule in implementation, one must keep in mind that not all measures can begin concurrently and therefore choices should be made accordingly. Since city marketing is an action-oriented method, measures which may show early signs of success should be initiated and maintained. Generally speaking, one should start with measures that begin easily and end quickly are generally unproblematic and have low implementing costs.

A description of city marketing planning would be incomplete without considering marketing control. In the depiction of the city marketing process, marketing control is located in the Implementation Phase after Detail Planning and Implementation. This is due to the fact that something must be produced and then implemented before it can be controlled. Indeed, marketing control is not only a reference to control in the sense of how far the goals have been reached. City marketing control covers the whole city marketing process. In the forefront lies the cause-analysis opposite goal attainment, and it is the goal of control to improve the contents of the work and the process.

City marketing control can be oriented towards the process as well as the results. Process control tests, in a timely manner, whether concepts were elaborated, measures and duties implemented, time and cost plans were followed or decisions made and informational needs fulfilled. Studies by the author (1996: 14pp) show that, in practice, the majority of controls use the method of defining measures of success.

Changes in situations should 'actually' present themselves after implementation of city marketing concepts. The concept should produce changes which reflect the idea of a continuum. Therefore, city marketing concepts must, after a certain time, be reformulated (updated).

Conclusion

The City marketing process is illustrated in steps with their tasks defined, using a systematic and phase ordered description.

Two critical points need to be made from this description. A realistic assessment shows that, in practice, certain steps or phases can begin even if previous steps have not been completed. Certain subjects could, due to the pressures exerted by problems, be the trigger that initiates community marketing. Therefore, information and research are, in this case, present on a higher level than in other areas. It is well known that it is difficult to agree on goals; after all, city marketing requires the involvement of many parties. Controversial subjects require more time for the parties to come to an agreement.

If the phase description is to be implemented even after it has been elaborated by the first city marketing concept by a community, it will still face difficulties in its implementation and control at the beginning. Control concerns itself, as previously mentioned, not only with the results but also the process. That is why it is not only applied to the whole process, but is also in the steps found in the middle. Therefore, goals

need not be modified when single measures do not prove to be adequate.

The second point is concerned with the importance of other city marketing management functions, such as the organisation. These management functions are placed in a changing and influential relation with city marketing planning.

In addition, the differences between private firms and cities based on marketing is the characterisation of city marketing as 'three-fold marketing': the city is not only the firm, but also the marketer of its wares and place. Contrary to a firm, a city constitutes and develops its interests but not all interests can be represented. With the question of interests is also the question of whether goals can be combined, which, in the framework of city planning, is not always so easily defined. While firms seek goals, such as preserving competitiveness and high profit margins, communities must also address municipal economies and social goals.

Therefore, the formulation of goals is greatly influenced by a federal system of goals from other administrative bodies and of laws without entrepreneurial or quasi-economic intentions. That is why that orientation towards target groups within the framework of city marketing produces goals for the general populace, while other goals address a certain segment of the populace represented by specific target groups.

If one understands city marketing as a modern method of city management, then one understands the approaches and methods that entrepreneurial marketing serves. However, one should always be made aware of the different statuses of the organisation, especially the rights of the user (the local community), especially if city marketing is not intended to be cloaked under the blanket of local economic development. ■

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Financial Management of the City of Rio de Janeiro – A Change of Mindset

a report by

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Sol Garson Braule Pinto is Secretary of Finance of the City of Rio de Janeiro, a position she has held since 1996. Previous positions held have been: Superintendent of the Municipal Budget (1994–1996); Aide to the Secretary of Finance of the City of Rio de Janeiro (1993–1994); and Economist of BNDES, the economic and development bank (1975–1993). Between 1969 and 1973, she was a credit analyst at Citibank. For five years she was Professor at the Department of Economics in the Universidade Candido Mandes – Ipanema (1974–1979). She has an MSc in Economics at Fundação Getúlio Vargas, Rio de Janeiro (1975) and a BSc in Economics at the Universidade Federal.

The financial management of the City of Rio de Janeiro within the period from 1993 to 1997 is recognised as a success story. Indeed, the results that have been achieved prove the growth of revenues and control of expenditures throughout that period, which has made possible the accumulation of current savings – the basis for financing the R\$2.6 billion investments during these five years.

Although this is a fundamental issue, it is only one aspect of the experience built up in the city administration. This report, in case study form, focuses on the process of change that made these results possible.

In the strategy adopted, professional administration and the quest for public credibility are outstanding features. To this end, city managers were chosen among experts in the respective fields. Credibility was to be achieved not only regarding the electorate but also to obtain the confidence of the citizens in general. Specifics apart, our city's financial management should be evaluated under the same parameters as those used in the private business world. To achieve transparency of actions and results gained requires the internal dissemination of changes, thus ensuring that the new practices are actually absorbed and integrated into the system. This would disrupt the traditional discontinuity in public administration.

By talking the same language as the investors, Rio de Janeiro distinguished itself as the first Latin American city to issue securities abroad. The operation was successfully conducted in 1996 (the last year of an administration), thus ratifying investors' confidence in the soundness of the municipal finances. Both the city and its citizens, have benefitted from that.

As will be seen in this case study, the quest for transparency was both a goal in itself and, at the same time, a strategy to attain other goals, which have become outlined in the course of time.

The case study will show that the results achieved in each stage not only allow but require the process to advance in the search of new goals. In 1997, the

former Secretary of Urbanism took office as mayor, preventing the administrative discontinuity frequently found in public administration accompanying political change. The city and its inhabitants will also have benefitted from this experience.

Beginning of the Story

In January 1993, following an election won by a narrow margin in the second round, the City Council was installed. The Mayor-elect brought with him experience both of the private and the public sector: in an executive capacity, as State Finance Secretary of Rio de Janeiro; and in the legislative capacity as a Federal Congressman. As a professor of Economics of Universidade Federal Fluminense (Rio de Janeiro State Federal University), he had devoted himself, together with a task force, to understanding the economy of the State of Rio de Janeiro. In these studies, the deeper examination of economic issues crosses the tenuous boundary of legislative and executive functions from which appears a diagnosis of the urban disorder among the causes of the city's decline over the past 10 years. A team had to be formed which would manage a city where:

- the population had reached 5.5 million inhabitants, of which one million live in slums;
- as the core city of a metropolitan region, the urban structures, such as hospitals, nurseries and schools, had to be in place to attend to another 3.5 million potential users, who live in the adjoining municipalities and who frequently come here seeking essential assistance;
- the educational network, the largest at local level in Latin America, had been entirely absorbed by the municipality in the process of merging the State of Guanabara with that of Rio de Janeiro. Our teaching staff at the time had to care for over 550,000 students. In addition, payment of pensions to over 20,000 retired teachers had to be secured, not to mention of the support personnel, under various conditions.

All this had to be achieved within the municipality's tax revenues, including transfers from the state and Federal governments. In 1992, these had amounted to R\$2.1 billion¹. However, at the beginning of 1993, the prospect of a drop in the IPTU (Urban Real Estate Tax) revenue, as a result of various reducing factors on the amounts to be paid as instituted that year by law, was added to the removal of the business licence renewal fee collection, which was aimed at reducing the number of unlicensed establishments. Besides, the revenues actually collected were reduced as inflation rates rose, because they were indexed to the past inflation rate.

The result was an accumulative 19% less than that of 1992 – a total amount of R\$1.7 billion.

It is worth highlighting two overall areas of strategy that have conditioned the development of the municipality in general, and which were essential to the success of the financial administration – professional management and public credibility.

In professional management, political matters are clearly separated from the actions of the municipality

and are based on technical data provided by the secretaries and presidents of associated agencies, such as foundations, agencies and public companies, which were chosen because almost all of them are professionals in the matters they handle. The administrative machine therefore works in a less biased and more agile way.

The professional management, in its turn, found support in the municipal technical staff, which has a level of training higher than that of the national average.

Public credibility is not limited to maintaining the faith of the electorate and attracting popular support in general. It was necessary to obtain the confidence of the private sector. This was achieved by changing the way we work with our suppliers and service renderers and by demanding fair prices and paying them promptly. This had a positive effect on investments in our domestic bonded debt and attracted partnerships in projects such as public service concessions. The foreign sector was also addressed, later on, in an attempt to attract purchasers for the first municipal securities' issue in Latin America.

1. In the course of this text, the amounts related to the financial administration are at the price levels of December 1997, using the IGP-DI/FGV as a deflation factor.

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Credibility required transparency of action. It remained to be seen how to translate this transparency to the public. Articles spontaneously appearing in the press and general media were only one means. With regard to our specific situation, we wanted to be measured by the parameters generally used in the private sector in Brazil, which were already in use in several other countries, to evaluate the performance of our public administrations.

Financial Administration

The Municipal Finance Secretariat – The Original Structure

The task of becoming familiar with all the departments, talking to their respective heads, assessing the different ways in which they worked and making the required changes was all quite difficult in the beginning.

In addition, it was important from the start to spread the concept that management would be professional, rather than being based on political fidelity.

budgetary spending; and advisory units in each Secretariat, the head of which was appointed by the Secretary. This official was in charge of the issuance of allocation notes (*empenho*) and the acknowledgement of debts related to the acquisition of goods and services (*liquidação de despesa*). These two budgetary spending procedures were necessary if the budget was to be made available to each Secretariat.

The debts were then referred to the Municipal Treasury for payment. Agencies, foundations and companies had financial directors who made their own payments using funds transferred by the Treasury. Although their own revenues were nearly always insignificant, they were free to spend their budgets by sending their demands to the Municipal Treasury, generally on the payment-due date.

The units responsible for the budget and for Resource Mobilisation (with the banks and other governmental agencies, the latter generally by means of agreement) were directly subordinate to the Mayor's Office.



By talking the same language as the investors, Rio de Janeiro distinguished itself as the first Latin American city to issue securities abroad.

As the new Finance Secretary, I brought five professionals with me: three as direct advisors and two who were put in charge of the Real Estate Directorate and the Presidency of the Municipal Taxpayers' Council (an administrative appeal entity), both of which involve the participation of representatives of the Municipal Finance Secretariat (SMF) and the community in general.

The SMF, in addition to the units mentioned above, also contains units related to the administration of tax revenues; internal control, specifically the Finance Inspector-General and Audit-General Office; and the Municipal Treasury.

The Municipal Treasury was responsible for all payments and for the management of the public domestic bond-secured and bank debts.

The structure of the control area included: a central agency – the Inspector-General Office – which was responsible for the accounting and directing of

Initial Changes – Financial Management and Control

At this point, fundamental changes were made: the budget and the Resource Mobilisation departments were transferred to the Municipal Finance Secretariat; and a Controller General Office (CGM) was created.

The creation of this office, subordinate to the Mayor, was a pioneering idea in public administration, both in the way it had been created and with the functions it began to take over.

The Controller General's Office – Legality and Economic Efficiency

With the creation of the CGM, the Financial Inspection Unit became a General Accountant Unit and the Sectional Inspection Units became the Sectional Accounting and Auditing Units (one per area, covering, for example, health or education).

Under this new structure, the internal control system became concerned not only with the legal aspects, but also with economic efficiency, as well as the effectiveness of the budgetary and financial administration.

In parallel, a General Auditing Department was created to perform operational audits. Opportunities to improve the practices in use were identified in a process of discussion with the direct and indirect administration entities involved.

As the control network became more dense, the CGM gained the power of veto over the appointment of the financial directors by examining the professional ability of those appointed. In addition, each board of auditors or trustees now had a representative from the CGM and SMF.

Evaluation of the economic efficiency of expenditure required the creation of a new means of control, for example, price schedules, which define the price ceiling for the acquisition of goods and services and for the review of the contracts for acquiring them.

Therefore, through not only the new structure created but also the new procedures adopted, an alliance and a homogeneous philosophy was established for the CGM and SMF.

The Budget and Treasury Together – A Necessary Change

Placing the budget and Treasury under the same administration was crucial to financial management.

As we have seen before, the Municipal Treasury is responsible for paying for the acquisition of goods and services by the various Secretariats, foundations, agencies and companies. Therefore, to initiate the process, the secretaries and the presidents of those entities check if they have resources available in their respective budgets. So, once the budget is released, it is as if they were given a cheque book. The distribution of expenditures over time will depend on the established rules – monthly or quarterly limits, etc.

In Brazil, especially in high inflation rate periods, the amount of the budget resources released has often been out of tune with financial availability. Adjustment was made upon payment, “at the cashier’s booth”, with constant losses to the contracting parties – the public sector – and, sometimes, to the contracted parties – the suppliers of goods and services – whose bills had remained “at the bottom of the stack”. In general, under inflation, suppliers used to protect their interests by overestimating prices in order to compensate for payment delays. As the budget spending units hardly

knew when they would actually pay for the goods and services they had purchased, which depended on the time of disbursement, they had no effective way of evaluating the prices submitted to them at the bidding processes. Such practice had to be eliminated.

Placing the budget and the Treasury under the same administration was a necessary condition, but not a sufficient one. In order to match their actions, they needed to know the amount of municipal revenues and expenses and to have some idea about their respective dynamics.

The Story Continues

Reporting on an experience such as the financial administration of the City of Rio de Janeiro is no simple task.

How can we transmit to the public, using unusual terms such as ‘*empenho*’, ‘*liquidação*’ and ‘*pagamento*’, the notion of the cultural change that has occurred as the leading thread of the actions accomplished?

How can we make a report that is to be seen as a means for orienting future administrations without falling into the void of the propaganda for political purposes?

The usual procedure in the public administration in Brazil is exactly the opposite. Good administration was lost due to a lack of solid foundations that were weakened by a lack of openness about their difficulties and data.

In the management of its finance, the municipality of Rio de Janeiro opted for transparency. Disclosure to the general public and investors provides the professional manager with the freedom required for their action, whilst demanding that the mayor maintain the philosophy of that action.

Despite our specific characteristics, which have been emphasised in the course of this case study, the message of the experience should not be restricted to the public sector.

Cases of success should not be assessed solely by the results achieved during the period assessed. The essential aspect is continuity, which presumes a cultural change, so that those who participate in the process start doing so by following the new culture.

The City of Rio de Janeiro elected the path of the professional management so that it could be appraised with the same parameters used by the private sector. What perhaps may not be obvious is that, in doing so, the administration benefits, insofar as it keeps everything in order. To sum up, once started, the story continues! ■

Private Sector Participation and Urban Development

a report by

Joan Clos i Matheu

Mayor of Barcelona

Joan Clos i Matheu was elected Mayor of Barcelona by the city's Plenary Council on 26 September 1997 and, on 26 October 1997, he became vice-president of the Executive Bureau of the Council of European Municipalities and Regions. After the municipal elections of 1995, he became first-deputy mayor and president of the Treasury and Infrastructure Commission. In 1991, he assumed the post of second-deputy mayor responsible for Organisational Structure and Economy. In 1987, he became councillor-president of Ciutat Vella (Old City) District Council, where he helped to regenerate the historic centre of Barcelona. He first entered municipal politics in 1979 as director of the Municipal Health Services Department at Barcelona City Council and was elected councillor in 1983. He graduated in medicine and surgery from the Faculty of Medicine, Universitat Autònoma de Barcelona in 1974, and in 1977, he completed a postgraduate course in public health and epidemiology at Edinburgh Medical School.

Local authorities in Spain carry little weight in terms of their share of total public expenditure. The remarkable process of decentralisation from central to regional government undertaken in Spain since the advent of democracy in 1975 has not resulted in a greater level of government participation in the affairs of local communities. Over the past few years, however, an all-party group of Barcelona councillors has prepared a special law – in effect, a municipal charter – to advance the legal basis for local government autonomy. This municipal charter has already had the sanction and approval of both the city and regional administrations, before going forward for central government approval. The charter reflects two truisms. First, the city is running services beyond the scope of its competence; secondly, Barcelona is the hub of a powerful metropolitan area – the sixth largest in terms of population in Europe – and it requires mechanisms for co-operation at a metropolitan level, in infrastructural investment and land planning, as well as the efficient management of services such as transportation and waste treatment, amongst others.

Despite the above mentioned institutional limitations, the legitimacy of the leadership of Barcelona's local government concerning the city and its area of influence is not in question. This strong position is based on a combination of local patriotism and policy and civic involvement in the city government and its mayor, which has been built round the undoubted success attained in terms of the city's development. The civic coalition embraces both citizen participation in the formation of local policies and public/private collaboration in the financing and management of the leading projects to promote the city.

The *Pla Estratègic* (Strategic Plan) Association, promoted in 1988 by the City Council, is a paradigmatic example in the line of civic participation, an experience in strategic planning based on consensus and one copied by other cities all over the world. The executive committee is formed by the most influential institutions of the city: trade unions, business associations, universities, Chamber of Commerce, etc., and the work and discussions by different commissions bring together a large number of citizens. The Council has also recently promoted the strategic plans for

specific sectors, such as culture and education. These have also benefited from a large civic participation.

An important function, as an organ of consultation and participation, is performed by Barcelona's Economic and Social Council, which was formed by the City Council, the trade unions and the business associations. The council debates and provides information on the projects and issues related to economic and social promotion. To conclude this brief reference to participation experiences in Barcelona, I would identify, for its broader territorial scope, the Industrial Agreement of the Metropolitan Region of Barcelona, a strategic alliance between entrepreneurs, trade unions and local administrators to promote competitiveness and good working conditions.

Public/private sector collaboration in financing and managing the leading projects of the city is a distinctive example of Barcelona's successful development. The best demonstration was the experience of the huge urban transformation undertaken at the time of the Olympic Games of 1992. The investments of the Olympic project amounted US\$10 billion, of which 15% was spent on the Games, while infrastructure and buildings constituted 85%, financed mainly by the private sector (about 53% of the total, which implies a strong multiplying effect of public investment). This private participation was not only directed at private projects, like hotels, communication towers and the port of Barcelona, but also at public projects, the most significant of which was the construction of more than 4,000 homes in the Olympic Village, under the management of the 100% publically-owned Olympic Holding company.

After 1992, the urbanisation of the city continued apace. The budget constraints of the public sector were a result of the aforementioned described financial investment. In fact, both national and international private operators showed increased interest in large investment projects in the city, with local authorities responding by adopting a new and more flexible style of urban development, based on maintaining the overall direction of the projects while strengthening their collaboration with private operators.

This new style of collaboration takes different forms according to each particular project. In some cases, private operators make possible the carrying out of large urban transformation projects, while other projects, which need to be submitted for approval, involve the transformation of their use as defined in the general urban plans: the conversion of industrial to residential uses and redistribution of constructable proportions, etc. In all cases, the city benefits in two respects. First, in terms of city development, and secondly, in terms of greater profitability of public interests than those foreseen in urban legislation; urbanisation costs of public spaces, new public facilities, the proportion of price-restricted housing, etc, as a counterpart to the surplus opportunities offered by this process.

Barcelona's experience of private participation in urban transformation is not solely limited to the major projects referred to above. The City Council has opened up two successful lines of co-operation in urban renovation. One of them is the campaign "*Barcelona posa't guapa*" ('Barcelona, make yourself beautiful'), focused on the restoration of façades and historical buildings, which over the past few years has accounted for over 10,000 different interventions. Public funding has been more than doubled by private sponsorship and together both have had a strong induced effect, since they represent only 20% of total investment.

The second experience is the creation of joint ventures where the municipality is the main shareholder, but where there is a substantial participation of financial institutions, real estate firms, utilities companies and area-based services (shops, hotels, etc.), with the objective of promoting the renewal of old and historic districts. The joint ventures promote and manage projects in collaboration with the owners of houses, buildings and real estate operators, offering around 20% of financial support for the cost of the projects. The social benefits of these promotions often include the private funding of the restoration of inner courts of housing blocks and the supply of new public facilities.

Other examples of public/private partnership involve a large number of institutions devoted to the economic promotion of the city under the leadership of the City Council. The two most remarkable examples are the Free Trade Zone Consortium and the Barcelona Trade Fair. The Consortium is one of the most important economic agencies in Barcelona and plays a key role in the development of Barcelona as an industrial centre, with the industrial area of the Free Zone and the promotion of other industrial areas. It is also a logistics centre with its Commercial Free Zone and the development of a highly advanced Logistics Park, as well as other activities related to logistics promotion.

The Trade Fair of Barcelona is another important agency, owned 50% by the City Council and 50% by the Chamber of Commerce. It ranks among the eight major European trade fairs. The city council also has a majority participation in companies' joint ventures, like Mercabarna, in charge of the city's wholesale markets, and Tractament i Eliminació de Residus, S.A., a society for waste treatment, etc.

In order to advance sectoral economic activities in Barcelona, the city council has promoted the setting up of several joint ventures, such as Barcelona New Projects (real estate), Barcelona University Centre, Barcelona Tourism Consortium, Barcelona European Financial Centre and Barcelona Logistics Centre.

Barcelona City Council also displays remarkable initiative in the promotion of employment and the creation of new enterprises. Barcelona Activa is the municipal company created for this purpose and it plays an active role in personnel training and in the promotion of new entrepreneurs, with a virtual seedbed/incubator (the most advanced in Europe), and other online facilities for new and small enterprises, like Infopyme. The agency benefits from the presence of an advanced informatics municipal network system. With the objective of reinforcing the creation of new enterprises, it is also currently being constituted as a mixed capital-risk firm focusing on small projects.

The experiences referred to above are, due to the limitations of space, only a selected and obviously incomplete list of the partnership links between the City Hall and the private sector in Barcelona. I conclude with a brief reference of how to envisage the development of collaboration in the future. In the future, the city and its metropolitan area will require an enlargement of the public/private partnership. Current studies and debates are being conducted between those parties involved in focusing on private participation in the financing and management of large infrastructure works so as to overcome the infrastructural availability gap that will otherwise act as a bottleneck for the city's future development: rail networks and metropolitan public transport, road networks, port and airport extension and environmental infrastructures etc.

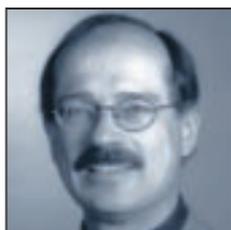
The successful future of the city, and its consolidation as one of the leading European cities in terms of quality of life, welfare and attracting economic activity, crucially depends on the mobilisation of private resources for infrastructural investment, as well as on finding private/public management solutions for a stronger presence of the local public sector in place of central government, in accordance with the principal of subsidiarity in the rendering of public services. ■

Regional Co-operation in a Prospering Area – The Region of Bonn

a report by

Sigurd Trommer

Chief Executive Officer, Planning and Building Department, City of Bonn



Sigurd Trommer has, since 1987, been a member of the board of examiners in the urban planning department of the Federal Examination Authority for the senior technical civil service, and chairman of the board since 1988. Between 1986 and 1997, he was a lecturer at the universities of Braunschweig and Bonn. Since 1973, he has been Chief Executive Officer of the Planning and Building Department at the cities of Neustadt am Rügenberge (1973–1982); Wolfsburg (1983–1990); and Bonn (since 1990). He held several positions between 1967 and 1973 as an architect and civil engineer. From 1964 to 1970, he was engaged in interdisciplinary studies of architecture, civil engineering and geodesy.

Many cities of the “Old World” have histories stretching back over centuries. The city of Bonn is over 2,000 years old. During positive phases of their development, cities have always exercised an influence beyond their boundaries. For instance, they waged war which, on the one hand, brought death and destruction; on the other hand, it was the motor of progress and development. They expanded and they pursued successful alliance policies, such as the cities of the Hanseatic League in medieval Europe.

Vestiges of such historical behaviour still exist today in competition. In general, it is noticeable, however, that, while cities maintain lively contacts with their distant counterparts, there is a total lack of communication with their neighbours. There are few intermunicipal, or regional, communications structures in Germany, but, in the evolving European Community, only those cities which can bring sufficient political and economic weight to bear can expect to possess outstanding prospects. For cities below a threshold of one million inhabitants, that means having to enter city alliances. The city of Bonn (310,000 inhabitants) has chosen a flexible, communicative approach to achieve this. Triggered by the structural crisis of the move of its capital functions to Berlin, it has, at an informal level, joined with the neighbouring Rhein-Sieg district (560,000 inhabitants) and Ahrweiler district (130,000 inhabitants) to draw up a joint model for the future. This was done in a relatively short period of time and it became the basis for compensation claims to the Federal government to help manage the crisis. The initiative was successful. The approach followed by the city of Bonn and the surrounding region is almost unique in Germany, although there are utilitarian alliances between cities – such as local public transport networks, joint sewage disposal and water supplies and publicity for cultural events – but a consensual common strategy to shape the future hardly ever exists.

The co-operation in the Bonn region has produced further positive results in addition to those already mentioned:

- A joint economic development company was set up, as well as a joint company for tourism development and congress promotion.

- Planning co-operation was extended to draft a joint plan dealing with the allocation of industrial zones within the region together with a joint plan relating to the allocation of new residential areas. These plans include a framework of quality standards for the development of these areas.
- Work is currently under way on a joint retail development plan. Its purpose is to concentrate the retail trade in the historically grown city centres and to prevent self-induced competition by allocating large-scale shopping centres at the edges of cities, which, in the end, would dry up the economic basis of our city centres. Whether this ambitious project will lead to success has yet to be proved.

There are, of course, also a number of intermunicipal problems where there are differences of opinion and for which no solution is in sight. There is no point in searching for solutions to irreconcilable differences. Instead, those issues where there is a convergence of interests should be concentrated on. This regional strategy is based on the recognition that problems which appear insoluble at present may become soluble ones after a certain time as circumstances change.

The question is often asked whether such informal, voluntary co-operation should be transformed into institutionalised structures; for instance, a regional city with a regional parliament, or a functional association which might be given tasks such as planning, waste disposal and cultural promotion etc. No doubt, formal structures are feasible, but such institutional mergers initially require an enormous expenditure of political energy to establish organisational structures and the distribution of posts. Once this work is done, the resultant exhaustion means that a longer period of rest is required so that a deficit of several years of effective action arises as far as the real work is concerned.

The conclusion to be drawn, therefore, is not only to form operational but also strategic functional alliances. These do not necessarily need to coincide geographically. Thus, in the Rhineland, there is, for example, an alliance of the four cities on the Rhine – Bonn, Cologne, Dusseldorf and Duisburg – in the transport sector, covering several regions. An alliance

for representing common interests exists between Bonn, Cologne and municipal neighbours as well as the associated Chambers of Commerce and Industry. An alliance in the scientific sector is starting between the cities of Aachen, Cologne and Bonn, based solely on the recognition that these cities have the highest density of academic potential in Germany.

A high-quality digital infrastructure supports the development of regional potential. Examples of this are:

- **POLIKOM:** an office communications and conference system which the Federal government intends to use to build up an efficient electronic link between the ministries in Bonn and Berlin. After successful testing, this system can also be extended to connect Bonn and Berlin with the institutions of the EU in Brussels respectively.
- **Internet:** together with many other initiatives, the www.umzug-nach-bonn.de Internet page offers a detailed view of current and future residential opportunities in the region, including all infrastructure, such as kindergartens, schools, shopping, cultural and leisure activities. Networked with the property pages in the print media, this Internet facility has developed very successfully.
- **GEOMED:** with funding from the EU, this

project is intended to enable computer-based interactive telecommunications between public administrations, citizens and business.

- **Digitised planning:** the great advances in the digitisation of planning bases (for example, maps with information about topography, property structure, land use, technical infrastructure and ecologic potentials) and the computer-aided drawing up of plans mean that the realisation times of urban development projects from idea to approval are considerably reduced.

Our approach in Bonn and its region of voluntary intermunicipal co-operation is something of a chaotic approach. But chaos often converges to self-organisation and the development of competencies. The advantage of this approach is great flexibility, result-orientated performance and great resilience. Such an intermunicipal system, forming regional consciousness, requires a creative administration of above-average intelligence and state authorities which reward such regional commitment by preferential treatment. It is also desirable that, beyond the involvement of its associations in this process, business exercises a clear and positive influence on politics and administration to follow the path to regional co-operation rather than looking at neighbours merely as competitors. ■

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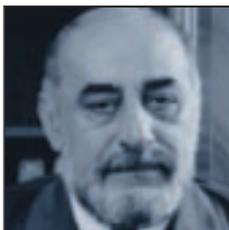
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Bucharest – Present and Past

a report by
Lis Viorel

General Mayor of Bucharest



Lis Viorel was elected in 1998 as General Mayor of the Municipality of Bucharest. In 1997, he was elected as President of the Second District Organization of the National Peasant-Christian and Democratic Party (PNT-CD) and Vice President of the Bucharest Organization of the PNT-CD. In 1996/1997, he was General Vicemayor of the Municipality of Bucharest and, from 1992 to 1996, he was Vicemayor of the Second District Town Hall. From 1968 to 1992, Mr Viorel pursued a professional career as a design engineer. A Romanian national, he was educated at the Politechnical Institute, Thermoelectric faculty, the Academy of Economic Studies and the Industry Economy Faculty at the University of Bucharest.

The city of Bucharest is the political, administrative, economic, scientific and cultural centre of Romania. It houses the institutions and specialised organisations that co-ordinate and organise the nation's economy and control the complex network of industrial units, as well as the Hungarian Academy of Science, research institutes and other major cultural entities, including higher education colleges and its several universities.

The genesis, development and the features of Bucharest can be expressed in one image: crossroads – Bucharest has been the gateway between the Occident and Orient for centuries. Since ancient times, the area of the fields irrigated by the Dimbovita, Colentina and Arges rivers was inhabited by protohuman and human groups. Palaeolithic artefacts, with origins dating back some 150,000 years ago, have been found in and around Bucharest. The oldest Neolithic sedentary places belong to the Polished Stone Age, around 4,000 B.C. Ceramics and jewellery have also been found dating from the same period, from which it is obvious that the population in this area at that time was creative and endowed with artistic taste.

The earliest documentation of Bucharest's attestation dates back to 1459. Born to be a capital, the town flourished on the original settlements thanks to its position as a busy settlement on the routes from the Low Danube to Transylvania. In 1862, the town became the capital of modern Romania and, from 1918 – the date of Romania's Great Union – the capital of all Romanian provinces. The number of inhabitants increased from 177,646 in 1862, to 276,179 in 1899, up to 2.1 million citizens at present.

The Second World War and 45 years of communism impoverished the intellectual and material patrimony of the town. Discontinuity points are breaking through the urban structure – the most symptomatic one being the People's House – annihilating, functionally and symbolically, a part of the old centre of the town. This is a brutal rupture from the point of view of the historical significances of the former Bucharest.

Despite these difficult times, the town has enormous potential and is only waiting for an appropriate moment to relaunch itself onto the community of European capitals and accomplish its oldest mission: to be the crossroads of Europe and a centre for culture.

Bucharest's Development since the Removal of Communism

With the removal of the communist regime, Bucharest rediscovered its European dimensions. Economic, social and cultural life embarked upon a natural development that was based upon the needs of the population, rather than the whims of a certain leader. New banks and business centres were set up and the communications and transport systems empowered.

The team of people running the Bucharest local administration plans for the development of the city are considering the city's development from economic, social and cultural angles. We want to give Bucharest back its dignity as a European metropolis where the specific features of Romanian culture can be experienced against a background of modern city life as the 20th century draws to a close.

The development of Bucharest cannot be isolated from the development of the rest of the country. Bucharest faces many problems and we need to build, restore and improve the quality of services. The municipality is making every effort to do this, but it lacks the funding to carry out all the work. Hence, we need investment from Romanian and foreign businesses. From the point of view of town planning alone, the reconfiguration of the huge area which emerged from demolition work of the 1980s is one of the prime concerns of the municipality.

An international town planning competition has been organised, called "Bucharest 2000". The US\$10 billion plus investment effort required for this project can be covered through the creation of the Urban Development Agency, focusing all the

internal and international private initiatives, together with the complementary efforts, by the municipality, to offer prompt and considered decisions to support the entrepreneurial moves expected and on which so many hopes are pinned.

A second thrust, which is extremely important for the reaffirmation of our cultural identity and urban civilisation, concerns the restoration of the historic centre of Bucharest, an area comprising about 120 hectares. This historic centre includes houses dating from the 18th century, some of which are of particular historical and architectural importance. This area, previously Bucharest's commercial centre, is currently in a state of advanced decay, so much so that only rapid restoration work can now save it from total destruction. As has happened with other historical centres in other great European cities, this area will become a centre for tourism, trade and finance. Banks, housing and recreational areas, businesses and services, as well as antique stores would all be well-placed here and would address some of Bucharest's many problems.

One of these problems is a shortage of housing. The pressure of demand for homes, which cannot be met by the relatively small number of homes built by the municipality (2,000 apartments per year), coupled with the small budget allocated for the purpose, can be redressed only if new districts are developed by private efforts.

On the other hand, the municipality is interested in the general state of the property stock built, primarily the housing in the city districts. Most of this housing was built with state funds to inadequate standards. We realise that this large housing stock will soon start to pose serious problems of renovation, and supporting the efforts of the owners of these homes to restore and adapt them to contemporary standards is one of the utmost priority.

Romania is currently undergoing a process of restructuring the big autonomous state systems of government monopolies and is privatising them. Alongside the electricity and gas companies, we are looking at the companies that supply the public services in Bucharest, for instance, public transport, heat and power supply and water supply and sewerage services.

With regards to the last of these, we are looking to develop the matter of the privatisation of water supply and sewerage services in Bucharest. This privatisation seems to be the biggest and most attractive generally in Eastern Europe. This project was begun in 1997 by a detailing of the strategy, and subsequent approval from City Council.

However, the privatisation was only effective after March 1999, when an important package of laws went into force. This project started with a conference that was attended by numerous and high-profile companies from France, Germany, UK and the US, the representatives from international financial institutions and diplomats.

Following the interest expressed by the main companies and the submission of the pre-qualification documents, we are currently in the evaluation phase. Throughout the next two weeks, we will finalise the selection so that the most suitable companies that will be chosen can participate in this delicate stage. The deadline for the resolution is 30 June 1999 (including the conclusion of the agreements).

Another project to which privatisation may apply is the completion of the third station of wastewater treatment, Crivina-Ogrezeni. The sponsor for this project is Suez Lyonnaise des Eaux, while the European Bank of Reconstruction and Development (EBRD) is financing the project.

With regards to heat supply, we ascertain that, at present, the fulfilment of the heat and domestic warm water demand of the consumers has several shortcomings, namely:

- the available level of heat in sources is lower than the level of the required heat; and
- the distribution of the output capacity against the consumers is not uniform all over the city.

In this context, we have started a programme to increase the output capacity by leasing plots of land to independent manufacturers of heat and power in order to build new power units.

Two projects have already begun: the new power units in the north-east and in the south-west of the city, for 500 Gcal/h each.

The Bucharest CHP north-east project is in its final stages of planning, just waiting for the finalisation of negotiations with our partner ABB Electro-Invest (Sweden), the winner of the bid for the project. The concession contract of the land was concluded on 14 January 1999 and the off-take energy agreements will be signed before the summer.

The second project, in the south-west of the city, is in the preparation phase. It already has the approval of the City Council and, after the previous contract's conclusion, an international competition is to be initiated in order to select the sponsor for this second project. ■

Frankfurt's Millennium Jump

a report by

Petra Roth

Mayor of Frankfurt am Main



Petra Roth is Mayor of Frankfurt am Main, a post she has held since 1995. Since 1987, she has been a member of the State Government of Hessen and Chairman of the CDU Committee for Housing and Urban Development. Between 1977 and 1989, she served as a representative of the Welfare Organization of the State of Hessen and as a member of Frankfurt City Council. From 1973 to 1988 she was an Honorary Social Representative for the district of Frankfurt and between 1963 and 1970 she worked as a medical assistant.

Frankfurt, Germany's traditional trade fair centre and financial capital, is developing to become the Euro-City. Frankfurt boasts the highest GDP of any other German city and the Greater Frankfurt area has the highest GDP per job of any region in Europe. Frankfurt airport services more passengers than any other airport in continental Europe, as well as managing Europe's biggest air cargo operation. The central railway station is the largest in Europe. Not only in terms of traditional infrastructure, but also with regards to the Information Super-Highway, Frankfurt leads the list: all international telecoms connections are connected through Frankfurt, which has established itself as the major Internet-crossroads in Germany.

Now, more than ever in its 1,200-year-old history, Frankfurt is facing major changes which are indeed challenges. With the introduction of the Euro and the advent of the common European currency, the geography of Frankfurt am Main has already changed. Frankfurt is one of the three cities, alongside Brussels and Strasbourg, in which strategic decisions for the EU are being made. Effective from New Year's Day 1999, Frankfurt, the traditional centre of finance and trade, has indeed become the Euro-City, with a recognisable presence to the rest of the world. This will affect all considerations of city policy and will add a new dimension to many local issues.

Saskia Sassen, a professor of Sociology at the University of Chicago and well-known authority on urban development, placed Frankfurt among the 30–35 global cities responsible for guiding international progress. She foresees that Frankfurt, as the capital of Euro-Land, will be capable of establishing itself as a leading European centre. We agree with the multitude of experts who predict that Frankfurt will be among the trio (including London and Paris) of preferred cities in Europe for locating businesses. Facts like these help guide our decisions in preparing Frankfurt for its future growth and shape our new role within Europe.

If you walk through Frankfurt, you will see a multitude of construction sites that are quite active. Frankfurt's office towers hold a symbolic significance.

They are the most advanced, technologically developed and architecturally mature buildings of their generation. The skyscrapers are accepted as the most desirable form of office accommodation for the more than 40,000 existing companies in Frankfurt and those wishing to establish a presence within the city. In order to accommodate the ever-continuing growth, we are constantly improving and updating the city's infrastructure.

We have many exciting plans for Frankfurt's future. With the high-rise development plan, which was passed by the city council last year, Frankfurt's urban growth will accomplish its "Millennium Jump" into a metropolis. The 15 new high-rise blocks, which will be built in three clusters within the city, will dramatically change the skyline of our city. The proposal not only combines aspects of living and working within the city but it also enhances the cultural offerings, with additions such as the Urban Entertainment Center. This development will increase the likelihood of Frankfurt sustaining its role as the prime location for international companies and new investments.

In view of its new functions as a European headquarters, I believe Frankfurt has established a very competitive infrastructure. The city is very proactive in the promotion and acquisition of foreign direct investments. My participation in the World Competitive Cities Congress should underline the importance which Frankfurt sees in the exchange and promotion of economic development. ■



Preparing for the "Millennium Jump": Investors Viewing a Model of the High-rise Development

Public and Private Partnership and Urban Developments

a report by

Andris Berzins

Chairman, Riga City Council

Riga, the capital of the Republic of Latvia, is located in the centre of the Baltic States region. Riga is Latvia's largest city and the biggest business centre in the Baltic States. Both Western and Eastern businessmen consider the Baltic States as a uniform economic region, with Riga as the largest city located in the centre of it. Riga has a specific interest, therefore, in further integration of the Baltic States.

The three Baltic States have similar legislation so that a positive business environment becomes a major factor in competition for foreign investment. The population in Riga is 796,800, with 38% Latvians and 47% Russians. The city is a major seaport and the only port in the Baltic States specialising in container cargo. Its airport also handles the largest volume of traffic and, together with the port, road and railway connections, Riga plays a key transportation and transit role between Western European countries and Russia. This is the role that Riga has played historically.

Riga is also an industrial centre, accounting for some 52% of the country's industrial output. Manufacturing includes shipping, electrical equipment, pharmaceuticals, processed food and timber products. While Riga is dependent on the national and international situation, the city itself is in a position to influence economic development that may be favourable to itself. The strategy therefore places a high priority on preparation of an Economic Development Program. Preparation of such a programme will involve input from the private, as well as the public, sector. Tourism is going to be one of the key factors in the economic strategy. Riga has already placed a high priority on upgrading its "hard services" – drinking water, sewerage and waste management.

Current changes taking place in Riga's economy are characteristic of the whole country. The main change is that from a centralised and state-controlled economy to a free market economy – Riga's economy has to find its own place in the European and world economy. It is the very foundation of Riga's economy that is undergoing a process of change. The driving forces which have supported

Riga's economic development during the last 50 years are collapsing dramatically and new ones are appearing in their place. Unfortunately, there is no precise information about the existing situation in Latvia and there are very few forecasts for future development possibilities. Since 1991, when Latvia regained its independence, the primary goal for the development of the capital of the Republic of Latvia has been to see Riga as an economically vibrant, modern and dynamic city, but still maintaining its natural and cultural heritage. Together with the Government of Latvia, the city of Riga has been attempting to create an open Western-style economy in compliance with the EU standards. An important step towards open trade was the Latvia's entry to the World Trade Organization (WTO), which took place in 1998. Membership at the WTO is very important for Latvia as it will increase its trade and economic potential, activate the inflow of foreign investment and accelerate integration within the EU.

Accessibility of Eastern and Western markets is provided by developed transport and telecommunications infrastructure. The activity of Riga Harbour and Riga International Airport has been increasing year by year. This is particularly important for ports and other transportation facilities, which traditionally have been the basic sectors of the city's diverse economy. Riga International Airport is the second largest in the Baltic States, both in terms of passenger and cargo turnover. About US\$4 million is scheduled for investment in the airport in 1999, including construction of a new arrival hall.

Investment is seen as one of the major preconditions of long-term city development. About 80% of all Latvia's enterprises with foreign capital and approximately 50% of the country's foreign investment stock are located in Riga. In 1996, 1997 and 1998, Riga managed to attract more foreign investment than most other cities in the Baltic States. This can be explained by the overall economic stabilisation, successful privatisation process and improvements in FDI legislation. The majority of foreign investments have been made in Riga or other big Latvian cities with a developed service sector, a wide range of

Andris Berzins was elected Chairman of Riga City Council in March 1997. Between December 1995 and March 1997, he was State Minister of Labour Affairs, Ministry of Welfare. Before this, he held several offices: Ministry of Welfare, Republic of Latvia (September 1994–December 1995), including (from May 1995) Deputy Prime Minister; State Minister of Labour, Ministry of Labour, Ministry of Welfare (August 1993–September 1994); and Deputy Minister of Welfare (July 1992–August 1993). Between 1986 and 1992, Mr Berzins held a number of junior ministerial posts. Between 1982 and 1986, he was Senior Inspector, State Committee for Vocational and Technical Education. He has also been a teacher and administrator at several schools in Latvia (1975–1982) and an engineer at Lower Temperature Laboratory, Institute of Physics of the Academy of Science (1971–1975). He graduated from Latvia University in 1979 with an MA in History.

suppliers, a favourable strategic position and good infrastructure. Direct foreign investment and the number of enterprises with foreign capital in Riga have rapidly increased over recent years. Riga has in place most of the important pre-conditions for increase in foreign investment:

favourable. More than half of the people employed in Riga are working in the service industries (including national administration) and the city considers it necessary that Riga's tourism potential, currently insufficiently utilised, should be given its proper position in activating the economic environment.



In 1996, 1997 and 1998, Riga managed to attract more foreign investment than most other cities in the Baltic States.

- growth in economic activity;
- offers of competitive incentive packages and project proposals;
- no restrictions on foreign investors;
- development of a free land market;
- opportunities for foreign companies to participate in the privatisation process;
- many development projects already successfully completed (see separate publication, *Successful Development in Riga*);
- the supportive attitude of state and municipal bodies. Transport and communications, finance and industry have been the priority sectors in terms of foreign investment. These sectors of the economy show substantially larger amounts of investment than other sectors. Foreign investors confirm that the leading sectors are still the most attractive. In 1997 and 1998, with the liberalisation of the land market and the continuation of privatisation, investments in such sectors as real estate, tourism and energy became more active.

In order to attract investment, first an investment-friendly economic environment has to exist, the central government having a key role in determining tax policies, land and property relations, developing a security market and fostering general economic stability in the country. Secondly, an appropriate infrastructure has to be developed, the responsibility for which lies primarily with the municipal government. The condition of the urban environment points to the necessity of making regular investment in the infrastructure with the express purpose of preserving it. Nevertheless, in the context of, and when compared with, the whole of Latvia, Riga's economic condition can be assessed as

It is worth noting that personal income tax is one of the most stable state taxes. However, in 1995, the complicated mechanism for distributing the tax among the municipalities motivated the Riga City Council to take over the collection of this tax itself, thereby both increasing revenues and becoming more aware of economic activities within the city, creating a database on the taxpayers and legal bodies and, in the future, envisaging advantages in co-operation with the more stable taxpayers. Most of the budget is spent on health and social care, education and culture.

The city of Riga is actively seeking ways to attract additional financial resources for investments in the city infrastructure. These should be deemed as urgent measures, since the facility depreciation principle holds that an increase in depreciation leads to increased financial resources merely to provide for the system's survival. Eventually, in the long run, maintenance expenses exceed the total capital investments for a complete update of the system. For example, emergencies are increasing rapidly in the antiquated water system and this situation has had a knock-on effect because of the amount of money for preventive and reparative work. Not only the facility depreciation principle but also inflation demonstrates that Riga can only gain from capital investment in the infrastructure through attracting credit resources and planning to repay them out of future budgets: the amount of money needed to repay the credit resources in the future is lower than the cost of ever-rising maintenance expenses and the accumulated volume of future capital investments.

At this moment, Riga is implementing three big projects directed towards infrastructure development. The Riga City Council, governments of other countries and international organisations are involved in the following projects:

1. Riga Water and Environmental Project costing LVL46.3 million including Eiropas Rekonstrukcijas

un attīstības bankas (ERAB) and European Investment Bank (EIB) credits of US\$22.5 million and 15 million ECU, which will be recovered from revenues. The aim of this project is to improve the quality of water.

2. Riga Public Transport Development Project with total costs of US\$18.5 million, 80% invested using credit from the World Bank, which is guaranteed by the Latvian government. The bus and trolleybus park and the buying of new vehicles, will be improved.
3. Waste Disposal and Processing Project, which will improve the city's waste disposal site and provide new ecological technology. This project is sponsored by Riga City Council, a World Bank credit of US\$7.95 million, a World Environmental Fund donation of US\$5.12 million) and a donation from the Swedish government of US\$1.5 million. The total costs of this project are US\$25 million.

In the last few months, we have been working together with the World Bank for another important project, the Central Heating Improvement Project. There are also negotiations taking place on the Daugava River Crossing Project.

Since 1991, Latvia has achieved considerable success in consolidating reforms and improving its general economic environment. The banking system has not only been stabilised but it has also regained public trust following the banking crisis of 1995. The liberal Latvian legislation and strong monetary policy make Riga an attractive place for foreign currency deposits and transactions. Recently established branches of the Estonian Hansapank, the French Société Générale, the German Vereinsbank and the representative office of the German Dresdner Bank are the best evidence of the increasing prominence of Riga as a financial centre. The government and the Bank of Latvia consider that the sustaining of national currency stability is the chief task of monetary policy. The policy is to retain the exchange rate pegged to the SDR in future, thereby helping to curb inflation and increase trust in the economy and financial system. The government believes that it will be possible to retain the competitiveness of Latvian goods and services by improving productivity through acceleration of structural reforms.

On the subject of environmental protection, environmental assessment and land-use legislation are the key legislative tools allowing municipalities to control and regulate urban development. After restoration of the Baltic States' independence, different legislative initiatives on the environment

and development planning have taken place in these countries, including Latvia. During the period 1993–1998, various plans were developed in Latvia in accordance with its laws. Examples of these plans, from Riga, which is the leader in planning in Latvia are that: the Riga Development Strategy was prepared at the end of 1995; the Riga City Council adopted the Official Plan of Riga; and the Riga Region Development Strategy was initiated by the Riga City Development Department at the end of 1998.

Different initiatives have also been promoted in different sectors in Riga itself. All these initiatives are very important for targeted development, environmental protection, nature conservation, national heritage management and for dealing with common problems by different stakeholders in the city. Each land-use plan being developed in Latvia must, by law, undergo the state's ecological expertise to evaluate the policy and adopt solutions contained in the plan in accordance with environmental protection requirements.

One of the most important indicators gauging the overall development of a particular country, region or city is a credit rating. Although credit rating agencies attempt to analyse municipalities' financial performance and economic development, most investors familiarise themselves with credit ratings assigned to a city to understand the local economic environment better. In the case of Riga, the credit rating is even more important as the municipality is a shareholder and an owner of real estate and actively participates in economic activities. The municipality of Riga operates in a fairly new economic environment that is still characterised by the ongoing redistribution of service responsibilities, equalisation of payments and tax income between the central and local authorities. The direct debt to operating revenues was a low 9% at the end of 1998. However, despite the fact that Riga has initiated a series of large projects that help to upgrade its engineering infrastructure, significant infrastructure needs remain.

Today, the Municipal Council is trying to limit new additions to the city's debts to keep the debt service at manageable level. It is expected by both local authorities and international credit agencies that, in future, Riga should strengthen its position as a commercial centre of the Baltic States, as the economy continues its projected medium-term growth. Although the comparatively poor infrastructure standards constrain Riga's economic growth, our city's investment policy is focused on further improvements, since it is believed that Riga's economic welfare and development depends on the quality of engineering infrastructure. ■

North American Urban Political Economy, Urban Theory and UK Research

a report by
Alan Harding

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The (Eventual) Rise of North American Urban Political Economy

In 1976, when European debates within urban theory were dominated by neo-Marxist and neo-Weberian approaches to cities as sites for the provision of social and welfare services, the very different notion of 'the city as growth machine' slipped into the US urban studies lexicon with the publication of Harvey Molotch's article of the same name.¹ In 1983, the year in which Castells brought the radical phase of European urban studies to a halt with a famous warning against 'the useless construction of abstract grand theory',² the concept of an urban regime had a similarly unobtrusive birth when the phrase was used by Fainstein and Fainstein to describe "the circle of powerful elected officials and top administrators" in US city government.³ Had the story ended there it is

unlikely that the world – especially outside North America – would have heard much more of urban regimes and growth machines. As it has turned out, though, from the late 1980s onwards, urban scholars have hardly seemed able to hear enough about these two approaches within US urban political economy.

Since 1987 and the publication of Logan and Molotch's *Urban Fortunes*,⁴ Stone and Sanders' *The Politics of Urban Development*⁵ and Elkin's *City and Regime in the American Republic*,⁶ America's major urban journals have been full of references to regimes and machines.⁷ More in connection with this article, there is now substantial non-American literature that adopts the concepts – or the language – of both theories and claims to find something akin to urban regimes and growth machines in a variety of places and times. They form the ostensible basis of work undertaken in the UK,⁸

1. Harvey Molotch, "The city as growth machine", *American Journal of Sociology*, 82, 2 (1976), 309–355.
2. Manuel Castells, *The City and the Grassroots*, (London: Edward Arnold 1983, xviii).
3. Norman I Fainstein and Susan S Fainstein, "Regime strategies, communal resistance and economic forces", in Norman I Fainstein, Susan S Fainstein, Richard C Hill, Dennis Judd and Michael P Smith (eds.) *Restructuring the City: the political economy of urban redevelopment*, (New York: Longman 1983, pp245–281 and p256).
4. John Logan and Harvey Molotch, *Urban Fortunes: the political economy of place*, (London: University of California Press 1987).
5. Clarence Stone and Heywood T Sanders (eds.) *The Politics of Urban Development*, (Lawrence: University Press of Kansas 1987).
6. Steven L Elkin, *City and Regime in the American Republic* (Chicago, IL.: University of Chicago Press, 1987).
7. Gerry Stoker, "Regime theory and urban politics", in David Judge, Gerry Stoker and Hal Wolman (eds.) *Theories of Urban Politics*, (London: Sage 1995, pp54–71); John Logan, R B Whaley and K Crowder, "The character and consequences of growth regimes: an assessment of twenty years of research", *Urban Affairs Review* 32, 5 (1997), pp603–630.
8. See, for example, Nigel Axford and Steve Pinch, "Growth coalitions and local economic development strategy in southern England: A case study of the Hampshire Development Association", *Political Geography* 13, 4 (1994), pp344–360; Keith Bassett, "Partnerships, business elites and urban politics: new forms of governance in an English city", *Urban Studies* 33 (1996), pp539–555; Keith Bassett and Mike Harloe, "Swindon: The rise and decline of a growth coalition", in Mike Harloe, Chris Pickavance and John Urry (eds.) *Place, Policy and Politics: Do localities matter?* (London: Unwin Hyman 1990), pp42–61; Phil Cooke, "Municipal enterprise, growth coalitions and social justice", *Local Economy* 3, 3 (1988), pp191–199; Patrick Dunleavy, Keith Dowding, Desmond King and Helen Margetts, "Regime politics in London local government", *Paper to the ESRC Local Governance Programme conference, Exeter, September 1995*; Alan Harding, "The rise of urban growth coalitions, UK-style?", *Environment and Planning C: Government and Policy* 9, 3 (1991) pp295–317 and "Regime-formation in Manchester and Edinburgh", in Gerry Stoker (ed.) *Community, Power and Participation: the changing local government of Britain* (London: Macmillan, forthcoming); Paul Lawless, "Partnerships in urban regeneration in the UK: the Sheffield Central Area Study" *Urban Studies* 31 (1994), pp1303–1324; M Greg Lloyd and David A Newlands, "The 'growth coalition' and urban economic development", *Local Economy* 3, 1 (1988), pp31–39; David Valler, "Local economic strategy and local coalition-building", *Local Economy* 10 (1995), pp33–47, and; Andrew Wood, "Analysing the politics of local economic development: making sense of cross-national convergence", *Urban Studies* 33, 8 (1996), pp1281–1295..

France,⁹ the Netherlands,¹⁰ Germany,¹¹ Italy¹² and Australia.¹³ They are also used for comparative purposes, whether they draw on two countries – for example, the UK and the US¹⁴ and the UK and France¹⁵ – or more.¹⁶ The completion of 10 years' worth of non-US work on urban regimes and growth machines makes now an appropriate time to consider what added value these approaches have brought to the way urban politics is studied, particularly in the UK.

Urban Regimes and Growth Machines in a Nutshell

So much has been written about urban regimes and growth machines in recent years that most commentators in urban studies will already be familiar with their central arguments. Non-urbanists, however, might start here. Briefly, both approaches are characterised by antipathy towards 'structuralist' accounts of urban change. They are particularly sceptical about two long-established and influential strands within urban theory: the ecological approach within American urban sociology, first advanced in the inter-war years; and the neo-Marxist approaches of the 1970s.¹⁷ Most of all, though, they take issue with the public-choice-influenced arguments advanced by Peterson in a book entitled *City Limits*.¹⁸

Peterson argued that cities effectively "die" if they are deserted by people and firms in big enough

numbers. Cities therefore have no choice but to try to capture and retain potentially mobile businesses and residents if they are to survive. This means that city administrations are compelled by the logic of their circumstances to compete against each other by engaging in what Peterson calls "developmental politics"; that is, by devising strategies to improve local circumstances with respect to economic development and employment growth. As a result, they are left with little scope for what he calls "redistributive politics". In other words, there are strict limits to their capacity to use resources – gathered largely from affluent sections of the urban population – to provide goods and services which primarily benefit their poorer counterparts.

Urban regime theory and the growth machine thesis do not deny that city administrations compete for firms and households. Neither do they dispute the importance of local developmental politics. Rather, they object to two features of Peterson's analysis. The first is his assertion that local politics hardly matters and that the environment in which city administrations operate determines all their significant choices. The second is his implication that cities have a single set of "interests" which can be understood without reference to preferences that are expressed, by city residents and users, through the political system or other channels. Thus, the advocates of the regime and growth machine approaches, whilst not always

9. Patrick Le Galès, "Urban regimes and comparative urban politics", Paper to ECPR joint sessions workshop on *The changing local governance of Europe*, Bordeaux, March 1995; Myron A Levine, "The transformation of urban politics in France: the roots of growth politics and urban regimes", *Urban Affairs Quarterly* 29, 3 (1994), pp383–410.
10. Pieter Terhorst and Jan van de Ven, "The national urban growth coalition in the Netherlands", *Political Geography Quarterly* 14, 4 (1995), pp343–361.
11. Elizabeth Strom, "In search of the growth coalition: American urban theories and the redevelopment of Berlin", *Urban Affairs Review* 31, 4 (1996), pp455–481.
12. Serena Vicari and Harvey Molotch, "Building Milan: alternative machines of growth", *International Journal of Urban and Regional Research* 14, 4 (1990), pp602–624.
13. Janice Caulfield, "Community power, public policy initiatives and the management of growth in Brisbane", *Urban Policy and Research* 9, 4 (1991), pp209–219; Janice Caulfield and John Wanna (eds.) *Power and Politics in the City: Brisbane in transition* (Melbourne: Macmillan Australia Educational 1995).
14. Alan DiGaetano and John S Klemanski, "Urban regime capacity: a comparison of Birmingham, England and Detroit, Michigan", *Journal of Urban Affairs* 15, 4 (1993), pp367–384 and *Urban Governance in Comparative Perspective: the politics of urban development in the UK and US* (Minneapolis: University of Minnesota Press 1998).
15. Peter John and Alistair Cole, "Urban regimes and local governance in Britain and France: policy adaption and coordination in Leeds and Lille", *Urban Affairs Review* 33, 3 (1998), pp382–404.
16. Alan Harding, "Urban regimes in the United States of Europe?", *European Urban and Regional Studies* 4, 4 (1997), pp291–314; Paul Kantor, Hank Savitch and Serena Vicari Haddock, "The political economy of urban regimes: a comparative perspective", *Urban Affairs Review* (1997); Harvey Molotch, "Urban deals in comparative perspective", in John Logan and Todd Swanstrom (eds.) *Beyond the City Limits: urban policy and economic restructuring in comparative perspective* (Philadelphia: Temple University Press 1990); Harvey Molotch and Serena Vicari, "Three ways to build: the development process in the US, Japan and Italy", *Urban Affairs Quarterly* 24, 2 (1988), pp188–214.
17. Logan and Molotch, *Urban Fortunes*, pp4–12; Mark Gottdeiner and Joe Feagin, "The paradigm shift in urban sociology", *Urban Affairs Quarterly* 24, 2 (1988), pp163–187.
18. Paul E Peterson, *City Limits* (Chicago: University of Chicago Press 1981); John Logan and Todd Swanstrom, (eds.) *Beyond the City Limits: urban policy and economic restructuring in comparative perspective* (Philadelphia: Temple University Press 1990).

disagreeing with Peterson's conclusions, invariably take issue with the way he reached them.¹⁹ For them, cities and urban life are produced and reproduced not by the playing out of some externally-imposed logic, but by struggles and bargains between different groups and interests within cities. The outcomes of these struggles and bargains, they argue, far from serving the general "good of the city", reward some groups whilst disadvantaging others.

A major goal of urban regime theory and the growth machine thesis, then, is to put the politics back into urban political economy. Both approaches are primarily interested in the urban politics of production, rather than consumption; that is, with economic development rather than social and welfare services. Each also stresses the importance of 'human agency' in decision-making within the broad field of production. Like earlier community power theorists in the US,²⁰ they attempt to account for important aspects of urban change by examining the actions of the groups, individuals and institutions that help produce them rather than assuming that people are swept along by larger forces over which they have no control.

Neither approach assumes that the various 'actors' in the urban politics of production are unaffected by forces beyond the immediate locality. That helps to distinguish them from the most 'localist' accounts within the older community power debate, which often ignored external factors, whether they were the influence of higher levels of government or of wider market changes.²¹ Both nonetheless insist that there is nothing automatic about the interactions between 'urban elites' and the effects which flow from them. In contrast to structuralist accounts, they are concerned with the role of human agency in shaping what Logan and Molotch²² call "the political economy of place".

The key to both approaches is their concern with processes of coalition-building, primarily for the

purposes of promoting economic change and employment-creation. Urban regime theory is based upon neo-pluralist arguments about the importance of interaction between politics and markets. Like leading neo-pluralist commentators,²³ urban regime theorists insist that in liberal democratic societies there are two, interdependent systems of authority: one based on popular control, (the various organs of representative government); the other on the ownership of private productive assets (largely the business community). Business decisions are critical to public welfare, widely conceived so that public officials cannot be indifferent to them. Since productive assets lie substantially in private hands, officials cannot 'command' businesses to perform their necessary functions; they can only provide inducements.

It follows that, although there are some policy areas in which governments can achieve desired policy outputs through bureaucratic means, including the purchase of goods and services from private sector suppliers, there are many areas in which the control that public officials can exercise over outputs is less secure and predictable. Wherever policy success relies upon the promotion of market activity, there will clearly need to be bargaining and joint work between actors in the public and private sectors. Urban regime theorists put such bargaining at the centre of their concerns and suggest that it finds its fullest expression in public-private sector coalition-building. In developing this argument, they effectively distinguish between local government and local governance. Stone²⁴ argues that "successful electoral coalitions do not necessarily govern". He suggests that, in order to achieve anything beyond straightforward statutory tasks, elected city leaders and their officials need the support of other powerful interests, especially within the business community.

Urban regimes regularise relations of mutual benefit and support between public and private sectors.

19. See, for example, the debate between Sanders and Stone and Peterson in Heywood T Sanders and Clarence Stone, "Developmental politics reconsidered", *Urban Affairs Quarterly* 22 (1987), pp521-539 and "Competing paradigms: a rejoinder to Peterson", *Urban Affairs Quarterly* 22 (1987), 548-551 and Paul E Peterson, "Analyzing development politics: a response to Sanders and Stone", *Urban Affairs Quarterly* 22 (1987), pp540-547.

20. See Floyd Hunter, *Community Power Structure: a study of decision makers* (Chapel Hill: University of North Carolina Press 1953); Robert A Dahl, *Who Governs?* (New Haven: Yale University Press 1961); Peter Bachrach and Morton S Baratz "Two faces of power", *American Political Science Review* 56 (1962), pp947-952; Nelson W Polsby, *Community Power and Political Theory*, 2nd ed. (New Haven: Yale University Press 1980).

21. Alan Harding, "Is there a new community power and why should we need one?", *International Journal for Urban and Regional Research* 20, 4 (1996), 637-655.

22. *Urban Fortunes* bears this subtitle.

23. See, above all, Charles E Lindblom, *Politics and Markets: the world's political-economic systems* (New York: Basic Books 1977).

24. Clarence Stone, *Summing up: urban regimes, development policy and political arrangements*, in Stone and Sanders, pp269-290 at p286.

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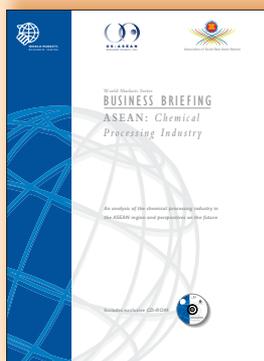
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They bring together those who have access to, and can deliver, various resources, be they material, such as finance, personnel and land and buildings, or intangibles, such as political, regulatory and informational resources. No single organisation or group monopolises these assets and there is no “conjoining structure of command” to link asset-holders together.²⁵ A governing regime must therefore be constructed through informal bargaining and the ‘tacit understandings’ of its members. Urban regimes work through a system of ‘civic co-operation’ based upon mutual self-interest. They are “informal arrangements by which public bodies and private interests function together in order to be able to make and carry out governing decisions.”²⁶ They fuse what is otherwise a very fragmented capacity to act and enable independent social forces and organisations to co-ordinate their actions in a way they would not otherwise do over the range of issues upon which they can agree. The broader the coalition of forces linked together within a regime, the more resources it collectively deploys and the greater the chances are of members enhancing its governing capacity by putting ‘small opportunities’ the way of potential allies and buying off opponents with ‘side payments’.

Urban regime theory, then, concerns itself with the way in which urban local authorities need to build bridges with other interests, particularly in the private sector, in order to achieve certain production-related goals. Although it is intrinsic to this argument that the needs and demands of business leaders will inevitably limit and help determine the options pursued by urban authorities, the channel of influence is broadly perceived as running from the public to the private sector. The growth machine thesis, by contrast, focuses upon the same themes but sees the flow of influence as running in the other direction. Logan and Molotch’s arguments are founded upon the assertion that “the activism of entrepreneurs is, and always has been, a critical force in shaping the urban system.”²⁷ They focus on how growth strategies are defined and promulgated by local business communities and how business leaders attract support from other interests, be they local authorities or non-local investors.

The growth machine thesis offers finer-grained detail

about the types of actor who play leading roles in growth strategies. For Logan and Molotch, the key to the growth machine is the way “parochial” (for which read ‘local’) capital can help create conditions in which non-local, “metropolitan” capital is attracted to particular areas. The most active players within parochial capital, according to Logan and Molotch, are property owners. Property owners strive to maximise the rental value of their land and/or buildings by intensifying the uses to which they are put or seeking to replace one set of uses with other, higher-value ones. They are a particularly dynamic and self-serving sub-set of local private sector interests whose high level of commitment to local economic growth is explained by the fact that they are ‘place-bound’; that is, their material interests are geographically rooted.

In attempting to promote flows of non-local investment into their localities, property owners form alliances with other business interests. Some of these are similarly constrained, spatially. In the case of the US, key banks, utilities and media concerns, for example, can only operate in specific ‘patches’. Others operate in wider markets but readily support development strategies because they can see how direct and indirect benefits for company performance might flow from them. Growth machine supporters also include public and quasi-public organisations. Local authorities, in particular, are seen as natural allies in that they are “primarily concerned with increasing growth.”²⁸ Quite why this is seen as being so in most, but not all, cases is not satisfactorily resolved in *Urban Fortunes*. At certain points, Logan and Molotch, like other commentators in urban political economy,²⁹ suggest that urban political leaderships can follow anti- or controlled-growth strategies. At other points they argue, like the much-derided Peterson, that certain institutional features in the US system of local government predispose local authorities towards competitive, growth-orientated behaviour. And at yet other points, it is implied that local public officials have some freedom of manoeuvre with respect to the politics of production, but fail to use it. Like other interests, they can be seduced by the ideology of ‘value-free development’, promulgated by core growth machine activists.

25. Stone, *Regime Politics*, p5.

26. Stone, *Regime Politics*, p6.

27. Logan and Molotch, *Urban Fortunes*, p52.

28. Logan and Molotch, *Urban Fortunes*, p53.

29. For example, Pierre Clavel in *The Progressive City: planning and participation, 1969–1984* (New Brunswick: Rutgers University Press 1986) and Robert DeLeon in *Left Coast City: progressive politics in San Francisco 1975–1991* (Lawrence: University Press of Kansas 1992).

Urban regime theory, by contrast, sees little role for ideology in binding coalitions together. For Stone, in particular, the power of a regime lies in the fact that it can draw in a multitude of different, often ideologically incongruent, interests without the need for a meeting of minds on all issues. All that is required is that regime members work together constructively on those issues on which they can agree and not let their disagreements threaten the integrity of the regime. Thus, regime members support growth strategies because they calculate that the material benefits of having influence as a 'supportive' insider are greater than those that might accrue from being a critical outsider. It is these material calculations, more than anything else, that Stone has in mind when he argues that the opponents of a broadly based, well organised regime can win battles against particular development projects but rarely the war against growth politics in its broadest sense.

Regime theory is also broader and more dynamic when it comes to identifying a range of 'ideal typical' local governing arrangements. Variants of

the growth machine model are recognised by both Stone and Elkin as a common and powerful form of coalition in US politics but not one that is necessarily dominant at all times and in all places. Both argue that the nature of a regime can vary, depending on the wider political and economic circumstances in which it is formed. Elkin, for example, describes how the role of the then more interventionist Federal government affected the nature and extent of local coalition building in the 1960s and 1970s. Both he and Stone also imply that only in certain periods does the search for local economic competitiveness assume dominant proportions in local politics. At other times, it is possible for less ambitious and inclusive regimes to concentrate upon relatively routine service delivery issues or challenge the growth agenda of local business leaders. Both nonetheless imply that it is some variant of the growth machine model – with a stronger role for elected authorities – that is predominant in times of pronounced economic change; that is, when local economic prospects are most under threat or in periods where there are greatest opportunities. ■

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City Services in the Competitive Marketplace

a report by

Stephen Goldsmith

Mayor, Indianapolis



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Observing the Private Marketplace

Every day, the private sector introduces new products, improves old ones, expands services and reduces costs in general. The desktop computer on which this article is being written, for example, was non-existent 25 years ago and essentially unaffordable until very recently.

Government, on the other hand, becomes less responsive and more expensive over time. Spending by the federal government increased from US\$92 billion in 1960 to US\$1.5 trillion today. Yet very few people would say that government services are better today than they were 40 years ago.

Why are private sector companies more efficient, more customer-oriented and more innovative than government? The answer is that these companies must compete in the marketplace and they will go out of business if customers do not like the goods and services they offer. No matter how successful a company is today, if it loses touch with its customers' needs, or charges too much, another company will steal its customers away tomorrow.

Government, which has a lock on the delivery of a wide range of services and the management of many assets, is not only a monopoly, but a particularly effective form of monopoly:

- Government cannot go out of business. Every citizen of the US, like it or not, is a customer for government services – and a new customer is born every eight seconds. Poorer Americans, in particular, are customers for government services because they cannot afford to go elsewhere.
- Government controls revenue. If more money is needed to provide a service, government can and will raise taxes to pay for it. While the private sector must persuade people to make purchases, government simply takes dollars. If a citizen decides not to buy what government is selling by refusing to pay taxes, that citizen will wind up in jail. General Motors would never close a plant if it could seize the assets of people who do not buy their cars.

- Government is allowed to spend more than it takes in. While many states and cities are required by law to enact balanced budgets, many government entities are not – including the federal government. And even governments that, by law, must balance their budgets nevertheless avoid doing so by borrowing, deferring capital spending and employing bookkeeping devices. Private companies and families can only spend on deficits in the short-term before going out of business; government can go into debt indefinitely.
- Government delivers “essential services.” Whenever reform-minded managers or elected officials exert pressure to reduce costs, status-quo managers can mount an effective defence by pointing to the essential nature of their task: a call for budget cuts in a municipal Department of Public Safety might be met with a cry that the streets will be less safe; attempting to slow the growth of education spending might be met with a challenge such as, “Aren't our kids worth a few extra dollars a month?” This is a strategy that resonates powerfully with constituents, who have neither the time nor the inclination to scour budgets to see if savings are possible without cuts in service quality.

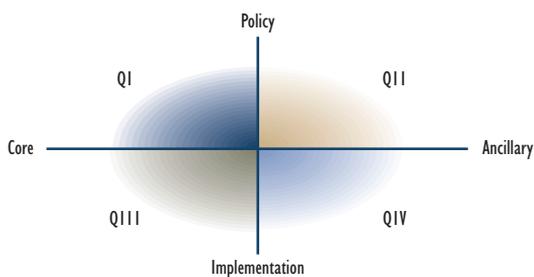
What limits government's incentive to be efficient is not public ownership per se, but the monopoly that government enjoys over the services it provides. The key issue is not public versus private – it is monopolistic versus competitive delivery. This is why we prefer the term “marketisation” to the more commonly-used “privatisation”. As a rule, one can predict the responsiveness and efficiency of a company by the amount of competition its products face. The more rigorous the competition, the better the product. Utilities and large monopolies, for example, tend to be less efficient and customer-oriented. To the extent that we move services into the marketplace, or create markets for their delivery, we can also increase efficiency, improve service quality, and reduce costs.

Moving Services into the Marketplace

One of the challenges in moving services into the marketplace is that governments at all levels

diversified over time in order to support the services we think of as fundamental. For decades, governments vertically integrated themselves into performing services that would be best performed by the private sector. And it will probably take decades for governments to peel back the layers and return to providing only the services that are their true province. Some services are more obvious candidates for competition than others, and identifying this “low hanging fruit” can provide governments with lucrative and relatively straightforward competitive initiatives.

This can be a confusing and controversial task, because managers always insist that their jobs are fundamental to government operation. There are a few basic questions that managers can ask themselves to determine a given service’s “ripeness” for competition, however. Based on what we in Indianapolis observed during our on-the-job training, the following graph is a useful tool for thinking about services to be competitively bid:



Core versus Ancillary: The horizontal axis of the graph above describes whether an activity is a “core service” that government must provide for citizens – a necessary, non-divisible public good – or whether it is an “ancillary service” performed, presumably, to support the provision of core services.

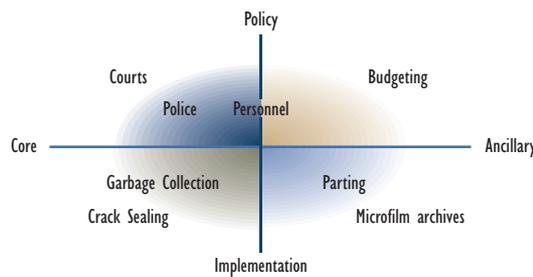
The core service behind any given activity can often be determined simply by repeatedly posing the question: “Why is this service necessary?” Each iteration will move the answer closer to a core service. For example, Indianapolis operates a Central Equipment Maintenance Division that, among its other duties, changes the oil in police cars. Why does it do so? Because the city’s police department needs a well-maintained fleet. Why? So that police officers can patrol, make emergency runs quickly and pursue suspects if necessary. Why? So that the police department can protect the public. Why? At this point, the answer is that protecting the public is a core service.

Therefore, the position of a given activity along the horizontal axis of the first graph above is determined by how closely it relates to the performance of a core government service.

Policy versus Implementation: This is similar to the distinction David Osborne described, in *Reinventing Government*, as the difference between “steering” and “rowing”. Does the activity by its nature require the making of policy, or is it an activity that involves the implementation of policy that has already been established?

The distinction between policy and implementation is often difficult. People’s opinion may vary over whether a police officer, recognising certain behaviour as domestic violence and making an arrest, is making a policy decision or implementing policy. However, some activities are easily identifiable as being more policy-making than others: deciding to equip city buses with lifts for the handicapped is a policy decision; installing the lifts is implementation. The position of an activity along the vertical axis is determined by how much policy-making it requires.

The second chart, with various services, looks like:



Quadrant IV: Ancillary Implementation

Any service that falls into Quadrant IV is a candidate for immediately moving to the marketplace, with the presumption that the private sector can probably provide it better and cheaper. In Indianapolis, one of our first successful marketisations was the city’s microfilm division, which employed 22 workers and had an annual budget of US\$700,000. We discovered that it cost the city 10.5 cents per page to microfilm a document. The lowest private sector bid offered a price of 3.3 cents per page and produced higher quality copies. The decision to privatise was easy and, over the first four years of the contract, the city saved more than US\$1.3 million as a result.

It is important to note again that even though it is probable that the private sector can provide any Quadrant IV service better and at lower cost than government, it is the process of competition, and not merely provision by the private sector, that produces cost savings.

Indianapolis provides an example that illustrates this point as well. Each month, the Department of Public Works (DPW) sent out bills to its customers for sewer

service; this service cost the city US\$3 million each year. Since this activity almost exactly parallels the billing procedure of our local water utility, we approached the DPW about taking over the city's sewer user billing. The water utility made a proposal that would have saved us 5% annually on our sewer billing. Not satisfied, we approached other utilities in the area and asked them to bid with the water utility to provide our sewer billing. When forced to compete for the service, the water utility creatively found a way to lower its bid by 70%. Last year alone, the city saved more than US\$3.5 million on the cost of billing its sewer users.

There are enough government services in Quadrant IV that any level of government could generate substantial savings by simply moving all these services into marketplace.

Quadrant III: Core, Implementation

Activities in Quadrant III are also good candidates for moving to the marketplace. However, because these activities are closer to core services of government, government may actually be able to provide them at a cheaper rate than the private sector. Therefore, Quadrant III services provide the best opportunities for public employees to win contracts. It is also probable that if Quadrant III activities are bid competitively, private sector companies will develop competencies in these activities and either capture contracts or stimulate improved service by public sector providers.

Garbage collection is a Quadrant III activity because it is one of the core services of most municipal governments; but the actual picking up of refuse does not involve policy decisions. In Indianapolis, the DPW used to collect garbage through a patchwork system that divided the city into 25 districts, which were serviced by DPW's in-house crews and four private hauliers. DPW had franchise agreements with the various refuse collectors that gave each a monopoly in its service area. Not surprisingly, hauliers' prices increased every year.

When the time came to renew hauler contracts in 1993, we opted instead to reconfigure the service districts and compete them out. After reducing the number of districts from 25 to 11, we guaranteed DPW at least one district to ensure that the city retained the capacity to collect refuse in case problems arose. We also limited private collectors to a maximum of three districts to prevent monopolistic situations and predatory pricing

Empowered and cost-conscious DPW employees found ways to provide more service for less money and won the maximum three districts in the process.

Competing out garbage collection resulted in more than US\$15 million in savings over the following three years.

Quadrant II: Ancillary, Policy

Our experience is that most of the activities in Quadrant II are carried out by the Department of Administration. Decisions about personnel policies and budgeting are several steps removed from the provision of core government services, but involve reasonably important policy decisions.

Quadrant I: Core, Policy

Quadrant I includes services and activities that could be considered both "core" and "policy" – such as zoning, police and fire protection and the courts. These activities will probably be the last that an entrepreneurial government examines in its efforts to move services into the marketplace.

Activity-Based Costing

Regardless of the service being considered for competition, governments must possess a thorough understanding of the costs associated with its existing operations in order to move services into the marketplace. But while private companies must keep a close eye on costs at all times, government tends to monitor only expenditures. While this may seem a subtle distinction, it is a critical one. A car manufacturer, for example, would not stay in business long if managers knew only how much they spent making cars, without knowing how much it cost to manufacture a single car. Yet for all levels of government, this tends to be standard procedure.

When I took office in January of 1992, no one in city government could tell me the cost of filling a pothole, paving a street, planting a tree or collecting refuse. If we were simply interested in privatisation, this might not have been such a significant problem. However, our interest is in marketisation, and any reasonable evaluation of competitive bids requires us to know how much a given activity costs us to perform in-house.

In the spring of 1992, we hired KPMG Peat Marwick to lead a process called activity-based costing (ABC). For every identifiable activity of government, ABC would determine the cost of everything that went into producing that activity. The process used private sector definitions of depreciation and loaded in all the costs of idle equipment, building space and other fixed costs.

One of the first services that was subjected to the activity-based costing process was the Department of

Transportation's (DOT's) snow ploughing operation. The results provided a good example of how the simple act of measuring costs can, by itself, improve the quality of service. We divided the snow ploughing groups into regions and then analysed the costs of each activity associated with ploughing snow. First, the consultants examined all of the equipment used; then all of the materials; then all of the labour for every mile of snow ploughed. Managers discovered that the cost of ploughing snow varied wildly from region to region. The labour cost of ploughing a mile of snow was US\$39.90 per mile in the central region, but only US\$13.20 in the south-east region. The cost of materials varied from US\$48.97 in the south-west region to US\$9.25 in the north-east region. Total cost for ploughing one mile of snow ranged from US\$117.59 in the south-west region to US\$39.96 in the south-east.

It may be that differences in topography, road layout or miscellaneous other factors contributed to some of the difference in cost between regions; but it was clear that they could not account for such a huge discrepancy. By examining the numbers and applying the best management practice in each region to all the regions, we were able to improve the mix of equipment, resources and training in each location.

As this example shows, there are benefits to the costing process wholly independent of competition. Because every dime of government spending is allocated to some outcome, managers scramble to reduce waste and overhead.

Although we did not compete out Indianapolis' snow ploughing operations, we did compete out more than 70 other city services, none of which would have been possible without activity-based costing. Using private sector rules for our accounting allowed city workers and managers to prepare legitimate internal bids and provided us with a meaningful standard against which to compare private proposals.

Maximising Value

Simply saving money is not enough. Government must respond to customer preferences and maximise value from every tax dollar it spends. Towards this end, measuring and rewarding performance became indispensable, requiring officials to pay close attention to what government actually produces rather than simply the amount of money it spends on a given service. This task is complicated by the previously mentioned vertical integration of government, which makes it difficult for managers to distinguish between outcomes and outputs.

For example, everyone expects the police department to make the city safer – an outcome. Yet somehow this

led the Indianapolis Police Department to operate a full-service print shop that prints the department's own tickets and arrest warrants – an output. Everyone expects the DPW to dispose of sewage in a way that enhances water quality – an outcome. Yet somehow this led Indianapolis to spend tens of thousands of dollars assembling a television studio just to make training tapes – an output.

Distinguishing outcomes from outputs can be extremely difficult. Early in my administration, at a meeting of the city's department directors, I expressed my frustration at our progress in being able to measure our performance. I told the director of the DOT that I wanted to know exactly how many potholes his crews filled in a week. "I thought you wanted to measure performance," he replied. "You shouldn't care how many potholes my department fills. You should care how smooth the roads are. How do you know we're not doing such a poor job filling potholes that we have to go back out and redo them later?" He was right – smooth roads are the outcome; filling potholes is the output.

Because government simply confiscates dollars rather than competing for them, government managers do not get good information about their customers' needs and wants. Therefore, government must invent processes to determine preferences, including neighbourhood forums, focus groups and public opinion surveys. In contrast, in the private marketplace, it is a relatively straightforward task to determine what outcomes people desire: follow their dollars. Do they spend their earnings on vacations, a mortgage or their children? Marketplace activity demonstrates what outcomes people value and how much they are willing to pay to produce them.

In Indianapolis, our goal is to produce added value for our citizens. It is therefore our responsibility to shift resources toward activities that produce desired outcomes for citizens. Whenever we produce more of a desired outcome without increasing cost, or produce the same outcome at a lower cost, we add value for our customers. If we cannot produce a dollar's worth of outcome for every dollar's worth of government spending, then we must not spend the dollar. For our managers, this equation is the bottom line.

An example from my days as a prosecuting attorney illustrates the point of the value equation. Having determined that making an arrest for domestic violence made the recurrence of violent activity less likely, we set up an enhanced prosecution effort and devoted substantial resources to it. Eventually, a researcher asked what should have been an obvious question: "Does the additional sanction of prosecution over and above the initial arrest further reduce the recurrence of violence?"

We soon discovered the answer in most cases was “no”. We were devoting substantial resources to doing very effectively something that did not produce the outcome most desired by citizens – a reduction in domestic violence. Clearly that does not mean we should not fully prosecute and seek convictions for those who commit domestic violence. But if our desired outcome is to decrease domestic violence, and if we have limited financial resources, then we should know how to focus our resources on achieving the desired outcome.

Only by identifying a clear and specific set of outcomes can managers truly begin to maximise value. Of course, measuring and pricing these outcomes is useful only insofar as managers are willing to act on that knowledge to improve service delivery. Government bureaucracies are notoriously rigid, and it takes powerful incentives to motivate government employees to break with traditional practices and implement creative solutions.

Competition is Key

It is competition that causes managers to take the activity-based costing process seriously and use the new information at their disposal to make prudent choices about service delivery.

When we announced that we were going to open up a part of our DOT’s crack-sealing operation for competitive bid, the drivers’ union made the legitimate point that if we wanted them to compete for the bid, we had to free them from all the unnecessary overhead that was loaded into their budget. It turned out that, in this particular division, there were 32 managers supervising 94 workers. This was not a good ratio by anybody’s standards, so we complied with the union’s request and eliminated 14 of the 32 managers. Armed with greater decision-making authority, front line workers found creative ways to improve efficiency dramatically. For example, union workers determined they did not really require eight men working with two trucks to seal cracks. By removing a certain piece of equipment from the second truck and adding it to the first, the DOT could seal cracks with one truck and five workers. The union bid for the job, and won. When asked about the competitive process afterwards, one of the DOT workers said, “It was like going from darkness into daylight.”

The DOT example taught us that if we are serious about allowing public employees to compete for contracts, it is our duty to free them from as much unnecessary bureaucracy and cost as possible. To encourage city workers to seek out unnecessary costs, I established a “Golden Garbage Award”, to be given

on a regular basis to city employees who find egregious examples of government waste.

The December 1992 winner of the Golden Garbage Award was a manager at the city’s Advanced Wastewater Treatment (AWT) plant. Several years ago, the DPW set up a full-service television studio to make training tapes for new AWT employees. At the press conference announcing that we would get rid of this equipment, the manager was asked why he had identified the studio as government waste. The manager answered: “We aren’t in the business of video production. We’re in the business of training employees. Eventually, we will be asked to compete against private sector providers of training services, and all of this equipment – and the cost of this wasted square footage – will be loaded into my overhead. If I’m going to compete, I need to get rid of all this.” He answered exactly the way an efficient government manager should.

Conclusion

In addition to getting more value for tax dollars, properly structured marketisation can also provide business opportunities for citizens, especially minority and women business owners and enterprising residents of poorer urban neighbourhoods. For example, contracts with private companies can require vendors to use their best efforts to do business with minority and women-owned enterprises. In Indianapolis, many vendors exceed the targeted participation levels specified in their contracts and surpassed the city’s previous commitment to these businesses – not as set-asides, but through market-driven, value-added decision-making.

Likewise, competing out city services can offer real business opportunities for residents of poor neighbourhoods. In the current system, we tax people in poor neighbourhoods, accumulate their limited wealth and then use that wealth to hire a worker from outside their neighbourhood – a parks department worker from a middle-class neighbourhood, for example – to come in and provide a service that the neighbourhood may not want in the first place. By competing out the delivery of services, municipal governments can provide opportunities for neighbourhood-level business development, as neighbourhood groups can bid to perform their own services and use the revenue stream to leverage other possible business opportunities.

Perhaps most importantly, to the extent that marketisation reduces the size and cost of government, it leaves more money for families to spend on themselves. Moving services into the marketplace can be the fairest, most populist way to approach city services. ■



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Rio de Janeiro – Towards Competitiveness

a report by

Luiz Paulo Fernandez Conde

Mayor, City of Rio de Janeiro



Luiz Paulo Fernandez Conde is mayor of the city of Rio de Janeiro. He is also President of the Ibero-American Center for Strategic Urban Development. He has been President of the Institute of Brazilian Architects, Rio; Director of the Faculty of Architecture and City Planning of the Federal University of Rio de Janeiro; and City Planning Secretary of the Municipality of Rio de Janeiro. Mr Conde, an architect and city planner by profession, is a graduate of the National Faculty of Architecture at the University of Brazil.

Competitiveness, integration and attractiveness have become terms often used as attributes in discussion on the ideal structuring for urban spaces – within a scenario marked by permanent transformations.

Recently, in the international seminar ‘Cities in the Third Millennium – Competitive Integration’, which was held in Rio de Janeiro, this theme was the subject of stimulating debates. The event enjoyed the participation of Professor Saskia Sassen, who addressed the role of the cities and, in particular, the major metropolises, within the process of globalisation. She holds that, contrary to forecasts, cities tend to increase their importance through worldwide integration and the facility of communications. She stressed, furthermore, that “the key process from the perspective of the urban economy is the growing demand for services by firms in all industries and the fact that cities are preferred production sites for such services, whether at the global, national or regional level.”¹

Globalisation and the technologies available to the information society² create the impression of the dispersion of reality – the location no longer important, due to the easy access, in both form and time, required for everything. Apparently, there exists a perception that companies are leaving the cities, when in actual fact they are opening up spaces for new activities, for new and better-qualified services. The cities become more sophisticated and new opportunities abound.

The challenge lies in how to take advantage of those opportunities without succumbing to the dangers. The worst-case scenario is that of cities which do not know how to anticipate the risks and are thus unable to seize what opportunities are presented to them.

Cities must have their own vision of the model they want for themselves – a model which has the broadest social consensus across the whole city.

Humanised development must be achieved, taking into account the democratisation of knowledge, minimising the social cost of change.

It is quite clear that there exists, and will continue to exist, growing competition among cities, regions and countries, in which there will be winners and losers. If the process is not properly managed, social costs, such as unemployment, social exclusion and collective impoverishment, will become a reality, in both the winning and losing cities.

For the public administrator, the outcome of this process of transformation only makes sense if directed towards the interest of the citizens. A competitive city is, first and foremost, one with quality of life. Therein lies the essence of what economists denominate “comparative advantages”, present in the struggle for markets and investment-allocation decisions.

Today, we can no longer ignore the evidence that it is up to the cities to determine the greater or lesser degree of countries’ competitiveness, in the current scenario made up of market blocks.

With globalisation, cities will undergo further change, as they cease to compete on the grounds of low-cost production and move on to an economy based on knowledge and know-how. This must be the basis for the creation of wealth, employment and social cohesion.

The future will decree that local governments no longer be seen as a mere bureaucratic institution for handling administrative affairs. In fact, they will act

1. Professor Saskia Sassen, University of Chicago, Cities in the Global Economy, basic text presented in the Seminar Cities in the ‘Third Millennium – Competitive Integration’, Rio de Janeiro, January 1999.
2. Article by Professor Roger Stough of the George Mason University – Effect of Information Technology Innovations on Metropolitan Regions, analyses the impact of the spread of new technologies on the expansion of metropolises. Through networks it is possible to substitute communication for trips and face-to-face meetings through telecommuting, telepurchasing and telemedicine. Advanced logistical and intelligent systems make it possible to increase the productivity of the traditional transportation infrastructure, thus reducing congestion and increasing mobility.

as institutions that promote and take on an evermore active role in the groundwork for “putting the city on the map”. It is new and challenging behaviour.

If the world faces up to the irreversible challenge of integration, we have before us the mission of constructing channels which allow not only easier commercial and financial interchanges but also the circulation of ideas, dialogue, strategic planning and the essential exchange of experiences.

With a GDP of US\$51 billion, it carries considerable economic weight, comparable to several countries.

Some 80% of Rio de Janeiro’s business is in the tertiary sector, although it also possesses a solid industrial base, made up especially of plants in the sectors of beverages, pharmaceuticals, chemicals and petrochemicals.⁴

The city’s financial market is the second most important in Brazil.

The 21st century will find a new society, based on new models of organisation and new values.

It is with this vision that the city of Rio de Janeiro has been preparing for competitive integration.

Recently, Brazil has been in the world’s headlines, due to the exchange crisis triggered by a speculative attack on its currency. In the latest World Economic Forum in Davos, the vulnerability of economies was the focal point of the meeting, with the recognition that: “In the new global economy, no country can be considered immune, even those that are not yet fully integrated suffer the secondary effects of declining commodity prices and the perception of increased emerging risk.”³ Naturally, we would rather see our country appearing in the media in other ways. However, in the comments on the crisis, the world became aware of Brazil: the eighth largest economy, with a modern and competitive industrial base in several of its segments, plus an enviable potential for growth.

Rio de Janeiro is the second city in Brazil, fourth in Latin America and twentieth largest conurbation in the world, including its metropolitan region.

Along with the city of São Paulo, 219 miles to the south, it makes up an important axis of development⁵ which is taking on ever more complementary features.

Rio de Janeiro is home to large private corporations and important public-sector organisations, notably the National Economic and Social Development Bank (BNDES), and PETROBRAS (Petróleo Brasileiro S.A.)⁶

We have South America’s largest technological base, housing the country’s most advanced research centres, 11 universities, and 62 research and development institutions, bringing together 6,500 graduates at Master’s and Doctorate level, in the most varied areas of science.

As a consequence, we answer for a sizeable portion of Brazilian knowledge-intensive companies, such as the nuclear industry and software production – this latter, responsible for 40% of Brazilian production, involving 4,000 companies. In 1998, the Riosoft Program inaugurated the Rio-Boston Software

3. New Thinking for a New Global Economy, David Morrison, Director 1999 Annual Meeting World Economic Forum, Davos.

4. Rio is the capital of Brazil’s petroleum industry. As the country opens up economically, and given the proximity to the largest oil field, the Campos Basin, responsible for 70% of Brazilian output, the city has been attracting major foreign corporations that are locating their headquarters in Rio. Recently, 80 of these companies have opened offices in the city.

5. Together, the macro-regions of Rio de Janeiro and São Paulo amount to over 27 million persons, responsible for some 40% of Brazil’s production – US\$300 billion. Along the macro-axis formed by the cities, important projects are appearing, such as the metal-mechanical pole in Porto Real, based on the VW and Peugeot facilities, and the hub port of Sepetiba, the largest in South America.

6. From a universe of the 20 largest state-controlled corporations and 20 largest Brazilian private-sector companies, 15 have their headquarters in Rio de Janeiro, responsible for a turnover exceeding US\$77 billion.

Connection, to promote Rio in the second largest informatics pole in the US.

Also to be noted is the fact that the average schooling of our economically active population is 7.9 years, the highest reached among Brazil's metropolitan regions.

Projects such as the Teleport⁷, the Port of Sepetiba⁸, the expansion of the Antônio Carlos Jobim International Airport, the privatisations and upgrades of federal highways and the rail and subway systems, the conclusion of the Linha Amarela urban highway – the largest road-building project carried out in the city in the last two decades – and major investments in telecommunications amount to a new dimension for Rio de Janeiro's logistical infrastructure system.

No less important for the image of the city are the projects for the revitalisation of the Historic Center and the emblematic Favela-Bairro⁹ project, which has integrated to the urban fabric a part of the population hitherto segregated both physically and socially.

Tourism is expanding¹⁰ now in a more organised manner as a result of the project especially conceived to enhance this natural vocation. The slogan "Incomparable Rio" synthesises the message of the city's new image.

Hotel occupancy is reaching unprecedented levels. In 1997, all this effervescence was confirmed by the International Congress and Convention Association, which indicated Rio as the city which attracted most events in the Americas.

Rio has also hosted international meetings on a large scale, such as the ECO 1992 Summit, sporting events such as Formula Indy, besides the

Carnival and New Year's Eve on its beaches. Next June, we shall be hosting what will be the largest summit meeting of heads of state in this close of the century. The Summit Meeting of Latin America, the Caribbean and European Union will bring to our city over 50 heads of state and diplomatic delegations.

The formulation of this vision of the future is due, in part, to our initiative in drawing up the Strategic Plan for the City of Rio de Janeiro.¹¹ Now in its fourth year of implementation, it is considered a landmark for others which have followed it.

This initiative, in 1997, led to the incorporation of the Development Agency of the City of Rio de Janeiro – Agência Rio, which has contributed to the process of attracting investments and integrating public and private interests.

A recent survey by Arthur Andersen International, in partnership with Fortune magazine, *1998 Best Cities for Business*, highlighted Rio de Janeiro as the best city for investment in Brazil, and the fourth best in Latin America¹² – confirming that our actions are set at the right pace.

This has been a century of great dreams and mighty utopias. The 21st century will find a new society, based on new models of organisation and new values. The future can no longer be seen as an outgrowth of the past, as transformations will occur in all their magnitude, creating insecurity, eliminating paradigms and opening up a wide range of challenges.

The competitive city will be, first and foremost, one of harmony with social, economic and cultural integration. It will be a vibrant and welcoming city. ■

7. *The Teleport offers a full-strength telecommunications infrastructure, with highly reliable services, dedicated 24 hours per day to the transmission and reception of voice, data and images, with free access to international networks, and autonomy from the local network. In 1998 it was chosen by the World Teleport Association, as the Best Developing Teleport of the Year.*

8. *The Port of Sepetiba, located to the south of Rio de Janeiro, unites the ideal conditions to become a cargo-concentrating port for the whole of the Mercosur (Hub Port), with potential to handle six million TEU's.*

9. *The concept of Favela-Bairro is that of broadening access for the considerable part of the population formerly deprived of sanitation infrastructure, transportation and public services. The project receives financial support from the Interamerican Development Bank (IDB), and has so far benefited over 300,000 persons. In 1997, thanks to the results obtained, it was placed on the list of Best Practices Projects, by UNO Habitat.*

10. *In 1994, the flow of foreign tourists was 671,000 visitors, whilst in 1998 it had already surpassed 1.3 million, with forecasts of two million for the year 2000.*

11. *The Strategic Plan got under way in 1993, through public/private sector co-operation. Rio de Janeiro became the first city in the Southern hemisphere to undertake a project of strategic planning, in this regard joining others such as San Francisco, New York, Rotterdam, Lille, Lisbon and Barcelona.*

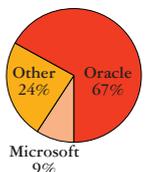
12. *The work was based on a poll carried out with over 1,200 executives all over the world, who appraised the cities, besides analysis of information from the cities themselves, addressing themes such as business environment, labour force and quality of life.*

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Slum Improvement Project in Dhaka Metropolitan City

a report by

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Quamrul Islam Siddique, a policy planner, innovator and practitioner of rural and urban development interventions with 30 years' experience, is currently Chief Engineer of the Local Government Engineering Department (LGED), Government of the Peoples Republic of Bangladesh.

A B M Ashraf Alam, a professional engineer, with 15 years' experience in infrastructure development projects under the LGED, has been responsible for implementing, supervising and monitoring environmental and urban infrastructure development projects for five years.

Mohibbur Rahman, an academic with more than 25 years' experience in training, research and project activities in various rural and urban development interventions, has been a BME specialist with an LGED/Asian Development Bank project for three years.

Aminur Rahman, an architect/planner with over six years' experience in the field of physical planning development of human settlements, has been employed as a physical planner (both urban and rural) with an LGED/Sida project since mid-1996.

Hasin Jahan, a technology specialist on a World Bank project for one year, has four years' experience in the field of urban development with environmental and gender issues.

Case Study

Objectives

The basic objective of this study is to highlight some of the innovative socio-economic programmes implemented for urban slum dwellers under the Slum Improvement Project (SIP) of the Local Government Engineering Department (LGED) in Dhaka, and the lessons learned from them. Specific objectives are to assess various aspects of the project's activities, including:

- the physical and social infrastructure activities;
- the abilities of the infrastructure to meet basic human needs;
- the capacities of basic and socio-economic services to improve the overall living conditions of slum dwellers;
- the impacts of such programmes on the common conditions of poverty;
- the innovative policies, approaches, practices and lessons regarding resource mobilisation; and
- the effectiveness and sustainability of cost-recovery techniques.

Background of the Study

This SIP was the first successful model for slum upgrading in urban Bangladesh. It was designed in 1985 to improve the quality of life for slum dwellers by mobilising community resources and improving their access to government resources.

The SIP accomplished a major breakthrough in providing a basic physical infrastructure system to the urban poor. The underlying philosophy of the project was to establish an integrated economic, social and physical development programme in urban slums through community organisation and the provision of loans for income generation. Other activities, such as health, education, sanitation and environmental improvements have been planned alongside the credit

operation. Physical and human development are viewed as interdependent, insofar as the sustainability of physical development is contingent upon the success of human development.

This case study, therefore, is based on experiences in Dhaka, since slum problems here are, as in other mega-cities in developing countries, particularly acute. It is for the overall benefit of policy planners and concerned professionals that case studies are undertaken, in order to discern the inherent capabilities of the model so that it can be developed as a sustained, cost-effective and replicable model. This study should be of equal benefit to policy planners, professionals and practitioners, in discerning methods and means to solve common problems in slums.

Purposes of the Study

This study attempts to analyse the operational issues and problems relating to slum improvement interventions in mega-cities. The purpose of the study is four-fold:

1. the context within which the interventions were made are established;
2. a description of the interventions, the successes achieved and the problems and constraints encountered, are presented;
3. the lessons learned from the experience are discussed; and
4. the policy and management issues are identified.

The analysis provides a detailed description of the SIP in its origin and growth, approach, technologies adopted, institutional arrangements, costs and financing and its achievements. The achievements are discussed in terms of government progress towards a sustainable, cost-effective and replicable slum improvement programme.

Case Study Coverage and Scope

The study covers 18 slums within the Dhaka Metropolitan City (DMA), where improvement

activities have been under implementation by the LGED since 1991. The basic information on slums, slum populations, sex ratios, numbers of families and coverage under these activities was taken from the 1996 review of the SIP for the Urban Poverty Reduction Project (UPRP), commissioned by the Asian Development Bank (ADB) and LGED.

Methodologies of the Study

Design formulation – In order to arrive at sound methodologies, major considerations focused on relevance, reliability, accuracy and cost effectiveness, among other factors. The methodology was therefore developed based on recent studies and field observations. The studies consulted were primarily sources from the LGED, ADB and World Bank and included printed reports, documents, guidelines and manuals on the project components, as well as quarterly reports on

planning purposes, both the focus-group interviews and the IHS also generated useful insights into community dynamics, demographic data, income and expenditure patterns etc.

The sampling was based on coverage of the total slum area, representing all the occupational groups in the slums, with more weight given to the dominant occupational groups. The representation of women in the survey was 50%.

The questionnaire was developed in accordance with the objectives of the study, and was pre-tested.

Orientation and training of the survey team – The survey team consisted of 10 surveyors, and two supervisors were entrusted with the responsibility of conducting the survey. They were provided with an orientation/training session on the methodology of the IHS and the administration of the survey in the field.

[This SIP] was designed in 1985 to improve the quality of life for slum dwellers by mobilising community resources and improving their access to government resources.

the various slum activities as secondary data. Primary observations by the study team members focused on: group discussions; rapid and participatory appraisals with slum dwellers; discussions with project management and staff, professionals and practitioners in the field; and an Independent Household Survey (IHS) to assess the perceptions and opinions of the beneficiaries regarding project interventions.

Independent household survey – The methodology for this survey focused on specific criteria, so that unbiased opinions were polled through a set of simple, objective and relevant questionnaires. It was realistically developed and based on standard methods, including physical infrastructure interventions, social and service infrastructure facilities, economic activities, efforts on cost recovery and the participation of beneficiaries in the slum projects.

Sample size and sampling – The survey covered the populations of all 18 slums under the SIP in Dhaka, in which there are over 6,000 households. A 10% sampling was done in each of the 18 slums.

Whilst the UPRP-Centre for Urban Studies (CUS) survey proved useful to the establishment of broader demographic and socio-economic patterns and

Focus group discussions – Five focus group discussions were arranged, with slums grouped for rapid and participatory appraisal. Specific questions were raised and discussed in these appraisals concerning the activities, the participation of slum dwellers in the activities, efforts towards sustaining project activities and resource recovery efforts. In addition, problems and suggestions for improvements were given by the slum dwellers.

Organisation of data collection – Each survey team member was allotted 55–70 sets of questionnaires, where each set consisted of a separate questionnaire for all of the components. There were seven female and three male surveyors in the team. The two supervisors, together with the team members, visited the survey areas to observe the work first-hand and sort out any problems in the field. The survey was conducted in April 1997.

Major Findings of the Case Study

Physical Condition and Environment

The upgrading of physical infrastructure included the development of footpaths and drains and the installation of tube wells, latrines, street lighting

and dustbins. These facilities obviously have a direct impact on the general improvement of the slum environment. They have also indirectly improved the health conditions of the poor and their quality of life. However, it was observed in the field that the improvements are not equal within all SIP slums, and that maintenance, especially of drains and refuse, seems to be poorer in some places (for example, in Khilgaon). Sometimes, physical components do not respond to the characteristics of the local land terrain and, consequently, water-logging and overflow of drains and sewers can be caused. For example, in Bauniabad (Mirpur) and Wari, the overall physical and drainage conditions seem to be quite satisfactory, while in Lalbag, four out of five slums remain in poor condition due to water-logging in the wet season and overflowing drains and sewerage in almost all seasons. Khilgaon Bagicha and City Pally also have water-logging problems. Therefore, it is suggested that the operating procedures for the SIP regarding physical improvements should be more flexible and should recognise local people's needs and the peculiarities of individual sites. In addition, low-cost and labour-intensive technologies should be encouraged so that the slum dwellers can participate in construction work and thereby afford the cost of development more easily. To make this component more effective, a government "food for work" programme may also be implemented. Moreover, innovative strategies are needed to ensure long-term and sustainable maintenance for the physical infrastructure.

A common feature found in almost all SIP slums (*bastees*) is the malfunction of drains due to blockages caused by careless disposal of solid waste into house-side drains instead of the provided garbage bins. This is a very common practice found in almost all poor residential areas, market places and other congested areas, but it is severely obstructing the proper improvement of physical and environmental conditions in these areas, and causing health hazards around the city. Slums and squatter settlements, in particular, are consistently marked by poor living and environmental conditions, and by limited access to basic services through official sources.

Environmental improvement in slum areas depends greatly on the improvement of latrine facilities. The SIP has had success in providing sanitary latrines, but in some cases, due to their poor socio-economic background, slum dwellers showed limited interest in upgrading this particular utility. For many poor families, latrine prices, although subsidised, remain high. To overcome this situation, a latrine subsidy should be flexibly implemented and dependent on the incomes of the beneficiaries.

Most slums are more seriously threatened by natural calamities, heavy rainfall and subsequent flooding, epidemics and eviction than non-slum households. Women, in particular, face special difficulties, as victims of violence and sexual abuse by *mastaans* (touts) and others. Hence, social mobilisation, leadership training for people's organisations and possible linkages between women and existing legal aid-related institutions need to be emphasised.

Income and Expenditure Patterns

With limited scope, the IHS (covering 18 slums in Dhaka) generated some interesting insights into the income and expenditure patterns of male and female-headed households. The incomes and expenditures of slum dwellers, from the IHS, are shown in *Tables 1* and *2*, which show that the predominant range of monthly incomes is between Tk1,000 and Tk3,000, which constitutes 74% of the total sample of households. Only about 13% of respondents have incomes above Tk3,500 per month, and again, about 74% of families spend between Tk1,000 and Tk3,000 per month. This implies that the lowest income group (74%) exhaust all of their earnings just on surviving in the city.

From the IHS, it has been found that, overall, slum dwellers spend 50% to 60% of their incomes on food. The second highest monthly expenditure is for housing purposes, which represents between 15% and 18% of their total earnings.

Age Structure and Labour Force Participation Rate

The compositions of sample slums are marked by the predominance of children (44%) in the overall populations, and a higher dependency ratio of about 70%. The higher dependency ratio indicates an overwhelmingly large base of active-age population (54.5%). Subsequently, poorer households are characterised by a higher labour force participation rate than less poor households. About two-thirds of men and all working women are engaged in low or no-skilled, low-paid jobs. The different occupational statuses of males and females is shown in *Table 3*.

The average monthly wage for female workers (Tk1,050) is less than half that of male workers (Tk2,150). The occupational history of the working population reveals that with increases in age, both men and women tend to change from more energy-consuming work (for example, rickshaw pulling, construction work, factory work, etc.) to relatively less energy-consuming work (such as petty trading, housemaid work, etc.).



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Table 1: Income Levels of Slum Dwellers

Sl. No.	Monthly Income	Number of Households	Percentage
1	< 1,000	20	3.91
2	1,000–1,500	94	18.36
3	1,501–2,000	82	16.02
4	2,001–2,500	114	22.27
5	2,501–3,000	89	17.38
6	3,001–3,500	48	9.38
7	> 3,500	65	12.70

Source: IHS, LGED, 1997.

Note: Incomes expressed in Tk (US\$1 = Tk43).

Table 2: Expenditure Levels of Slum Dwellers

Sl. No.	Monthly Expenditure	Number of Households	Percentage
1	< 1,000	18	3.41
2	1,000–1,500	96	18.18
3	1,501–2,000	107	20.27
4	2,001–2,500	106	20.08
5	2,501–3,000	92	17.42
6	3,001–3,500	47	8.90
7	> 3,500	62	11.74

Source: Ibid.

Note: Expenditures expressed in Tk (US\$1 = Tk43).

However, this horizontal mobility does not necessarily ensure greater income.

Level of Education and Skills

The results of the IHS regarding the educational levels of the respondents are indicated in Table 4. Education has been categorised into nine levels. The first group consists of those who can neither read nor write (more than 40% of the slum population), and about 9% are able to sign their names only.

Technologies Adopted

Technologies introduced in the project were simple and had already been widely used elsewhere in Bangladesh. They included hand-pump tube wells, water-sealed pit sanitary latrines, masonry bins for refuse disposal, surface drains and footpaths. Public latrines-cum-bio-gas-plants proved very successful in improving the sanitation situation, and also provided some respite to energy conservation. Choices of technology were made by the project designers, based on their own perceptions and discussions with the communities regarding what best suited their needs. Options were determined by the budgetary constraints of the project and the availability of the technology.

For water supply, suction hand pumps were used, which can extract water from a depth of seven metres underground. In low water table areas, Tara pumps were used, which can lift water from a depth of 15 metres. This technology worked better in smaller urban centres than in Dhaka where the population density and the depth of the water table

are both high. In Dhaka, women generally preferred to have piped water connections. The LGED tried to mediate the provision of this service from the Water Supply and Sewerage Authority (WASA) in Dhaka, but faced problems with the legal ownership of the holdings occupied by the slum residents. Apparently, WASA connections are made only in holdings occupied by the slum residents and only in the name of the legal owners of a land holding. Despite these rules, there are numerous illegal water connections in neighbourhoods where slum residents pay much more than the amount charged by WASA for regular house connections. These connections are operated by middlemen, who have managed to obtain them on payment of an illegal service charge.

For solid waste disposal, dustbins were constructed by the project. One large masonry bin was allotted per 100 families at a cost of Tk1,800. Also provided were: one corrugated iron dustbin for 20 families at a cost of Tk930, where users contribute Tk2 each; and one pushcart to carry refuse from the dustbins to the masonry bin. Refuse from homes is carried to the dustbins mainly by women and children. Some modifications in the designs were made to cater for local needs and for problems of waste scattering due to birds and animals.

Social Mobilisation and Community Participation

The SIP is basically a package programme for the social, economic and physical improvement of the community. Success in these fields of action depends largely on social mobilisation efforts. Raising health and education awareness and mobilising resources for socio-economic empowerment and physical improvement both require regular interactions (for example, meetings and discussions) among different groups of people (such as Community Health Workers (CHWs), credit groups, Sub-project Implementation Committees (SPICs), Community Organisers (COs), Project Implementation Committees (PICs) and a wide range of community people). To accomplish the organisational work, COs play a vital role: they are the main links between the communities and the project officials. All physical and social service components of the SIP are channelled through the COs. At the community level, SPICs, CHWs and credit groups depend greatly on the COs. It has been generally observed in the field that, considering their poor socio-economic background and low level of training and experience, the performance of the COs in organising slum communities has been appreciable. However, project officials at the policy level sometimes do not want to recognise the central role played by COs. Their status in the

project hierarchy is very low and there is no job security. The participation of beneficiaries in the project activities can be delineated according to eight distinct categories:

1. community group formation – introduction to the community, IHS and base line surveys, group formation and group meetings;
2. slum improvement committees – formation of committees, selection of a chairman and vice-chairman from the community, participation in meetings, dissemination of training information and representation to higher committees;
3. selection of CHWs from the community;
4. selection of teachers (preferably from the community);
5. selection of group leaders;

Once tenure becomes more secure, tenants are likely to pay more attention to improving their slums. Furthermore, the level of sustainability will not be the same for all components of slum upgrading. For example, there is a strong demand for credit, so it is more sustainable than a savings programme. Similarly, water, electricity and education are higher priorities to slum dwellers than dustbins, latrines and drains. The level of sustainability of each SIP component may also vary from one slum to another, depending on the needs of the residents and the topographical and environmental characteristics of the slum.

Credit, Savings and Recovery of Credit

Of all slum improvement components, the credit facility appears to be one of the most attractive and successful. Many poor families in SIP slums have increased their incomes and earning capacities by investing their loans in various profitable fields.

Once the tenure becomes more secure, tenants are likely to pay more attention to improving their slums.

6. savings activities, such as the establishment of savings targets for all group members, opening accounts in commercial banks and monitoring savings activities;
7. income-generating loan activities – selection of loanees, preparation of budgets and finalisation of the list of loanees to ensure full loan recovery (with a service charge); and
8. infrastructure development activities – selection of schemes for each component, establishment of implementation processes and liquidation of advances.

Reasons behind the loans are shown in *Table 5*, according to which more than 63% of slum dwellers take loans for small trading activities, from which they earn profits.

The recovery of loans was found to be quite satisfactory. In fact, it is the provision of credit programmes which attracts poor families to the SIP for improvements to their living conditions. However, based on field experience, there are alternative suggestions that can be put forward for further improvements to their conditions:

- First, the criteria for selecting a loanee should be based on both economic and non-economic attributes. To involve a higher number of poor families, preference should be given to low per capita income, female-headed households and under-privileged or disadvantaged families, such as families with a disabled person and fewer income earners. These measures for loan disbursement are very important, particularly for targeting poorer families who cannot be covered under the existing credit distribution system.
- Second, the high rate of loan recovery, along with the ability to pay a high service charge (15% per

Sustainability

Guidelines for the SIP identify certain steps to promote sustainability. The revolving fund for the payment of COs' salaries, however, has not yet been fully developed, although arrangements were made with UNICEF to support the COs' positions for another five years. Arrangements for the utilisation of the welfare fund by project authorities are in practice in some slums. Regarding land tenure, it was observed in the field that tenurial security has a profound impact on the sustainability of the SIP.

Table 3: Occupational Status of Slum Dwellers

Sl. No	Occupation	Male (%)	Female (%)
1	Rickshaw/Van/Pushcart Puller	27.8	–
2	Auto Scooter/Baby Taxi/Tempo Driver	2.6	–
3	Driver of Other Mechanical Vehicle	0.9	–
4	Helper of Mechanised Vehicle	2.7	0.07
5	Vendor/Hawker	3.9	1.7
6	Petty Trader/Shop Keeper	11.2	2.23
7	Night Guard/Cleaner	5.03	1.15
8	Day Labourer	16.22	7.6
9	Garment/Other Factory Worker	5.94	15.76
10	House Maid/Servant	0.78	12.78
11	Other	13.83	10.23
12	Unemployed	6.56	5.84
13	Housewife	-	38.51

Source: Ibid.

Table 4: Educational Levels of Slum Respondents

Sl. No.	Level of Education	Number of Households	Percentage of Households
1	Cannot read or write	202	40.97
2	Can read and write	62	12.58
3	Primary up to Class V	118	23.94
4	Up to Class VII	52	10.55
5	Secondary School	6	1.22
6	Higher than Secondary	5	1.01
7	Graduate	5	1.01
8	Masters	nil	nil
9	Others (able to sign)	43	8.72

Source: Ibid.

annum), indicates that slum dwellers are some of the most successful investors. Given this situation, existing loan sizes should be increased to meet the growing demand for credit.

- Third, credit management within some SIP slums is not always fair and democratic. Management committees within or outside the slum communities should not select loanees who are not in accordance with SIP guidelines.

In parallel to credit, the SIP mobilises savings within slum areas. However, unlike credit, only a partial success has been achieved in this sector. Statistics reveal that slum dwellers are willing and able to save more money than the targeted amount. To dispel any doubt about the safety of their hard-earned savings, a strong monitoring capacity with diligent and efficient management is necessary.

Cost Recovery

The SIP did not contemplate any direct cost recovery for the operation and maintenance of infrastructure facilities. It required the beneficiaries to contribute Tk500 per tube well and Tk500 per latrine to a community fund, to be used to remunerate the CHWs once the UNICEF assistance ended. In addition, the

SIP expected the community to supply labour towards other physical improvements. Unfortunately, this plan has been only partially realised.

Generally, one tube well was provided for 10 families at a subsidised price of Tk500 (approximately US\$12), making the contribution per family Tk50. In some cases, dysfunctional tube wells were repaired. Here, too, the users contributed Tk500, and when the cost of repair was beyond this amount the project was subsidised. The users contributed to all of the costs for the construction of tube well platforms except cement, which was supplied by the project.

Perceptions and Preferences of Slum Dwellers

Different categories of men and women in the slums and squatter settlements perceived different causes for their poverty, as was revealed during focus group interviews conducted during the survey. The most common perceptions cited included:

- low income or lack of capital;
- low levels of education and skills;
- poor living and environmental conditions;
- high indebtedness;
- fewer income-generating family members; and
- social factors, such as insecurity, violence, desertion, polygamy and dowry.

To redress these problems, they suggested the following:

- regular income opportunities;
- access to capital and interest-free credit;
- education and on-the-job skill development opportunities;
- entitlement to land and shelter;
- easier access to water, sanitation, and electricity; and
- greater security and stability.

Achievements, Impacts and Constraints

Major Achievements

The key success factors of the SIP relate to its basis in a multitude of beneficial social initiatives. These include community participation, a democratic process of decision making, community involvement in the development of plans and implementation of activities and the positive involvement of elected representatives at every level of implementation.

The overall performance and achievements of the SIP are satisfactory, although the project has covered only a very small portion of the total slum population. Nevertheless, the model has proven

effective and significant physical, social and economic improvements are already evident in participating slums. A brief list of major achievements of the SIP is highlighted below.

Although slum development has long been neglected in Bangladesh cities, the SIP model made a significant breakthrough in providing an integrated package of basic physical, social and economic infrastructure facilities for the urban poor. At present, the SIP is the single largest programme providing service and assistance to thousands of poor urban households in the country.

Of all SIP components, the micro-credit programme was particularly successful and attractive. Many poor households have increased their incomes using this facility.

Empirical studies show that the SIP has significantly raised the level of health awareness among slum dwellers. As a result, within SIP slums, the incidence of environmental diseases (such as diarrhoea, respiratory problems and scabies) has been reduced substantially.

A notable achievement of the SIP is the empowerment of poor women through community involvement, particularly through the savings and credit programme. The SIP has raised the overall status of women in the family as well as in the community, and thus incidences of divorce and abandonment of women has declined remarkably.

Slums and squatter settlements are usually environmentally hazardous. The SIP has significantly changed this by improving the physical infrastructure and overall environmental conditions in slum areas. People living in SIP slums have more access to basic services than their counterparts in non-SIP slum communities.

As a “pro-poor” programme, the SIP has been able to introduce notions of social development to government officials.

Impacts of the Project

Major impacts which have been effected by the SIP in slum areas around Dhaka are summarised in various categories below.

The social sector – A strong mutual respect and sense of unity among slum dwellers has been created, along with an increase in self-confidence and awareness. Respect for women within the family and the community has been dramatically enhanced, and there have been great improvements to the general law and order in the area. Non-social and antisocial activities have declined, with accompanying increases in the development and awareness of education

Table 5: Purposes for Taking Loans

Sl. No.	Loan Item	Number of Households	Percentage of Households
1	Business	74	63.79
2	Housing	13	11.21
3	Land Purchasing	1	0.86
4	Sending Family Members Abroad	2	1.72
5	Wedding	4	3.45
6	Education	nil	nil
7	Religion	nil	nil
8	Illness	8	6.90
9	Household Expenditure	6	5.17
10	Others	8	6.50

Source: Ibid.

among adults and children. There is also a growing awareness of the issues of marriage dowries, child marriages and family planning.

The economic sector – The encouragement of habits leading to increased savings among poor people has resulted in the creation of funds that can be put to use for the benefit of communities. The credit scheme introduced by the SIP has led to enhanced economic activity among women, as well as increased incomes for families. Facilities have also been provided for self-employment through “needs-based” training.

The environmental sector – Many urban infrastructure facilities have been provided for the direct improvement of slum dwellers’ environmental conditions. Such improvements include the installation of tube wells for the supply of safe water and the construction of drains to facilitate the removal of contaminated water. Dustbins have been installed to keep the area free of solid waste and bad smells, and footpaths have been built to keep mothers and their children out of damp atmospheres. Sanitary latrine facilities, for the use of all family members, have been constructed, as well as community latrine-cum-bio-gas-plants, to promote a more sustainable balance between the environment and the requirements of the population.

The political sector – There have been noticeable improvements in institutional consciousness among women within the project areas and also in the overall consciousness of civil rights. Methods which facilitate the creation and exposure of leadership have also been devised.

Major Constraints and Weaknesses

The SIP is a package programme for in situ improvements to slum communities. The programme is carried out following SIP guidelines, which, in many ways, are not flexible enough to meet the differing physical and social characteristics and needs of people living in different parts of the

city. For example, under the existing SIP operating guidelines, it is difficult to reach the poorest of the poor (the “hard-core” poor), who remain virtually outside the reach of the SIP credit and savings programme. As a result, their economic conditions have not improved much, even compared to people with slightly higher incomes.

The success of slum upgrading projects depends very much on tenurial security, but land tenure issues are not comprehensively addressed by the SIP. Improvements to livelihood conditions, particularly for floating and homeless populations, cannot be achieved without solving these critical housing needs. To date, the SIP has not addressed this vital housing issue.

Numerous studies indicate that the number of slums on private lands is gradually increasing, while those on government lands are declining. Given this situation, SIP activities should spread to private

Lessons Learned

The proliferation of slums appears to be, at least at present, an unavoidable part of urbanisation in Bangladesh. Slum dwellers, recently arrived migrants and the very poor are all parts of the city’s population and, as such, they require infrastructure and services just like other inhabitants. At the same time, they are regarded as a potential human resource for the development of the city; a resource that requires some attention both for social and economic development and for necessary infrastructure development. The absence of basic support services saps the strength of the urban poor and denies society the full contribution they could make. The paradox is that the slum dwellers, if given a little support, can become worthy citizens and even act as a potential human resource. Furthermore, they can be profitably employed in development work, through community participation, social mobilisation, income-generating activities, skill training and adequate credit.



At present, the SIP is the single largest programme providing service and assistance to thousands of poor urban households in the country.

slums. Unfortunately, due to unattractive or unrealistic terms and agreements, the SIP has given very little attention to private slums.

The SIP emphasises physical infrastructure development, but the slum communities also have critical non-physical needs. This emphasis reflects the traditional strengths of the LGED. Areas such as human resource development, social mobilisation and motivation and community organisation, all vital for slum improvement and sustainability, need to be developed further.

Beneficiaries and field-level organisers raised concerns over the local procedures for handling project funds. This points to serious issues concerning a lack of transparency and fiscal accountability in the SIP model.

Although the slum has become an inevitable part of urban life and its landscape, eviction is still a constant threat to the existence of slum dwellers, and thus it is a serious constraint on the improvement of living conditions in slum communities. To combat this constraint, related SIP procedures and policies for the promotion of tenurial security need to be further developed.

Urban Governance by Decentralised Decision-Making

Partnerships and consultations with local communities on major investment decisions help to increase levels of accountability, not only within city management but also among urban residents who must ultimately pay for the services they demand. Engaging community groups is effective because it puts decisions in the hands of those who are most motivated and able to ensure a good performance, and who are best placed to see a direct link between their efforts and community improvements.

There is a need for a more decentralised system with more decision-making at community levels. This essentially refers to a situation whereby decision-making and planning are not done centrally but rather at a local level.

The SIP hierarchy of management structures for project implementation is unique and is also the most interesting feature of the approach. This hierarchy has potential for ‘vertical unbundling’, in the sense that it creates structures at community levels and links them to the formal decision-making authorities. However, the management structure in



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this case could not deliver the desired results, as planning decisions remained centralised, (at the PIC and CCC levels) and community level groups (especially women's groups and SPICs) were basically carrying out what was decided at the higher levels.

Weaknesses of Traditional Urban Financial Institutions

The challenge for cities is to tap into the wealth they generate in order to finance the many common goods – services, such as water, power, sanitation and transportation – that are so essential to making them fit places to live in and maintaining their productive potential.

The present institutions lack the capabilities of trained and qualified staff and are incapable of the financial resource mobilisation and management necessary for the delivery of urban infrastructure and services in slum areas. The existing financial arrangements governing municipal finance cannot cope with the increasing demand for basic physical and social infrastructure, especially at low cost, for the poorest people.

Reformations to the Transfer of Resources

If decentralisation is to provide opportunities for more sustainable forms of urban financing, the rules governing transfers of resources between higher and lower levels of government need to be clarified.

Much can be done to install better inter-governmental finance systems. Clarifying functional responsibilities and identifying revenue sources for the provision of local services should occur in tandem. Cities should not only be given access to revenues that they are best able to exploit, (for example, service fees, property taxes and improvement charges), but they should also be given the freedom to determine the rates for these charges. At the same time, rules governing the structure of shared revenues should be stable and transparent over long periods. Regulations concerning the transfer of funds to local governments should be stable and transparent as well, and should emphasise, far more than they do, performance in financial management, efficient use of resources and mobilisation of local revenues.

Where direct beneficiaries can be identified, user charges, for services like water and sewerage, serve to make households aware of the links between the provision and the cost of those services. Such direct charges can also oblige users to re-examine their behaviour and make the tough choices that are

necessary to cut back on their consumption of increasingly scarce resources like water. Where benefits go to the general public, (for instance, local roads and street lighting), local taxes are more appropriate.

Encouragement of Private Sector Participation

The shift to greater private sector participation brings several benefits to service delivery, not the least of which are efficiency in managing investments, reliability of services, lower costs and greater discipline in assuring cost recovery.

Authorities at national and local levels play critical roles in determining responsibilities concerning the delivery of services, the efficiency of pricing and the enforceability of contracts.

Public sector interventions to protect the poor must be carefully crafted so as not to distort prices for services and discourage private participation. Subsidised prices for services have been shown to benefit the “better-off” disproportionately and limit the capacity of infrastructure agencies to extend services to the poor. Moreover, numerous experiences have shown that the poor are willing to pay for reliable services.

Increased Access to Credit

To meet the service responsibilities being shifted to cities, as well as the demands for capital investments generated by the fast pace of urbanisation, city governments need to position themselves to get better and greater access to credit.

Effective institutions are fundamental at municipal level, with credible and intelligible accounting and management systems, independent auditing procedures, transparent procurement arrangements, adequate financial reporting mechanisms, appropriate administrative reforms to control personnel expenditures and accountable local officials backed by reasonably satisfied tax-payers.

The creation of credit facilities appears to be one of the most attractive and successful elements of slum improvement. This is important, as the availability of credit can act as a stimulus in motivating poor families to take part in slum upgrading programmes.

The high rate of loan recovery, along with an ability to pay high interest (15% or higher), shows that slum dwellers are some of the most successful investors in the growing urban informal sector. The potential credit market among the urban poor is large and growing very fast. The poor generally know in advance how they want to apply credit funds, so the

limit or size of credit should be flexible and based on the merit of the submitted project.

Clear strategies are needed for both communities and service providers to ensure the operation and maintenance of physical infrastructure and the continuation of group activities. Cost-sharing arrangements need to be specified. An effective process of social mobilisation is essential to create the climate of community 'ownership' necessary to sustainability.

Skilled and Vocational Training

The SIP tried to ensure the delivery of materials for numerous provisions, rather than arranging for their manufacture within the community. However, the service delivery package included technical training for the maintenance and repair of these provisions. Although the maintenance and repair of the tube wells, latrines, drains, footpaths and dustbins were assigned to the users, and contributions were made, no system was devised for the use of the contributions collected.

Not only in the SIP, but generally speaking, the present approach to urban sanitation seldom considers any technological options between conventional sewerage and the 'pour-flush' latrine. Very few urban centres can afford a conventional sewerage system due to its high cost. Yet the pour-flush variety, being an on-site option, cannot be used where population densities and wastewater quantities are high, or where soil permeability is low. With the many technological advances made in recent years, numerous alternative sewerage systems are now available in various countries, and are just as effective as conventional sewerage at a fraction of their cost. Attempts to replicate the SIP model would benefit from these technical breakthroughs in options for sanitation.

Women's Participation Necessary for Sustainability

Women's participation in water and sanitation programmes is indispensable to the promotion of safe water and safe latrines. Their involvement has increased due to their empowerment in management activities, and has thereby increased their social status. In contrast, the current domination of men in the WSS programme is not conducive to gender issues and inhibits women's broader participation. ■

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Kathmandu's Experience in Public/Private Partnership and Urban Development

a report by

Anil Chitrakar

Mayor, Kathmandu Metropolitan City



Anil Chitrakar joined Kathmandu Metropolitan City (KMC) as a member of the City Planning Commission. The commission was founded in 1997 and has been responsible for setting up a new structure, a new management system, recruitment of staff and preparation of departmental strategies. He is currently involved in resource mobilisation for the various programmes developed by the KMC.

The concept, political will and administrative and legal mechanisms for the involvement of the private sector in rebuilding and revitalising Kathmandu was motivated by the simple realisation that the human, financial and physical resources at the city's disposal were not enough. The message to the private sector was simple: Kathmandu Metropolitan City (KMC) cannot do it alone.

The city planners and officials hastily arranged a meeting with the private sector to see what it had to say. Based on these discussions and the question posed by the private sector, KMC has now undertaken a strategic approach to rebuilding Kathmandu, involving the private sector.

Features of Kathmandu's Strategy

Shared Vision for Kathmandu

One of the key areas of debate with the private sector was the need to agree on a shared vision for Kathmandu. Together, we have reached a consensus for rebuilding Kathmandu's core area as a world heritage city, developing Kathmandu as a sports destination and the promotion of Kathmandu as a centre for information technology in South Asia.

Sustaining Investments

The city has made huge investments in the form of bus terminals and toilets. The city's staff assigned to these projects had little motivation, but when they were contracted out to the private sector, the investments not only became sustainable but actually profitable.

Cost-benefit Sharing

The profits that the private sector will gain will be beneficial for the city: the city will gain from the investments made indirectly in the form of jobs created or the beautification of a particular area. The private sector is currently too weak to absorb all the risks. Confidence is low within the system but KMC has taken this in stride because it has nothing to lose.

Balancing Product and Process

The process of city building may be compromised in order to attain the product. For example, proper consultation is needed with the public so that the needs of the poorer and weaker sections of society are not compromised.

Bias for Action

Kathmandu has many plans awaiting implementation. The best way to attract the private sector is to show visible results from the partnerships. As the saying goes, "nothing succeeds like success".

Transparency and Free Flow of Information

The key to successful partnerships between the city and the private sector lies in attaining a high level of confidence and total transparency. Previously, when correct information was not provided, the gap was usually filled by misinformation. KMC, through its Metro FM, Intranet and Internet, makes all its decisions available to the public, which has greatly reduced mistrust between the city and the private sector.

Measurable and Tangible Results

The city has set measurable and tangible targets and outputs so that people know that their participation is yielding tangible results, whether it be jobs, services, better quality of air and water or even a sense of pride in the city. The basic principle is that neither the city nor the private sector wants to waste time.

Full Commitment by the City Leadership

Kathmandu has 177 elected members in the City Council and 35 elected chairmen of the sub-municipal areas (wards) as members of the city board (executive body). The two bodies are led by the Mayor and Deputy Mayor. Full commitment of all these bodies and individuals has been crucial to attaining success in public/private partnerships.

The concept, the mechanism and even specific projects have received full endorsement from the city board and council. This has sent a clear and powerful signal to the private sector, including the acknowledgement that the city is willing to balance public and private interest, to meet the private sector halfway and to cushion the private sector against risks and legal/regulatory obstacles.

Completing the Triangle – the Finance Sector

The city and the private sector are anxious for the finance or banking sector to become an integral part of the partnership. An informal consortium has been formed within the banking and finance sector in Kathmandu to work with the city. In this effort, the role played by the Asian Development Bank is particularly laudable and the city has also begun working with the World Bank.

An economically poor country like Nepal will require economic support for some time to come. What has been achieved is a bond between the three pillars of society – the private sector, the finance sector and the city. Other pillars may be added as the city develops.

New Initiatives to Strengthen Partnerships

As part of its proactive nature, KMC has started to switch over its accounting system to corporate accounting, so that, at the end of each fiscal year, we will be able to bring out audit reports for public information. The tax and fee systems of the city are also being revised to include more direct service fees as opposed to indirect taxes. These steps will make the city more accountable to the people.

An integrated road tax is being proposed to improve traffic congestion and air quality. Parking spaces in the city are being managed by the private sector. Improving the city's revenue base and Kathmandu's environment should attract the private sector even further: five of the 35 wards' solid waste is now managed by the private sector; the city's wastewater plant and the septic service is now ready to be managed the private sector; and the new public toilets built by the city are already privately managed.

There are plans for the private sector to manage the advertisement space in Kathmandu in the near future, as well as plans to develop sports complexes and amusements parks with private investment. It is a truly win-win situation for both the city and the private sector as Kathmandu looks set to move ahead into the new millennium hand in hand with the private sector. ■

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China and Urbanisation

a report by

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Lew Baxter is Editorial Director of Sino Media Limited, a multinational media agency with offices in China, North America and Europe. It works closely with mainland Chinese media and other organisations, including the Ministry of Foreign Trade and Economic Cooperations Business Daily and International Business Monthly publications. He is also senior foreign editorial consultant for weekly multilingual Beijing Review magazine, the flagship of the China International Publishing Group. He has 25 years' experience in the media, including, in the UK, *The Sunday Times* and *Daily Telegraph* and, in Europe and the US, as editor of the international *Offshore Oil Weekly*. He is the former Managing Editor of the UK-based *City Press International* and former editor of the business magazine *Trident*. In his capacity as a journalist he visits China and the Far East regularly and will return to head up Sino Media's Beijing office from January 1999.

In the 20 years of China's dramatic reform and opening policy its urbanisation strategy has not actually kept pace with industrialisation or exactly streaked ahead of all expectations, which was a declared, desired and essential part of the package for boosting economic development.

Admittedly, since the founding of the People's Republic 50 years ago this October, the number of cities has soared from 132 to 668, at the last count in 1997, and, by the year 2010, its urban planners are predicting that there will be at least 1,000 cities, almost 100 of them with over one million people.

The government's policy of controlling the scale of the urban population since 1949 has meant that China's non-agricultural population has increased from 27.4 million to close on 223 million, but this still hovers far below the 60% urbanisation level that China's economists and planners believe should be the target by the middle of the next century.

Indeed, all Chinese cities are in a natural process of continual expansion, which is underlined by statistics that show that urban areas accounted for just 7.6% of Chinese territory in 1984; by 1996 it had reached 18%.

Yet China's basic urbanisation, at 18%, is lagging behind its actual industrialisation, at way over 25%, which is reckoned by the World Bank to be the fastest in any comparable global context. City dwellers in China account for only 29.9% of the total population while the world average is around 42%.

There are particular reasons for this, not the least being the outmoded household registration system, a throwback to the original planned economy, which is one of the main obstacles to the country's urbanisation plan. It is still virtually impossible for most rural people to become permanent residents in urban areas and they are certainly not welcome in the major east coast cities.

Despite this, there is a floating rural population of 80 million, 34 million of whom have worked in cities for more than six months but mostly on a temporary basis and many drafted in to work on the massive

infrastructure projects which are transforming the bigger metropolitan areas, certainly along the eastern coastal strip.

China insists that this has all been planned and that its urbanisation policy has effectively kept in check the number and scale of large cities while providing greater room for the development of small-to-medium-sized cities and rural towns. This is debatable.

This focus on mid-size county-level cities is, the government believes, the panacea to the ever-expanding sprawl of the larger cities, which are now essentially spinning out of the control of the planners. In the early days of reform, the focus was on pouring money and resources into developing the east coast conurbations but this is now being seriously rethought. Indeed, a halt has been ordered on any new building in rural areas at the fringe of big cities.

At every provincial level there is a Communist Party think tank working on plans to expand smaller cities and, as a result of rural reform in the last two decades, 'township enterprises' have boomed. Yet, in the past, the birth of such a town or small city was almost usually at the whim of local officials. That is all changing.

Today, there are 400 small towns in China that have introduced an experimental reform of the household registration system which ensures that the residents who have migrated from the countryside will be treated as full citizens. And they will be granted the same access to the national social welfare system, employment and education which was previously denied to them.

China's Ninth Five Year Plan, which takes it to 2010, has stressed that the starting point and final goal of the country's modernisation drive must focus on improving the living standards of both urban and rural communities.

In terms of the big cities, though, rapid modernisation and urbanisation have brought in their wake the all too familiar environmental problems which have dogged the developed world since the end of World War II. China is only just realising,

with something of a jolt, that along with improved living standards and higher incomes comes the disturbing downside of urbanisation.

Pollution and congested roads in Beijing, Shanghai and Guangzhou – as well as a string of other less high profile cities – are high on the agenda of issues to be tackled as a matter of urgency this year. Such is the concern of both the authorities and the public that weekly air pollution indexes from 32 major cities are published in the press and at least half a dozen of them regularly reach serious levels.

There are also moves to try and control the real estate and construction industry which, since the early 1990s, has been allowed to run amok, dictated not by real market demand or needs but often by the greed of developers, both domestic and foreign.

A case in point is the once beautiful tropical island of Hainan, China's southernmost province. At the turn of the decade, it was the scene of chaotic uncontrolled growth with an overheated real estate sector. By the end of 1993, there were an astonishing 480 firms involved in real estate development, one-tenth of the country's total.

An immediate and dire consequence was that many buildings remained uncompleted – and still are – leaving the island littered with empty shells of high-rise apartment and office blocks. Unofficially, it is acknowledged that much of this real estate development was merely a front for the laundering of dirty money by domestic and international criminals and drugs barons.

Now, premier Zhu Rongji has personally intervened and forbidden any new building work in Hainan and, after almost a decade of economic ups and downs, its people have become more sober-minded after paying dearly for their shortsightedness and lust for quick profits.

Meanwhile, as Shanghai's Pudong new area brags about its astonishing progress, registering a GDP of Y71 billion last year, an increase of 17% compared to all of Shanghai's 8%, and something in the region of US\$28 billion total investment, vast numbers of the impressive office towers are empty and will remain so indefinitely. This fact is conveniently glossed over.

As a result of the huge changes sweeping China, almost 80% of the country's urban residents are now apparently suffering from stress. A nationwide survey carried out last November discovered that stress levels in the major cities has been rising considerably since 1995 with 75% of people convinced it can only get worse.

The whole fabric of China's society is changing and the most pressing personal worries for a lot of Chinese people appear to be unemployment and the rise in pollution levels. According to researchers this mounting pressure is largely the result of people's failure to adjust to the speed of the country's reforms, but in fact there were no precedents to help gauge the effects of what has been described as a 'roller-coaster' economy.

Conversely, the living standards of urban dwellers have risen remarkably since the early 1990s and official statistics claim that, by the end of 1997, out of every 100 urban households, 54 had bought their own homes, 69 had telephones and 69 lived in apartments with at least two bedrooms.

Recent statistics place the 1997 urban income level at Y5,160 (US\$633), up by a dramatic 155% on the 1992 figure, with the average annual increase standing at 20%.

Housing reform in urban areas has probably been the most controversial and significant change in the social structure for most city-dwelling Chinese, which has impacted in every city and brought about a tranche of related developments in terms of mortgages and credit facilities through the banking system, something unheard of 10 or even five years ago.

Speeding up the residential housing sector was a key element in Zhu Rongji's state of the nation address at the National People's Congress in March, with housing construction in urban areas expected to account for about 4% of the country's GNP up to the end of this year.

Last year, a national reform plan was introduced which effectively ended the practise of welfare housing distribution in which work units allocated and paid for living quarters. It was aimed at encouraging people to buy their own homes. This was – and is – to be achieved by the introduction of a public housing fund to which contributions are made by both employers and employees, with the latter paying 30% of their monthly income.

The government does intend to introduce more policies to help residents, based on their income, but it will also continue what is called the Comfortable Housing Project, whose purpose is to help low-income families. Some industry insiders predict that private housing will, within a short period of time, become part of the mainstream of the real estate sector as the glut of hotels, offices and luxury buildings begins to take its toll.

Annual urban housing construction is now running at 200 million square metres and plans to the end of

this year and into the next century call for nearly a further billion square metres of housing.

Ironically, although the major banks have been instructed to offer mortgages for house purchase and other credit facilities for a wide range of consumer products, such as household goods and automobiles, it is recognised by the government that the repayment periods, between 10 and 20 years, are usually too short. This means that many people cannot take full advantage of these schemes and there have been calls for the term to be extended to 30 years.

While more Chinese urban dwellers are dreaming of owning a car and a house, it is the need for a healthy environment which preoccupies most of them at present. This is an issue which a nervous central government, along with local municipal authorities, are increasingly aware could create a scenario for social unrest, probably more so than the issue of redundant workers – a result of the clamping down on loss-making state enterprises – which are roughly estimated at 30 million but which independent observers say could be as high as 50 million. The latter is still considered, though, a crisis in the making which could be the anvil on which could shatter any urban development schemes.

Tackling pollution in the cities is now a serious priority and Beijing has announced expenditure of Y40 billion (US\$4.8 billion) to clean up its air over the next four years. This year alone it will invest Y11 billion (US\$1.3 billion) in widely-publicised projects and these massive sums are matched by Shanghai which is spending upwards of US\$1 billion in an attempt to clean up the polluted Suzhou River. It is estimated that only 67% of the air in Shanghai is currently breathable.

Much of the inner city pollution has to be attributed to the traffic which clogs the stretched road networks to the limit. Vehicle ownership in China has now reached 13 million and is expected to reach 20 million by the end of this year and 40 million 10 years into the 21st century.

The current roads infrastructure simply cannot cope and so the government races ahead with its record-setting level of highway construction in a bid to keep pace. Existing plans call for a 12% to 15% increase in spending this year on roads – well over 1998's Y180 billion (US\$21.7 billion).

By the end of last year, there was a total of 12,498km of roads in Beijing, twice that of 1979, and yet, in a desperate attempt to prevent the increasing number of gridlocks, under a veil of secrecy, it has started building a special 'beltway' encircling the whole of

its urban area, which will divert incoming traffic and, it hopes, improve the city's traffic flow.

Now, even architects have been dragged into the debate and have been instructed that when they are designing residential estates within city boundaries they must allocate five parking spaces for every 10 households.

Beijing, for example, has 1.4 million vehicles, increasing at an annual rate of 18%, but only 360,000 parking spaces. Where once even the bigger cities in China were dominated by bicycles, today it is commonplace to see cars and trucks parked everywhere including residential districts, cluttering up public pavements and even parkland.

The country is in the midst of a three-year US\$1.3 trillion spending spree on public works and other fixed assets, which is aimed at reviving the economy, which was slowing down, and creating new jobs.

As a result, its economy is likely to achieve robust growth over the next two years according to the Asian Development Bank, despite the Asian financial crisis; indeed, in the first three months of this year, it had reached a healthy 8.3%, although pundits are sceptical that this can be maintained.

All of this will have a marked impact on its urbanisation programme and a considerable amount of that money will need to be allocated to infrastructure projects, such as roads and public transport networks, in its major cities if they are to allow the populations a sustainable and pleasant environment.

The problem now facing China is that it is not possible to have integrated nationwide city plans because there is still little notion of regional links and hardly any concept of regional planning. Central government simply does not want to lose control, hence its edicts banning new construction and building in the countryside, effectively keeping a tight rein on policy.

Individually, China's cities are managed relatively well in comparison to other Third World countries and there are admirable civic plans in abundance. But at each and every level the local authorities are unable to defend themselves against each other, the Confucian values which are still rife permitting no criticism of higher decisions and corruption still endemic; the pay-off is the final arbiter.

In terms of overall urban planning, China is still, therefore, essentially a feudal state and, until this is acknowledged and met head-on, the country's urbanisation programme is unattainable. ■

THE JIANGXI GONGQING FEATHER AND DOWN FACTORY

A large-scale state enterprise, the Jiangxi Gongqing Feather and Down Factory is situated in the Gongqing Open Development Zone in the central part of the Nanchang-Jiujiang Industrial Corridor amid the lovely scenery at the southern foot of Lushan on the banks of Lake Poyang. The Beijing-Kowloon railway and the Nanjing-Jiujiang motorway pass through this area and it is connected by water transport sailing directly from Lake Poyang along the Yangtze River to the sea. Nanchang and Jiujiang airports are located at its southern and northern ends. Communications by land, sea and air are convenient. There are both domestic and international program-controlled telephones, communications are advanced, the environment is exquisite and basic facilities are complete, making conditions for investment in a thriving business particularly favourable.

The Jiangxi Gongqing Feather and Down Factory is the largest domestic, modernised factory specialising in the manufacture of feather and down products and is entitled to export and import on its own account. There are over 6,000 managerial and technical staff and over 6,000 items or sets of advanced production equipment forming a multiple production organisation mainly based on feather and down manufactured products together with other lines. It has the production capacity for an annual output comprising over 3,000,000 articles of every variety of clothing, 8,000,000 square metres of sprayed-adhesive cotton, 3,000,000 pieces of computerised embroidery and 2000 tonnes of feather and down processing — this is the highest in the country.

Its line of 'Yaya' brand products has won great favour among all sections of society. It has won provincial and ministerial awards for quality, was honoured with first place among the famous trade marks of Jiangxi Province and won a nomination prize at the first awards for Chinese Renowned Trademarks. Its products are sold in 30 provinces, cities and autonomous regions throughout China, and do well in over 60 countries and regions worldwide. Yaya from China has become the friend of the whole world.

The Jiangxi Gongqing Feather and Down Factory hopes to co-operate sincerely with persons at home and abroad and develop together.



MAIN PRODUCTS:

- Clothing of all types for all seasons - feather and down, fur and leather manufactured products, acrylic cotton clothes, spring and autumn clothes, shirts, knitted clothes
- Sprayed-adhesive cotton to every specification
- Computerised embroidery
- Feather and down



JIANGXI GONGQING FEATHER AND DOWN FACTORY

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Shenyang Dawn Garments Group

The Shenyang Dawn Garments Group is a large, listed, joint-stock company and multinational business group which is mainly based on state-owned assets and which concurrently has diversified operations. Its leading product is its famous brand of garments and its principal activity is the production of woollen clothing material. It combines these in a single organisation with international trade, real estate development, international transport, clothes and fashion shopping cities and advertising. The Group comprises 26 enterprises (companies) with total assets of Renminbi 800,000,000 yuan, 8,000 staff and an annual output of 2,600,000 individual or sets of garments and 2,000,000 metres of spun nylon.

During the transition from a planned to a market economy in the early 1990s, when faced with fierce competition in both the domestic and foreign markets, the business, which was then small with only 860 staff, did not remain confined to small-scale production but went along with the tide of the market economy, making bold reforms and forging ahead eagerly under the impetus to reform and open up to the outside world. Starting with the establishment in 1989 of the first joint venture in Shenyang, the Shenyang Lifu Garments Company Ltd, and after implementing a strategy for capital operations including the winning of influence abroad, famous product projects, reorganisation of assets and diversification, development was



Ms. Hong ming Wang, Chairman of the Board was kindly received by Juang Zemin, President of P.R. China.

realised which combined low-cost expansion with rapid economic advance. Over the last ten years, the company's gross assets have increased fifty times in value, its net assets have increased 350 times while sales income has increased thirty-fold so that it was strong enough to become one of the 100 strongest enterprises in the garment and textile industry nationally and to be chosen as one of the 18 key enterprise groups in Shenyang. In 1998, a gross industrial output of 707,180,000 yuan, sales income of 690,970,000 yuan, interest of 87,560,000 yuan and foreign exchange from exports of US\$ 2290,000 were achieved.

The Shenyang Dawn Garments Group was founded in April 1995 while its predecessor the Shenyang Dawn High Quality Garments Factory was set up in 1956. For more than thirty years after its foundation, the enterprise did not change much but, from the 1990s, in only three and five years, it developed from a processing group of enterprises to a state-owned enterprise with competitive brands. The basis for this rapid advance was the development of an outward-looking economy. Trial operations of Shenyang Lifu Garments Company Ltd, a Sino-Japanese joint venture controlled by "Dawn", were begun in 1990 with profits for that year amounting to 1,370,000 yuan. By using foreign capital, technology and management, Lifu suits (Aonite) were produced from 1992 and won the franchise licence of the International Wool Bureau, the

Gold Prize of the Superior Chinese Garments Exhibition and the designation of "Ten Famous Garment Brands of China". Output value, sales income and interest all increased rapidly by 50% per annum so that, in four years, it obtained the aim for the joint venture of "high starting points, high standards and high returns". The essence of developing influence abroad lay in opening up or pushing forward into markets while the factory abandoned the use of specialist foreign trade companies as intermediaries and linked up directly with foreign firms in order to realise low-cost expansion and to promote diversification. In 1992, it started up the Shenyang Lihe Garments Company Ltd as a Chinese-Hong Kong joint venture with the right to export on its own account. Having seized this opportunity of intensifying its operations, it implemented a strategy of low-cost expansion by "encircling the city with villages". It used rural enterprises with low rents and labour resources in order to organise over 10 firms as



Chinese Dawn - Ancient and Modern (Paris) Fashion Show achieved great success in Paris

holdings or equity participation or loosely connected processing enterprises. With the wide business prospects from deregulation, it improved its capital structure through an international transport company, a real estate development company, Chinese famous brands clothes cities and an advertising company which were established in succession. From the

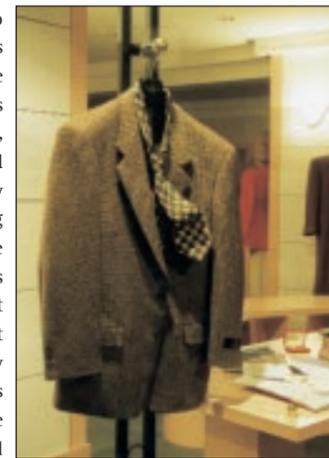
foundation in 1995 of the Shenyang Dawn Garments Group, when it intensified operations until 1996, at the turning point when it concentrated on the reorganisation of its assets and industrial upgrading, it resolutely took over larger concerns. It successively bought and reorganised a bankrupt second-ranking large-scale enterprise, the Shenyang No.2 Woollen Mill and the middle-ranking Shenyang Shirt Factory and became the trustee of a bankrupt second-ranking large-scale enterprise, the Shenyang No.1 Woollen Mill and the loss-making middle-ranking Shenyang No.6 Woollen Mill. Thus it completed its aim of asset reorganisation for economic expansion and dominance. This led to the creation of a structure for capital operations with the acquisition of material for making famous brand garments and lines of clothing.

Competition in the contemporary garment industry has gradually changed to competition in equipment, technology and human resources. Contention between firms has been transformed from contention on labour costs to contention in famous brands of garments. Therefore, the Group has expanded its investment in technology, stresses market research and development, and rapidly absorbs and applies prevailing information. Guided by the market, it continuously adjusts its range of products to meet constantly changing market demand, and vigorously seizes business opportunities to obtain benefits. The enterprise is linked up in all directions with international advanced technology introducing computerised automated typesetting, plate making and cutting systems vacuum packaging machines and 466 sets of comprehensive advanced production equipment for woollen textiles, dyeing and finishing from Japan, France, the USA and Italy. It is in the front rank for garment and wool spinning design techniques and technological equipment both domestically and internationally. It has promoted its brands



Lifu Exclusive Shop

by grafting advanced new wool spinning technology from the Colombo Company of Italy, married with consummate garment design from Carven of France and Koshino of Japan. By the superiority of its Dawn Ladies' Clothes and Lifu Suits which won the International Gold Prize at the 1998 Second French International Fine Quality Products (Technology) Exhibition and of its three major Dawn nylon "Zhuda" brands which won the highest award for the Chinese wool spinning industries in 1997, namely the first prize of the "Weierjia" Cup, it has opened a sales network of 100 franchises and 300 special sales counters in 20 areas under provincial jurisdiction and over 60 cities in China. The Group has also registered trademarks for its products in the USA, France, Italy, Australia and Hong Kong and founded multinational operating companies and chain stores. Products do not only sell well domestically but are also sold in more than 30 states and regions including the USA, Japan, France and Hong Kong.



Lifu Suit

With "taking talent worldwide for superb clothing worldwide" as the aim of its business culture, the Group has recruited and retained talent people in a rational manner. It has co-operated through joint ventures with a number of world-class experts in garment design both in European and Asian styles and has imported advanced international technology, design and management, choosing to recruit some of the "top ten designers" of China such as Zhao

Yufeng and Yao Bin. By "absorbing 100 rivers and going hand in hand with the Four Seas", it has seized opportunities and moved to the fore. Through its use of people, intelligence and strength, a brand new future structure for Dawn has emerged created by maintaining its position while continuing to develop.

In order to implement the strategic thinking proposed by the Shenyang City Committee and Government of "going forward with the giants", Dawn's staff have been encouraged and made resolute in

order to race forward and become a famous international brand. On 18th October 1998, the "China Dawn - a Display of Chinese Garments Past and Present" successfully pushed forward onto the "fast track" for top-level fashion at the Louvre in Paris, realising the first breakthrough for Chinese garments in "going forward with the world giants".



Dawn Garments (Garments' Showroom)

Dawn Garments obtained the approval of the top fashion society of France. The French government VIPs and top world fashion designers such as Valentino and Pierre Cardin enjoyed the display. In a high level assessment, it was stated that "Dawn in China" gave expression to the "awakening of Chinese clothes" and that "China will become an active centre for fashion in the third millennium". This received the solemn commendation of the State Bureau for the Textiles Industry and the Shenyang City Government. It was also a new starting point in giving an imposing image to "Dawn".

Shenyang Dawn Garment Group,
No. 10, Kunshanzhou Road, Huanggu
District, Shenyang, China 110032



Dawn Garments Group Show Area



Lifu Garments Co. Ltd.

Northeast Electric Transmission & Transformation Equipment Group Corporation

DBD 东北输变电设备集团公司



500kV, 360MVA autotransformer with OLTC in operation at Gezhouba Hydropower Station

Northeast Electric Transmission & Transformation Equipment Group Corporation is one of the 56 enterprise Groups, which are experimental units of the State Council. Now it has become the largest enterprise Group corporation among electric transmission and transformation equipment professions and the industrial base for manufacture, science research and export.



500kV GIS is under routine tests for the Yimin Thermal Electric Power Plant

Northeast Electric Transmission & Transformation Equipment Group corporation prides itself in science research and development. The company takes comprehensive measures to examine and inspect their products to the highest design. The technological apparatus, testing and measuring facilities compare with other international corporations. The corporation is able to manufacture excellent products in accordance with national and international standards. Our company represents the most advanced manufacturing standards of Chinese electric transmission and transformation products. Main products of the corporation are power instrument transformers, gas-insulated switch gears (GIS), high-voltage circuit-breakers, disconnectors, electrical wire and cables, high-voltage electrical porcelains, power capacitors, enclosed busbars and lighting arrester, including more than 200 series, 1600 varieties, 43000 specifications. With the leading position among the same professions on a general quality level and each main economical and technical quota, the corporation has the comprehensive capacity to provide a complete set of equipment to satisfy 40% of generator installations in China. The products' market covering rate and main equipment of the corporation come up to 90% and above. Selling to 40 and more countries and regions, the corporation enjoys a good reputation all over the world.



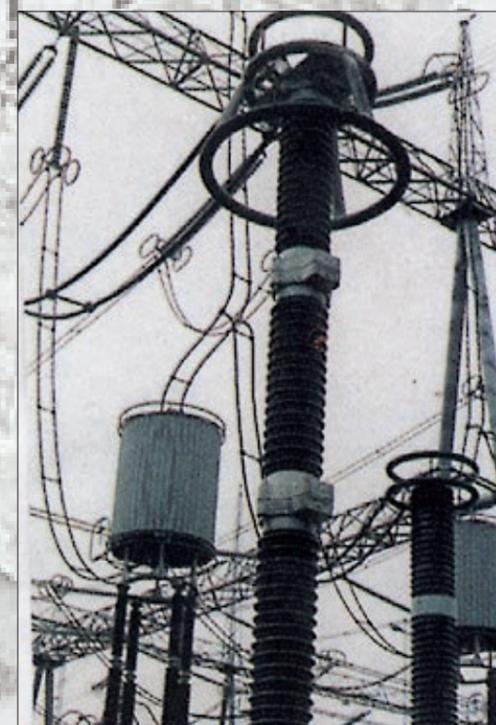
Sample of cables



President Zuo Changlin



Heavy-current network testing station, the largest in China



500kV ZnO surge arrester is working

Market Development and the Civil Rights Movement in China

a report by

Kate Xiao Zhou and T David Burns

University of Hawaii



Kate Xiao Zhou



T David Burns

Kate Xiao Zhou is an assistant professor of comparative politics and political economy of East Asia (China and Japan) in the Department of Political Science at the University of Hawaii. Her main research interests include the dynamics of transition from central planning to markets, Chinese economic development, Chinese business, globalisation in East Asia and comparative studies of businesses and Asian entrepreneurship. She has published articles on political economy and women's studies, along with a book titled *How the Farmers Changed China: Power of the People*. She graduated with a BA from Wuhan University, an MS from Texas A&M University and a PhD from Princeton University.

T David Burns received his PhD in Economics from George Mason University in 1997. In his dissertation, *Institutional Dynamics Among Imperfect Agents*, he investigated the origins of informal institutions and the spread of customs using computer simulation.

Market development in China is the midwife of the civil rights movement. Civil rights are defined in China as the right of free speech, the right to own property, the right of free movement and the right to change occupations. The Chinese civil rights movement has resulted in a parallel society, defined as a social reality separate from the state, a different belief system (pluralism versus communism), a different information distribution system and a different economy (largely informal). The parallel society provides the foundation for the creation of civil society.

Background of Change

Before explaining the Chinese civil rights movement, it is necessary to discuss the absence of civil rights under the planned economy. Up to 1980, most Chinese people lived and worked in an environment that constrained or even denied individual rights. In the urban sector, most adult workers worked in *danwei* (urban work places) and their life and work were controlled by the state and by their work place. The state factories provided basic welfare needs, including healthcare, pensions, education, housing and other welfare expenditures, to urban workers in exchange for their loyalty and compliance.¹ As long as these commitments were met, workers submitted themselves to the authority of the state. In exchange for limited welfare, urban people lost their rights to challenge authority.

This welfare dependence strengthened the party-state's power. The dominance of state power led to arbitrary rule, which caused fear among the people. Abuse of power was rampant. The constant political struggles against the 'enemy' of the state, the miserable fate of the 'enemies' and their family members, combined with the material dependence, silenced very effectively the voice of dissent. Even Liu Shaoqi, the head of state, could not escape the arbitrariness; he was tortured and died naked on a cement floor in a detention house.

In the countryside, the most effective state control over the rural population was the *hukou* system (household registration system determining grain rationing to each individual), which bound rural people to the land. After collectivisation in 1956, the cadre controlled farmers like feudal lords, replacing family heads as decision-makers. The state did not provide farmers with a social safety net comparable to that available in the city. They had to rely upon themselves for education, retirement and medical care, etc. When the state-led famine occurred between 1959 and 1961, most famine victims (between 25 million and 45 million) were farmers.² State control over grain allocation effectively smothered rural civil society while collectivisation eliminated farmers' autonomy without providing a corresponding welfare benefit. This sowed the seeds of its own destruction since it motivated 80% of the Chinese population to seek alternatives to the system. Whenever there was a chance, farmers tried to sabotage the system, and they finally succeeded in the late 1970s, achieving the goal of reviving their family autonomy of production.

The Right to be Left Alone

The first phase of the civil rights movement was called *baochan daohu* (turning production to the household). In the late 1970s, farmers began to make deals with the local party head to farm on their own. When this illegal practice spread throughout the country, the central government gave in, leading to a rapid increase in agricultural productivity. The farmers just wanted most to be left alone – left to their own devices. Resources (primarily labour, but also capital in the form of farmers' savings) were released from agriculture, stimulating commercial activities and trade (long-distance and local).³

Freedom of Movement

One consequence of increased agricultural productivity was the massive flow of rural migrants

1. Andrew G Walder, *Communist Neo-traditionalism: Work and Authority in Chinese Factory*, Berkeley: University of California Press, 1986.
2. D Yang, *Calamity and Reform*, Stanford: Stanford University Press, 1996.
3. Kate Xiao Zhou, *How the Farmers Changed China: Power of the People*, Boulder, CO: Westview Press, 1996.

SHENYANG AIRCRAFT CORPORATION



Xu Huangang, president of SAC



F-8 II M fighter



SFQ6890 type tourist bus



SFQ6700 type tourist bus



Plant where commercial airplane parts are made for overseas customers



NC high-rise warehouse

Add: No1, Lingbei Street, Huanggu District, Shenyang, Liaoning Province, China
Tel: (024) 86896680 86598018 Fax: (024) 86896689 Website: WWW.sy.cei.gov.cn/hy/air.htm

into cities. This led to the re-emergence of professional traders. These economic developments have enormous implications for rights consciousness in China. First of all, the old rationing system became useless as a tool of control because, in the new market economy, migrants could buy food with money in the markets dominated by rural people. By mid-1985, more than one-fifth of rural people had changed their status in terms of occupation and residence while urban people had stayed put.⁴ The geographic and occupational mobility varied from region to region, but in some rural areas like Zhejiang, more than 70% of the population experienced both geographic and occupational mobility, while in other places, the percentage was much lower (as low as 10% to 12% of rural people).⁵ An increasing number of Chinese people have been able to buy “the right to live where they want”, breaking the government's control over physical, residential and social control.

One recent survey suggests that the job turnover rate among migrant workers in Guangdong, the most developed industrial area in China, is very high, with 66% of migrant workers changing their jobs.⁶

Every day, across China, 100 million Chinese migrants are defying the state control over mobility. Although not organised, these migrants have produced the largest co-ordinated civil disobedience in the history of mankind. This massive migration pattern illustrates the relative gains ordinary people made in terms of the rights to live and to work in spite of the government's formal regulations and the *hukou* system.

The Rise Of The Contract System

Market development and contract relations brought independence to Chinese urban people. The increasing market supply of housing, medical care and, above all, jobs, means that more and more urban people are able to cut their client relationship to the party head at their work place. From the standpoint of the party officials, changing of jobs is a form of social disorder and disloyalty. As the labour market has achieved some degree of maturity, contract relations are replacing dependency relationships in Chinese cities. Subordinates, rural migrant workers,

skilled working women and ordinary workers have begun to negotiate with the formerly powerful. As a result, more and more people have more freedom to choose those for whom they would like to work. Most people have become less dependent on the state for their way of life – a dependency that had been the dominant feature of the Chinese Communist state for more than 40 years.

Increasingly, the labour market has become subject to contracts with clear terms of economic sanctions and the rights of the employees and employers. Contractual relations also provide less social and political control than formerly. The terms of the contract and the service length are defined clearly. For example, every new employee in a Chinese university is given a *xieyishu* (a contract agreement), which states the terms and the time of employment. If the new employee wants to change jobs within the agreed-upon term, they have to pay a fine. The amount of the fine is also specified in the agreement. This is a radical departure from the situation a few years ago when every urban job was for life – the so-called ‘iron rice bowl’.

The increased use of contracts has led to an increased use of courts to settle disputes. Starting in 1993, the number of labour disputes has increased by 57% annually while, in 1996, workers won 51% of cases.⁷

Taking the Officials to Court

Although appealing to high authority was an ancient Chinese tradition, the Communist regime effectively weakened that tradition by constant political movements and by daily economic control over people's lives. Market development has reopened social space. In the beginning, most disputes were related to business deals that went sour. Most disputes that go to the formal court now also involve property rights. Some even involve intellectual property rights, a new form of property rights.

As market development and more and more urban people began to rely on the non-state sector for employment, economic independence brought about political awareness. Recently, increasing numbers of people are daring to use the tradition to petition the supreme rulers “for redress of heartfelt

4. *Ibid.*

5. *Lei Jieqiong, et al., Gaige yilai zhongguo nongcun hunyan jiating de xingbianhua (The Change of the Marriage and the Family in the Chinese Countryside Since the Reform of the Economic System), Beijing: Beijing University, 1994.*

6. *Nongcun jingji yanjiu zhongxin (Rural Economy Research Center), Zhongguo nongcun laodongli liudong yu renkou qianyi yanjiu zhongshu (Summary of the Studies on China's Rural Labor Mobility and Population Migration), working paper, 1995.*

7. *Chinese Statistical Bureau (1997), Zhongguo tongji nianjian 1997 (Chinese Statistical Yearbook 1997), Beijing: China Statistical Publishing House.*

grievances from alleged thefts by corrupt local officials to pensions denied.”⁸

The rights of ordinary citizens to sue government officials has become a fact of life despite continuation of state control over police and armed forces. When millions of people take officials to court, the regime can no longer run business as usual – the government simply could not afford the legal bill!

Growth of the Law Profession

The development of markets also led to the increase of professional men and women, including the legal profession. As the market demand for legal professionals has increased, law has become one of the more highly paid professions, and supply has followed demand. Between 1985 and 1997, the number of law offices increased by 177%, while the number of lawyers increased by 721%; the number of notaries by 18%; and the number of personnel working for notaries 68%.⁹ As more and more lawyers live a life that is economically independent of the state, they show more concern for their clients. As a result, there are many examples of individuals suing government officials or a state-owned enterprise and winning the case. These examples will encourage people to use the court. As more lawyers represent more people in this diversified environment, legal social learning is taking place, despite the corruption and intervention of the state.

Religious Freedom

Market development also opened social space between the state and individuals, increasing individual freedom, especially freedom of religion. First of all, various kinds of religious activities exist side by side with local markets. Second, major religious holidays have become the biggest market-gathering occasions. Third, in order to attract tourists, thousands upon thousands of religious temples have been rebuilt. Most of the money came from private donations.

Freedom of Speech

Market development led to the relatively free flow of information in China by enabling the unofficial publication of all sorts of reading materials. As industry boomed, the ability to reproduce books,

videos and computer software, etc. spread beyond the reach of the censors and central planners. To a great extent, there was a close association between the spread of illegal or politically incorrect materials and the relative free flow of information in China.

Materials the government tried hardest to suppress (works on democracy, human rights, violence, Kung Fu and sexuality) were often what people preferred to read and to watch. In an effort to make money or to meet the public demand, many private and semi-private factories rushed to produce the forbidden books, magazines, journals and any other works that caught the eye of the state censor.

Although the official media remains a tool of state propaganda, the narrow limits of press freedoms have generally improved since the late 1980s.

For the editors of *Tunnel*, the Internet was perhaps the most ambitious challenge to Beijing’s control of information. “The computer network ... disseminates technology onto the desks of each and every one of us,” they explained in their inaugural editorial. “It can undermine the two pillars of an autocratic society: monopoly and suppression.”¹⁰

Conclusion

Both the Chinese government and the international community emphasise the top-down approach to develop legal and civil rights in China. In the US, the Ford Foundation is leading the way in China to help establish a system based on civil liberties and the presumption of innocence until proven guilty. In October 1998, China even hosted a Human Rights Conference.¹¹ But for those formal and legal systems to take hold, there must be a civil basis for people’s acceptance of individual rights. Our cases show that rights consciousness has been developing among the grass roots. Market development, mobility of individuals and freedom of press happen together or not at all.

What is interesting about the Chinese civil rights movement is an apolitical appearance. People who participated in the movement followed no leaders and formulated no explicit credo or doctrine. But when Chinese people are increasingly pursuing life, liberty, property and happiness, they are creating a civil rights movement. ■

8. Erik Eckholm, “Please, Mr. Bureaucrat, Hear My 20-Year-Old Plea,” 7 December 1998, *Internet version*.

9. Chinese Statistical Bureau (1997), *Zhongguo tongji nianjian 1997* (Chinese Statistical Yearbook 1997), Beijing: China Statistical Publishing House.

10. William J Dobson, “Dissidence in cyberspace worries Beijing” San Jose Mercury News, *Internet version*, Sunday, 28 June 1998.

11. The New York Times, “China Hosts Human Rights Conference”, *Internet version*, 21 October 21 1998.

Shenyang Machine Tool Co. Ltd

Shenyang Machine Tool Company Limited, an extra-large national industrial enterprise, is the largest machine tool manufacturer in China and has been selected as one of the 100 national pilot entities for experimenting the modern enterprise systems. The headquarters of the company is located at 247# West Shuncheng Street, Shenhe District, Shenyang, which is the one of the national major heavy industry cities, enjoying the convenient transport facilities and exceptional export-oriented development advantage.

The company was established in April of 1994. Having been listed for public offering since July of 1996, the company now owns an equity capital with 3,409,190,000 and 11,438 employees. Products of the company are a variety of more than 300 different types and 1,000

different specifications, mainly including machining centres, CNC lathes, CNC boring and milling machines, universal lathes, horizontal drilling and boring machines, radial drilling machines, special machine tools, CNC controlling systems etc. Now the company's enjoying the independent right for import and export and its products are covering 29 provinces of the country and more than 80 overseas countries.

The company is practising the Business Units system with the company as investment entity and the business units as the cost and profit entities. The Shenyang No.1 Machine Plant and the Sino-Czech Friendship Plant of the business units are the largest manufacturers in China of the universal lathes and drilling and boring machines respectively. National Research Institutes for Lathes and

Drilling Machines are located at these two factories. The Liaoning Precision Factory of the company is a CNC systems manufacturer designated by the State.

With China's Opening and Reform continuously broadened, the company has been accelerating its pace of introducing overseas financial resources and advanced management and technologies. In January 1995, an agreement with the World Bank for a loan of US\$ 121 million had been signed. Through the International Competitive Bidding, some international consulting companies have been invited to assist the company's modernization, an institutional modern system was designed by Knight Wendling Company of Britain and is being implemented with the help of EDS Company of the USA, and a technological consultancy is

offered by the BRRA Company of Germany to develop 7 kinds of CNC lathes for the enhancement of the company's future design capabilities by training a group of the company's design engineers.

Now, the company is carrying out a global strategy in terms of keeping up their market, capital, technology and intellectual property etc., with international development. The entire project is drawing to the conclusion with the implementation of the company reform, restructuring and conversion in place. By the end of this project in 2001, with the product capability reaching 3,600 sets of CNC lathes annually, which is 15%-20% of national total products in this regard, the company will become the largest manufacturer base of CNC lathes in China.



CNC Controlling System - CAK6150C



Mazak Controlling System - S1-30N



President Jiang Zemin is visiting SMTC Ltd.



Machining Centre TH5940



瀋陽市城市基礎設施建設投資發展有限公司

SHENYANG MUNICIPAL INFRASTRUCTURE CONSTRUCTION INVESTMENT DEVELOPMENT CORPORATION



瀋陽北站廣場
Shenyang Northern Railway Station

瀋陽城投公司——城政服務管家

瀋陽市城市基礎設施建設投資發展有限公司，是為瀋陽市人民政府統籌管理城建資金的國有獨資有限責任公司，註冊資本 47.5 億元人民幣。（5.7 億美元）

經營範圍：國有資產經營管理、城市基礎設施項目投資、投資服務、房地產開發。

改善城市投資環境，提高城市生活質量是瀋陽城投公司不懈的追求。最近幾年，瀋陽城投公司相繼與國際一些知名企業聯手投資城市基礎設施產業，開發建設了 64 公里的瀋陽環城高速公路、瀋陽市百里環城水系，通過改進投資環境帶動相關產業的發展，既促進了地方經濟的繁榮，同時給投資者帶來了可觀的回報。



瀋陽市政府廣場的太陽鳥雕塑
The Sculpture of Sun Bird in Shenyang Municipal Government Square



瀋陽城郊景觀
Shenyang Suburban District Scenery

自 1999 年起，瀋陽城投將與外界聯手在瀋陽開發 50 個大項目，其中包括瀋陽國際會展中心、瀋陽世界貿易大廈、瀋陽地鐵工程、瀋陽桃仙機場擴建、瀋陽—黑山高速公路、瀋陽市垃圾及污水處理，這些項目涉及城市基礎設施、城市公用設施、城市環境保護等方方面面，預計總投資 250 億元人民幣（30 億美元）。

瀋陽城投是中國的、也是世界的，我們願與世界各國企業及投資者聯手合作，共同開發建設沈城，使沈城成為人類最美好的生存空間。

策劃：王錦 喬完金 翻譯：湯潮 創意：趙敬卫

SHENYANG MICID—CITY ADMINISTRATION SERVICE MANAGER

Shenyang Municipal Infrastructure Construction Investment Development Corporation (hereinafter referred to as “Shenyang MICID”) is a state-owned limited liability company with the duty of exclusively managing city construction funds for Shenyang municipal government.

Business Scope: Government property management, Urban infrastructure project investment, Investment service, Estate exploitation.

Improving city investment environment, raising city life quality is the untiring pursue of Shenyang MICID. Recent years, Shenyang MICID has been investing city infrastructure industry jointly with well-known multinational corporations. The Shenyang 64 kilometers round-city-expressway, the Shenyang hundred kilometers round-city-canal system have been constructed. Through investment environment improvement driving the relative industries, the local economy has been flourished, meanwhile, the investors have received considerable reward.



沈阳城郊景观
Shenyang Suburban District Scenery

Since 1999, Shenyang MICID is going to exploit 50 projects jointly with the overseas partners, including Shenyang international exhibition center, Shenyang international trade building, Shenyang underground railway system, Shenyang Taoxian airport extension, Shenyang – Heishan expressway, Shenyang refuse and sewage treatment project. The projects mentioned above involve city infrastructure, city public facilities, city environment protection ect. The total estimated investment will be 25 billion RMB(3 billion USD).

Shenyang MICID is belong to China, and also world. We would like to have the cooperation with overseas enterprises and investors, to jointly exploit and construct Shenyang city. Shenyang MICID is making Shenyang city the most glorious live space for the mankind.



沈阳环城高速公路
Shenyang Round – the – city Expressway

Commitment to Shenyang's Development

a report by

Mu Suixin

Mayor, Shenyang, China



Shenyang, a famous historical and cultural city of China, is the centre of politics, economy and culture in north-east China, the important industrial base of China. I am deeply aware of the responsibility I hold in the capacity of Mayor of such an important city. With the trust and high expectations of its 6.8 million people, I will work with utter devotion for the benefit of Shenyang citizens.

It would be a memorable achievement for Shenyang if I, in my term, and the Shenyangnese together, can try our best to create a beautiful future and welcome the new millennium as China practises reform and open policy in the rapid development of the world. Shenyang's future is extremely bright not only because its people have shown themselves to have great enthusiasm in constructing our own city but because Shenyang itself has already shown its huge capacity and potential in Chinese economy and social life. However, there are still many hard obstacles to overcome in the process.

The efforts that I, in my term as mayor, will make will include:

- the adoption of an active macromanagement policy, which will be adopted for promoting the regional economy development with a steady increase so that the people benefit from it;
- an emphasis on the construction of agricultural infrastructure, the adjustment of agricultural structure and the modernisation of agriculture production. The agricultural and sideline products will be extended to further processing so as to provide abundant supply in the market;
- a focus on the industrial restructure of Shenyang, in order to maintain its leading position in industrial economy of China. With regards to this, the pillar sectors of machine building, automobile assembly and the medical and chemical industry will be developed greatly;
- support and promotion of the high-tech industries, such as electronic information, biology techniques and energy-saving environment;

- an active role, as the centre of the city, taken by the regional and central markets in market circulation and regional economic development;
- a focus on the development of tourism, information services, communications and traffic, in order to meet the practical demands of urban modernisation so that the metropolitan functions improve gradually; and
- attention to the banking sector, trust, insurance and securities exchange, so as to accommodate the regional economic development and ensure Shenyang as the north-eastern regional financial centre.

A scientific city development scheme and a sustainable development strategy will be implemented to improve living conditions in the city. We are determined to develop Shenyang as a modern metropolis and are following steps to perfect urban functions and improve the environment. With the implementation of an urban environmental transformation project, an express highway network around the city centre will be linked and a modern urban traffic framework will be formed. The main roads, squares and parks will be transformed, according to the 'Green, Fine, Clean and Bright' idea. Everyone will be involved in the making of the city environment-friendly. The inner river in Shenyang will be revitalised to be a Ring Water System and Ring Park characterised by 'a green carpet of grass and trees, flowing water and linking scenery'. With regards to industrial pollution, the factories polluting the areas surrounding the residential areas will be moved away. In addition, we will implement non-hazardous treatment of wastewater, industrial waste and other waste. Measures will be brought in to address air pollution as well.

Shenyang's preferential opening-up policies will be adopted to promote further exchange with the world and expand the city's opening scale. We aim to provide first-class services to the domestic and overseas tourists and are going to develop the tourism facilities so that they utilise the many natural tourism resources and profoundly historic ethnic tourism resources. Shenyang will be more closely linked with the world following

A brief introduction of YANTAI MOON GROUP CO. LTD

Yantai Moon Group Co, Ltd., (originally named Yantai Refrigerating General Factory), set up in 1956, is a large Group enterprise specializing in freezing, air conditioning facilities' manufacturing as well as in complete sets of refrigerating engineering design, installing, trial running and technical consulting services. It is a large, sole-invested state-owned First Grade enterprise with 3200 staff and workers and a total fixed assets of 558 million yuan, covering an area of 450,000m², and construction area of 160,000m². It comprises 17 legal companies (including one stock exchange company and six Sino-foreign joint ventures), nine branches and internal accounting units.

The Moon Group, as a main refrigerating and air-conditioning facility production and export enterprise approved by the State for the import and export business, is a First Grade national company, first among China's machinery refrigerating industry to obtain the Quality system certificate of ISO9001: 94 issued by the Norway Classification Society (DNV), and it is one of the one hundred largest and most efficient Chinese machinery enterprises. In 1998 the company realized an



compressor screws, refrigerating compressor lithium bromide absorption refrigerators, water chiller for air-conditioning, hot water machine set, indoor and outdoor prefab cold storage, large cereals-cooling machine set, ice-making complete set, boat refrigerating set, vacuum cold drying complete set, mesh-belt successive quick freezers, ice-stored cooling apparatus, totalling seven series and 400 specifications of air-conditioning, freezing cold storage, ice-making, fast freezing, cold drying and freshness retaining. In the mean time, the group also manufactures refrigerating containers, non-standard dry-goods containers. Industrial

Firstly, it has actively implemented the foreign leading strategy of applying foreign capital and introducing technology to have overall renovation. Since 1992, the Group set up successively joint ventures of Yantai Honda Refrigeration Equipment Co. LTD.; Yantai Dunham-Bush Industry Co. LTD., with American manufacture; and, Yanta ACME Refrigeration Equipment Co. LTD., with Australia.

Yantai Jialing Cold & Heat Equipment Co. Ltd., with Hong Kong; Yantai Moon Refri containers Co. Ltd., with Korea; and, Yantai EBARA Air-conditioning Co. Ltd., with Japan, totaling six Sino-foreign joint ventures. The Group has imported vertical, enclosed-screw cold-water machines from the American Company; lithium bromide absorbing refrigerators from Dunham-Bush EBARA Co., Japan; and, refrigerating containers' manufacturing techniques from British Ocean Company. The total Sino-foreign joint venture investment amounted to 42.45 million USD, with the Chinese proportion upto 50%. Secondly, through shareholding companies' renovation, the Group has created direct financing channels. Upon approval of the State Securities Supervision Commission on



annual profit of 18.8 million yuan with profit and tax of 34.32 million yuan.

As a leading enterprise in the same domestic industry for its strong technical background, complete specifications and good performance, the Moon group has set up in China, according to the international general technical standard, the largest, most precise compressor test system; domestic top-level air-conditioning purifying workshop mainframe assembly line; resins and casting production line; polyurethane board production line; and, British screw refrigerating compressor rotor Moon and Yanji. These are recommended as domestic fine products by the China Quality Inspection Association, which has boasted the company's top quality among the same kind.

The Moon Group Technology Centre was listed as the key province-supported enterprise technology development centre, and it is a team assembled by 300 specialists to have strong ability in refrigeration design, automatic control design, computer assistance design, a large, complete set of engineering design and technical information, technical standard and technical management, which promoted the rapid transfer and application of latest domestic technology and patent fruits. The main products are a varied series of piston refrigerating

boilers, medical hyperbaric oxygen chambers, plat-fin heat-exchangers, pressure vessels, cast-iron parts, industrial plant buildings, metal structures. These form a unique product advantage.

The Moon Group has set up 11 permanent sales-branch companies and offices in some large and intermediate domestic cities, and over 100 sales services in China. The complete sales promotion systems can, at any time, provide customers with technical consulting, engineering design, equipment facilitating, installing and trial running, equipment maintenance, technical training, and after-sales services. The national key projects, such as the Gezhou Dam Power Station, the Capital Airport, the people's Conference Hall, and the series of large refrigerating and air-conditioning 'Turnkey Package' engineering works were all bidden among domestic and international bidding. The Moon Group has been successfully chartering customers.

In managing production, the Moon Group has created a promising way to actively lead the operating capital away from activating and absorbing limited domestic state-owned capital to control and apply more foreign capital to promote the state-owned capital first, thus adding value and developing.

May 28, 1998, the core enterprise of the Moon Group actively implemented merging to speed up the newly growing economic indicators. On May 6, 1997, the Moon Group formally merged the Yantai General Boiler Factory to set up Yantai Moon Boiler Co. Ltd.; Yantai Hyperbaric Oxygen Chambers Co. Ltd.; Yantai Moon Metal Structure Co. Ltd.; and, Yantai Moon Heat Exchanger Co. Ltd. Furthermore the Moon Group has trans-regionally bought the Haiyang Xujiadian Vehicle Overhaul Plant to set up the Moon Complete Set Engineering Co. Ltd. And to adapt the domestic expanding requirement policy for the residential buildings promotion, the Group has, at the original golden factory site of the city proper, rebuilt Moon Sanzhan Decoration Material Wholesales Market.

In recent years, Moon not only provided people with convenient and comfortable living, entertaining sites and various facilities, but actively participated in the common human goals of global environment protection, the pursuit of societal harmony of interest, enterprises and individuals.

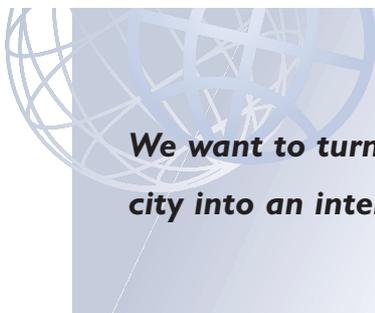
Towards the 21st century, Moon, leading the science and technology, pays more attention to the successive improvement of the human being's living and to penetrating various fields that people need.

the development of new international airlines. The city needs to establish friendship with the overseas cities in order that the economic and cultural interchange will become more extensive. Strengthening the co-operation and communication with the foreign cities, the increase of import and export trade will be stimulated. Foreign investment promotion will focus on co-operation and joint-venture projects so that companies in Shenyang will be given greater access to the international market and will be more in harmony with the global economy. We will create a wonderful working and living environment for our overseas investors and provide them with 'citizen treatment'.

Shenyang's living standards will be improved gradually with the continuously progressing development of social programmes by the establishment and improvement of the social security system. We will

satisfied with'. All of these above-mentioned measures will mean that the new term of municipality will give a totally new appearance to the system.

Having been elected Mayor by the people, I, together with my colleagues, will fulfill my commitment to the letter so that Shenyang, with its new appearance, can take its place in the world. We want to turn Shenyang from being a traditional industrial city into an international, modern metropolis. Shenyang will develop from being an outdated and irrational city into a multi-functional new city; to be a north-eastern centre of trade, tourism, traffic, communication, finance, science and technology; and to have high standards of living from now for the future. Let Shenyang people have a wonderful city. To this end, I will blaze a new trail forwards through brambles and advance bravely.



We want to turn Shenyang from being a traditional industrial city into an international, modern metropolis.

make a huge effort to develop the residential districts, focusing particularly on the housing of low-income families and on the total elimination of shanty-towns. We will implement a basic-living security system, which will provide the basic living security to those who need it most. Unemployment rates will be controlled through better employment training and expansion of the employment channels. Healthcare for everyone will be ensured through the improvement of the service. By enhancing the development of the cultural facilities, the citizens' cultural life will be enriched. Education standards will gradually be improved with great attention paid to education, increasing investment to the education undertakings and the improvement of the education conditions. The supply systems of heating, gas, water, power and other public utilities which are closely related to the population will be developed to operate effectively so that they meet people's increasing living demands.

The principles of 'Be honest in performing one's official duty, be due to diligence, be proficient in one's professional work and render services to repay the people's trust' will be initiated and advocated in this term of municipality. The governmental authorities will carry out a new style of working attitude, streamlined procedures and high efficiency. In addition, working performances will be subject to the supervision of the people. Every official will compete to be 'an excellent civil servant that the people are

Shenyang's Position in North-east China

Shenyang, as the provincial capital of Liaoning, is the centre of economy, culture, traffic, commerce, finance, science and technology and information for the north-eastern area of China. It has nine districts and four cities under its jurisdiction. Geographically, it lies in the hinterland of the Liaodong Peninsula, in the south of the north-east area of China and, as a heavy industrial base, it plays a decisive role in China. Shenyang is also a particularly large economic central city covering 12,980 square kilometres and having a population of over 6.8 million. According to the latest statistics, published by State Statistics Bureau of China in 1998, Shenyang is listed fifth, among the 219 cities in China, in terms of overall capability.

Shenyang is a culturally renowned city with a long history. In the early New Stone Age, more than 7,000 years ago, its ancestors began farming and fishing and settling in the area. About 2,000 years ago, the Han Dynasty set up its county-level regime – Houcheng City. And more than 300 years ago, the former Qing Dynasty once founded its capital in Shenyang, named Shengjing. When the capital was moved to Beijing, Shengjing was kept as its accompanying capital.

Shenyang's modern industry began at the end of 19th century. By the 1930s, Shenyang had become the

largest industrial centre in the north-east area of China. In the early 1950s, 26 key industrial projects in 156 large construction projects of new China were carried out in Shenyang for investment and construction. This resulted in Shenyang becoming a widely renowned heavy industrial city and one of the equipment industry bases in China.

With the solid industry basis and comprehensive capability of providing the auxiliary products, Shenyang is a comprehensive industrial city characterised by an industry producing metallurgy, building materials, automobiles, medicines, petrochemicals, light industry, textiles, electronics and aviation and aerospace, etc. In recent years, Shenyang has accelerated its industrial reconstruction and assets restructure, and has focused on invigorating the large and medium-sized Special Operation Executives. Eighteen large enterprise groups have been set up, including:

- Shenyang Machine Tool Company, which is one of the largest machine tool manufacturers in China and the machining base of computer numerical control (CNC) machines in China as well;
- the Northeast Power Transmission & Transformation Group Company, which is one of the largest in the sector in China;
- Shenyang Special Environmental Protection Equipment Group Company, which is the first listed company in the environmental protection machinery sector;
- Shenyang Dawn Garment Group Company, which is a large transnational corporation of cotton spinning and weaving and garment making; and
- Northeast Pharmaceutical Factory, which is the largest material medicine production base in China.

Shenyang's enterprises in the aviation and aerospace sector are also coming first nationally – the first Chinese jet plan is being produced there. For many large construction projects, such as the hydroelectric pivotal project of the Changjiang Gorges, Shenyang provided complete sets of key equipment. Shenyang has more than 50 enterprises in all kinds of sectors.

The wind of reform and the opening up of China to the outside world brings a unique historic opportunity of development of science and technology in Shenyang. At present, 428 scientific research institutions, about 3,000 private-run scientific research enterprises, 30 colleges and universities, 550,000 employed people and a large

batch of international advanced testing and detecting instruments for the national-level test bases forms its wide and comprehensive scientific research system. As a result, this considerable strength takes Shenyang into the leading position in China. The sectors, such as integration of machine and electricity, precise chemicals, electronics and information, new materials and computer software etc, have been the main factors in the economic development of Shenyang.

In the light of its target to become a financial centre in north-east China, Shenyang is actively advancing reform in its financial systems and the opening up of the financial sector. As a result, there are 1,945 financial institutions in Shenyang. Nowadays, in Shenyang as a city with open finance, the foreign-funded financial organisations, such as Dutch Commercial Bank, are coming in in a continuous stream. Its stock market is also conducting a brisk trade: its total amount of transactions of stock adds up to an annual Y34.51 billion and the total number of its transaction centre members expanded to 94.

Enjoying a comprehensive transport network, including aviation, railway, highway and local traffic, Shenyang has, in geography and reality, become the hub of communications and telecommunications in the north-eastern area of China. Its fast, accurate and highly efficient telecommunications system has given Shenyang tight links with places both nationally and internationally.

These geographical advantages influence Shenyang's economy increasingly day by day. By taking the local market as its target and relying on modernised traffic, Shenyang is forming a well-known, city-group economic area in central Liaoning. The area of Shenyang's 150km radius contains: Anshan, the city of steel; Fushun, the city of petrochemicals; Benxi, the city of coal; Dandong, the city of light industry and textiles; Yingkou, the main port; Liaoyang, the city of chemical fibre; and Tieling, the city of grain and coal. This industrial city group gives Shenyang the endowed good conditions for developing Shenyang's economy.

As the new millennium is drawing closer and closer, Shenyang municipality has decided that far more creative and effective work will need to be contributed to the new Shenyang and the new millennium. Shenyang will become much more beautiful and prosperous with committed endeavour from its citizens. Meanwhile, the municipality is eagerly anticipating the endorsements and co-operation from its friends at home and abroad. The patronage from its domestic and overseas friends is warmly welcomed and deeply appreciated. Shenyang is always open to the world. ■

Being a world-famed brand, Tsingtao beer is well received by people for its crystal clarity, snow-white fine foams with prolonged adhesion to the glass and its refreshing mellow taste. It has been awarded the China National gold medals seven times and the championship prizes three times in the international wine appraisals held in the United States. Tsingtao beer has been exported since 1954 and presently it is available in 40 countries and regions. Besides its regular beer, a series of products including Tsingtao Stout, Tsingtao Light, Tsingtao Red, Tsingtao Premium and Dragon + Phoenix canned beer, etc. were developed.

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Yantai – A Bright Pearl of the Yellow Sea

a report by

Jang Jinjing

Mayor, Yantai City

Although Yantai has quite a long history, it only became a city relatively recently. In 1858, because of an unfair treaty signed between the Qing Court and the French government in Tianjin, Dengzhou (the old name of a city near Yantai, now under the administration of Yantai) became a trade port. Three years later the port moved down the coast to Yantai.

Due to its enviable geographical location – situated in the middle of the Shandong Peninsular, bordering the Yellow Sea and the Bohai Bay, overlooking the Liaodong Peninsular, Japan, South Korea and the Democratic People's Republic of Korea – Yantai plays an important role among a number of cities along the Bohai Bay economic circle, where the state gives priority to its development. Yantai administers four districts, one county, seven county-level cities and one Economic and Technological Development Zone. Yantai covers a total area of 13,700 square kilometres and has a total population of 6.434 million, of which the city proper occupies 2,643.6 square kilometres and has a population of 1.568 million.

Due to its location, 11 of Yantai's districts, county and county-level cities border the sea. Its coastline is 909 kilometres long and it is considered to be an important area for fishing in China. Its underground mineral resources are also very rich: there are over 70 minerals found in Yantai, among which the deposits of 40 kinds have been proved. Its deposits of gold, talc, magnesite and molybdenum all rank among the top five in China. Gold deposit and production, in particular, are both ranked first for the whole of China.

Yantai has good traffic and telecommunications services and a complete network of highways connects all the towns and villages:

- There are direct trains to Beijing, Shanghai, Jinan and Qingdao, etc. and, at present, the Lancun-Yantai double-track and Dezhou-Yantai railways are under construction. In addition, the Yantai-Dalian ferry railway has been listed as one of the priority state preconstruction projects in 1999.

- Yantai now has nine ports, of which four are equal to any in the state. Yanta Port is an important trade hub port in northern China and has navigation lines to over 100 ports in more than 70 countries and regions.
- Yantai Airport is one of the best in the state and now has 23 airlines flying to many cities home and abroad, including Seoul, Hong Kong, Beijing, Shanghai, Guangzhou, Dalian and Shenzhen. There are over 90 flights a week in the high season.
- There are 1,307,000 telephone lines and all phone communication is now programme-controlled. In the Yantai region, 14.3% of people have a telephone, while 38.4% of people in Yantai city have telephones.

In recent years, Yantai has won many awards, such as National Clean City, Superior Investment Environment of China (one of 40 cities), National Model City for Environment Protection and National Excellent Tourism City. There has been a great improvement in the provision of sufficient energy supplies, as well as in the provision of sufficient power, water, gas and heat supplies. The power capacity is 1.5 million kilowatts. The large Longkou Kengkou power plant, which is the first factory to be built through funds raised by both the local and national governments, has a capacity of one million kilowatts. The city's water supply is also sufficient to meet local demand, with an average daily tap-water supply of over 255,000 tons. The Bohai gas project, which is now being planned, will be able to produce a daily supply of 1.5 million m³, including 0.8 million m³ for resident use, when it is completed.

Yantai has made great progress in education and technology. In 1998, Yantai was honoured as the National Model City for Technology Innovation and all 12 districts and counties under its jurisdiction were made Advanced Science and Education Counties (or districts). Nine were also designated as having the Strongest Science and Technology Power, an award bestowed on only 100 counties or districts throughout China. There





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BUSINESS SCOPE AND PRODUCTS



*National Model Worker
National Excellent Woman Enterpriser
The Board Chairman and General Manager:
Liu Guiqin*

Shenyang Special Environmental Protection Equipment Manufacture Co Ltd is a national large-scale enterprise, designated as the Environmental Protection Industry Base of China by the State Council and as the cadre of Shenyang Environmental Protection Group by the Shenyang Municipal Government.

The Company has 18 branch companies, and has offices in the United States, Japan,

Australia, Germany and Hong Kong. The company specializes in environmental products, including waste treatment equipment, dust removal equipment, noise control equipment, and also potable water equipment, chemicals, pharmaceuticals, special wires, boiler dust removal equipment, auto parts, casting and realty development. With its strong management team and technical forces, the company offers superior quality products. The prominent leadership represent by LiuGui Qin, Chair and General Manager, who is a National Model worker and an Excellent Entrepreneur, ensures the healthy development of the business.

The fixed assets of the company is 15.9 billion RMB yuan. The company occupies 1.58 million sqm. The sales revenue of 1997 reached 10 billion RMB yuan. Since 1995, the company has received a number of honourable titles, such as 'National Advanced Enterprise for Environmental Protection Technology', 'One of the °National Top 100 Enterprises of Environmental Protection Industry', 'AAA Credibility'.



Shenyang Southern Sewage Treatment Model Plant

While vigorously pursuing industrial wastewater treatment, the company also places a great deal of effort in contracting projects of large city sewage treatment, where the treatment process for city sewage has been successfully developed.

Fj series Flotation Cleaner is a gap-filling product patented in China. It was listed on National Torch Program by the Science and Technology Commission of China. It was defined as the best practical technology (Grade A) by NEPA (National Environmental Protection Agency) and is to be diffused across the country.

Flotation Cleaners and its co-working chemicals are widely used in oil fields, oily wastewater of Petroleum or Chemical Industry, wastewater from refinery process, cabin ballast water, steel-rolling water, coking wastewater and industrial wastewater from paper mills. It can be also used in pretreatment of municipal sewage.

Flotation Cleaner



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are 47 state-owned scientific research institutions and 1,190 privately-owned or collective-owned technological enterprises, in which 290,000 scientifically-qualified people are working. In 1998, more than 78 scientific and technological achievements were awarded by provincial, or higher, authorities. A total of 112 projects were listed in the Torch Plan of the State and Province and five projects that were listed in the 863 Plan of the State have been carried out.

A compulsory education system of nine years has been introduced in Yantai and the general level of education ranks alongside that of the best cities in China. Achievement of qualifications is the most advanced in the country. There are six universities and colleges in Yantai with a total of 25,000 students.

Yantai is one of 14 coastal cities that have received official State Council approval to open up to the outside world. International communications and co-operation has increased greatly in Yantai and the city has now established sister-city relationship with Beppu and Miyako, in Japan; San Diego, in the US; Tauranga, in New Zealand; Kunsan, in South Korea; Toljatti, in Russia; and Phuket, in Thailand. In recent years, Yantai has successfully held the 1996 China Yantai-East Asia Cities Import and

Export Commodities Fair, the Second Asia-Pacific Economic Cooperation (APEC) International Trade Fair and the Second APEC Small and Medium-Sized Enterprises Technology Exchange and Fair. In 1998, a total US\$500 million of foreign funds was utilised. Altogether, a total of US\$3.8 billion foreign funds have been utilised. Over 1,860 foreign-invested enterprises have been put into operation, of which 183 enterprises have invested more than US\$10 million. The total import and export volume amounts to US\$2.23 billion and makes up 23% of the local GDP.

Yantai is ranked 18th in terms of GDP among the large and medium-sized cities in China, according to statistics released by the State Statistics Bureau in 1996, and 33rd in China's 50 Economic Powers. Seven of its districts or counties were named as Counties of Strong Economy of the state or the provincial level. In 1998, local GDP was RMB80.5 billion and the added value of the first, second and tertiary industries was RMB14 billion, RMB41.94 billion and RMB24.56 billion respectively. The GDP per capita was RMB11,200. The total fiscal income was RMB5.35 billion, which included a local fiscal income of RMB2.75 billion. The utilisable income per capita for urban residents was RMB6,049 and the net income per capita was RMB3,167. ■

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Cape Town: An Emerging City

a report by

Nomaindia Mfeketo and **Philip van Ryneveld**

Mayor and Chief Finance Officer

The metropolitan area of Cape Town is situated near the southern tip of Africa and has a population of approximately three million people. It is a coastal city of unusual natural beauty, built around a range of mountains, including the famous Table Mountain, which have recently been declared a national park and are home to an immense variety of indigenous flora.

The population of Cape Town is very diverse. Under apartheid, it was not only highly segregated along racial lines but there were very substantial differences in income levels across the city. Many parts of the city provide an extremely attractive living environment with natural beauty and very high service standards. However, approximately 50% of households have incomes below what is regarded as the poverty line, and a further 15% are at levels just above this. The task of reconstruction is therefore not only to make the city more racially integrated and open but to significantly reduce the gap between rich and poor by enhancing the conditions of those living in poverty.

The ability to do this, in terms of political and institutional capacity and economic potential, does exist. It is of critical importance to the future of the city that the process is effectively managed over the coming decade.

The city has a varied economic base, largely dominated by service industries, especially tourism, but that also includes a significant manufacturing sector. South Africa's national parliament is situated in Cape Town. The city also boasts world-class medical services and strong tertiary education institutions, including the University of Cape Town. The hinterland is rich in agriculture – mainly fruit, wine and wheat – much of which is exported through the port of Cape Town, along with other goods from across southern Africa. The recent successful conclusion of a trade deal with the EU is expected to give the economy of the area a further boost.

The tourism sector has grown rapidly in the last few years. Numerous hotels have been built and the

guesthouse sector is booming. Much of this growth is due to increasing numbers of international visitors arriving at Cape Town International Airport, which is currently being enlarged.

To effect reconstruction it is necessary for government and other institutions, and especially local government institutions, to undergo very substantial change. This process is currently underway. Under apartheid, there were more than 70 racially-based local councils in the metropolitan area of Cape Town with 18 different administrations. In 1997, these were re-organised into six councils within a metropolitan structure. The City of Cape Town, with 1.3 million people, is the largest of the seven authorities.

In 2001, another process of local government re-organisation is due, which will create a single metropolitan council to run Cape Town. This is likely to be accompanied by major changes to the way in which services are delivered, with water, sewerage and electricity distribution services in particular being shifted out of local government into independent utilities providing services on behalf of local government.

Local government in Cape Town is almost entirely self-funded. Approximately half the revenues are from water and electricity tariffs, while taxes are raised mainly through the property tax together with turnover and employment levies on business. Loans are raised from the private financial sector to finance capital investment in infrastructure. The most recent Fitch IBCA credit rating for the City of Cape Town is A1 for the short term and A+ for the long term. (These ratings are shortly coming up for review.)

A process of modernisation of the property tax system is underway, with a general valuation of all property in the metropolitan area based on computer-aided mass appraisal techniques due for implementation in 2001.

The decision to create a single metropolitan-wide local government for Cape Town has been driven

by the need to tackle poverty through addressing the city's major service and housing backlogs, as well as to promote economic development and plan effectively for a rapidly changing and developing city. A properly controlled process of land release for new development on a metropolitan basis is likely to be one of the significant positive outcomes of the new metropolitan system. There is already a good network of bulk infrastructure in place, which is being augmented as new areas are opened up. The creation of a single metropolitan-wide tax base enables the development of underdeveloped areas to be effectively financed.

While the main thrust of the re-organisation of local government is towards metropolitanisation together with the creation of utilities for service delivery, there is also a process underway to explore new forms of local governance at a community or neighbourhood level. Bylaws have recently been passed to set up city improvement districts, where local areas can vote to raise a surcharge on the property rate, which is then passed back to the area for local improvements. A non-profit company called the Central City Partnership has recently been created to co-ordinate and drive the development of the downtown area. Already, a partnership between the City of Cape Town and business has led to the introduction of extra policing linked to a new network of surveillance cameras in this part of the city, resulting in a very dramatic drop in crime. The system is now being rolled out to some of the poorer areas, where problems with crime are most prevalent.

There are a number of significant developments due in the near-to-medium term. By far the most substantial is the planned piping of gas to Cape Town from the Kudu gas fields off the southern Namibian coast. Indications are that these gas fields are very large. The viability of the project is dependent upon the conversion and upgrading of a coal-fired power station currently owned by the City of Cape Town to a gas-fired entity with an output of 1,000MW. Gas would also need to be sold to a very large new steel plant north of Cape Town. It is highly likely that this project, which would entail investment of an estimated US\$1.5 billion, will go ahead in the fairly near future. Most of the power consumed by Cape Town is currently generated from coal-fired power stations over 2,000 kilometres away and the gas-fired station would be

much cleaner and cheaper. The spin-offs for the industrial sector if gas is readily available in the metropolitan area would be immense.

Much smaller in financial terms, but also very significant for the city, is the proposed development of a major conference centre. The lack of such a facility is a constraint for the city at the moment. As an attractive Third World centre with a growing international profile there is substantial interest in holding international conferences in Cape Town and, despite the lack of adequate facilities, there has been a very marked increase in such events in the recent past. It is likely that the conference centre would be situated close to the Victoria and Alfred Waterfront, the city's extremely successful harbour redevelopment.

The city has a programme in place to develop infrastructure and economic activity into poorer and less developed parts of the city. A key element to this is what is known as the Landsdowne Wetton corridor. This is a development axis stretching from a relatively wealthy part of the city to some of the poorest areas. In a joint project with the national government, there is a large amount of new infrastructure either being built in the corridor or being planned for the near future.

A century ago, prior to the age of air travel and the building of the Suez Canal, Cape Town was a key cosmopolitan centre of the Southern hemisphere – a stopping-off point for ships rounding Africa. It is now showing the potential to re-emerge as a significant international centre of the south.

An indication of this was the city coming third, behind only Athens and Rome, in its bid to host the 2004 Olympic games. It is already being regarded as one of the important international venues for millennium events, with President Mandela hosting celebrations on Robben Island in Cape Town's Table Bay, as part of the city's programme. It has hosted a stream of key international dignitaries in recent times and, with a strong possibility of South Africa being made a permanent member of the United Nations Security Council, this could become a firmly established phenomenon.

With its diverse population, its mountains and beaches, its good infrastructure and services, its sound governmental and other institutions and its international political profile, Cape Town is well set to compete successfully in the new millennium. ■

Some Representatives of the City of Cape Town

<i>Mayor</i>	<i>Nomandia Mfeketo</i>	<i>nmfeketo.cct.org.za</i>
<i>Chair of the Executive Committee</i>	<i>Saleem Mowzer</i>	<i>smowzer.cct.org.za</i>
<i>City Manager</i>	<i>Andrew Boraine</i>	<i>aboraine.cct.org.za</i>
<i>Chief Finance Officer</i>	<i>Philip van Ryneveld</i>	<i>pvyryneve.cct.org.za</i>

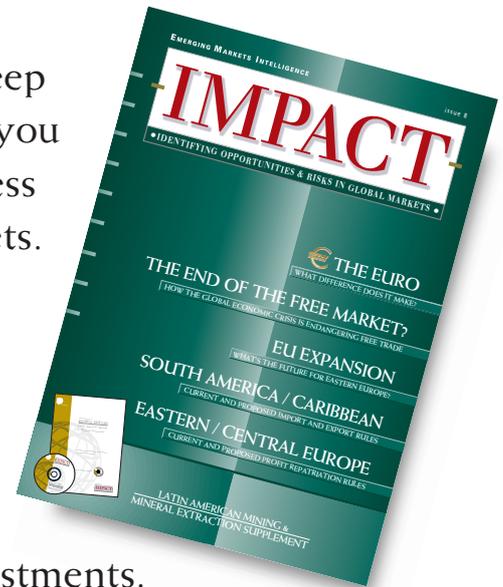
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a report by

Ann Bernstein

Founding Executive Director, Independent Policy Think-tank, the Centre for Development and Enterprise (CDE).

Ann Bernstein is Founding Executive Director of the Centre for Development and Enterprise (CDE), an independent policy think-tank. She started CDE Research, as well as the CDE Resource Booklet series. In July 1997, she was re-appointed to the Board of the Development Bank. In 1994, she was appointed to the Development Bank Transformation Team of Southern Africa. In 1993, Ms Bernstein was appointed to the independent committee of experts asked by the multi-party negotiating process to look at the regional boundaries for a democratic South Africa. In 1992, she was a founding trustee of the Institute for Multi-party Democracy. In 1991, she was a Visiting Scholar at the Institute for the Study of Economic Culture, Boston University. An earlier post of her professional career was spent working for the Urban Foundation (1982–1995), South Africa's largest privately-funded research organisation. She was educated at the University of Witwatersrand and the University of California, Los Angeles, where she was awarded an Ernest Oppenheimer Memorial Trust Fellowship.

The history of Pretoria since 1950 is that of a city built around “ethnic exclusion and ethnic patronage”. The tide has turned. Pretoria at the end of the 20th century is now a city in search of a new identity.

Pretoria is one of the least ‘African’ of South Africa’s metropolitan areas. It is a city surrounded to the north by poorly serviced dormitory suburbs in which conditions are even worse than those in the former black areas within the boundaries of the greater Pretoria metropolitan council.

Functionally, Pretoria is a three-lobed metropolitan complex of about 2.5 million people of whom about half are located in the former homelands. These three lobes – a southern core (official Pretoria), a north-western satellite (Winterveld) and a north-eastern satellite (former KwaNdebele) – are highly interdependent, yet each is separated from the others by considerable distances, agricultural land and political boundaries. Nowhere else in South Africa has intra-metropolitan apartheid and segregation been so pronounced.

Winterveld is one of the most glaring legacies of apartheid; a settlement of about 200,000 people, most of whom live in shacks with poor servicing levels. More than 80% of those who work do so in Pretoria; unemployment is estimated at more than 40%. In many respects, the area is administered as a geographically marginal outpost of Mafikeng (North West government). Winterveld – like the settlements in KwaNdebele – is not a town in its own right and is dependent for its economic survival on links with a proper city, Pretoria.

Considering that some 86% of formal employment is primarily met within the central core area of Metropolitan Pretoria (Pretoria City Council), it is not surprising that the Centre for Development and Enterprise (CDE) was concerned with the issue of effective economic linkages. On average, socio-economic conditions in formal Pretoria are better than those in other South African metropolitan areas. However, this is because Pretoria has effectively excluded a large part of its population. Most of the city’s poor and marginalised are to be

found outside city boundaries. While black households in legal Pretoria increased their real incomes by 17% between 1985 and 1995, real incomes in Winterveld dropped by 12%. In 1994, the new provincial boundaries perpetuated a racially divided Pretoria. This functional metropolitan region is bizarrely located in three different provinces. This allows legal Pretoria to externalise the costs of its growth and development by passing off responsibility for the poor to other, less resourced authorities (North West and Mpumalanga provinces) – rather like what apartheid planners of the 1960s and 1970s had in mind.

Pretoria has become what it is today – a highly fragmented and divided metropolis – through a concerted political programme of division and separation lasting more than 50 years. The dormitory communities that depend on and serve Pretoria have been politically and administratively excluded from their claim on the budget, capacity, resources and energy of the country’s third largest city. They have been condemned to perpetual marginal status.

But it was not only apartheid that was exaggerated in Pretoria. The public sector component of the economy and parastatal industry was also exaggerated. The average size of an industrial enterprise (86.5 workers) is almost twice that of Johannesburg-Randburg (44.1). The percentage of white employees in industry (36.3%) is nearly twice the national average (20%). Pretoria industries are more capital-intensive than the national norm, less profitable and more often established with government support. With a downsizing, restructuring public sector and several parastatals (for example, Iscor and Denel) scaling back, the city’s economic pattern is unlikely to last. Pretoria has to find a new economic base.

The city is suffering from an identity crisis, which relates in part to three factors:

- the continued exclusion of blacks from the city;
- its sustained public sector focus; and

- a failure to come to grips with the past.

A bold move to deal with all three of these inhibiting factors towards a truly non-racial and regionally-orientated public/private partnership is a more realistic, sustainable way forward. What is needed is an agreed and inspiring vision of the city's future – a growth-orientated vision of focused excellence.

Developing such a vision will need a thorough understanding of the Pretoria economy and trends affecting it. This city, of all cities, could position itself cheekily as the capital of the 'African renaissance', but the CDE failed to find anyone thinking so boldly about Pretoria's future.

According to CDE, 'Parliament for Pretoria' is an insufficient focus for the city's development. If this campaign is allowed to dominate public conceptions of the city's future, it could divert attention away from more fundamental issues. It has been calculated that there are only 960 jobs directly and 3,655 jobs indirectly linked to Parliament, although about 8,700 other jobs could be affected.

investment – crime rates are lower than the rest of urban Gauteng, and schools are good; and

- Build on Pretoria's manufacturing strengths, for example in the motor industry, which could increasingly be focused on exports (particularly to Africa). Metropolitan government must work with the motor industry, understand its needs and ensure that the city does not lose to coastal metropolises.

On the financial side, Pretoria planned for an operating surplus with capital expenditure (R332 million) being prioritised through the Integrated Development Plan (IDP) five-year budget process. Its relative good financial standing is a positive factor but does not guarantee future success, particularly with the added development pressures and innovative financing mechanisms required to meet such pressures. Effective leadership and an 'entrepreneurial' flare are going to be much needed in the future.

Probably more than any other South African city, Pretoria faces critical decisions concerning its future.

Pretoria has the potential to become an 'African rising star'.

This will require a radically new approach to the city and its future.

Some other possibilities are detailed here.

- Pretoria probably has the most advanced and concentrated research, development and training capacity of any city on the African continent – these resources can be pooled into an internationally competitive consortium focused on the needs of the continent;
- Pretoria has some of the country's best highways, hospitals, sports stadiums, zoos, libraries, museums (35) and public parks – about 66 nature reserves, game farms, holiday resorts and spas in and around the city, and the renowned National Zoological and Botanical Gardens;
- Market the city as a domestic tourist attraction through public/private partnerships aimed at attracting visitors to the diverse physical, cultural, historic and symbolic assets, old and new;
- Build on Pretoria's advantage as one of South Africa's most liveable cities to attract further

Making those decisions will not be easy, because much is at stake – economically, culturally, politically and symbolically. Bold and courageous leadership will be needed to move beyond the current cautious mode of the 'adaptive modernisation' which could gradually lead to the city's decline.

What kind of vision do the new national and local political leaders have for Pretoria? Or is there a perception that things were not that bad in apartheid's capital?

No city should assume that the future will be like the past. Cities that do not find a new local, regional or global niche will decline. The central message of the centre's research is that in the context of the twin processes of political democratisation and economic globalisation, Pretoria has the potential to become an 'African rising star'. This will require a radically new approach to the city and its future. Pretoria needs to:

- build a new foundation for sustainable and inclusive economic growth in greater Pretoria;

- resolve its identity crisis by adopting a bold and unifying new growth and development vision in which the city emerges as a place with “something for everyone”;
- look northwards for cues on what form this new identity might assume, and focus as much on its potential links with the north as on its actual links with the south;
- pursue a new developmental agenda centred on the city’s potential to become the entrepreneurial, training, research and development hub of central and southern Africa, drawing on its established strengths in these areas, but making Africa as a whole its new frontier;
- face its interdependence with poor commuter communities now located in North West and Mpumalanga and develop a wider vision built around this reality;
- lobby for the relocation of parliament to Pretoria but use this as a lucky trigger to unleash the city’s broader development;
- offer the country a quid pro quo for parliament’s relocation to Pretoria by making a significant and long-lasting commitment to the development of the neighbouring marginal settlements of Winterveld and KwaNdebele; and
- cultivate a new multiracial, multiclass ‘growth coalition’ with the common purpose of fostering the expanded city’s future growth, development and prestige.

Pretoria already has much going for it in terms of physical and cultural infrastructure, local/metropolitan finances and capacity, not least, physical closeness to the new state and closeness to the emerging commercial and industrial hub of South Africa (Midrand, Sandton and Johannesburg).

The challenge is to find the ‘champions’ who can build a leadership class for Pretoria that will reflect a new inclusive vision and a more diverse set of interests. Subtle national intervention might be required to encourage leaders, across the city, to emerge.

Since the CDE Publication was Launched

On two of the more important key policy directions proposed by the CDE in the Pretoria document, current observations are as follows:

- A number of very recent statements by the Gauteng provincial Government and National

Demarcation Board (a board of appointed experts investigating the local authority boundaries throughout South Africa) all indicate that Winterveld is high for inclusion for incorporation into Pretoria management. This will occur under the notion of a ‘cross border arrangement’ between the respective Provinces, the details of which are still to be ironed out.

- Some recognition is given to the restructuring of the economy but it is generally felt that this has not occurred sufficiently well and that Pretoria needs to continue to look at its economic imperatives and direction. On paper, the Pretoria Metro Infrastructure Programme (the “Metro”) appreciates the importance of developing an economic vision and strategy but this is neither fully developed nor effectively communicated. The existing vision essentially considers the notion of Pretoria as the capital for South Africa; establishing an integrated urban area providing integrated and accessible social facilities; promoting economic growth; and facilitating a people-friendly management system. It is apparent that the vision is not necessarily focused on the strengths and key strategies advocated by the CDE. Furthermore, it is not clear how the current programmes of action are aligned to the vision, what priorities for public and private intervention are chosen and what trade-offs are required in order to achieve meaningful results.

Their 1998 IDP indicates, for example, that they have not adopted an economic vision per se. The overall vision included in the IDP document acknowledges that “our well being could not be secured and advanced without integrated economic development forming a central part of our planning.” Projects identified for economic promotion have, however, been established and funded, but the rationale for such investment is not clear and it is not apparently evident upon what strategy such projects have been initiated.

The CDE published its report on Pretoria entitled *Pretoria: From Apartheid’s Model City to a rising African Star?* in July 1998. As part of the CDE’s proposal to Malcolm Locke of The World Bank, sponsored World Competitive Cities Congress, and by invitation from the congress publisher, World Markets Research Centre, we have prepared this article adapted from our Business Day media launch report of 7 July 1998 entitled *Only Good Leaders will take the Right Road*. Information for 1999 is currently not available from the Metro and we base our concluding remarks on media reports and the 1998 Integrated Development Plan. ■

Telecommunications and Competitive Cities

a report by

Charles Kenny

Development Economics Divisions, The World Bank

Importance of IT

Following Nathan Rothschild's London issue of sterling bonds for the Prussian government in 1818, the Rothschild family dominated the European foreign issue bond market for the rest of the 19th century. Their strength was founded on two things: contacts and communications. Along with bribing and beguiling most of Europe's leading statesmen, the family operated its own system of couriers which, most famously, made Nathan Rothschild the first Londoner to hear the news of Napoleon's defeat at Waterloo.

The vital role of information in finance has only grown since then. And information technology (IT), advanced from the horse and rider, has become increasingly important in the broader economy as well. A range of studies from the micro to the macro have found that telecommunications infrastructure is closely related to firm productivity, sector expansion and economic growth. This effect can be particularly large in poorer countries. A recent McKinsey study estimated that adding one telephone to the network in countries with a GNP per capita of US\$100 adds US\$12,000 to GNP.

The future will be even more dominated by IT. The cost of voice transmission circuits has dropped by a factor of 10,000 over the last 20 years and computing power per dollar invested has risen by a factor of 10,000 over that same period. The effects of these changes have already begun to work their way into the economy. They have digitised and globalised the financial world, which sees over one trillion SWIFT transactions daily. They have fostered the unprecedented growth of the Internet and they have seen the world IT market grow by about 12% a year between 1985 and 1995. But the revolution is far from complete. By next year, electronic commerce will be worth US\$300 billion, and it is growing exponentially.

One example of the opportunity that this creates for competitive cities is the software and service export industries of Mumbai (Bombay) and Delhi in India. Software exports from India are already worth

US\$2.7 billion a year, and 25,000 Indians are employed in remote services. McKinsey estimates that remote services employment in the country might rise as high as three million in the next 10 years – a US\$50 billion industry.

But improved information infrastructure offers opportunities well beyond the IT sector itself, having a productivity impact on businesses large and small. In Nairobi, for example, one manufacturer of industrial spare parts and machinery recently saw his business expand by 35% after additional telephone lines were installed. In Dar es Salaam, a small import-export firm now uses 10 cent e-mails rather than US\$20 faxes to place orders for products in North America and Europe. As a result, the company has seen its telecommunications bill drop from over US\$500 to US\$45 a month. With thousands of entrepreneurs and businesses, it is clear that the telecommunications revolution can have a significant impact on city competitiveness.

Some commentators have suggested that the IT revolution will go even further than that, arguing that the 'death of distance', fostered by declining telecommunications costs, presages the death of cities. This prediction is wrong. Since the widespread construction of canals in Britain in the 1750s, we have seen an ever more rapid decline in costs of communication. Yet the process of global urbanisation has never been so rapid as it is today. Changing communications technology alters what makes for a competitive city; it does not destroy the effect of agglomeration economies that underlie city prosperity. Effective proximity to deep labour and output markets and the transfusion of ideas and information all still require physical proximity. For example, 96% of new product innovations in the US are still made in metropolitan areas and a recent estimate suggests that, even if all of those in the US who were capable of telecommuting for their jobs had the opportunity to do so today, the travel reduction would only equal about 1% of commuting trips each day. In fact, it appears that improved telecommunications infrastructure actually leads to an increase in the number of face-to-face meetings between business partners in cities.



Charles Kenny is part of the writing team for the World Bank's *World Development Report 1999/2000*, which focuses on globalisation, decentralisation and urbanisation. He was previously in the World Bank's Telecommunications and Informatics division, where he worked on the Internet and related telecommunications issues. He has written and researched widely on the links between information technology and development, urban policy and economic growth.

Table 1: Factors Contributing to Firm's Location Choice by Major Activity

Ranking of Factors in Decisions on Placing				
Factor	Regional Headquarters and Service	Production	Sourcing	Average
<i>Advanced infrastructure</i>	1	2	2	1.7
<i>Distance from market</i>	3	6	3	4.0
<i>Manpower (skill and availability)</i>	2	4	5	4.1
<i>Other costs</i>	7	5	1	4.3
<i>Cost of labour</i>	6	1	5	4.5
<i>Ordinary infrastructure</i>	4	8	4	5.3
<i>Entry to local market</i>	7	3	5	5.5
<i>Other</i>	4	7	5	5.8

Source: Mody and Reinfeld, 1997.

Telecommunications and the Changing Role of Cities

The role of cities will change, however. Cities will increasingly be seen as nodes – centres for global business operations or through-routes for goods and services travelling worldwide. The effect of declining communications costs of all types has been a 'splicing up the value chain', for example, in production processes. Between raw and final products, goods are moving around the globe – often remaining the property of the same multinational company but, at different stages, being worked on in factories from Rio to Taipei to Detroit. Each time the item moves, it will pass through cities that act as national and international gateways for goods and services. Connected with this role will be the panoply of services that a nodal city requires – international airports, luxury hotels, secretarial and consultancy support, strong local finance and labour markets and, not least, a world-class telecommunications network.

It is hard to overemphasise the importance of telecommunications and informatics infrastructure in attracting investment and retaining a role as a node in the global economy. Directly, advanced infrastructure is the most important factor in determining the regional headquarters location of East Asian multinationals, according to a recent survey of firms in Singapore, Taiwan Hong Kong and China. It was the second most important factor in determining production and sourcing operations (see Table 1).

Indirectly, IT can have a dramatic impact on the efficiency of a city as a gateway for products and information. For example, Singapore has dramatically reduced the costs of import and export through Tradenet. This networked information system allows importers and exporters to declare goods from their office computers. The information is routed to various government departments and clearance is usually received within 15 minutes. Combined with a realtime vessel management

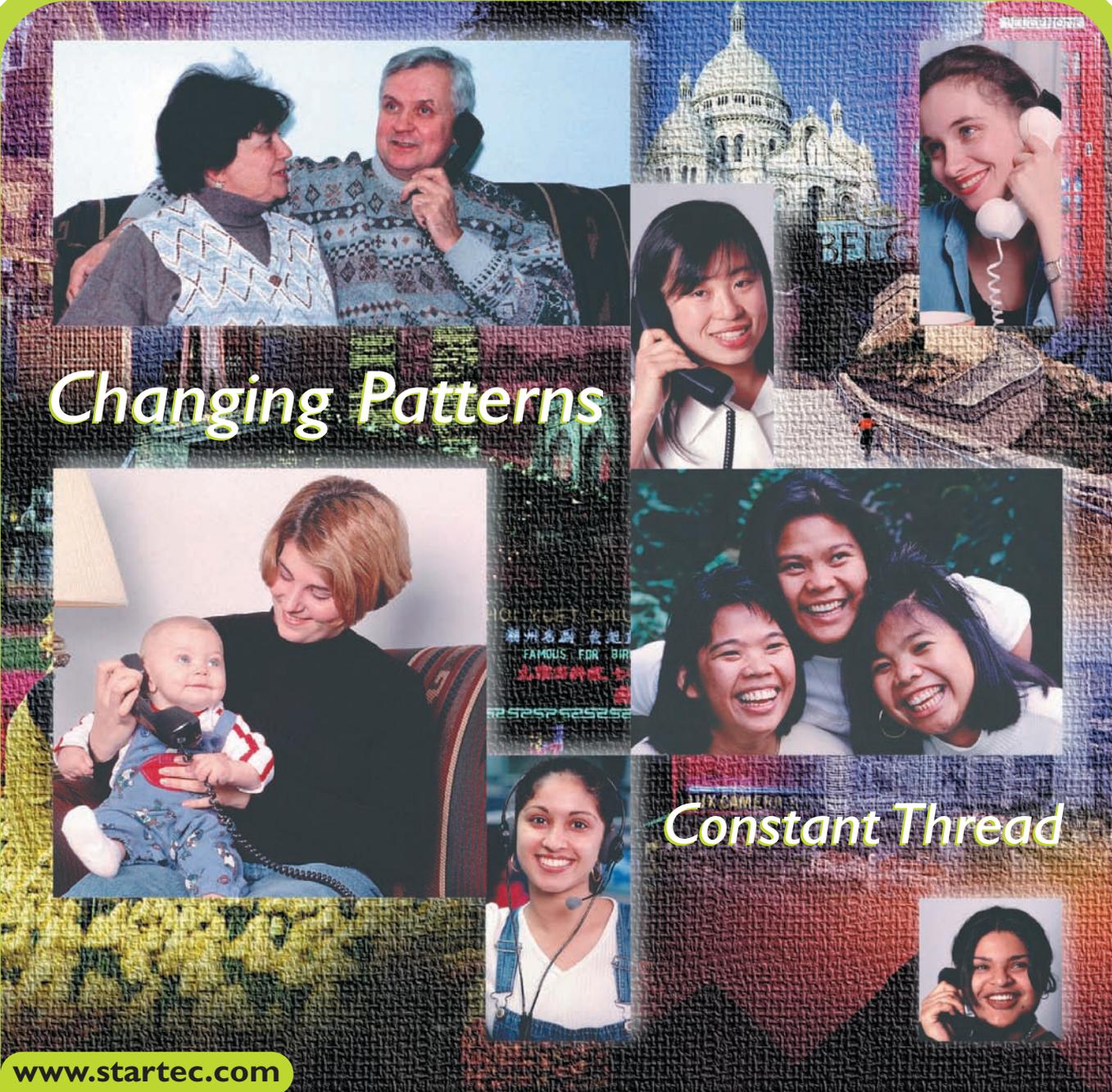
system at the port, this has allowed for ship turnaround times of under 10 hours and estimated savings of about 1% of the city-state's GDP. Every year, the average customs official in Singapore is able to clear US\$666 million worth of goods. Compare this performance with other developing countries: in Egypt, for instance, imports face three days of delays going through clearance procedures and the average customs official clears just US\$600,000 worth of goods a year. These delays cost the equivalent of a 15% tariff on imported goods.

Clearly, then, the presence and use of cheap and widespread information infrastructure is vital to city competitiveness. At the moment, however, the quality and cost of information infrastructure varies markedly around the world. To take one example, the cost of high-capacity leased lines vital to the operation of information industries and the Internet vary greatly across countries. The cost of leased lines in Argentina is approximately 50 times its cost in the US. The same is true of international telephone service charges. Table 2 lists the cost of a three-minute peak-rate call to New York from various developing countries around the world. The table suggests that a Moscow-based exporter faces significant disadvantages compared to his Budapest

Table 2: Cost of a Three-minute Peak Call to New York (US\$, 1997)

Country	Cost
<i>Russia</i>	7.91
<i>China</i>	7.31
<i>Indonesia</i>	5.42
<i>India</i>	5.01
<i>Thailand</i>	4.94
<i>Brazil</i>	4.94
<i>Chile</i>	3.83
<i>Hong Kong</i>	3.79
<i>Poland</i>	3.43
<i>South Africa</i>	3.25
<i>Hungary</i>	2.80
<i>Singapore</i>	2.54

Source: Economist Intelligence Unit.



Changing Patterns

Constant Thread

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They come to the cities, as they have done for centuries, seeking opportunities and new lives. And while their circumstances may change, one thing remains constant — the need to stay connected — which is why Startec provides superior international communications services for ethnic communities and their families. Through its multilingual customer service center that is tailored to meet the distinct cultural needs of immigrants, Startec connects various ethnic communities in cities around the the world, bringing The World Closer to Home.

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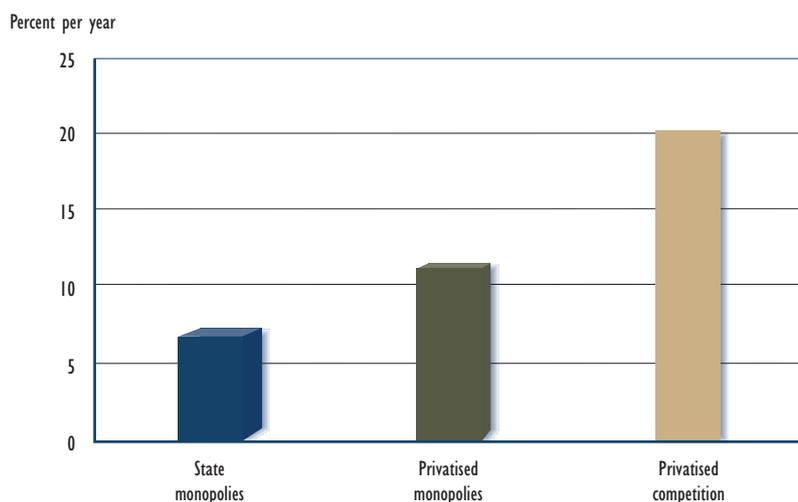


Figure 1: Main Telephone Rollout in Latin America has been Faster in Open, Privatised Markets

Source: Wellenius, 1997.

counterpart, having to pay nearly three times as much to contact US import firms.

How do cities create a broad-based, low-cost telecommunications network? Evidence at the national level, at least, suggests one clear answer. Privatisation and competition greatly increases the rollout of service and lowers its price in both basic and advanced services. *Figure 1*, based on evidence from a set of Latin American countries, shows that privatised open markets saw basic line roll out approximately three times faster than countries with a state monopoly and a recent study of African Internet service providers suggests that countries with a highly liberalised telecommunications network saw costs of Internet access eight times lower than those with a completely closed market.

Competition in Cities

But what about the benefits of competition in cities in particular? Overall, the results are likely to be even more impressive. The higher the density of users, the lower the fixed costs of entry into the sector and so the greater the ease of competition. Indeed, population-dense, competition-friendly Asian cities are leading the world in access to new technologies, especially in the wireless sector. Code Division Multiple Access (CDMA) technology is being rolled out rapidly to offer wireless users comprehensive and quality access in tunnels, subways and buildings.

But even in Africa, competition has become intense in cities where it has been allowed. Mobitel, a second cellular service operator, began service in Accra, Ghana, in 1992. The company's business plan called for it to extend services to the country's second main city only when it could finance the expansion out of retained earnings. But, after a new operator

announced it could provide services in both cities within a few months, Mobitel rushed to provide its own service –and halved prices at the same time.

For competition to be as strong as possible a widespread liberalisation of the telecommunications sector is required. India – keen to preserve its lead in IT services – is contemplating new policies aimed at expanding competition across a range of services. Proposals include allowing Internet service providers to bypass the state monopoly telecoms company, VSNL, by using cable TV networks to access clients and setting up their own international connections to the US Internet backbone. (This has already put downward pressure on the price of VSNL's connection.) The policy also recommends allowing the railways and power companies to compete with VSNL. The more widespread that competition is allowed, the better.

Yet, competition in cities will require the same rules to work as it does nationally. Without strong regulation – especially over the issue of inter-connection charges between operators – telecommunications will remain largely under monopoly control. In Poland, the benefits of liberalisation have been thwarted by poor regulation. Around 200 telecommunications licenses have been issued since 1990, but only 12 were in use in 1996. Unfavourable terms of revenue sharing with the dominant state operator, limited access to its network and prohibitions against setting up transmission networks have all been listed as major impediments to new competition. This is why the World Bank's reform agenda in the telecommunications sector has been based on the three equally important principles of privatisation, competition and effective regulation.

Of course, regulatory policies are nearly always in the hands of national rather than city governments. Because of their control over regulatory and competition policy – along with macroeconomic stability and investment and tariff policies – national governments are clearly the most important deciding factor in the success or failure of a city but national governments should recognise this responsibility when deciding policy. Without an advanced infrastructure network, cities will be at a great disadvantage in attracting international investment and creating globally competitive products and services. And, as much as the costs of government failure will be felt, especially in cities, national leaders should recognise that the costs of city failure will be felt country-wide in an increasingly urban world. ■

The views expressed in this article are those of the author and do not reflect those of the World Bank, its executive directors or member governments.

Competitive Cities in a Digital Society

a report by

Janet Caldwell

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Just as cities grew and their economies flourished along civilisation's earliest trade routes, the ability of today's cities to leverage the world's new trade route – the Internet – will determine competitive advantage in a global digital economy and society. Becoming a “competitive city” involves multiple dimensions – technology infrastructure, knowledge-workers, high-tech industry, e-government, e-commerce and e-communities. Equally important is the technological transformation of traditional economic development assets, such as good schools, safe streets, a clean environment, quality healthcare, livable land use and good governance. The extent to which a city can deliver an enabling infrastructure and then use technology to transform all the dimensions within that community will determine distinct competitive advantage over other communities.

Local Businesses and E-commerce

History teaches us that businesses bypassed by 20th century mass transportation systems declined or disappeared. The same risk exists today in the digital economy. Whether a business serves only the local community or considers the world to be its market, an online presence is mandatory in the digital economy in order not to be left behind. One trait of a competitive city is an aggressive strategy to leverage small and medium-sized business interests.

Electronic commerce, or e-business, is defined as any exchange of value over the Internet. E-business is projected to grow to over US\$3 trillion by 2002. That figure represents only the tip of the iceberg. For example, only a small percentage of car buyers actually purchase a car over the Internet today. However, the majority of prospective car buyers conduct pre-purchase research on the Internet, make their decisions and then complete the transaction offline. Buyers present themselves armed with downloaded information on safety statistics, models, option packages, colour selections and the price they are willing to pay for the car. Economic growth hinges on both online and offline aspects of business.

In the economic shift to e-business, small and medium-sized businesses are losing local online customers to

heavily advertised Internet brands. Consider the case of a person who remembers his mother's birthday and wants to send flowers or purchase a gift over the Internet. Search engines are still primitive and frustrating. It is likely that that person will take the path of least resistance and go directly to a known Internet brand instead of searching for local online businesses. Cities can combat this with strategies as simple as providing a yellow pages of online local businesses on the city website so that residents think local first – whether it is to shop, arrange lawn services, hire an electrician, or find a local manufacturing supplier.

Facilitating local businesses to go online and improving access to those businesses can enhance market share potential as well as sales and income tax revenue. In collaboration with the business community, educational programmes for small businesses about how to become an e-business are effective measures.

Attracting Knowledge-workers and High-tech Industry

People no longer have to work where they live. Their jobs may be located in another city or state or even in another country. This new breed of knowledge-worker is a scarce resource, just as raw materials were in the Industrial Age. Millions of new jobs are being created around e-commerce and, worldwide, there is a shortage of skills. The US Department of Commerce reports that the information technology economic sector is growing at three times the rate of any other sector worldwide. Jobs displaced in the digital economy are being replaced with new Internet-related jobs at both a higher rate and at higher pay.

Governments are competing to attract knowledge-workers to live within their jurisdiction, regardless of where they work, in order to preserve and grow property taxes, sales taxes and other revenue sources. New knowledge workers look to a technology infrastructure for the foundation of their work and way of life.

As former chairman of Citibank, Walter Wriston, stated: “Money goes where it is treated well.” A key competitive advantage in the digital economy is the



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public policy, legal, legislative environment that allows e-commerce to flourish. Public policies, including taxation, consumer protection, security, privacy and universal access, shape an environment conducive to competitiveness.

Using Technology to Transform Competitive Assets

Traditional economic development assets, as referred to in the introduction to this piece, such as great schools, safe streets, a clean environment, quality healthcare, liveable land use and good governance, are just as important as they were in the past, except that new expectations have emerged. How well technology is exploited in each of those assets is the new differentiation. What is the student/PC ratio? Are the schools wired? Can citizens and businesses conduct business with government online? Is there a healthy and growing market of high bandwidth capability – telecommunications, wireless, cable – to the home and businesses? Do transportation systems, law enforcement or hospitals employ the latest technological advances? Are higher education resources committed to new technologies, retraining and producing a workforce of knowledge workers? Are technology strategies employed in urban planning and with a view to helping alleviate urban sprawl? Are processes in place continually to re-evaluate traditional competitive assets in a digital society?

E-government

Already, 60% of the population in more than 10 US cities are online, outpacing even the most liberal Internet growth projections. Other cities around the world boast equal or higher percentages. We already know the business case is there to move citizen services from standing in line to online. Depending on the service the population required to use that service, and other variables, early studies indicate that governments are saving up to 70% by moving services online compared to the cost of providing the same services over the counter. And that figure does not include public costs – taking a day off work, driving, traffic congestion, parking and waiting in line.

On average, a single government may have anything from 50 to 70 different agencies or departments. The typical first-generation government Internet presence is characterised by a proliferation of individual departmental websites each with a separate URL, offering its own department information and online services. Some governments had the foresight to create one central website, from which a citizen could then become linked to any department. Unfortunately, the bottom line is that either approach has the same effect. It forces the citizen to have to know what department to go to for what service.

Leading-edge governments are beginning to rethink their Web strategies from their citizens' perspectives. Instead of launching online services on a department-by-department basis, they are aggregating services across departments, accessible through a common portal.

A portal is a window to an array of Web-based content. Portals are typically multifunctional, offering a variety of capabilities aggregated in one place. (In other words, if you did not have the portal, you would have to go to a lot of different places on or off the Web.) In government, the portal is most likely to be the main government website. On this government portal, people are given a variety of choices. For example, when citizens reach the portal and see a category, Online Citizen Services, they click once to access an alphabetised list of all available online transaction services, regardless of department. So whether you need to pay a parking fine, apply for a marriage licence or renew a realtor licence, the citizen simply clicks the desired transaction from the list. A form comes up along with secure credit card payment capability if a financial transaction is involved. The citizen completes the transaction and gets confirmation right then and there. They do not need to know, nor do they care, what department actually processes the transaction. And they do not have to surf down through multiple departments to find the service. Keep in mind how annoying lengthy telephone menus can be. It is the same principle online. In the background, the transaction is processed using Web-enabled tools which access, update and transfer data to and from disparate legacy systems and databases of the responsible department(s).

The first step in building a portal approach is to make an inventory of services across departments, then apply a comprehensive set of selection criteria to filter out online candidates. Criteria should address questions such as: what is the annual volume of transactions associated with the service? Is the service routine in nature? Does the service require positive identification? Does delivery of the service create staff or seasonal bottlenecks? Has this service process recently been re-engineered? Are there any public policy issues which must be addressed? Is the service already online on a departmental website? What is the current cost of providing the service? Using weights for these measurements, prioritise or rank the services. Know how fast the population in your jurisdiction is moving online and establish an aggressive timeline to transition services ahead of that rate.

Not all government operations consist of one simple form and one payment. Many government services require non-linear, complex collaboration among employees across departments. Those operations affect overall process, service quality and delivery time to citizens and businesses as well. Permitting and re-zoning are examples which include multiple players –

citizens, businesses, utilities, multiple government departments and, many times, boards and authorities up through the executive office or legislative body – and frequently involve intergovernmental levels. What if all those players had common and high bandwidth access to each other, seamless processes, electronic workflow and data exchange?

The same portal infrastructure can host work e-communities through a combination of the Internet and intranets. (An intranet is just like the Internet – same protocols and accessible through the Web – except that it is not open to the public. Intranets typically require IDs, passwords and are completely separate and secure through firewalls.) Through intranet technologies, employees as well as external authorised members can share information and collaborate across the boundaries of their communities.

To achieve e-government, the quest is not so much for the ‘killer application’ as it is for a set of ‘killer capabilities’ and integrating strategies to leverage the power of the Internet.

E-communities

People are not just citizens of a government; they are parents, volunteers, neighbours, business owners and employees, people with shared ethnic backgrounds, consumers, students, sports enthusiasts, senior citizens and children. Each community has its own members, its own networks of relationships, financial exchange and interactions. Overlapping communities and their members weave the rich tapestry of society. Main streets, market squares, town halls and local pubs serve as traditional centres of community.

With the birth of the Internet, our notions of community were redefined. Unlike any other time in history, community is no longer constrained by geography. What if a resident could interact with his community – government, business, social or recreation – in one place in a way that provides competitive advantage, fosters community and promotes economic development? One e-community portal becomes the place for people to manage their lives and conduct business – aggregated in one convenient place.

An e-community portal approach enables a citizen to pay a parking fine, check on a senior citizen, reserve a book at the library, register their child for a soccer team, buy tickets to a sporting event, e-mail the teacher, shop locally online, express an opinion to an elected representative, participate in a public hearing, review employment opportunities and get the local movie listing in one place. In the physical world, these activities increasingly encroach upon leisure time for people whose lives are already overextended. A citizen would have to make phone calls, check the

newspaper, consult the phone book and get in a car and drive around to accomplish those simple tasks. As cities explore competitive advantage, the quality of life issues loom among the most important.

The extent and variations of this model are virtually unlimited. A good start is aggregating citizen services. Once a portal infrastructure is in place, other e-communities of interest can easily be aggregated along with government services at marginal costs and with big paybacks.

Putting it all Together – Collaboration Framework

The challenges associated with creating a competitive city in the digital society and economy are characterised by multiple dimensions and interrelated complexities. For example, each enabled online transaction – business or government-related – means one less car trip and its effects on traffic congestion and pollution. When online transactions number in the millions, the cumulative benefits are profound.

To achieve success requires an integrated overall strategy. Dependencies along this critical path must be identified and prioritised and actions taken in a co-ordinated fashion. Each initiative should be designed to leverage others – e-government, infrastructure, leveraging local online businesses, attracting high-tech industry and knowledge-workers, creating e-communities and improving the quality of life. The connections among these variables create strategic advantages. Otherwise, good intentions will fall victim to fragmentation and sub-optimisation of opportunities.

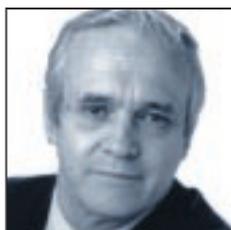
Smart cities require smart businesses, smart citizens, smart non-profits, smart government and collaboration throughout the community. Establishing a special governance body, such as a steering committee, blue ribbon task force or special council, is an effective method to engage actively the multiple public and private stakeholders in the planning and execution of strategies, public policies, initiatives and pilot projects. Conducting seminars, educational programmes and establishing a speakers’ bureau for outreach to citizens, community groups and civic associations are also important ingredients to an informed and participative community. Digital democracy issues, such as universal access through PCs available in libraries or shopping malls, public opinion polling on the city website and other communication strategies, will strengthen and accelerate accomplishment of goals.

At this new juncture in the evolution of the Internet, cities have an historic opportunity to enact the future, redefine prosperity, create cohesive communities and deliver competitive advantage for their citizens and generations to come. ■

The Role of Information Technology in Attracting Foreign Investment, Creating Industrial Zones and Developing Human Resources

a report by
John Travers

Chief Executive, Forfás¹



John Travers is the Chief Executive of Forfás – the policy and advisory Board for industrial development and science and technology in Ireland and the body in which the main legal powers of the state for industrial promotion and technology are vested. Previously, he worked as Chief Economic Advisor in the Government Department of Enterprise and Employment and in senior management posts in the Department of the Taoiseach (Prime Minister) and Department of Finance. He has also worked as a consultant on United Nations and World Bank projects in the industrial development field in a number of countries and formerly worked in business in the industry and services sectors. He is a member of the Management Board of the Department of Enterprise, Trade and Employment; a member of the Government-appointed National Science, Technology and Innovation Board for Ireland; and a member of the Government-appointed National Competitiveness Council. Mr Travers holds post-graduate qualifications in planning, economic development and business management from both the National University of Ireland and the University of Pennsylvania. He is a member of the Board of the Graduate School of Business at University College, Dublin.

Ireland has been appropriately dubbed the “Celtic Tiger” and, within Ireland, Dublin is the urban pivot of a remarkable success story. First, some basic facts: The Republic of Ireland has a population of 3.7 million people with a labour force of 1.6 million. One-third of that population and labour force live and work within the greater Dublin conurbation.

Ireland is, however, an integral part of the EU – a single market of some 370 million people. Ireland is a founder member of the European Monetary Union (EMU) and is the only English-speaking country of the 11 Member States of the EU which established EMU on 1 January 1999. Of these 11 countries, Ireland was ranked in the top three in meeting the entry criteria relating to low inflation, stable currency exchange rates, internationally competitive long-term interest rates and a low and stable government budgetary deficit. Indeed, Ireland is one of the few EU countries which has consistently achieved government budgetary surpluses in recent years.

This admirable performance for a small country has been facilitated by the fact that Ireland has achieved rates of economic growth over the past 10 years that are higher than those of any other Organisation for Economic Co-operation and Development (OECD) country. *Table 1* illustrates this growth.

Table 1: Average Annual Change in GDP, 1989–1998 (%)

Ireland	6.83
UK	1.96
EU	2.14
US	2.53
Total OECD	2.43

Source: OECD Economic Outlook, December 1998.

The exceptional rate of economic growth which Ireland has achieved has been reflected in equally impressive rates of employment growth, as *Table 2* indicates.

Table 2: Average Annual Employment Change, 1989–1998 (%)

Ireland	+2.71
UK	+0.29
EU	+0.24
US	+1.33
Total OECD	+0.90

Source: OECD Economic Outlook, December 1998.

Over the most recent five-year period, to the end of 1998, employment growth in Ireland has accelerated to an average annual rate of increase of over 4.75% per year. Current indications are that significant employment growth is set to continue over the next five years.

Unusually, by reference to most other OECD countries, employment in the manufacturing sector in Ireland, underpinned by strong productivity growth, has shown substantive increases over the past 10 years, with a significant acceleration in performance over the most recent five-year period, as *Table 3* illustrates.

Table 3: Manufacturing Employment Change, 1990–1997 (%)

Ireland	+38.6
UK	-1.0
EU	+3.9
US	-2.0

Source: EU, Eurostat.

The services sector remains the main source of employment increase in Ireland, however, with a total employment increase of over 40% (265,000 jobs) in the sector in the 10 years to the end of 1998.

In considering Ireland's economic performance, it is essential to note that Ireland is one of the most trade-dependent economies in the world. Exports of goods and services in Ireland accounted for over 92% of GDP in 1998 and imports accounted for over 78% of GDP. The average annual increase in

1. Forfás is the Government Policy Board for Industrial Development and Science and Technology in Ireland. It is also the legal entity through which the promotion of FDI and Irish-owned enterprise is undertaken by the specialist agencies IDA Ireland and Enterprise Ireland.

the volume of exports over the 10 years to the end of 1998 amounted to over 12.5%. The balance of trade in favour of exports has exceeded 10% of GNP each year on average over the last 10 years. Ireland's export performance is primarily driven by exports from the high-tech sectors of electronics, software, chemicals and pharmaceuticals. Exports from these four sectors account for over 75% of total exports.

This trade-dependence of Ireland's economy to a considerable extent drives the public policy agenda in Ireland. As a country, Ireland is highly supportive of an open-trading international protocol framework that promotes, encourages and facilitates trade between countries. For that reason, it operates a non-restrictive regulatory framework in respect of capital flows, an extensive range of trade-facilitating and investment-supporting double taxation agreements with other countries and a well-developed and deregulated financial services industry that is also trade-supporting.

A high priority is also accorded in the public policy arena to the development of an internationally competitive logistics sector, encompassing infrastructure, service levels and the incorporation of service-enhancing and productivity-increasing information technology (IT) innovations within the sector.

Foreign Direct Investment (FDI) is the key driver of Ireland's trading performance. For more than 40 years, there have been no restrictions on the national origin of ownership of business firms. There is no restriction on capital flows, and an extensive range of double taxation agreements exists between Ireland and countries across the world.

In the manufacturing sector, there is a total of 900 foreign-owned companies operating in Ireland. Together, these account for an employment total of 120,000, some two-thirds of total manufacturing output and over 80% of manufacturing exports. The foreign-owned sector has been expanding rapidly in recent years and is particularly strong in the following areas: electronics, teleservices, software, financial services, chemicals, healthcare and pharmaceuticals.

On a per capita basis (taking relative population sizes into account), Ireland is by far the most successful country in Europe in attracting foreign investment. This is the case for investment in both the manufacturing and services sectors. With its population of 3.7 million accounting for just 1% of the population of the EU, Ireland's market share of FDI projects in Europe in 1997, covering manufacturing software, teleservices and shared

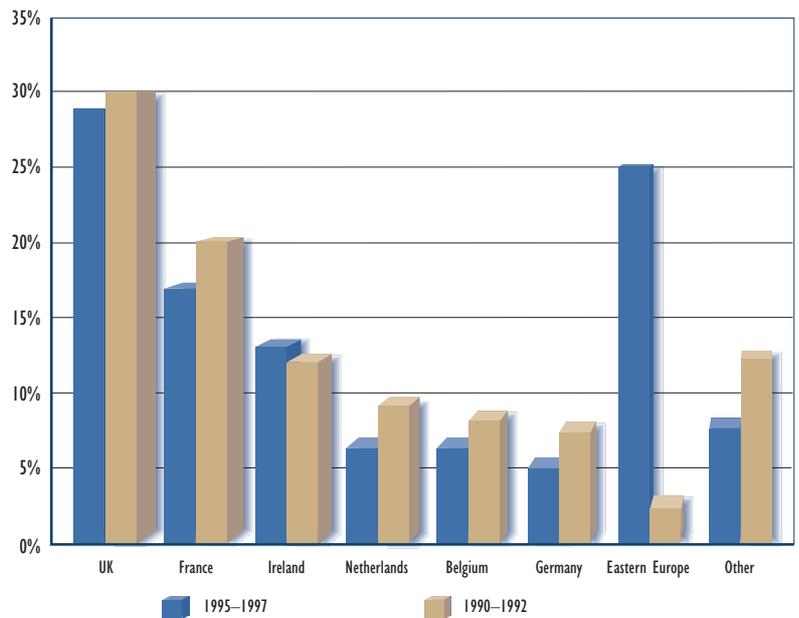


Figure 1: FDI in Europe; Market Share of Manufacturing Projects (Number of Projects)

Source: Commissioned Research.

services projects, amounted to 23% of the total or more than 20 times its population share.

The FDI projects that Ireland attracts are mainly in the knowledge-intensive, high-growth, high-value-added sectors. In the general manufacturing sector, for example, Ireland's market share of FDI in Europe has consistently remained at some 13% of the total, as Figure 1 illustrates.

However, in the more knowledge-based and IT intensive sectors, Ireland's market-share of FDI is significantly higher than in the case of general manufacturing.

FDI in the computer software sector has been increasing in importance in recent years. Ireland has the largest absolute market share in this sector in Europe with some 55% of FDI software projects in Europe locating in Ireland in 1997. This was more than twice the market share of the next most successful country (France at 21%) and considerably higher than the third most successful country (the UK). A feature of FDI projects in the software sector in Ireland is that almost 90% of them engage in R&D activities, drawing on a highly skilled workforce in the sector.

Similarly, Ireland's market share of FDI projects in teleservices (over 28% on average over the 1994-1997 period) and in shared services, which exceeded back-office activities (37% on average over the 1996-1997 period), is the highest in Europe.

Clearly the IT sector has been a major contributor to the development of Ireland's economy and this has

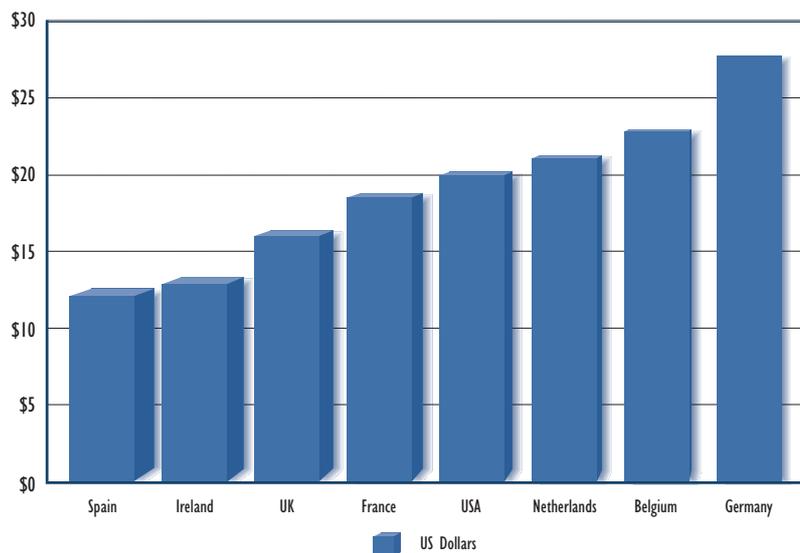


Figure 2: Cost Of Payroll; Total Hourly Compensation, Including Additional Costs (US\$)

Source: US Department of Labour 1998.

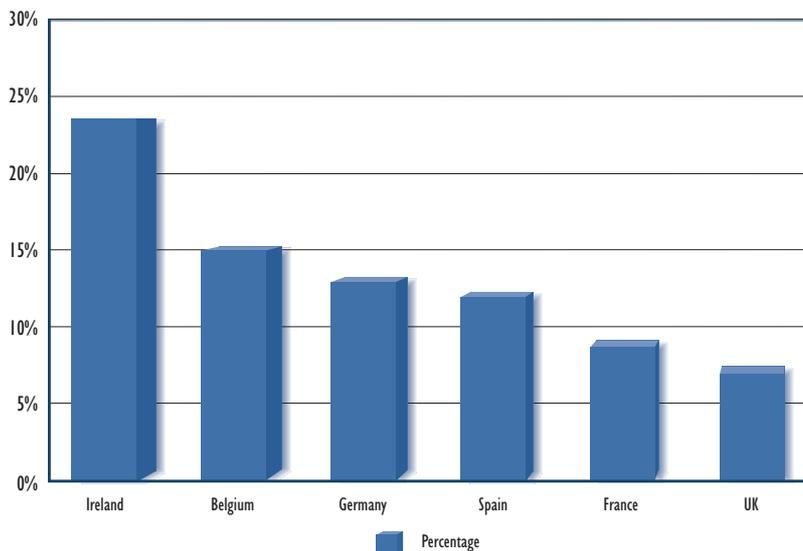


Figure 3: Rates of Return (%) Onus Investment in Europe 1991-1996

Source: US Department of Commerce 1998.

been the case for many years. More than 20 years ago, government industrial policy identified the electronics industry as an industry of major growth potential for Ireland. In order to exploit the opportunity, a number of initiatives were undertaken by the government:

- A worldwide intelligence-gathering system on key developments in the electronics industry was put in place by the main FDI promotion agency – IDA Ireland;
- A systematic, consistent and professional promotional programme was put in place and continually updated in response to the changing locational needs of business firms to attract to

Ireland investment from the best and most advanced electronics companies in the world.

- The capacity of the third-level sector to provide graduates in electronic engineering and computer science was considerably enhanced. On a per capita basis, the output of graduates with qualifications in computer science and engineering in Ireland is among the highest in the world.
- New research programmes in electronics were put in place in the third-level sector to match the increased resources put into teaching.
- The telecommunications system was radically upgraded in the early 1980s and Ireland was among the first countries in Europe to achieve a largely digitalised telecommunications system.

The results that have been achieved from these initiatives are impressive:

- In 1988, the number of people employed in foreign-owned electronics companies in Ireland amounted to less than 10,000 people. A decade later, that number has increased to over 43,000 people and is growing rapidly.
- Two-thirds of these employees are with companies engaged in the manufacture of electronics hardware. One-third are engaged in software activities.
- Nineteen of the top 25 computer companies in the world have manufacturing operations in Ireland.
- Electronics accounts for over one-third of exports from Ireland.
- Ireland is the second largest exporter of software products in the world – second only to the US.
- Almost one-third of the PCs sold in Europe are currently manufactured in Ireland.
- Over 40% of packaged software and 60% of business application software sold in Europe is also produced in Ireland.
- Considerable government promotional effort has gone into ensuring a good fit between the requirements of foreign-owned electronics firms in Ireland for profitable, effective operations and the long-term development needs of Ireland's economy. Today, some 70% of the expansion of the electronics sector in Ireland comes from the expansion of existing foreign-owned firms increasingly well anchored in the economy and undertaking research and development (R&D)



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and marketing as well as promotion activities. 'New blood' higher up the industry value-chain continues to be introduced to ensure the industry retains a competitive edge and to round-out the industry clusters located around three of Ireland's main urban centres – Dublin, Cork and Limerick/Shannon.

- The electronics sector in Ireland has evolved rapidly over the last 20 years, from less sophisticated assembly operations to complex integrated manufacturing and software operations, including high-value R&D and marketing functions. Pure manufacturing and assembly operations are being hived off to low-labour-cost countries. In line with these developments, company size is increasing. For example, out of over 300 foreign-owned electronics companies, 10 companies now employ more than 1,000 employees.
- The electronics sector in Ireland is an increasingly highly skilled sector. On average, third-level graduates account for some two-thirds of employees in the large-scale projects that companies like Dell, Intel, Hewlett-Packard and IBM have established in Ireland.
- Irish-owned electronics companies have also grown strongly in parallel with the FDI sector. They now provide a high proportion of the hardware components and software required by the FDI sector, and many are significant international trading companies in their own right. They provide an important strategic balance in the development of the electronics sector in Ireland.

Closely related to the underlying factors that have driven the development of the IT sector, the international financial services sector – an IT dependent sector – has shown remarkable growth in Ireland over the past 10 years. Ireland's International Financial Services Centre (IFSC) is located in the centre of Dublin. It has grown in a short number of years to become, after Luxembourg, the second largest offshore financial centre in Europe. Thirteen of the 25 largest banks in the world now operate from the IFSC. As of mid-1998, the total of non-domestic mutual funds assets under management at the IFSC amounted to over 110 billion Euros or US\$121 billion. In the year up to July 1998, the IFSC funds sector increased by 49.5% – the largest increase of any major offshore centre in the world.

The recent success of Ireland's economic policies is due to several factors:

- Clearly, the early identification some 25 years ago of the potential of the IT sector as a powerful

instrument of employment and wealth creation in the Irish economy was a critical first step.

- The development of a consistent set of government policies over more than a quarter of a century, which facilitated the exploitation of FDI investment in the IT sector in Ireland, has also been central to the success achieved. These policies were not dirigiste in nature. Rather, they were sufficiently flexible to create a business environment for firms trading internationally in Ireland within which a fast-changing global industry could thrive.
- Maintaining a competitive cost base in Ireland has been crucial (see *Table 4*).

Table 4: Index of Unit Labour Costs in the Business Sector

	1987	1998
Ireland	100	99.0
Italy	100	112.9
Germany	100	116.5
Japan	100	116.8
Netherlands	100	118.6
France	100	120.1
Spain	100	131.7
US	100	143.8
Portugal	100	164.1
UK	100	170.8

Source: OECD.

Figure 2 shows that total hourly compensation in Ireland is low by international standards.

- The relatively low cost base in Ireland, combined with high productivity rates, particularly in the FDI sector, has translated into high rates of return on investment thus creating a virtuous circle which attracts further investment (see *Figure 3*).
- High rates of return on investment are encouraged and rewarded by a corporation tax rate that is one of the most competitive in the world. At present, the rate of corporation tax for manufacturing and IFSC companies is 10% compared with 30% in the UK and 60% for Germany for the equivalent.

A new uniform rate of corporation tax of 12.5% will be introduced for all sectors in Ireland to apply from 1 January 2003. The standard rate of corporation tax will be reduced progressively to this rate.

- The fundamental determinant of Ireland's success in FDI and in the management of its economy has been in the quality of its human

resource base, which is underpinned by a high-quality and business-friendly education system. In the most recent IMD *World Competitiveness Report (1998)*, Ireland was ranked first in Europe for the quality of its education system.

- Reflecting the public policy priority attached to investment in human resources in Ireland, the latest OECD comparative figures show that the proportion of total public expenditure accounted for by education in Ireland is higher than in any other EU country. At present, six out of every 10 of Ireland's third-level students major in engineering, science or business studies-based subjects.
- There is a strong tradition of collaboration between the third-level sector and companies and educational establishments in other countries. These links mean that, for most young graduates, the transition from academic studies to the workplace is a simple, natural progression. Many young graduates work abroad following graduation in order to gain experience.
- Statistics indicate that over 40% of Irish graduates aged 40 years or over have spent one year or more working abroad before returning to take up employment in Ireland. The most recent census data shows that 50% of the graduates in the 25–29 year age group have spent at least one year working overseas. These are the highest proportions in the EU.

These returning graduate emigrants have played an important part in providing the high-level technical and management skills required by a burgeoning IT sector in Ireland and are an important resource of labour-force vitality, innovation and enterprise.

- There is a worldwide shortage of people with computer-related skills both at the graduate and undergraduate levels. The skills shortage in computer-related disciplines is not simply within the IT sector itself but is far more widespread because IT applications are pervasive throughout most areas of economic activity. For these reasons, considerable priority had been given by the government in Ireland to increasing the supply of people with IT skills at university and post-secondary levels.

Provision has been made for a 50% increase in output of IT specialists from a 1997 base which already provides one of the highest rates of graduates with IT skills in the world on a per capita basis. The increased output will be achieved within four years. (The intake of additional

people has already started.) The demand for people with IT skills is so pervasive throughout the economy that Ireland has taken the view that, in current circumstances, the over-production of people with IT skills is not possible

- Because the IT sector in Ireland is heavily dependent on telecommunications, a good telecoms system has been a critical component of the success achieved. Investment in a fully digital system – one of the first in Europe – took place 20 years ago and the system continues to be upgraded to the highest international standards.
- The telecoms market in Ireland is fully deregulated and there is an active policy of encouraging new telecoms providers, from both domestic and overseas services, to enter the market so that service is maintained at a high and increasing level and that prices are kept low. The Telecoms Regulator actively promotes competition and has, over the past 12 months, issued 37 licences. Eleven telecoms companies are already active in the market.
- The telecoms companies operating in Ireland actively market Ireland as a location for telebased activities. Some maintain special overseas offices for this purpose. The prices available to FDI projects locating in Ireland are probably the most competitive in Europe.
- All the main population centres in Ireland have widespread cable TV (CATV) penetration and 55% of the population has access to cable services. At present, the CATV system is being upgraded to provide widespread access to digital TV, Internet access and other interactive services. In Dublin, the CATV penetration rate is 83% – the highest CATV penetration of any city in Europe.
- As part of the process of accelerating deregulation and promoting competition in the telecoms sector, the main cable TV company, which is in the ownership of the main telecoms incumbent at present, has been put on the market for sale and this sale will be completed over the next few months.
- The sale of the main telecoms incumbent, which has a majority state shareholding at present, is also underway and is due to be completed later this year.
- At present, Ireland ranks among the most competitive locations in Europe for Internet access charges. The major telecoms operator has recently announced a flat-rate internet service



charge for 100 hours per month. This makes Ireland the first country in Europe to introduce a flat-rate Internet access charge and will provide Ireland with the lowest Internet access charges in Europe.

- A public/private initiative to provide broadband access to industrial zones throughout the country has already been put in place.
- In Dublin, the Taoiseach, in April 1999, officially opened two Digital Parks as a further part of the public/private telecoms investment initiatives. One of these Parks will provide a base for a cluster of telecoms-intensive FDI projects in the IT sector in a low-density, campus environment. The other Park will have an inner-city location in the docklands area close to a number of universities. It will focus on the attraction and development of software projects, including multimedia content projects and digital support services. In both cases, buildings will be available in advance of demand, so that project start-up time can be minimised. The Parks will start with a 155 Mbit infrastructure capability, upgrading quickly to 622 Mbits.
- Also, as part of the public/private telecoms investment initiative, the government have committed to a US\$100 million investment project to radically increase international telecoms connectivity. Contracts will be signed by June of this year to provide a network operational in 2000, which will give access to many hundreds of gigabit capacity between Ireland and its main trading locations in Europe, in the Americas and across the globe.
- A business-friendly National Policy on Cryptography and Electronic Signatures has recently been published. Taoiseach Ahern and US President Clinton co-signed a US-Ireland Joint Communiqué on Electronic Commerce (e-commerce) in November 1998, which identifies key areas of compatibility in approach in promoting e-commerce on a global basis and areas where increased co-operation on e-commerce issues between the US and Ireland will be put in place.

Ireland has clearly been highly successful over the past 25 years in developing a strong FDI sector in IT and an increasingly sophisticated locally-owned sector. Some of the underlying determinants of that success have been briefly outlined in earlier paragraphs but perhaps the most important of those factors has been the ability of government policy to identify emerging trends in the sector and to shape the business environment for IT investment in Ireland in a way

that has reflected the needs of business in an area of rapidly changing technological change.

Rapid and accelerating technological change continues to shape the evolution of the IT sector. Major discontinuities in trends are emerging. In particular, five significant discontinuities can be discerned:

- The telecoms and datacoms industries are rapidly converging on the same technologies and networks, giving a tremendous impetus to a new data communications industry boosted by the proliferation of Internet protocol networking.
- E-commerce is emerging as an area of major growth potential which will provide opportunities not only for companies offering goods and services for sale through electronic marketing and sales channels but also for business firms which provide the software and physical equipment which make these electronic transactions possible.
- The huge growth in mobile telephony will continue, and will be supported by further advances in mobile communication networks and the further downsizing of computing devices the use of which will increase greatly. This will provide major opportunities for the manufacture and software servicing of a host of small mobile computing-communication devices at a level greater even than the fast-growing PC market.
- Significant changes are evolving in computer software and computer server architecture. The use of corporate intranet systems is expanding rapidly. The rapid growth in the market for small computing and communication devices is likely to bring rapid changes in this area.
- Pre-packaged, desktop-based software is being replaced by personalised, tailored services delivered over the Internet and this trend is likely to increase and develop rapidly.

The challenge for Ireland is to find out how both the private sector and the government can best shape their very different but complementary roles and activities to take account of these discontinuities so that the IT sector can continue to thrive. While complacency is the ultimate threat to the success of any business venture or government policy, past experience indicates that the fundamental capability does exist in Ireland, in both the business and government sectors, to meet the emerging challenges within the IT industry successfully. Only the future will tell. ■

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The Information Revolution: Urban Infrastructure for the Next Millennium

a report by

Robin Gaster

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Robin Gaster has been President of North Atlantic Research, a Washington Internet, e-commerce, and telecoms consulting firm, for the past 10 years. Before that, he was a fellow at the Office of Technology Assessment. He has also worked at the International Monetary Fund and as a professor at the University of Virginia and University of California Berkeley. The author of numerous articles and a book on transatlantic relations in telecoms, he has a PhD from Berkeley University and a BA from Oxford University.

Within five years, it will be clear that the future of the Web is not global, it is local. We will see that the Web will become the backbone infrastructure of our local communities. Why? Because, however wired we become, the vast majority of our information needs are local. We need information about local schools, local doctors, local sports, local entertainment, local politics and development, local services, local banks, local realtors, local retailers and local restaurants. Our information environment is overwhelmingly local.

A local information site (LocalNet) means much more than a shift in the character of the Web. It involves a profound change in local/social relations as well.

Power will shift dramatically from service providers to consumers, from politicians to voters, from newspapers to columnists. In many areas where it is currently excluded, new kinds of market forces will quickly dominate. At the same time, the signals sent by the market – currently the binary impulse of buy/not buy – will become more sophisticated, helping vendors and providers of all kinds of products to improve their services and meet the real needs of their customers.

As a result, there will be an explosion of new services aimed not at separating users from their wallets but simply at building and serving a community – not because entrepreneurs and larger businesses will suddenly be struck by a Scrooge-like conversion to good deeds but because the only way to make money consistently on the Web will be to build a community.

Those same people will realise what is now staring them in the face: that it is infinitely easier to bring an existing community online than it is to create a new community online from scratch. Online communities today are tenuous and transitory; communities rooted in bricks and mortar tend to stay put. Their interests change more slowly, they are more easily identified and they have a much deeper financial commitment to the community itself.

In consequence, we see a world in which the demand for deep, local digital infrastructure will

drive a profound shift of services online, enabling a remarkable improvement in quality with a reduction in cost and effort. It will be a world where things we do today will be done differently, and where things we cannot even envision are today everywhere.

The Vision

Consider a world in which most of the local population has daily access to the Web, and where there is, indeed, a deep local information pool online. What difference would that make?

Government – Governments will be forced online by their constituents and by the dawning realisation that online processes are faster, much cheaper and much more satisfying for constituents. All the basic government services – permits, licences, applications and many simple processes will be available online and will be increasingly conducted online.

Healthcare – Telemedicine makes the headlines but, on a day-to-day basis, it is irrelevant. Most of the time, most people will be served locally. What they need is accurate information about potential providers – where they went to school, what specialties they are certified in, their office hours and policies, locations (including maps and directions), insurance information and forms, and, above all, information posted by past and current patients, providing instant feedback. Hospitals will be able to do the same but will also use LocalNets for extensive outreach into the local community for education, group treatment and, of course, marketing. They too will find many of their activities ‘revealed’ online – their rates of success for certain procedures, for example.

Education – Parents today are forced to become experts in a complex, often dysfunctional and information-poor process: the school system. Only ‘professional parents’ can master the system, and they inevitably, in the end, depart. Local information sites will change all this, creating a nexus through which information can be collated, institutionalised and remembered – the collective memory of the system in action. Information empowers, and LocalNet sites will provide the

information that local people need to deal with and radically improve the system.

Non-profits – Non-profits have tremendous information needs but they also have poor access to publishing tools. This will change dramatically. For example, a soccer league for children will find that it can manage outreach, sign-up, team assignments, rosters and results online, along with the addition of coaching resources, the attraction of local sponsors and even the development of fundraisers. Making things easier means that non-profits can do more, while reducing costs.

All this is to say that, in areas like healthcare and education where markets have worked poorly, the cause of this is often limited information. Markets only work when buyers have the right information. LocalNets will provide that information, and will dramatically improve local service delivery in healthcare, education and other non-profit areas.

Entertainment – All kinds of entertainment today jostle for eyeballs in the commercial marketplace. Consumers have a hard time sorting out the possibilities. Local information would once again provide filters for managing the information flow, allowing smaller players a chance against the megabucks of the big entertainment conglomerates, especially in local markets. This matches the democratisation of digital tools, which have, for example, brought video editing suites down in price to only a few hundred dollars.

Business listings – While large companies can always find ways to reach their markets, small companies, especially microcompanies, find it much harder. The local web will change this dramatically, making it simple for one-person operations to reach visibility quickly and cheaply. We can expect an explosion of entrepreneurial activity as the critical mass needed to prosper is sharply reduced. Once again, the local community can benefit from better services tuned sharply to local needs, as well as reduced costs.

Services – Local service businesses, from babysitting to home healthcare to carpentry to bookkeeping, will boom as efficient markets emerge for these services and as the feedback mechanisms built into the digital environment help to create trust-based relationships. With this mechanism in place, the quality of services will also go up sharply. Matching demand to supply will become easier, encouraging new suppliers to enter the market.

Transactions – LocalNets facilitate microtransactions of every kind – just as auction sites, like Ebay, do nationally. Fundraisers and other activities will benefit

from the re-entry into the local economy of objects and even services that cannot be easily marketed in other ways. It is possible, in short, that auctions at the local level will start to replace other forms of transaction, such as classified ads, for example.

Politics – Local sites are potentially hugely empowering for citizens. They will provide more information but, more importantly, they will allow, in fact encourage, asynchronous access to political activity. The current political system places huge demands on the time and energy of participants. Opening up discussion to the world of asynchronous communication will bring in the disempowered majority who have neither the time nor the energy to attend the relevant meetings or undertake the necessary commitments. How this will affect local politics is unclear, but that it will do so, in powerful and unpredictable ways, is obvious.

Such a powerful set of capabilities, flowing over the new digital medium, will spawn all kinds of services and opportunities that currently we can barely envision. We can already see that the power of intermediaries in print, in music and on other publishing areas is eroding quite quickly. We can expect all kinds of other disintermediating activities to follow. New services will spring up and old ones may return. For example, once a critical mass of local merchants is online, it may be feasible to restart a local delivery service on a collective basis – with potentially dramatic reductions in congestion and pollution.

Local sites start with content. Without compelling content and services they cannot exist but, given that content, there is no end to the opportunities and dramatic changes that online infrastructure will bring. So, how do we get there?

There are two answers: technical, and financial.

The Technology

Most of what has been described has nothing to do with broadband. Of course, all services work better when they work faster but a vast amount can be done in a narrowband environment.

Hence, on the technology side, the real issues break out as follows:

Access – how rapidly will homes and businesses become Web-enabled? At one extreme, the US and parts of Europe have about 30% of their populations online. In parts of the developing world, less than 10% of the population even has a phone. Clearly, LocalNets will come to the industrial world first, although their power may quickly become apparent

and, hence, their migration into less supportive terrain accelerated.

In the industrial countries, most urban areas meet the basic criteria and as new access technologies come onstream – notably TV-based technologies like WebTV, and hand-held technologies like third generation wireless – access and PC ownership will increasingly diverge.

High speed – cable, telephone, wireless and satellite companies are all racing to provide high speed access to the Net. Clearly, this will provide a better and more attractive experience and will also facilitate certain broadband services. By 2004, industry consensus suggests that, five years from now, more than 80% of US residents will have access to 1Mb plus service at an incremental cost of less than US\$20 per month.

Content – the technologies for bringing content online are improving at a dramatic rate. Clearly, within a couple of years, Web publishing will be built into standard word-processing and computational programs. Database management will, in turn, be eased, allowing even neophytes to create compelling content. This democratisation is critical for the self-publishing element of the local information site, a key component in its long-term prosperity.

Services – powerful online services are rapidly becoming available. These include free e-mail, chat, calendars, scheduling, news and much more. Such services are important because they add another layer of self-publishing and a further set of capabilities to rapidly expanding content. For example, online calendars and scheduling allow local sites to provide a flow of personalised reminders by e-mail to users for any event. For example, sports league sign-ups, courses, theatre and PTA meetings can all be enabled by online scheduling.

Together, these technologies will allow local people to access and publish to local sites, creating the basis for the coming information revolution.

The Business Model

Local information sites will work only if they are supported by an appropriate business model. While the model will vary from place to place, it must be based on a few core truths.

1. *Local sites must be market based*

Unless they meet genuine information needs, local sites will fail and markets are the best way to test for failure. There are no successful local sites supported primarily by government grants.

2. *Content comes first*

Any business model must start with compelling content and services. Without that, nothing else works.

3. *Content means more than information*

Content means information, community and, above all, tapping into the collective wisdom of the local community, which has a collective history and understanding of its own condition that no single publisher can begin to approximate. Sites which rely on directory-style listings will fail. Those enabling the community will succeed.

4. *'Local' is a flexible term*

Local sites need a base of around 50,000 users to succeed. Their size is partly driven by the need to acquire that density. However, size varies with function: for some items – such as childcare – local means close at hand; for others – such as a unique course at a prestigious university – local may mean within three hours drive.

5. *Multiple revenue sources*

Local sites can prosper if they understand that there are multiple revenue sources, which become richer and more easily tapped as time goes on. Hence, sufficient start-up capital is a must, but so is an understanding of how to create a self-financing (indeed profitable) business.

6. *All sites must adopt the virtuous circle*

The virtuous circle is simple: good content produces more traffic, which generates greater revenues, which, in turn, fund more content.

7. *Traffic and revenues are distinct and should not be confused*

While traffic is the driver of revenues, it is not the source. That lies overwhelmingly in the local business community and needs to be addressed and managed separately.

8. *Finally, in almost all cases, there will be only one LocalNet in a given community*

Once a community has committed itself to a particular site, only egregious mismanagement will break its hold on the community's attention. Corollary: being first really matters.

Conclusions

These lessons are all important. Remembering them will help us to bring visions to reality. In doing so, we will change our societies for ever by bringing new capabilities to people who have not had them and by finally providing some tools which make the development of community a financial, as well as social, necessity. ■



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Why Mass Transit Needs the Automobile

a report by
Atefeh Riazi

Vice President and Chief Information Officer, Technology Division, Department of Operations Support



Atefeh Riazi is Vice President and Chief Information Officer of the Technology Division in the Department of Operations Support. She is responsible for the system-wide implementation of the Automated Fare Collection (AFC) programme, which has a budget of US\$950 million. The system services 469 subway rail stations and 3,700 buses (in addition to 1,500 private buses) with a combined ridership of approximately six million (four million rail and two million bus) passengers. Ms Riazi also administers the organisation's computer and network operations and applications development.

This article seeks to attract more funds for public transportation but it will also make the case for more thoughtful planning of our highway infrastructure. Why, as a long-time executive of the mass transit industry, would I advocate for cars, as well as for buses and trains?

Let me give you two statistics. According to the US Census Bureau, as of 1 November 1998, the resident population of this country was 270,933,000. As of 1996, the latest date for which we have figures, the number of registered motor vehicles in this country was 206,400,000. This means that one car exists for almost every human being who officially lives in the US.

This fact accounts for the many debates on the pros and cons of our mobile society. In January 1997, James Q Wilson, Collins professor of Management and Public Policy at UCLA, invited *Commentary* readers to "Imagine the country we now inhabit – big, urban, prosperous – with one exception: the automobile has not been invented." He goes on to list the well-known arguments of those who would ban the automobile: engineers, public health specialists, environmentalists, big-city mayors and energy experts, among others. He doesn't include public transportation executives, but we would be in there too, with the familiar arguments: cars cause pollution and congestion, stress and social isolation. Motor cars even refocus our national priorities: the billions of dollars we spend on roads could be better spent on education, health, welfare and criminal justice programmes. In his article, Mr Wilson convincingly refutes many of these special interest ideologies.

Before I tell you why I respect much of Mr Wilson's analyses, I want to describe a big and prosperous, though not urban, America, without the car. In fact, I want to go back one step further in time and tell you about America without the highway.

By the end of the 18th century, there were only four real roads in America and the 'highways' that existed were few and far between, uncomfortable and slow. The technology of the time did not allow the easy

removal of tree stumps. Even on the National Road, pride of the American highway system (now part of Highway 40), builders were permitted to leave stumps up to 15 inches high – slightly under knee-height. To give you an idea of the arduous of a long-distance trip, the most successful of the stagecoach companies running along the National Road was named the Shake Gut Line.

Not unsurprisingly, then, when the railroad offered many thousands their first real chance of leaving home, people flocked to them. From virtually nothing in 1830, railroad mileage rose to 30,000 by 1860 – more than the whole of the rest of the world put together – and to 200,000 by 1890.

As railroads permitted more people to relocate, travel within cities became problematic. The advent of the cable car, followed by the trolley, were welcome events. So many urban areas implemented these systems across the land that the US could boast of the finest system of public transportation in the world. It is a little-known fact that, at the turn of the century, Berlin had the most extensive tramline network in Europe; but in America it would have ranked only twenty-second.

These trams opened up suburban life. The population of the Bronx went from under 90,000 to 200,000 right after the introduction of the tram. By 1902, New York trams alone were carrying almost one billion passengers annually. Cities became bigger, busier, more confusing. 'Rush hour' and 'traffic jam' became household words.

Popularity, however, did not give rise to profitability. Between 1922 and 1932, the number of tramline miles in America almost halved (cars and buses had arrived). In that same decade, a company called National City Lines – a cartel made up of General Motors and a collection of oil and rubber interests – began buying up tramlines and converting them to bus routes. By 1950, it had closed down the tram systems of more than 100 cities, including those of Los Angeles, Philadelphia, Baltimore and St. Louis. The company was eventually taken to court, convicted of engaging in a criminal

conspiracy and fined US\$5,000. This was less than the cost of a new bus.

This cartel may have crippled public transportation in America but it was really the motor car that brought about its demise. Or rather, it was America's passion for its motor cars.

In 1893, two brothers in Springfield, Massachusetts, Charles and J Frank Duryea, built America's first petrol-powered car. Five years later, there were fewer than 30 working cars in the entire US. Within a little over a decade, there were 700 – not cars – but car factories, dotting the land.

Today, with a car for almost every man, woman and child in America, it is hard to believe that the prototype was considered a mere 'fad'. It should be remembered that, at the dawn of this century, cars were costly, unreliable and frightening. And no infrastructure was in place – the gas stations, traffic signals, road maps, insurance policies, drivers' licences and parking lots just weren't there.

Furthermore, since there was almost no place to go in them, cars were really pointless. In 1905, America

Americans with its cloverleaf interchanges, long entrance and exit lanes and service areas.

Two months after the Pennsylvania Turnpike opened, the mayor of Los Angeles rolled onto the eight-mile-long Arroyo Seco Parkway and ushered in the age of the freeway. It was soon renamed the Pasadena Freeway. Ironically, it was intended to lure shoppers downtown, rather than help locals flee to the suburbs.

The paving of America began in earnest in the 1950s, when President Eisenhower appointed a committee to study America's transportation needs. As historian Kenneth T Jackson has observed: "The committee considered no alternative to a massive highway system, and it suggested a major redirection of national policy to benefit the car and the truck."

The chairman of the committee sat on the Board of General Motors.

Eisenhower's landmark Interstate Highway Act of 1956 inaugurated the construction of 42,500 miles of superhighway, slicing into and remodelling old neighbourhoods and cities. The law kicked off an

As mass transit executives . . . we might be tempted to conclude that the automobile is a very unfortunate accident of history . . .

possessed not a single mile of paved rural highway. (As of 1997, we had 3,959,231 miles of roadway.) The federal government long refused to provide highway funds, arguing that it was a matter for the states, and the states were reluctant to subsidise what might be a passing fancy.

Nevertheless, before the 1920s were half over, America would be producing 85% of all the world's cars and the automobile industry would be the country's biggest business.

Eventually, the federal government decided to make money available for interstate highways and the task was handed to the Secretary of Agriculture – as something to do in his free time.

Later, Franklin Delano Roosevelt saw the construction of a national high-speed highway system as the ultimate public works project. The Pennsylvania Turnpike, the nation's first multilane highway, opened on 1 October 1940, and astounded

era when America would spend US\$118 billion on interstate highways. In another way of putting it, we would spend 75% of our transportation funds on highways and slightly less than 1% on mass transit for cities.

Now, what does this very short history of transportation mean to us today?

As mass transit executives – and as citizens who live in the communities shaped by and dependent upon the use of the automobile – we might be tempted to conclude that the automobile is a very unfortunate accident of history made worse by, as James Wilson states in *Commentary*, "public policies that make auto use more attractive than the alternatives."

Here are statistics we point to:

- In 1996, in terms of wasted time and gasoline, congestion cost the average San Bernardino driver US\$1,090 (the highest in the nation), the average

San Francisco Bay Area driver US\$950 (third highest in the nation), the average Los Angeles driver US\$920 (fourth highest in the nation) and the average San Jose driver US\$750 (fifth highest in the nation).

- Vehicle emissions, such as volatile organic compounds (VOCs) and carbon monoxide (the major precursors to urban smog) are 250% higher under congested conditions than during free-flowing traffic, directly tying congestion to air quality.
- Motor vehicles account for about 25% of US carbon dioxide emissions. For every gallon of gasoline consumed by an automobile, about 19 pounds of carbon dioxide are emitted. In a year, the typical American car pumps almost five tons of carbon dioxide into the atmosphere (World Resources Institute).
- In 1997, traffic accident fatalities numbered 37,831. Non-fatal injuries in car crashes were 2,440,924. More than 5,000 pedestrians were killed by cars and 117,200 were injured by cars. (FHA).

What history very clearly teaches us is that there is something in the American spirit that loves a car and that business and government policies are inextricably intertwined. It is a pointless exercise to struggle to get Americans out of their cars.

Here are a few more facts and figures, provided by James Q Wilson:

- In 1969, 80% of all urban trips involved a car and only one-twentieth involved public transport; by 1990, car use had risen to 84% and public transit had fallen to less than 3%.
- In 1990, three-quarters or more of the trips to and from work in 19 out of our 20 largest metropolitan areas were by a single person in an automobile. The exception was metropolitan New York, but even there – with an elaborate mass-transit system and a high residential population that walked to work – solo car use made up over half of all such trips.
- Between 1980 and 1990, while the Washington Metrorail system added 43 miles of line and 30 stations, the number of people driving to work increased from 980,000 to 1,394,000, and the transit share of all commutes declined.

Policymakers and transit officials have looked to Europe, with its well-developed infrastructure for public transport, to curb the ills of the ubiquitous automobile.

It has been proposed that we emulate our colleagues across the sea with high fuel taxes, good mass-transit systems that link our cities, heavy restrictions on downtown parking and restraints on building suburbs on open land.

Charles Lave, an economist at the University of California at Irvine, has pointed out that most of Western Europe has long had just these sorts of policies in effect. Yet, between 1965 and 1987, the growth in the number of vehicles per capita has been three times faster in Western Europe than in the US.

Despite policies that penalise car use, make travel very expensive and restrict parking spaces, Europeans, once they can afford to do so, buy cars. According to Lave, the average European car is driven about two-thirds as many miles per year as the average American car.

In sum, if people can afford it, they will want to purchase convenience, flexibility and privacy: a car. These facts are as close to a Law of Nature as one can get in the transportation business, James Wilson says.

And so, should we give up?

Not at all. Consider two articles that recently appeared in *The New York Times*.

“Over the last decade, an increasing number of mountain ski communities [in Denver] have adopted a combination of publicly and privately operated bus services, weaving a network of community bus routes that together link 20 towns. Since 1989, total annual ridership on such routes has tripled to 16 million ... with skier traffic up by 20% in the last three years, a state agency is pushing for construction of a high-speed monorail that would run 160 miles from Denver’s new airport through the Rockies.” (March 5, 1999.)

‘Amtrak Unveils Its Bullet to Boston...Northeast to Get First 150-mile-an-hour Train by December.’ The new high-speed rail line intends to change commuting habits along the Northeast corridor from Washington to Boston by competing head on with air shuttles and interstate highways. But more important ... the high-speed train provides a model for its rail service across the nation ...” (March 10, 1999.)

And in my own backyard of New York City, we have seen an 18% surge in subway and bus ridership in the past year, due to the restructured fares and free transfers that make mass transit an attractive alternative. While people love their cars, they do not

Why Mass Transit Needs the Automobile

like sitting in traffic; and, while the typical automobile owner will take the car for a weekend drive or to a shopping mall, he or she will also use mass transit when it makes sense – when it is convenient, comfortable and cost-effective.

James Wilson offers us something else to think about:

“There is an excellent rail line from O’Hare Airport to downtown Chicago, and some people use it. But it has done little or nothing to alleviate congestion on the parallel highway. People do not like dragging suitcases on and off trains. And the train does not stop where people want to go – namely, where they live. It stops at busy street corners, sometimes in dangerous neighborhoods. If you take the train, you still must shift to a taxi at the end, and finding one is not always easy.”

As transit providers, we need to think differently. We talk about changing the car commuter’s attitude but I believe we must change our own first.

When it comes to our customers’ travel, we focus on the product or mode of transport, not on the quality of transport. We need to figure out how to make the journey attractive, rather than the mere mechanics of moving people. We need to devise more flexible schedules and lobby for dedicated lanes and intermodality. We have got to stop thinking about separate modes of transport and aim for seamlessness. We need to look beyond our current users and rather at the potential customers out there sitting, often in frustration, in automobiles. What do we know about them as transportation shoppers? What might bring a car commuter into the transit system?

Famed management consultant Peter Drucker advises marketers to “understand those who aren’t your customers”. And Bill Gates counsels his product designers to focus on their most unhappy customers, because they show where improvement is needed to win greater business. After we in transit understand what our non-user wants we can devise the payment mechanisms, convenience features, schedules and routes that entice people to use our product.

On a broader scale, we need more information about how people – and goods – travel. In the 12-year period between the publication of *National Transportation Trends and Choices* in 1978 and *Moving America* in 1990, the Department of Transportation did not undertake a major nationwide examination of transportation. Attempts at information-gathering since then have been anaemic. Yet we need quantified economic and social arguments to support

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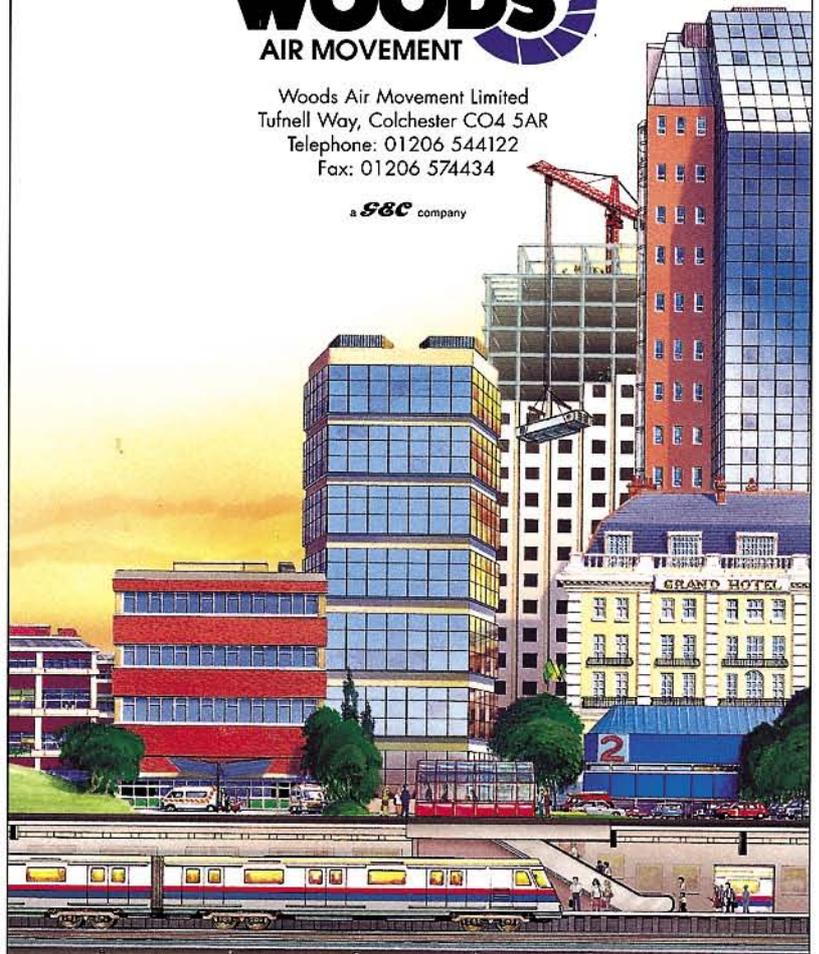
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any ambitious plans we may devise for new transportation institutions or paradigms – both public and private. As we know from the brief history that introduced this article, our highways grew out of a national need to create jobs. Today's platform for investment in infrastructure is probably more allied to social change and the global economy. But we need hard facts to help us develop policies.

The states' lack of data is particularly crippling, according to Alan Pisarski, a transportation expert who spoke on these issues to the Transportation Research Board in January 1999. Our lack of recognition of economic trends and basic economic skills in transportation policy and planning, especially at the state and local levels, has hurt us time and time again, he asserts. We missed the trends on job and truck travel growth in earlier decades and we have no clear picture of how new economic arrangements are affecting both freight and passenger markets.

We are facing another set of significant changes: an aging population that will travel more but which will have diminished visual acuity and reaction times; more immigrants, who traditionally use public transit systems; more people living in suburbs, but who need faster transportation to

inner-city jobs; and more people who will reverse commute to suburban job sites.

The above speak directly to us as mass transit professionals. But as citizens in our cities, we need to concern ourselves with the automobile. Traffic congestion and pollution have reached critical points, and highway construction cannot keep pace with automobile use. The infrastructure that supports our economy can no longer be sustained. We need to promote alternative fuel engines. We need to make better use of our existing roads. We can move traffic faster through dedicated lanes, synchronised traffic signals and intelligent transport systems (ITS) technology. We need to provide the intermodality that will make public transport convenient, so that we can begin to alter, even slightly, the culture of the private car. It is better, smarter use of cars that I advocate, not their abolition from the roads.

We in public transit need to work with our colleagues in federal and state highway departments and the automobile industry to build a transportation system that works for all modes of travel. This is because trains and buses are key solutions to contemporary travel, and because our customers will use all modes of transportation if it makes life easier for them.

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How Different Are We?: American & European Land Use and Transportation

a report by

Paul Marx

Senior Economist, Federal Transit Administration, Office of Policy, Washington, D.C.

There is a significant difference between public transit use in Europe and in the US¹. This difference has often been attributed to the fact that Europe has many old cities that lend themselves naturally to transit, and the US does not. The Americans' evident love for the automobile is also often cited. However, European and American cities seem to be facing many of the same problems of traffic congestion, lower air quality and rising costs of basic infrastructure. Both continents are discussing similar issues, including urban growth management, increasing automobile ownership and use and the increasing encroachment of new development on long-standing green space. Are we in fact so different that solutions developed on one side of the Atlantic cannot be applied to the other? As a result of proposal of a research tour in this subject to the German Marshall Fund of the US, the author of this paper was accepted as a 1999 Environmental Fellow².

This fellowship will centre on a two-week tour of several Northern European cities, and will include four participants: Ms Judith Corbett, Executive Director of the Local Government Commission; Ms Marlene Nagel, Community Development Director, Mid-America Regional Council; Ms Carin Weiss, Deputy Director, King County Department of Transportation; and the author (the "Fellows"). The participants are responsible for producing a preliminary report on their findings, upon return from their tour, as well as a more detailed report the following year. They are also expected to incorporate their findings and experiences into the ongoing activities of their organisations.

The Basic Question

In the US elections of November 1998, there were 240 state or local ballot initiatives on such issues as

'Smart Growth', urban growth boundaries, agricultural land purchase initiatives and other programmes to rein in helter-skelter development patterns. More than 70% of these initiatives were approved, authorising local expenditures in excess of US\$7.5 billion to implement them. These initiatives are being proposed as possible local solutions for American cities' runaway growth in residential and commercial development. This growth has its origins, however, in national policies that were developed before and after World War II. Policies and programmes, such as the standardisation (and tax-deductibility) of home mortgage instruments, or the construction of the Eisenhower Interstate Highway System, radically skewed the economics of residential and commercial construction decisions towards suburban development. Local land-use practices, zoning and the ascent of the automobile industry only perpetuated the imbalance.

The premise of the proposed research is that national (federal) policies may be required to moderate some of the unintended consequences of prior national policies. The Federal Transit Administration has the means to affect local land-use policies through its transit capital grants programmes. (Public transit providers must purchase land for stations and other facilities.) It follows that it may have some capability to influence land development patterns through the application of specific policies that lead to more transit-oriented developments.

One such policy was refined over the last three years and incorporated into the definition of a transit capital project. It is the Joint Development Policy.³ This policy encourages public transit operators to support, and even initiate, local residential and commercial development that uses the property around their transit facilities. Activities that can be



Paul Marx is senior economist for the Federal Transit Administration (FTA) in the Office of Policy Development, Washington, D.C., with responsibility for innovative financing and joint development. He has reviewed for approval US\$6.3 billion in transit cross-border and domestic leases and bond refinancing. He started with the FTA in 1990 after spending nine years analysing Federal Ship Financing Guarantees for the US Maritime Administration. He has an MBA in International Finance from George Washington University and an MA in International Strategy and Policy from the US Naval War College.

1. Jack M Reilly, Local Bus Transit Service Design and Quality in Western Europe, *an unpublished paper, Capital District Transportation Authority, for the German Marshall Fund, January 1999.*
2. *The German Marshall Fund is an American foundation established in 1972 by a gift from the Federal Republic of Germany in appreciation of American post-World War II recovery assistance. In addition to the Environmental Fellowship Program, the Fund supports other environmental, political and economic activities that strengthen co-operation between the US and the nations of Western, Central and Eastern Europe. Eight American and eight European individuals are selected each year for two-week to one-month Environmental Fellowships. This year's programme centres on land use, transportation and air quality.*
3. *This policy can be viewed or downloaded from the Federal Transit Administration website at: <http://www.fta.dot.gov>.*

supported with federal transit funding include site preparation, enhanced foundations or utilities or refurbishment of the shell of an existing structure to accommodate a variety of transit-oriented uses. The purpose behind the policy is to use the public transit service as a catalyst for redevelopment in neighbourhoods that have been 'left behind' by rising suburbanisation.

In the US, this is a particularly thorny issue because land-use decisions are legally and traditionally local. Part of the reason for the unintended consequences of prior federal policies is that the policies were developed with quite specific, national goals, most of which had little to do with individual land use decisions. For example, the Interstate Highway System was intended to link urban areas by road, facilitating travel and commerce, yet many land-owners found that access to the highway increased the value of their land enormously, so they sold the land for development rather than retaining it for farming. This economic behaviour led to much of the suburban development that we see today.

There are significant differences in culture and land use between the US and Europe. For example, there are national corporations in the US (large and well capitalised) that undertake most design and construction activity, often accumulating large parcels of land for that purpose. In most European countries, design and construction are highly regionalised, often undertaken by relatively small entities. It is therefore much more difficult to accumulate land for 'mega-developments' in Europe than in the US. Thus, in the US, one can find nearly identical communities in widely separated towns or suburbs, while in Europe there will be significant differences in style from city to city and even from district to district. Other differences are more difficult to typify.

Europeans walk and ride bicycles much more than Americans do.⁴ Is this because of a difference in basic culture, or because more European locations are easier to navigate on foot or by bicycle? The most likely answer is "both". Yet the influences of the automobile is giving increasing similarities between the US and Europe – particularly with regard to its ownership and use, traffic congestion and increasing pressure to develop in suburban or even exurban locations.⁵

One dialogue that spurred the author's interest in this subject was that within Germany as it sought to reincorporate the eastern states after 40 years of

separation. In the western states, a wide variety of environmental and business laws were passed over decades, which had no parallels in the east. Thus, infrastructure, land use and business development patterns were established on completely different principles. One major difference had to do with levels of disposable income and automobile ownership. In the west, noise and air pollution regulations were passed to deal with steadily rising levels of auto ownership and use. In the east, lower incomes and insufficient road investment reduced automobile ownership and the ability to drive significant distances. However, with post-reunification reconstruction, the eastern states faced major shifts in practice.

Where, before, investment and behavioural choices had been limited by exogenous factors (such as the Iron Curtain), now they were returning to more of a market basis. Thus, demand that had been depressed due to lack of income and choices now began to be felt. The question was, should the environmental and other regulations of the western states be applied to the east, thus dampening their burgeoning growth, or should the regulations be moderated (or eliminated), thus reversing major advances in public comfort and lifestyle in the west? The answer has been somewhere in between, with some frightening prospects arising as a result. Since reunification, automobile ownership and use in eastern Germany, as in most newly industrialised countries, has mushroomed. As infrastructure is rebuilt or built anew, the prospect is for increased automobile use. Is there a concomitant pressure to build new suburban developments as well? How is Germany dealing with this pressure – nationally, or locally? Are other European countries or cities addressing this issue? Can their examples be applied to cities in the US?

How To Proceed

The tour spans just two weeks, and will include the following locations: Wuppertal/Düsseldorf, Brussels, Copenhagen, Aarhus, Berlin, Heidelberg and Strasbourg. In each of these locations, the Fellows will meet with local officials who are responsible for land use, transport, planning, public participation and the environment. Given the breadth of the subject, it will be important to ask questions that are focused, but also relevant in more than one location. For example, questions about land use around public transit facilities should be expressed in terms of the local public transit system. In a town where public transit is provided

4. *Martin Comes of the Institute for Applied Ecology (Öko-Institut e.V., Freiburg), with other authors of Chief Benefits for the Future, posits that active support for environmentally compatible traffic, such as cycling, walking or public transport, may generate significant numbers of new jobs in Germany.*

5. *Advertisements in The European regularly offer expensive residential properties around Paris, accessible from London on the Eurostar.*

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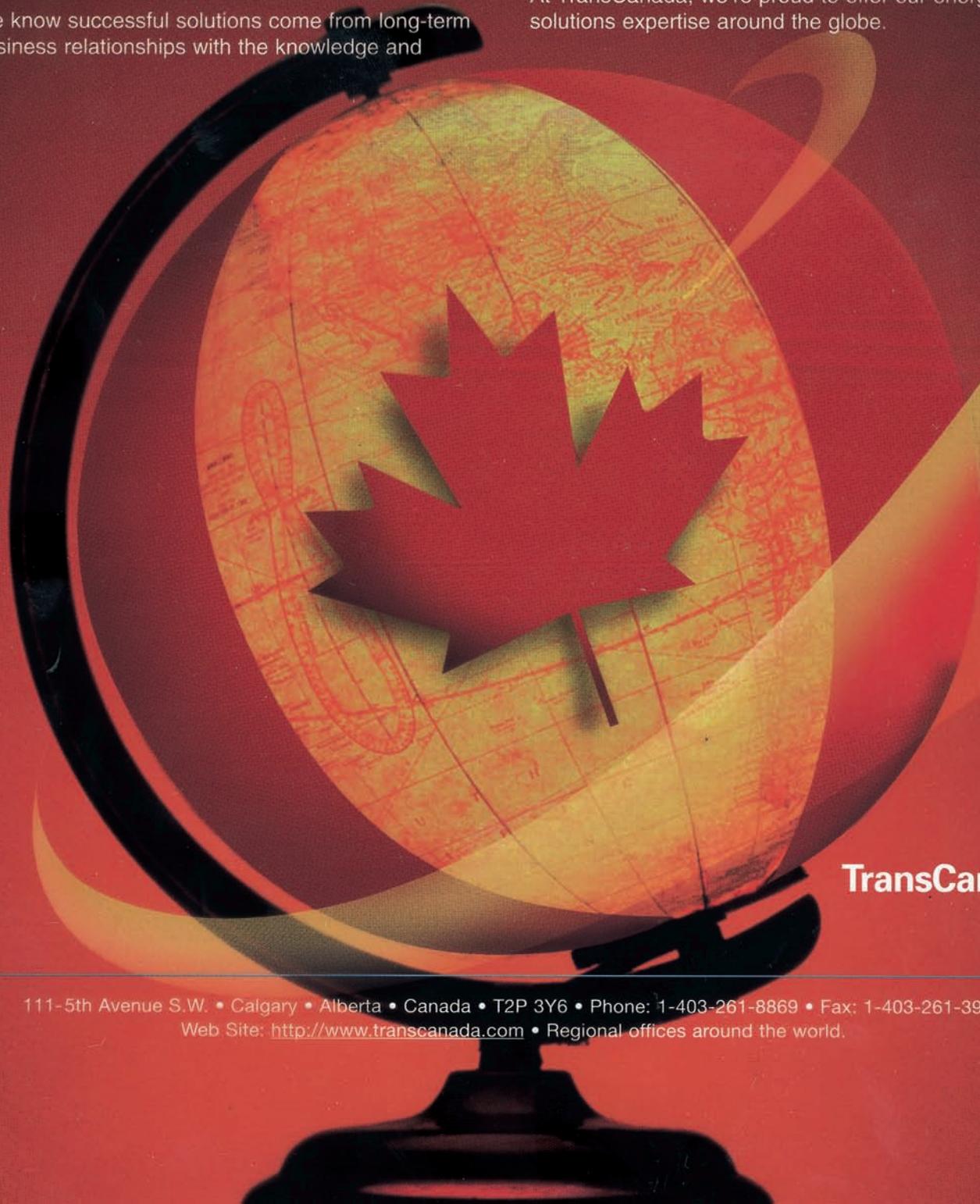
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solely by bus, opportunities for shaping local land-use decisions will be far fewer than in a town where rapid rail stations bring hundreds or thousands of travellers each hour. Yet, if in both locations the transit operation operates in a granted right-of-way (for instance, it 'owns' no land at all), land-use decisions will be generated through a very different dynamic.

The questions that might be answered during the two-week fellowship, although the answers may not be comparable from place to place, and not all of will seem relevant to some officials or locations that he will visit, will be:

- a) What is your town or district's current growth pattern? More or less population, changes in industry or services mix, increasing suburbanisation or shifts in major activity centres?
- b) Are the people in your community concerned with preserving green space for the future? How do they express this concern?
- c) Do you have any policies or regulations in place to control further growth, or to direct it towards a certain location or to control its type?
- d) Are there specific land uses that are governed by tradition or precedent?
- e) Is your town or district autonomous with regard to land-use decisions or does the state have some authority in specific land uses (such as S-Bahn right of way or new highway construction)?
- f) Is a new highway or public transit project planned and, if so, is it funded locally or nationally?
- g) Under what circumstances does the town or district control what an individual or firm may do with its land?
- h) Is there a public debate or information process required for specific land uses or changes in land use?
- i) Does your public transit operator participate in any land-use decisions near its light rail, metro or bus transfer stations and how?
- j) Are there national policies (such as environmental laws or tax benefits) that affect land use or are local laws more relevant?
- k) Do you have rules about specific land uses around a train station, a subway stop or a tram stop?

Why Bother?

The US faces a significant and growing problem over the next few years – the cost of unconstrained growth is likely to reduce overall economic productivity. Recently published work by Newman and Kenworthy⁶ indicates that a much higher percentage of American wealth and gross domestic product must be expended (as compared with Europe or Asia) to

maintain and improve transport infrastructure. We have exhibited our wealth, and our growing productivity, in an excess of conspicuous consumption, exemplified by owner-ship and use of the automobile. As these automobiles that we drive have become more and more efficient, we have driven them farther and farther, requiring more and more highways. However, at what percentage of our GDP. Does this infrastructure cost actually inhibit our rate of productivity? Highway and subway projects in major cities now cost upwards of US\$100 million per mile.

America's population is aging. A large bubble of 'baby boomers' is looking for a more urban (and urbane) lifestyle, but not finding it at reasonable cost. This, one of the wealthiest generations of Americans, may find their wealth eroded from having to pay outrageous premiums for the urban lifestyle they seek.

The US is moving, in fits and starts, towards a global climate change policy. Meeting the goals of the Kyoto Protocols on carbon emissions will require more than technological fixes – it will require changes in individual and corporate behaviour. One way to foster such a change is to provide the same range of individual living and work choices as exists in many European cities.

One cannot legislate against 'sprawl' per se, because there are many families that still seek the suburban residence with backyard and white picket fence. They are willing to drive significant distances to accommodate such a lifestyle. However, there are significant numbers of 'empty-nesters' and dual-income households who are unwilling to live in a suburban, single-family house. They much prefer a downtown apartment or terrace house. They have been willing to bid up prices in such places as San Francisco, New York or Portland, Oregon, by as much as 7% per annum in the last five years.

However, if we allow this imbalance between urban and suburban development to continue, we face the possibility of having the 'baby boomers' see their wealth eroded by having to compete for increasingly expensive residences, while the following generation see their wealth also eroded by falling demand for the suburban lifestyle. The author's premise is that incentives for influencing land use may remove some of this imbalance, and that this is a proper role for the Federal government. The Marshall Fund Fellowship will help to validate this premise and may identify relevant national or state policies that would be useful to adopt in the US. ■

6. Peter Newman & Jeffrey Kenworthy, *Sustainability and Cities: Overcoming Automobile Dependence*, Island Press, 1999.



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Gas Sector Restructuring and Privatisation: Lessons from Argentina, Brazil, Poland, Hungary and Vietnam

a report by

Peter L Law and **Bent R Svensson**

*Senior Energy Specialist, Oil and Gas Division, World Bank and Senior Energy Economist,
International Gas Development Unit, World Bank*

Peter Law joined the World Bank in 1990 as a senior energy specialist and works in the Oil and Gas Division. He is the author of natural gas and power sector strategies for several countries, including Romania, Croatia, Hungary, Poland, Brazil, Pakistan and Turkey. His work has focused on institutional reform, hydrocarbon sector restructuring, regulatory issues and gas tariff policies in transition economies. His recent activities include the World Bank appraisal of the Bolivia-Brazil gas pipeline project, with responsibility for the economic analysis, and advising the government on sector restructuring and regulatory reform. Before joining the World Bank he spent 20 years in the private sector, first working for Imperial Chemical Industries and then for British Gas. He has published extensively on issues concerning natural gas development.

Bent Svensson is a Senior Energy Economist at the World Bank in the International Gas Development Unit, which he joined in 1991. Since 1992, he has worked in the Oil and Gas Division in a number of different fields: institutional and regulatory issues, energy sector assessments, petroleum sector restructuring and on natural gas project financing in developing countries. Prior to joining the Bank he was a country and gas policy expert at the International Energy Agency, OECD, responsible for country reviews of energy policies and regulatory issues in European and North American gas markets. Before joining the World Bank he was Head of Finance and Economics Division in KOMGAS (a partnership of the five regional natural gas companies in Denmark), responsible for analyses for contract negotiations of gas purchases, investments and costs analyses of projects, and co-ordination of the regional companies international borrowing. Earlier still he was a Senior Researcher and Project Manager.

Since the mid-1990s, international oil and gas companies have shown strong interest in developing gas markets in World Bank client countries. Sometimes, the focus is on developing local gas markets for industry and power generation or on exporting gas to a neighbouring country. In most cases, however, the government is strapped for cash and needs to attract private investors to realise capital-intensive gas projects. More often than not, the starting point is an oil and gas sector where fuel prices are distorted, dominated by a single vertically-integrated state monopoly that essentially regulates itself, with weak oversight from a government ministry.

This article reviews experiences in five countries that have embarked on gas sector reform – Argentina, Brazil, Poland, Hungary and Vietnam. Each case study reflects a gas market at a different stage of development, with varying dependence on gas imports and a range of approaches to legal and sector restructuring. The article focuses on the development of each sector's structure and its legal and regulatory framework and on the strength of the new government institutions set up to implement and monitor the new framework.

Argentina

In 1992, Argentina became the first country in Latin America to pursue wholesale restructuring and privatisation of its natural gas sector. Today, Argentina consumes some 20 billion cubic metres of gas a year, most of which is domestically produced. The gas market is mature, accounting for nearly half of primary energy consumption. Argentina has imported gas from Bolivia since the 1970s and it now exports gas to Chile.

Legal Framework

The legal framework for the energy sector contains a set of acts specific to downstream gas services that are totally separate from those dealing with hydrocarbon exploration and production and other energy forms.

The 1992 Gas Law formed the basis for the privatisation of the state-owned Gas del Estado and established the framework for the new industry

structure, tariff setting and network access (see *Figure 1*). The law took less than two years to design and approve – a relatively short time for reform of this magnitude. At the time it was passed, the law was unique among developing countries for its transparency and pro-competitive stance. The law mandates private ownership and industry unbundling and avoids conflicting interests through restrictions on cross-ownership. Gas distributors and producers cannot own a majority shareholding in transmission. Distribution companies have regional monopolies but do not have exclusive rights to supply large consumers. Transmission companies have no regional monopolies and cannot buy or sell gas. The law requires that third parties have access to gas transmission lines and, while it sets no restrictions on the import of natural gas, an enterprise wishing to export gas is required to obtain government authorisation.

The Gas Law also created Enargas to regulate the downstream gas sector. Funding and staffing needs were initially underestimated. The annual budget, US\$8.5 million in the first year, doubled after two years. With the exception of a US\$5 million start-up budget from the government, Enargas has from the beginning been funded 'independently' by levies on the privatised industry. This set-up helps to minimise the risk of political interference.

The prices of gas and competing fuels were raised to international levels before privatisation and the principles of fuel price liberalisation were embodied in the gas legislation.

Sector Restructuring

At the time the reform began, Gas del Estado had a monopoly in the downstream gas sector, operating all of the country's transmission and distribution lines. It bought gas from Yacimientos Petrolíferos Fiscales (YPF), the state oil and gas production company and by far the country's largest producer. The government opted to restructure (unbundle) the industry before privatisation.

Gas del Estado was reorganised into two transmission companies (both of which were



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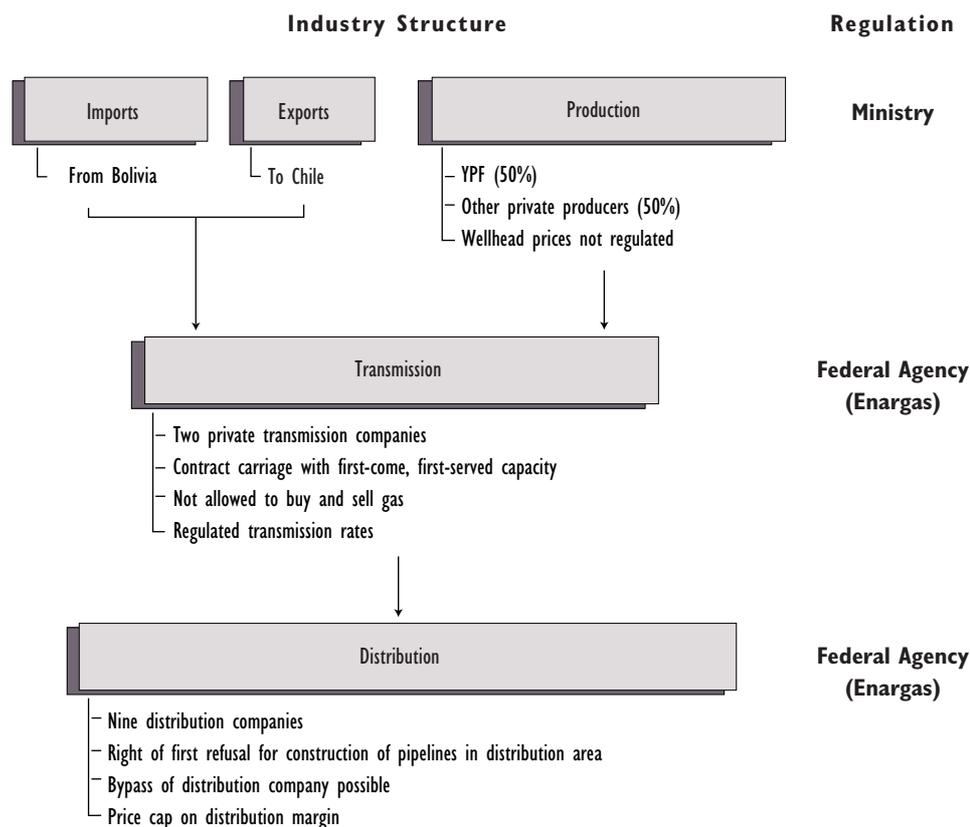
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Figure 1: Gas Sector Reform in Argentina



obliged to offer services on a non-discriminatory basis) and eight regional distribution companies. Buenos Aires was divided into two distribution areas served by both transmission companies, thereby introducing some competition in supply. The six (now seven) other distribution companies cover the rest of Argentina. While these distribution companies have a right of first refusal for the construction of new networks in their service areas, consumers can bypass distribution companies if cheaper gas is available.

Downstream privatisation was achieved in 1992 by a simultaneous sell-off of the entire downstream gas infrastructure through international competitive tender. Restrictions were placed on the number of units that could be awarded to winning bidders – for example, a winning bidder could not own both transmission companies or more than two distribution companies. The process proved highly successful, attracting 55 bids from international consortia and raising some US\$2 billion – much more than had been expected. Privatisation has created a highly competitive downstream gas sector where private investors have to assess carefully their business risks.

Since privatisation, an additional US\$2 billion has been invested in industry expansion and further investments are planned for gas exploration and

production and for new export pipelines. The main issues in the sector today are considered second-generation issues, such as how to ensure a properly functioning secondary market for transmission capacity.

One important issue remains unresolved, however. Before its privatisation, YPF controlled more than 80% of Argentina's natural gas reserves and production and it still controls around half. Thus, YPF retains a dominant position in upstream gas supply, where true competition has yet to be achieved.

Brazil

In 1995, in a step to allow private participation in the energy sector, Brazil's constitution was changed to remove the monopoly of Petrobras, the state oil and gas company. Since then, reforms have proceeded quickly. The gas sector is poised for transformation from a small industry that consumes just four billion cubic metres of gas a year, derived from a few domestic oil and gas fields, to a major industry sustained by large gas imports. Gas imports will start in 1999, with the completion of a US\$2 billion gas import pipeline from Bolivia. Even though the pipeline is not yet complete, its full capacity – 11 billion cubic metres a year – has been booked by shippers. A second major import

pipeline from Argentina and liquefied natural gas imports are being planned.

Legal Framework

A Hydrocarbon Law was passed in 1997 to open the sector to private participation and competition. The law was designed and implemented in less than two years.

The law covers upstream and downstream oil and gas development (except gas distribution). For upstream activities, it defines the legal framework for awarding exploration concessions. For downstream activities, it includes provisions for negotiated third-party access to oil and gas infrastructure and allows private companies to import and export hydrocarbons (subject to authorisation by the regulatory agency) and gain access to the market.

The law includes a three-year transition period to achieve full deregulation of fuel prices and does not place restrictions on cross-ownership in the gas chain. In 1994, well before gas reform began, the government had started raising the prices of the main competing fuels (fuel oil and liquefied petroleum gas) and removing subsidies. The timetable to achieve full deregulation included in the Hydrocarbon Law assured potential investors in the gas sector that price risks were small. By the time the Hydrocarbon Law was passed and the Bolivia-Brazil pipeline was becoming a reality, competing fuel prices were close to international levels.

The law created the Hydrocarbon Sector Regulatory Agency to regulate the sector. The agency's staff is expected to increase from the current figure of about 150 to 350 by the end of the transition period in 2000. The agency does not yet have an independent funding source. During 1998, the agency's budget, approved by Congress, was about US\$120 million but only half of this was actually spent. The agency will soon have new and more "independent" sources of revenue from bonus payments made by the industry after the bidding for new exploration areas.

Designing and implementing downstream regulations has been very time-consuming and it may have been better to create separate agencies to oversee upstream exploration and development and downstream service activities. The key future challenges for the regulatory agency are to ensure smooth harmonisation and implementation of regulation at the state and federal levels and to introduce real competition in a sector still dominated by Petrobras.

Sector Restructuring

Until the Hydrocarbon Law was passed, Petrobras had a legal monopoly on the import, production

and transmission of natural gas and petroleum for the whole of Brazil. Individual states were responsible for distribution. Today, majority private ownership is allowed in all areas of the natural gas business, but, because of its traditional role, Petrobras is likely to remain dominant in the production and transmission of oil and gas for some time. This dominance will ease when Petrobras reduces its shareholding in the Bolivia-Brazil pipeline company as stipulated by the Brazilian government. Moreover, Petrobras is taking only a minority role in gas distribution, an activity that has largely been sold off to foreign and domestic private companies.

Brazil has been successful in attracting private investment for the Bolivia-Brazil pipeline and for the Rio de Janeiro gas distribution company, as well as for several smaller distribution companies.

Poland

Poland has a well-established natural gas infrastructure, distributing some 10 billion cubic metres a year to towns and villages throughout the country. Less than half the gas originates from domestic production; the rest is imported by pipeline from Russia. Gas accounts for only 8% of primary energy in a sector dominated by indigenous coal but there is good potential for increasing the share of gas, particularly for heat and power generation. Domestic production is declining, however, and increasing dependence on imported gas is anticipated. Poland expects to access most of its additional requirements through its participation in the Europol gas pipeline. The pipeline, now under construction, will form part of a new arterial route for Russian supplies to Western Europe. Poland also recently agreed to import modest volumes from North Sea suppliers, which represents a first step towards supply diversification.

Legal Framework

Two key laws govern Poland's energy sector – the Geological and Mining Law (1994) and the Energy Law (1997). The Geological and Mining Law deals with upstream exploration and exploitation of oil and natural gas (as well as other minerals). Under this law the government has provided attractive petroleum exploration and development contract terms and, after a slow start, several foreign companies have signed exploration licensing agreements. Nevertheless, the best prospective areas have been reserved for the Polish State Oil and Gas Company.

The Energy Law is a downstream law designed to deal with the transmission, distribution and trading

of so-called network fuels, including electricity, natural gas, liquid fuels and district heat. The basic principles set out in the law are: separation of the policymaking, regulation and ownership functions of the state; price liberalisation; demonopolisation; privatisation; and introduction of third-party access. The law took about five years to design and be approved by Parliament – an extended period that reflects the complexity of political consensus-building in Poland and the long debate within Poland and the EU (which Poland soon expects to join) on how competition should be introduced in the gas and electricity sectors.

The Energy Law is very general, avoids detail and is widely applicable across the network fuels. Comprehensive regulation specifying the details needed to implement the law is currently under preparation. Without this, it will not be possible to regulate the sector and private companies will lack incentive to invest.

The law places no restrictions on cross-ownership of infrastructure. It mandates third-party access only for domestic producers, a move intended to keep powerful foreign gas companies, such as Gazexport (the export arm of Russia's Gazprom), at a safe distance from the market.

The Energy Law stipulates that there will be a transition period of two years (until 2000), after which energy prices should be set by competition or, in the case of natural monopolies, by regulation. Since 1990, Poland has raised industrial gas prices to Western European levels (and residential gas prices somewhat above industrial prices), but, until the Energy Law was passed, potential investors considered government control of gas prices to be a major risk.

The Energy Law created the Energy Regulatory Agency to regulate retail tariffs of network fuels, a daunting task given the breadth of its jurisdiction and the technical complexity of Poland's energy networks. The agency has now issued some 2,000 licences to energy sector enterprises, a tremendous achievement – especially since the agency has only 30 staff members (out of an anticipated 200). The agency's next major task is to begin the process of approving tariffs for the electricity and heating sectors, followed by approval of tariffs for the gas sector in 2000.

Sector Restructuring

The Polish State Oil and Gas Company is a vertically-integrated company responsible for natural gas imports, domestic oil and gas production and gas transmission, storage and distribution. It holds a *de facto* monopoly on these activities by virtue of its

dominant position in the market. Although the company is the only producer of natural gas in Poland, this might change if foreign exploration efforts prove to be successful.

The company is currently being restructured: non-core drilling and service companies are being privatised and the new industry structure is expected to separate hydrocarbon prospecting and production, gas transmission and gas distribution. However, restructuring has been slow and barriers to private entry have been high. This has resulted in almost no private investment in downstream natural gas development. However, Poland is in the pre-accession phase of integration with the EU and will ultimately have to open up its gas markets in line with other EU Member States, as well as adjusting its policies to comply with the EU Directive on the Internal Market Liberalization for Natural Gas.

Hungary

Hungary was the first Eastern European country to attempt reform and privatisation of its gas sector. In the early 1990s, gas consumption was around 11 billion cubic metres a year, with half produced domestically and half imported from Russia. Given the good potential for expanding the market, privatisation was expected to attract serious interest from Western European gas companies. In addition, a new pipeline between Hungary and the Western European gas network was planned (and completed in 1996), offering the prospect of diversifying supplies and arranging gas import deals with Western European suppliers.

Today, the main players in the Hungarian gas sector are the majority privately-owned company Magyar Olaj-és Gázipari Rt (MOL) – which deals with hydrocarbon exploration and production, refining and natural gas transmission, storage and wholesale distribution – and six majority privately-owned regional gas distribution companies that serve some two million customers.

Legal Framework

The two key acts governing the gas sector are the Mining Act (1993) and the Gas Act (1994). The Gas Act covers downstream gas activities and established the Hungarian Energy Office to regulate the sector. The energy office is responsible for proposing changes in gas prices, though final approval rests with the government. The Gas Act stipulates that gas supply (transmission and distribution) should be subject to a licence but includes no specific requirement for suppliers to offer third-party access to transport facilities.



Jihomoravská plynárenská, a.s.

Sector: oil & gas
Established: 1st January 1994
Independent Auditor: Ernst & Young
No. of Employees: 1350
Fiscal Year ended: 31 December
Head Office: Plynárenská 1, 657 02 Brno, Czech Republic
Phone: +420 5 455 48 111
Fax: +420 5 455 48 666

Main Officers:
Chairman and MD: Ing. Libor Martinek
Commercial Manager: Ing. Ivan Knoflíček
Personnel and Legal Manager: JUDr. Miloslava Pavlicová
Investment Manager: Ing. Jiri Hloska
Operational Manager: Ing. Ladislav Horský
Financial Manager: Ing. Drahomira Trunecková

Major Shareholders:
National Property Fund 711 486 (47.65%)
Local Authorities 507 636 (34.00%)
Other legal entities 262 562 (17.59%)
Restitution Investment Funds ---
Others 11 342 (0.76%)

Main Affiliated Associated:
in process of negotiating

Background:

The principal activities of the JMP, a.s. company are: Distribution and sale of natural gas in a given territory to the largest possible group of consumers, with regard to safety of operation, supply reliability and to legally fixed price. Development of the distribution network and new additional consumers. Its economic prosperity, laying stress on increase of JMP, a.s. share prices on the market JMP, a.s. actively supports social activities, too. It takes advantage of legal possibilities of sponsoring. The major part of support was directed to national health service and handicapped persons. The rest found its target in sports, cultural activities and education. The South Moravian Gas Company (hereafter JMP, a.s.) is the largest gas distributing company in the Czech Republic with a 28 per cent share of natural gas sales in the country. Its main supplier is Transgas obtaining natural gas from Russia. The District Offices of JMP, a.s. are spread on the whole area of South Moravia - in Jihlava, Kromeriz, Hodonin, Zlín a Brno. The biggest office is that of Brno capturing 41 per cent of all business activities. A round-the-clock emergency service is organized for defect and breakdown elimination on the gas distribution network and

gas consumption equipments. Gas distribution and service stations is in district towns and large places of sale secure uninterrupted contact with customers. Information and advisory centres of JMP, a.s. offer expert advice and information for them.

JMP, a.s. continues to expect a rise in consumer numbers, taking into account the continuity and further introduction of gas supply to communities and the consequent increase in the number of households fully equipped with gas facilities, despite the slight decrease in gas sales mainly due to the unusual warm winter season, which occurred in the previous period. Moreover, due to the higher margin negotiated, there was no loss in overall income. We continue to anticipate a substantial growth in large industrial consumers as they themselves modernize their plants. We will also continue to use our expertise in participation in gas fired cogeneration plants, and are prepared at any time to co-operate and share in such new projects.

Stock Prices: **in 1998**
Lowest 2 600,- CZK
Highest 3 000,- CZK
close (31st December 1998) 2 700,- CZK
Total Shares: 1,493,046

31.12.1998 31.12.1997

Balance Sheet Data (CZK Thousands)

assets		
Fixed Assests	5 399 484	4 947 866
Current Assets	2 967 752	1 364 888
Other Assets	2 643 058	1 986 642
Total Assets	11 010 294	8 299 396
liabilities		
Equity	3 612 629	3 377 466
Basic Capital	1 493 046	1 493 046
Liabilities	7 207 663	4 809 860
Other Liabilities	190 002	112 070
Total Liabilities	11 010 294	8 299 396

Income Statement Data (CZK Thousands)

Production	9 237 757	8 124 459
Operating Economic Result	595 479	327 913
Economic Result from Financial Operations	-182 347	4 798
Income tax to ordinary income	226 535	104 397
Economical Result from Ordinary Activity	186 597	228 314
Extraordinary Economic Result	807	38 036
Earnings before Tax	414 603	394 869
Income tax	227 199	128 519
Economical Result for the Accounting Period	187 404	266 350

Performances

ROA = Return on Assets	5,96%	5,31%
Current Ratio	0,55	0,39
Quick Asset Ratio	0,54	0,37
Cash-Position Ratio	0,41	0,28
Capital Intensity	83,90%	97,70%
Total debts/Total assets	65,00%	58,00%

Price reform came quite late in the reform effort. In 1995, a ministerial decree on gas pricing stipulated that, from 1997, gas prices should be set according to a formula intended to provide an 8% regulated rate of return to MOL and the distribution companies, with annual price revisions until 2001. The pricing mechanism was based on a price cap that included three main components: actual input costs; expected cost changes due to such factors as inflation and exchange rate variation; and measures for efficiency improvements. The new pricing system was intended to rationalise gas prices, which were heavily subsidised in the early 1990s (particularly for households), and entitled consumers to compensation if a company's rate of return rose above a certain level.

Since privatisation, efforts to implement the new pricing system have encountered political obstacles and price increases to the residential sector have been lower than was stipulated by the price review rules.

decided to sell the majority of shares in these companies to foreign investors. Institutional reform had barely started, however, and the government had neither committed itself to resolving the gas pricing issue nor implemented a proper regulatory framework. In the end, the government revoked the invitation to bid for private tenders and the first attempt at privatisation failed.

The second attempt was made in 1996 after regulations on gas pricing were in place. The six regional distribution companies were offered for sale based on a 50% sale of shares plus one share, with a "golden share" retained by the state. Private investors had to commit to expanding the distribution networks and transferring their management skills to the company. In return, the buyers would retain an exclusive right to supply the areas covered by the distribution systems. This second attempt at privatisation was highly successful.



The best arrangement would be to have separate laws for the upstream and downstream sectors because their roles are so different.

MOL has argued that it has not been allowed to recover the full cost of imported gas and raising gas prices remains a politically charged issue.

Sector Restructuring

In 1991, MOL was established as a joint stock company by consolidating the numerous enterprises previously held under the Hungarian National Oil and Gas Trust. Since then, shares in MOL have been sold to domestic and foreign investors. However, Hungarian privatisation law stipulates that the state must retain at least 25% of the company plus a "golden share". This will ensure that the state continues to exert significant control.

Today, MOL is Hungary's only producer of natural gas and its only licensed wholesale distributor. It owns all high-pressure gas transmission lines, is not required to offer third-party access and has a right of first refusal to purchase all natural gas imports. Although MOL has no legal monopoly on gas exploration and production, for all practical purposes it holds a *de facto* monopoly in all gas activities except distribution.

The distribution entities were restructured into joint stock companies and, in 1992, the government

International competition attracted 24 prequalified foreign bidders and raised some US\$500 million, or twice the companies' book value.

Since privatisation, MOL has gained a firm foothold in the gas distribution business and now holds a minority shareholding in five of the six regional distribution companies. However, Hungary expects to be among the first Eastern European countries to join the EU, which will require MOL to offer third-party access to its transmission lines to comply with the EU directive on gas.

Vietnam

Vietnam's gas industry is just starting from scratch. The first move was in 1995, when associated gas from the White Tiger offshore oilfield was landed onshore. In 1998, between one billion and 1.5 billion cubic metres of this gas was consumed by two power stations near Ho Chi Minh City. A project for exploiting non-associated gas from two fields in the Nam Con Son basin is now being negotiated between a consortium of private producers and Petrovietnam, with about three billion cubic metres a year of gas production from the first phase planned to be used for power

generation. Vietnam's hydrocarbon potential is much larger than these numbers suggest, however. Prices for petroleum fuels are at international levels and domestically produced coal is priced close to this level.

Legal Framework

The Petroleum Law was passed in 1993, followed, in 1996, by an implementation decree. Both deal with the exploration, development and production of oil and gas. However, all upstream activities are assigned exclusively to Petrovietnam, the government enterprise authorised to conduct petroleum operations and enter into petroleum contracts. The Petroleum Law states that petroleum contracts can be in the form of production-sharing contracts or joint ventures with private companies. It specifies model contract provisions. There is no legislation for downstream petroleum operations such as gas transmission, gas processing and gas distribution.

Although the Petroleum Law sets up a new agency (State Management of Petroleum Operations) as the regulating entity for the oil and gas sector, the government is leaning heavily on Petrovietnam to perform the regulatory functions instead. Thus, there is a potential conflict of interest.

Sector Structure

Petrovietnam receives associated gas at no cost and transports it onshore through its pipeline. The gas is consumed by Electricity of Vietnam, the state power monopoly, but a number of independent power producers are involved in negotiations for power generation contracts. The government has appointed Petrovietnam as an exclusive gas trader to initiate and develop the gas market in Vietnam. This move creates a risk of high costs, inefficiently allocated resources and a slowdown in gas market development. It will also discourage investors from investing in the downstream gas industry.

Because of the lack of downstream legislation, the basic agreements for developing the Nam Con Son basin – including gas prices, infrastructure access and rights and obligations – will initially be incorporated into the contracts between private producers, transporters, the state company that will purchase the gas and the government. This is not an ideal situation. It would have been better if regulations for gas transmission and distribution licences, the setting and approval of gas transmission tariffs and the definition of the third-party access rules and technical standards had been in place. Such regulations would increase transparency, reduce the perceived risk by

potential investors and facilitate speedy development of the gas market.

Lessons

The case studies show that the legal framework for gas may range from separate laws for upstream and downstream operations to a single law covering both or even an umbrella law encompassing petroleum and electricity as well as gas. The best arrangement would be to have separate laws for the upstream and downstream sectors because their roles are so different. These laws should be supported by regulations, licences and contracts, including the detailed commercial, technical and environmental regulations needed to implement the laws. Implementation and monitoring should be supported from the outset by an adequately funded and staffed regulatory institution. The regulator should be financed by the industry to ensure funding independent of government.

Of the countries studied, Argentina comes closest to best practice. Argentina introduced separate and detailed upstream and downstream laws and a well-designed regulatory framework before privatisation – an approach that proved attractive to foreign investors. Vietnam, by contrast, lacks such a legal and regulatory framework and investments in upstream activities began with production sharing contracts before the Petroleum Law was passed. With no regulatory framework in the downstream sector, there is a significant risk that negotiations will be delayed and downstream developments slowed.

Argentina's restructuring and unbundling of the industry before privatisation was also important, not only for successful privatisation but also for the highly competitive industry that resulted. Reform transformed the Argentine gas industry overnight – from a public monopoly to a very competitive private industry. There were two key reasons for this outcome: the government was committed to privatisation and detailed legislation was introduced aimed at making the gas sector highly competitive. Poland and, to some extent, Hungary show that competition and privatisation can be held back if a traditional integrated monopoly remains even after a new legal and regulatory framework has been put in place. Countries starting from scratch can avoid this market dominance or monopoly problem.

The case studies support the need to liberalise gas prices early in the reform process. The first privatisation attempt in Hungary failed largely because of the government's failure to produce a clear pricing policy – in contrast with the successful experience of Argentina. ■

Practices in the Provision of Infrastructure & Services: Issues for Reconsideration

a report by

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Introduction

In most of the developing world, the rapid pace of urbanisation is causing concern to the national governments, the planners and policymakers and the institutions involved in managing the urban affairs. Urbanisation – which is essentially a process of a large concentration of people and specialised diversified forms of economic and social functions within limited geographical areas – brings with it a variety of rapidly growing demands to satisfy both basic and specialised needs of the population and activities. Along with the growing size of urban areas, the management and provision of the needs become increasingly complex.

Problems of urban poverty and unemployment and inadequacy of urban housing and infrastructure have been recorded throughout history. The severity of the problems reflects primarily the rapidity of overall population growth and the acute shortage of resources with which to equip the new urban population.

According to the 1991 census, the Indian urbanisation level is at about 26%. A net addition of about 58 million was made to the previous census figure of 159.46 million. The decadal growth of 36.2 from 1981 to 1991 was lower than that of the period from 1971 to 1981, which was 46.1%. This absolute number of 217 million would require more massive investment in social and physical infrastructures to only maintain the existing level of urban services, let alone to improve their accessibility. The level of urbanisation for 2001 is estimated to be between 31% to 32% (Task Force), and 35% (NCU); and an absolute urban population of 320 million (Task Force), and 340–350 million (NCU). India's urban population is projected at 454 million in 2010.

This article is taken from an Invited Paper which was presented at the 47th NTCP Congress on Urban Infrastructure Development.

The possibilities of relieving urban pressures through measures to restrain migration from the countryside and arguments for greater emphasis on rural development as against urban development, and on smaller towns as against major cities, are inconclusive.

Greater emphasis on development in rural areas or the smaller towns is unlikely to cause a significant reduction in the growth in urban population or the problems of the larger cities over the next decades. Trade-offs between levels of urban services and corresponding costs have not yet been adequately analysed in relation to resource availability.

Since independence in 1947, India has been engaged in promoting urban development. Along with various means of planned urban development, Western, and particularly British, planning models and practice guidelines have been adopted to decentralise the primary cities, and to accommodate the growing needs of industrial development, capital function, etc., including housing the large-scale refugees after partition.

National policies in India's general approach to urban development had indicated, since the third five-year plan that:

“Urbanisation is an important aspect of the process of economic and social development and is closely connected with many other problems, such as levels of living, cost of providing services in towns of different sizes, provision of housing for different sections of the population, provision of facilities like water supply, sanitation, transport and power, civic administration, fiscal policies and the planning of land use.”

Infrastructure is the basic requirement of urban life and its adequacy and accessibility are two important ingredients and key contributors in the upgrading and enrichment of quality of urban life that is the primary objective of any planned development effort.

The Bhore Committee (under the chairmanship of Joseph Bhore), in 1946, recommended that the development of towns on the basis of comprehensive planning, including standards and norms, should be accepted by the central and state governments, statutory undertakings and private enterprises for both existing and new towns. Subsequently, the Committee on Plan Projects (COPP) and the Bureau of Public Enterprise (BOPE) dealt with the norms, standards and capital costs of the new towns.

Planners have adopted various space norms and standards as bases for their plan preparation during last 50 years. Norms and standards are tools for analyses and decision making, but the difficulties lie in identifying the rationale behind most of them. This article looks at some of the considerations that can produce more efficient patterns of urban growth.

Status and Levels of Urban Infrastructure

The fundamental shortage of resources for urban infrastructure to deal with the additions to population, let alone to ameliorate existing conditions, poses in acute form problems for the quality of services to be provided. The possible extent and implications of lower standards of service as a 'trade-off' to lower costs represent a critical element in determining the proportion of the population that can be provided with the services. Also of great importance is the relation between original capital cost and maintenance cost.

Considerable opportunities may exist for lower cost services of minimum 'utility' quality. For water and sewerage, 'trade-offs' of both convenience and health are involved. On the other hand, a larger proportion of the population supplied with lower quantities, rationed by restricted outlets or higher charges, may

improve overall health and also reduce the risks of contagion spreading from previously unserved areas.

Evidence from communal provision of water and sewerage facilities on economics is contradictory. Individual supply appears generally to lead to much better maintenance, but much depends on local community spirit and habits. Other possibilities of economising resources arise from the fact that many water-using devices, such as toilet flush tanks, are not designed for high water economy, principally because water has traditionally been so cheap and charges inadequately related to volume used.

Infrastructure can be divided into two areas:

- physical infrastructure, including water supply, sewerage, drainage, electricity, solid waste and traffic and transportation; and
- social infrastructure, covering education, health, socio-cultural facilities, distributive services, miscellaneous facilities, other facilities and services including communication, commercial facilities and recreational facilities.

Urban centres in India present a grim picture with regard to availability of basic infrastructure. At the

Invitation to do Business from the HENAN JIYUAN IRON & STEEL COMPANY

Main products

The main products of the Henan Jiyuan Iron and Steel Company are pig iron, cables, round bars, screw-thread steel and cast-iron sections. Its products are of excellent quality and are reliable. Round bars and screw-thread steel are mainly sold to key national projects such as the pivotal Xiaolangdi Water Conservancy Dam on the Yellow River, the Three Gorges Dam on the Yangtze River, the Chemical Fibre Works of the Luoyang Petrochemical Complex and the Shanxi Yangcheng Power Plant. They meet with customer approval. Our occupancy of the domestic market for cast-iron sections stands at 30% while export sales are made to Canada and the United States. Product quality has achieved the advanced international level of the 1990s. In April 1998, Jiyuan Iron and Steel passed external examination and verification of the Beijing ISO 9000 International Standard Quality Systems Certification Centre with no difficulty and obtained its ISO 9002 Quality Systems Certificate.

Matters for which Business is Invited

The Company is tendering for the following projects in order to increase its competitiveness, develop new products and import advanced production technology.

Co-operation in tertiary standard screw-thread steel production technology

Tertiary standard screw-thread steel bar is the replacement product for the current secondary standard screw-thread steel bar. It has enormous potential in the Chinese domestic market especially in some key national projects in the province where heavy use is made of it. The Company is inviting commercial co-operation for production technology in respect of

this product and is planning to invest 98,000,000 yuan. It is also reforming its steel-rolling and steel-smelting production lines in order to create the production capacity for an annual output of 300,000 tonnes of tertiary screw-thread steel bar. Specific projects for reformation include the reform of steel-ladle high-performance continuous casting through on-line refining technology and the reform of steel billet heat-transfer, hot-rolling technology. After these projects have been completed, it will be possible to produce F12 - F40 mm tertiary screw-thread steel bar.

Reform of iron-smelting system technology

In order to adapt to developments in the market economy, the Company is preparing to invest 30,000,000 yuan in a technological reform of its iron-smelting system. Specific projects are comprehensive mixing technology for the raw materials area, pellet sintering technology, globe hot-air furnace and bag-type dust extractor. When complete, the Company's iron-smelting technology will be matchless and both the quantity produced and quality of the melted iron will be increased. It will be possible to produce 350,000 tonnes of high-quality melted iron every year.

Environment for co-operation

Communications at the company's location are convenient in all directions. National Road No. 207 crosses from north to south while the road from Jiyuan to Xinxiang passes from east to west. The Company has its own railway track which connects with the normal tracks of the Jiaozuo-Zhicheng line. There are abundant resources of iron ore and coal and there is ample water and electricity. These provide particularly good conditions for the development of the iron and steel industry and firms both at home and abroad are cordially invited to favour us with a visit.

aggregate level, 21% of the urban population is living in squatter settlements, where access to basic services is extremely poor. Although 82% of the urban population is reported to have access to safe drinking water, there are severe deficiencies with regard to the quantity of water available to urban residents. Nearly 46% of urban households have flushing toilets, but only 28% of the urban households are connected to the public sewerage system. Though nearly 300 urban centres have a sewerage system, only 70 of these have sewage treatment facilities. Only 60% of the refuse is being collected by municipal authorities in the urban areas of India. There is, thus, a major gap in the provision of urban infrastructure and services, despite previous efforts.

The cost of urban infrastructure and services depends on a variety of factors that include topography, geology, density of population, the quality of services provided and technology options, etc. The Rakesh Mohan Committee has calculated the financial requirements of core infrastructure by 2001 for urban population of various states by using two sets of norms adjusted to 1994–1995 prices. According to the Planning Commission (Low Range) estimates, the urban areas of India will require additional investment of about Rs327.27 billion by 2001. If these services are to be provided at a higher range of norms, the investment required is about Rs441.38 billion. On the other hand, according to the Zakaria Committee standards, the financial needs will be about Rs293.37 billion.

Urban Planning Standards

Standards are established yardsticks quantifying the desired minimum requirements of community facilities, open spaces and rights-of-way etc. Some of these are established by law and take the form of minimum standards which have come to be recognised as necessary in the public interest. Urban Planning standards govern the pattern of land allocation within specified land uses. The standard of ‘desirability’ is adopted for the design of future urban patterns.

Planning standards are based on different considerations, such as social values, safety, ease of movement, perceived needs and the stage of economic development of that society. These may be subject to revision over time.

Recommendation C.3(b) (for national action) of HABITAT : United Nations Conference on Human Settlements, Vancouver, 1976, states that:

“Standards for shelter, infrastructure and services should be compatible with local resources, be evolutionary, realistic, and sufficiently adaptable to local culture and conditions, and be established by appropriate government bodies.”

Standards supply measurement units for terms appearing in the statement of principles. In dealing with standards for the location of uses, time and distance criteria are primary units for measurement of convenience. Thus “close proximity”, “convenient driving range”, “easy walking distance” and “accessible to railroad transit or utilities” are defined in time or distance standards, usually in terms of minutes or miles of travel.

Standards are not absolute, but are more in the nature of guides or criteria to be followed under average circumstances. Where there is a marked range of variation in circumstances, variable standards of location may be warranted.

The Issues

The despondency surrounding the task of ameliorating urban conditions arises primarily from speed of urban growth and shortage of human as well as financial resources. There are further contributing factors which operate with much greater force and are more difficult to solve:

- Housing appears to be a “bottomless pit”, individual projects being too marginal to have any real impact and the costs of major programmes beyond the realm of possibility.
- Water supply and sewerage projects often appear to be fighting a losing battle, the backlog growing faster than it can be filled. Soaring urban land prices make urban projects increasingly expensive. Comprehensive urban plans have tended to be unrealistic in terms of resources and implementation capacity, and have been out-of-date by the time they are completed.
- Many new roads and transport facilities, housing and utilities, employment sites, markets and social facilities will have to be provided. Equally obvious, much can be done to promote more efficient use of public and private resources and to generate additional resources.
- Because of the important and extensive interactions between investment decisions usually undertaken in an unrelated manner either by individuals or by various public entities, private benefits, or benefits from individual public enterprises, may vary considerably from the social benefits.
- Levels of urban services and housing can be tailored to the resources available, both public and private to some extent: poor housing in the urban centres is primarily a reflection of the basic poverty.

- Considerable opportunities certainly exist for improving the price mechanisms to harness market forces in producing a more efficient pattern of urban development, as well as to increase the total of resources available for public purposes.

Evaluation

Fundamentally, we are seeking a basis for scaling the land area needed to accommodate growth in urban areas over the next 10–15 years. More particularly, having established in principle where each category of use should be located in the future, we are now interested in estimating how much land will be needed for each such use.

This first involves the derivation of space standards appropriate to each class of use followed by the application of these standards to the appropriate growth index previously developed. Density standards are employed for industrial and residential uses, with employees and families or dwelling units per net or gross acre of land being the measures respectively. For schools and certain types of recreation areas, local adaptations of general empirical standards of minimum site sizes for designated multiples of school or total population are customarily used as standards. For retail business uses, standards are based on trade area population or the volume of retail sales per unit of retail floor area, and wholesale standards are based on wholesale employment per unit of wholesale area.

There are three aspects that need to be recognised: scientific, cultural and social. In practice, these three dimensions should be blended in a way that makes standards intrinsic, for instance, evolving from a balanced cognition of scientific, cultural and social principles appropriate to the place, time, culture and economy of technological resources of the society concerned.

Very often, unreasonably high standards statutes provide for a level of services which make such settlements beyond the reach of low-income families. Families in relatively high income brackets are attracted to these localities and the intended target group is gradually priced out. The development plan in urban areas must therefore pay adequate attention to the needs of low income settlements.

Major observations are identified below :

1. Legislation and the associated by-laws and regulations governing standards for housing and the physical environment, including infrastructure, are usually unrealistic financially, inappropriate technologically and unenforceable administratively. Urban authorities are incapable of implementing officially formulated standards and this has affected the credibility of those authorities, encouraged arbitrary and discriminatory practices and caused administrative delays and obstacles. The conventional approach used in setting the standards took no account of the dynamism of human settlement development or of regional urban and community variations. Absolute standards involving maxima or minima were subject to arbitrary technological decisions and could be supported or opposed by contradictory research findings, particularly with regard to public health.
2. Infrastructure provision resulted, in many cases, in improved, albeit informal, security of tenure for the house or land, that might be either socially and politically perceived or administratively sanctioned. However, unless some level of official tenure was obtained, it was unlikely that sustained improvements in the quality of shelter would be achieved and that sustained willingness and capability to care and maintain infrastructure at the community level would be generated. This was particularly relevant for slums and other such environments.
3. The integrated comprehensive approach to the areas wherein the project aimed to address physical, social and economic needs ran the risk of reducing the impact on priority elements by spreading resources over a wide range of project components. Previous experiences showed that the integrated approach had not achieved the desired objectives and an alternative policy was to identify priority needs and to target resources more widely and more speedily on specific elements, such as water supply and sanitation.
4. A gap had been identified between existing urban development and infrastructure service coverage. In areas that had remained underserved, including the majority of low-income settlements, the residents had developed informal, rudimentary infrastructure solutions, which, although inadequate both in terms of service level and environmental health standards, represented the capacity of local communities to cope collectively with their neighbourhood infrastructure problem. Current settlement improvement practices generally ignored the potential of supporting and incrementally developing such local solutions by supplementing the resource base, the technical skills and the organisational capacity of the community.
5. The fragmentation of responsibilities for urban infrastructure services manifested itself in the introduction of urban and, in some cases, national and regional authorities that had generated severe problems of planning and co-ordination and had reduced the effectiveness of investments and the

efficiency of the delivery of urban services. Such divisions of responsibilities were particularly harmful at community level, where lack of integration and co-ordination of water supply, sanitation, power supply, drainage, street lighting, refuse collection, access and circulation and social services created confusion, waste, social alienation and mistrust.

6. The urban governments have failed to stimulate the supply of land for the formulation of new settlements. A critical constraint on the supply of land for urban uses was the insistence, by urban authorities, on high infrastructure standards for new developments as an elusive or preventive measure against their formation.
7. There was a requirement for a reconciliation of the needs perceived by planners and those felt by the beneficiaries. The need for an institutional framework to handle common responsibilities, such as maintenance of infrastructure and services, applied at neighbourhood level as well as at urban and national levels.

Recommendations

Through extensive data collection and working experience with reference to both local conditions and established standards elsewhere, an elaborate planning standard has to be formulated. This standard has to relate to available resources sustainability. The planning standards and guidelines must lay down development densities, location factors and site requirements for various land uses for provision for community facilities etc.

Low-cost solutions are essential. Most of the areas have by now been able to find adequate technological solutions. Low-cost techniques have been developed which are technologically feasible and communally acceptable. The most significant achievement in this respect has been in the matter of human waste disposal and water supply distribution systems.

The three elements of standards are coverage, the level of services and lower costs. The level of services is also closely linked with the satisfaction level of the community. The most commonly available option is that of reducing per capita availability of services and making the facilities available on a community basis on a per capita rate. Despite the problem of community response to maintenance, barring occasional exceptions, this is at present the most commonly acceptable cost-saving approach. No attempt has been made to prescribe any norms, be it for physical or social infrastructure, but a possible mechanism has been outlined, in the hope that this will help a planner to formulate and adopt appropriate standard.

1. Central governments should formulate and disseminate a wide range of experiences in infrastructure options with the objective of promoting flexible and innovative solutions which have been shown to allow for and encourage progressive, incremental improvements. The purpose of national intervention should be the provision of technical assistance which has promoted a sensitive and responsive approach rather than the introduction of controlling regulations or inflexible guidelines which might be employed by officials as instruments of restriction.
2. Existing tenure arrangements should be thoroughly investigated and documented. Central governments should adopt measures whereby assured long-term security of tenure might be introduced and guaranteed.
3. Policies for the integrated approach to upgrading projects should review and investigate nationwide and citywide programmes which have concentrated initially on identified priorities (taking account of the need to support technological improvements with complementary and supportive community development activities concerned with community acceptability) and community care and maintenance of the infrastructure elements in question.
4. Urban-scale public agency programmes and neighbourhood-scale self-help initiatives should be integrated development activities with common objectives for the provision of infrastructure and the delivery of services to low-income communities. Innovative institutional arrangements which recognise and optimise the opportunities for shared responsibilities between urban and neighbourhood levels should be introduced to support action programmes.
5. Administrative reforms which vested public authorities with responsibilities for specific urban services should be reviewed, taking into account the demonstrated need for an integrated approach to the provision of infrastructure and management of services by combining responsibilities at the municipal level.
6. Urban authorities should actively promote housing development on residential land equipped with low-cost sanitation and water supply solutions.
7. A continuous dialogue must be established between the concerned agencies and the community throughout the implementation and maintenance of infrastructure systems, and neighbourhood community institutions should be

involved in the setting of priorities and the composition of the infrastructure package.

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8. Acknowledging the importance of infrastructure as a critical feature in the development process, a deeper study of the issues involved can offer new insights into the role of planners and functioning of the planning system.

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9. An awareness of the problems of implementation and the importance of understanding the significance of negotiative practice in the process is essential. ■

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Bail Out: The Global Privatisation of Water Supply

a report by

Penelope J Brook Cowen

Senior Private Sector Development Specialist, World Bank

They did it with the airlines, railroads, electricity and telecommunications. Now, federal, state and municipal governments around the world are positioning themselves to privatise their water systems. For many cities, cutting water from government purse strings holds enormous potential, but there is resistance in some quarters to what is perceived as private sector overreach.

Private sector participation is a general term covering a broad variety of options for involving the private sector in service provision. These range from service contracts – by which the private sector provides specific technical services such as pipe repairs or meter reading – to management contracts and leases – under which the private sector takes on responsibility for the overall operation and maintenance (O&M) of a water and sewerage system – to concessions – through which, in addition to O&M, the private sector takes on overall investment responsibilities for the improvement and expansion of water and sanitation services.

These options differ in their allocation of risks and responsibilities between the public and private sectors, their complexity and their duration, but all involve a partnership between the government and the private sector.

Governments' motivations for seeking private sector participation in water and sanitation vary. They may be looking to secure sustainable improvements in the efficiency with which services are delivered – often after years of failing to attain this through public sector projects focused on training and the upgrading of management systems. They may be looking for new sources of finance for needed investments in network rehabilitation and expansion, or for new water and sewage treatment facilities – looking for both for greater efficiency in the design and implementation of investments and for relief for national and municipal budgets. Or they may be looking for ways to make service providers more sensitive to customer needs and preferences. Often, their motivations are a mix of some or all of these. Private sector participation can answer all of these goals.

Countries and cities that have implemented private sector contracts have, in many cases, seen significant improvements in service efficiency and responsiveness, as well as more rapid expansion of services to households formerly forced to rely on inferior quality, or more expensive, informal services. Buenos Aires, in 1993, granted responsibility for operations, maintenance and investment in water and sanitation to a private sector consortium, Aguas Argentinas. Within the first two years of operations, production capacity expanded by 27%, an additional 500,000 people received water services, an additional 400,000 received sewerage services and response time for repairs fell from over a week to just two days. More recently, Aguas Argentinas has begun to work with local communities and non-governmental organisations to find innovative ways to expand services more rapidly and affordably into informal settlements.

Not all attempts at private sector involvement in water and sanitation have been as successful as the Buenos Aires case. In Caracas, Venezuela, an attempted concession failed to attract any bids. This was due, at least in part, to both a failure to establish good working relationships among participating municipalities and a political commitment that was perceived as weak. In Tucuman, Argentina, a concession arrangement collapsed because of the unwillingness of the government to stand behind promised tariff increases; and in Guinea, a lease arrangement that has had some success in improving service quality is hampered by a lack of credible provisions to extend affordable connections to a very low-income population. In each of these cases, the government failed to provide credible and secure arrangements for striking a balance between a fair rate of return for the private operator and appropriate protection of consumer interests.

The success of private contracts in delivering benefits to consumers depends, first and foremost, on a high level of political commitment, the design and quality of the private sector contract itself and the institutional arrangements a government puts in place to support that contract. It also takes rigorous management, a high degree of technical skill, careful attention to the concerns of stakeholders (from employees and unions to community



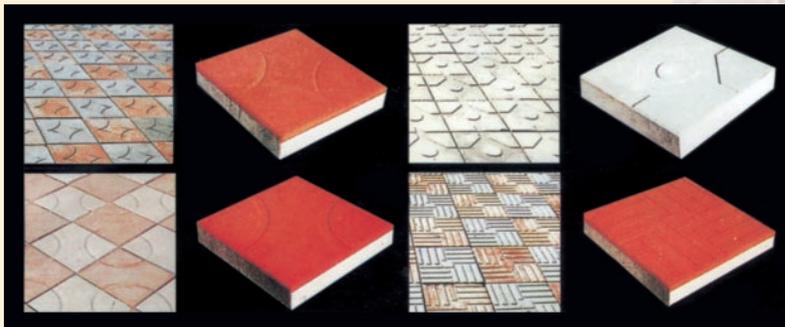
Nei Meng Gu Material Products

A Survey of the Company

The Huarong Industries (Group) Ltd of Inner Mongolia was founded in 1985 and currently holds assets totalling 170,000,000 yuan, with eight subordinate economic entities, two equity enterprises and companies located in offices in Beijing, Guangzhou and Hancheng. Its business lines include building materials, real estate, car parking systems (equipment), machinery manufacturing, healthcare products, dairy products and trade.

Of these, the Huade Building Material Products Ltd of Inner Mongolia, a Sino-Korean joint venture, is the largest producer of concrete products in the North China region. It has taken the lead in giving impetus to the new revolution in the building materials industry, changing an ashen terrain to a colourful one which is full of vitality. On the basis of our customers' various requirements, we can produce brightly coloured floor bricks, decorative building blocks, wall bricks and curb stones to scores of different specifications in a variety of colours together with new-style, light, fire-retardant, thermal, hollow blocks. These are all irreplaceable in such uses as landscaping parks, city construction, and protecting roads and slopes. They are ideal building materials to replace clay bricks.

The company has researched and manufactured fully automatic, vertical car parking equipment that has such characteristics as



Top: Building constructed of concrete blocks
Above: Wall bricks made of concrete
Left: Brightly coloured floor bricks

requiring low investment, occupying a small area, capacity for a large number of cars and improving the environment. This product is most suitable for use in such locations as the commercial districts of large and medium-sized towns, busy areas, hotels and restaurants. Therefore, it seems particularly important to build vertical car parking where land is of very high value. We can manufacture car parking equipment on the basis of different customer requirements with different numbers of levels and to different specifications. It only requires one person to operate and is computer controlled, automatically metering time and charges, and it can go up and down freely. Such facilities have great prospects in China.

At present, the company has recently introduced an excelsior cement board production line which is at an advanced level on a world scale. Apart from possessing a wide variety of uses and having lasting, weathering qualities, excelsior cement board also has the following properties:

- resistance to fire
- resistance to moisture and dry rot
- resistance to damage by vermin, insulated
- sound-proof, sound-absorbing
- a variety of finishes

Its uses are as follows:

- flat and small-span roof covering boards
- large-span roof (over 6mm) covering boards
- walls for every kind of structure
- interior partition walls for every kind of structure
- heat and sound insulated ceiling boards
- concrete cross members
- projects for peaceful living

We very much welcome friends both at home and abroad to co-operate widely with us, so that we can learn from each other and develop together. All Huarong staff are making a concerted effort to build a modern-day enterprise, cultivating prestigious products and striving to create first-class benefits.



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organisations) and transparency and fairness. Finally, it means listening to prospective private sector investors to find out their concerns about the local environment and their ideas about what is possible.

Private sector arrangements are based on partnerships between the public and private sectors. Establishing a good partnership means defining and preparing for the government's future, as well as current, roles and responsibilities. A critical aspect of this process is putting arrangements in place for monitoring and regulating private contracts so they are perceived as competent and independent of political or industry pressures. Another aspect is determining exactly what risks and responsibilities the government will retain once the private sector contract is in place and how it intends to manage them.

Governments of developing countries can realise great benefits from private sector involvement. Planning is needed at every stage to ensure the greatest possible benefits. This planning begins with: developing strategies in the water and sanitation sector, which take full advantage of the potential for private sector involvement; building consensus in favour of appropriate policy, regulatory and institutional reforms; designing and implementing specific reforms and transactions; and – finally –

developing government capacity in the design and execution of private infrastructure arrangements and in the regulation of private service providers.

There are no blueprints for a successful engagement with the private sector to improve water and sanitation services and no substitutes for careful preparation, political commitment and early attention to the broader regulatory and institutional framework that will support and sustain a partnership with the private sector. Where these features are present, strong benefits can flow to consumers in the form of better, more responsive, more cost-effective services.

A number of multilateral agencies and bilateral donors offer active programmes of support for cities and national governments looking to explore options for private sector participation in the water and sanitation sector. The Toolkits for Private Participation in Water and Sanitation, developed by the World Bank, with the assistance of the UK's Department for International Development, provide guidance on such issues as how to choose a private sector participation option, how to design a process for refining and implementing that option and how to ensure that contracts and regulatory arrangements cover all the relevant issues. ■

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Research of Drinking Water in the New Millennium

a report by

James F Manwaring

Executive Director, American Water Works Association Research Foundation

The American Water Works Association Research Foundation (AWWARF) (the “Foundation”) is a non-profit corporation dedicated to the implementation of a research effort to help utilities respond to regulatory requirements and traditional high-priority concerns of the industry. It serves a planning and management function and awards contracts to other institutions such as water utilities, universities and engineering firms. The funding for this research effort comes primarily from a subscription programme. Through this, over 1,000 water utilities voluntarily subscribe to the research programme and make an annual payment proportionate to the volume of water they deliver.

The Foundation’s research agenda addresses a broad spectrum of water supply issues: resources, treatment and operations, distribution and storage, water quality and analysis, toxicology, economics and management. The ultimate purpose of this co-ordinated effort is to assist water suppliers in providing the highest possible quality of water, economically and reliably. True benefits result when utilities implement research findings.

Since 1986, the Foundation has funded over 500 research projects valued at more than US\$144 million. Project reports have been published on 300 of the studies; the remainder are currently ongoing.

Member utilities in the Foundation come from 48 states, the District of Columbia, nine Canadian provinces, Australia, the Czech Republic, France, Great Britain, the Netherlands and New Zealand. The population served by the Foundation’s membership exceeds 175 million people.

Historical Perspective

Since the beginning of human life, people have understood the importance of water. Civilisation occurred where water was good and plentiful and the simple knowledge of where to find drinking water often made the difference between life and death.

Four thousand years ago our ancestors knew that water could be improved by being filtered through

charcoal and they understood that impure water should be boiled over a fire. Those truths passed from generation to generation and remain with us today. In fact, distillation, boiling and filtration remained the primary methods for treating water throughout much of our recorded history.

During the 17th century, the invention of the microscope led to the discovery of micro-organisms in drinking water. But nearly 200 years passed before scientists made the association between those micro-organisms and disease and ushered in a new era in water treatment. In 1754, the first American water works began operation in Bethlehem, Pennsylvania.

At the dawn of the 19th century, the one new technique for treating water was the slow sand filtration system – a process still used by many municipalities. However, the 20th century brought a dramatically quickened pace of discovery and invention.

In 1914, the first federal standards, related to interstate quarantine regulations, were applied to drinking water. Taste and odour concerns caused by algae were also addressed. In 1924, powdered activated carbon became available and sparked widespread improvement in the quality of drinking water in this country.

In the United States, chlorine was approved as a disinfectant, and the results were remarkable. In 1900, there were 36 deaths from typhoid per 100,000 population. By 1950, the death rate had dropped to 0.1 per 100,000, and that extraordinary success was attributed to the introduction of chlorine.

In the 1970s, scientists discovered that disinfectants combine with natural organic matter in water and form minute concentrations of by-products, some of which are known to be carcinogenic in animals. The challenge for the drinking water community is to minimise the formation of these compounds, while still ensuring that pathogens are killed or inactivated.

In 1974, Congress passed the Safe Water Drinking Act, and the need for research escalated. It has been estimated that, over the next 20 years, the drinking

water community will experience change that will be five times greater than it has experienced in the past 100 years. An active research programme is essential to guide the drinking water community through the maze of possibilities that will confront it.

Current Research Agenda

The Foundation's planning process is designed to produce a balanced research agenda that is directed towards microbial risks (25%), chemical issues (15%), infrastructure needs (25%), management concerns (15%), customer relations (10%) and environmental issues (10%). The value of the Foundation's 1999 research agenda is expected to be approximately US\$22 million, a slight increase over the 1998 level. The principal philosophy underpinning the Foundation's research effort is that public health protection is a fundamental objective.

To accomplish these goals, the Foundation employs a number of operational strategies including the development of national and international partnerships. These co-operative ventures serve to avoid duplicative research and stretch existing resources by co-ordinating activities. The type of global network also serves to identify emerging drinking water issues.

The following paragraphs qualitatively describe the basis of the Foundation's research priorities.

Microbial Risk

Over the past nine years, microbials and disinfection by-products (M/DBP) have become the centrepiece of the regulatory development efforts of the federal government and thus, by extension, a priority of the Foundation. While the latter are chemical contaminants, they must be considered with microbial control because of their inherent relationship. For instance, an increase in disinfectants to control microbes may lead to an increase in the production of disinfection by-products. Significant uncertainties remain in assessing the health risks, not only of the combined use of chlorine but also the use of alternative disinfectants such as ozone, chlorine dioxide and chloramines.

The development of a framework for providing simultaneous protection against pathogens and DBPs gives rise to three questions:

- What are the health risks caused by exposure to microbial pathogens?
- What are the health risks caused by exposure to DBPs from different treatment processes?
- How can these risks be simultaneously controlled?

The ranking of M/DBP as one of the highest research priorities is based on several factors. First, the *Cryptosporidium* outbreak in Milwaukee in 1993, in which more than 100 people died and many thousands of people became ill, served to underscore the risks of infectivity from harmful pathogens and the vulnerability of certain subpopulations to protozoans such as *Cryptosporidium* (already referred to). Second, officials have now recognised that DBPs also pose a health threat. Third, because of the high uncertainty, the widespread human exposure to drinking water, the severity of the known effects from certain microbes and the potentially high costs of further regulation of drinking water, the combined issue of microbial risks and disinfection by-products was assigned a high priority.

Current and recent past research in the microbial area has focused largely on the protozoan pathogens *Cryptosporidium parvum* and *Giardia lamblia*. Primary areas of research include treatment effectiveness (inactivation and physical removal methods) and analytical methods for quantifying these pathogens and determining viability and infectivity. A significant amount of work has also been completed on *Cryptosporidium* and *Giardia* occurrence, particularly in source waters. The Foundation has also participated in several *Cryptosporidium* and *Giardia* health effects studies in collaboration with the US Environmental Protection Agency (USEPA). Other microbial research has included occurrence and treatment studies for pathogenic bacteria, viruses and algae and development of microbial risk assessment tools for water utilities.

Chemical Risks

The research goal of this area is to protect the drinking water consumer from adverse health effects due to chemicals. The basis for the work on disinfection by-products was addressed in the previous section.

Although it has now been more than 20 years since the discovery of chloroform and other trihalomethanes in drinking water, there is still substantial controversy and significant knowledge gaps regarding the adverse health effect of DBPs. Epidemiological studies conducted on populations exposed to chlorinated water have generally been inconclusive. Likewise, epidemiological studies of reproductive effects have been similarly inconclusive. Toxicological studies on rodents and other laboratory animals have shown that a number of DBPs cause cancer and other negative health effects, but this is at concentrations much higher than typically would be found in finished drinking water. Because of the uncertainty, knowledge gaps and disagreements regarding the health effects of DBPs, more research is needed.

Arsenic is another chemical for which regulations are proceeding without a complete scientific understanding of the compound and its effect on human health. Approximately 10% of all the drinking water health effects research currently being sponsored by the federal government deals with the scientific uncertainties regarding the health effects of arsenic. The work being sponsored includes research on arsenic toxicology, risk characterisation, risk assessment and hazard identification and dose-response. Several issues surrounding arsenic are highly controversial. Perhaps the two most controversial are whether dose-response is linear or non-linear and whether results of epidemiological studies conducted in other countries (particularly the ones in Taiwan) are valid.

plasticisers, are becoming more of a drinking water issue; and an issue that must be addressed by research. A major research effort has begun on MTBE, the gasoline additive, because of its widespread detection in both surface water and ground water. Other sources of contamination of this class of compounds include leaking storage tanks, landfills and industrial discharges. Little is currently known about the health risk of these compounds and their effective control or treatment.

The AWWARF has spent a great deal of time and effort researching the compounds in drinking water that produce objectionable taste and odours. While such compounds do not constitute a direct health risk, their presence contributes to customer



It has been estimated that, over the next 20 years, the drinking water community will experience change that will be five times greater than it has experienced in past 100 years.

To help address the arsenic uncertainties, the Foundation has developed a co-operative research programme with the USEPA. The joint effort, which includes both health effects and technological research, will not produce results, however, until new more stringent regulations have been promulgated under legislative mandate.

Pesticides are a general class of chemical compounds that are the topic of several research projects. The issues surrounding this class of compounds which can be addressed by research are:

- occurrence and levels of occurrence;
- sources of contamination;
- best means of control;
- detection methodology; and
- health risk of single compounds and/or mixtures of compounds.

In the US, pesticides, herbicides and fungicides are applied at a rate of more than 1.1 billion pounds per year. The obvious concern is the potential contamination of the surface water and groundwater from the pesticides and their degradation products. National occurrence studies conducted to date have detected pesticides in drinking water but the levels rarely (less than 1% of the samples) exceeded drinking water guidelines.

Volatile and semi-volatile organic contaminants, such as fuel-additives, solvents, degreasers and

dissatisfaction and may reduce the consumer's confidence in the water quality. These compounds are regulated under a set of secondary standards which relate to the aesthetic quality of the water. The sources of the taste and odour compounds are varied and may include algae in the source water, leaching of material from, or biological activity in, the distribution system, the use of disinfectants and leaching from household plumbing. The causative agent for taste and odour episodes are very difficult to identify and the events may be short-lived and localised.

Infrastructure Research

It has been estimated that 85% of a water utility's assets are in infrastructure – the treatment plants, storage tanks, and distribution system. The American Water Works Association has recently completed a needs survey and has concluded that the near future rehabilitation and construction needs for the water industry are in the neighbourhood of US\$325 billion. It is also apparent that the water quality at the consumers' tap is strongly influenced by the utility's infrastructure. With so much at stake, it is no surprise that this area is one of the primary research topics for the AWWARF.

More than 75% of the Foundation's recent infrastructure research has been directed at water pipe systems. This work has been divided roughly equally between rehabilitation/replacement studies

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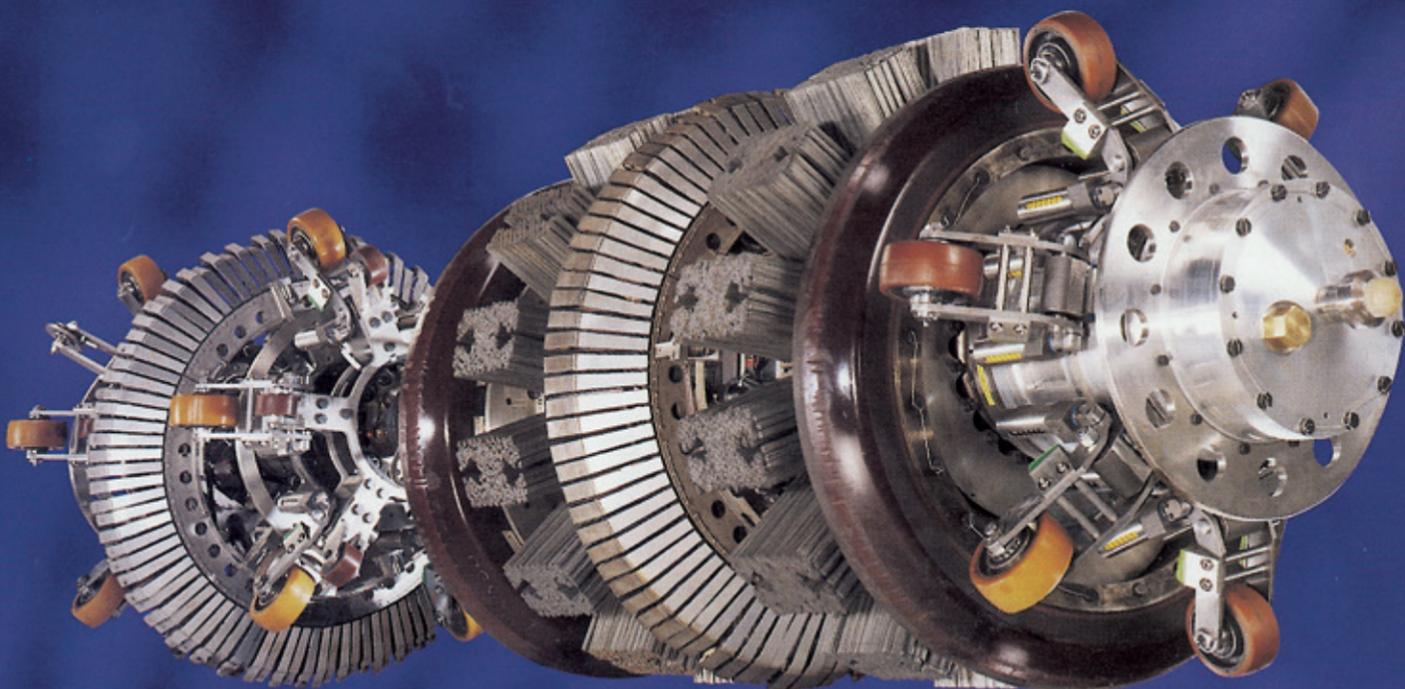
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(pipe location, lead detection, structural integrity testing, cleaning and rehabilitation methods) and studies related to distribution system water quality (internal corrosion, biological regrowth, cross-connections and water quality monitoring and modelling). Other projects within the infrastructure framework have addressed assessment and maintenance of water treatment plants, storage facilities and wells.

Management Studies

The change in the management and organisational philosophy will be a major factor in shaping the future of the US water community. Water utilities are beginning to adopt “best practice strategies” to make themselves more efficient. Planned maintenance, workforce flexibility, employee empowerment, continuous improvement and customer interaction are only a few of the organisational concepts being employed in order to increase productivity and improve customer confidence. The Foundation has an active research agenda on several management aspects of drinking water.

responsibilities. New organisational strategies that focus on empowered employees, a team approach to problems and opportunities and a streamlined structure can increase the competitive stature of water utilities.

The Foundation’s management research includes a diverse range of topics that together help utilities improve efficiency, obtain optimum water quality and improve system reliability. A large amount of research is devoted to treatment process development and management, including conventional process optimisation, advanced process testing and development, and energy management. Another area of significant study is process automation and optimisation through the use of control systems and online monitoring.

Customer Relations

Because the ultimate judge of the success and applicability of the Foundation’s research effort is the consumer, a portion of the research agenda is devoted to helping utilities interact with their customers. Projects in this area are designed to



The water community has become a global entity where changes on one continent are felt on all of the other continents.

Planned maintenance has been shown to save money, up to a point. The data available from water utilities in the US indicates that optimum maintenance is 70% to 80% planned with the remainder being reactive. Utilities are decreasing operational costs by providing a base staff to do the planned maintenance and importing staff to do the reactive maintenance. Total productive maintenance means that the entire staff is working on planned maintenance work and that specialists are imported only when needed. Studies have shown that combining reactive and planned maintenance improved productivity over 50%.

Likewise, workforce flexibility reduces maintenance waiting time, saves money and enhances morale among the employees. Operational costs are reduced dramatically when employees are trained to be multifunctional. To accommodate this type of flexibility, it is essential that the utility utilises some type of skill-based compensation.

It is evident that hierarchical organisational structures are rigid and slow to change to meet new

provide the utility manager with tools necessary to identify customer needs, encourage their consumers’ participation in the decision processes operating in the utility and communicating with the public about important issues.

Customer satisfaction is quickly becoming the key driving force behind the modernisation of water services. Progressive water utilities have adopted proactive customer relations to identify exactly what consumers want. Planning, development and utility direction are designed around those customer needs. This focus will lead to increasing customer confidence.

The primary research topics under this goal area are:

- customer perception, communication and education; and
- aesthetics issues (taste, odour and colour), including causes and control.

Work has also been completed on managing rate structures and on the cost/benefit of supplemental services and products offered by water utilities.

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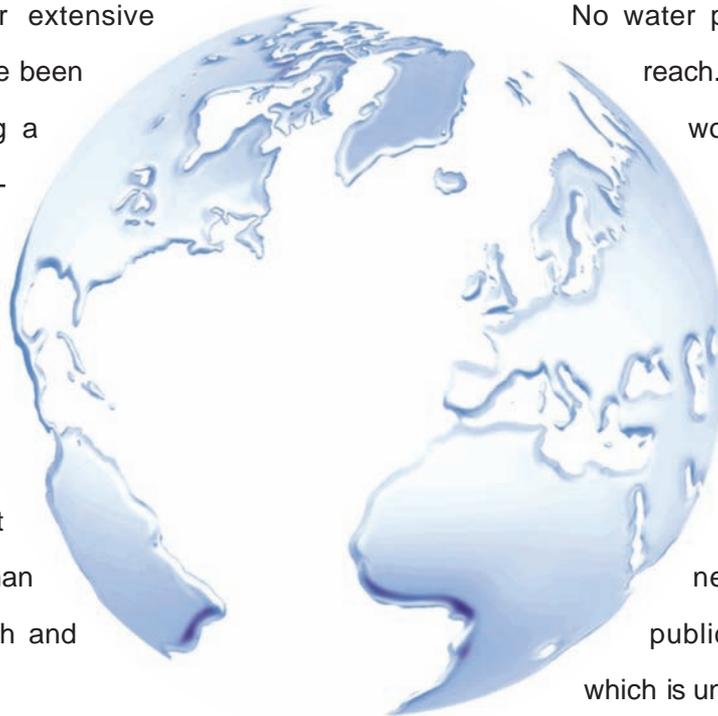
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Environmental Issues

The water supply community is well aware of its position within the global environment. The future supply of dependable and safe drinking water is heavily dependent upon the quality of the watersheds and the operation of water utilities must have a minimal impact upon other uses of the environment. Research into watershed practices must proceed if optimal usage of this precious resource is going to be balanced among the numerous demands. Likewise, the by-products of water utility operations must be handled and disposed of in such a manner that will maintain, or even enhance, current environmental uses.

Recent work has focused on source water quality treatability impacts and associated costs to utilities. The Foundation has sponsored an increasing amount of work in the past several years on wastewater reuse and reclamation. Recent studies have also been completed in the areas of residual management and minimisation, water conservation, demand management and control of invasive biota such as zebra mussels and non-native plant species.

Conclusions

Future water utilities will be shaped by several interdependent factors that will include, but certainly

will not be limited to, technology, regulation, competition, consolidation, customer demand, political pressures and consumer satisfaction. There will be drastic changes in how the industry treats the water, delivers that water to the customer and manages the resources, but there will also be remnants of the current infrastructure operating. The investment in the current system is simply too great to abandon, no matter how improved the next generation of process may be. An active research programme is essential to help plot the most effective and efficient path through the myriad of alternatives and to help integrate the current systems with the future technologies.

The exact result of all of these interconnected forces cannot be accurately predicted, but what is apparent is that future changes will be global. The water community has become a global entity where changes on one continent are felt on all of the other continents. One of the Foundation's primary goals is to participate in an international effort to globalise research strategies on a number of common issues. Research agencies must aggressively seek opportunities for co-operation and leveraging of resources. Partnerships not only extend limited resources but also serve to cross-pollinate different research cultures, technologies and approaches. ■

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Latin American Power Watch covers participation in the Latin American power business, including joint ventures and direct investment. There is also coverage of generation, transmission and distribution sectors, including coal-fired, gas-fired and hydroelectric projects, as well as the development of national and regional power markets. The primary focus centres on new business opportunities, financial issues, government action affecting foreign investment and activities of foreign companies in the region.

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Statistics – Urban in the Regions

Snapshot of Sub-Saharan Africa

Regional Urban Statistics and Projections

Highlights of Population Surge in Urban Areas (% Urban by Year)

	2000	2020
Ghana	38	51
Kenya	33	48
Liberia	48	60
Mozambique	40	55
Nigeria	44	58
Sierra Leone	37	50
Swaziland	36	50
Tanzania	28	42

Doubling of Urban Populations (000)

	1996	2020
West Africa	108,976	251,302
Central Africa	39,879	93,267
East Africa	52,858	130,269
Southern Africa	27,868	50,196
	229,581	525,034

Rate of Urbanisation

	1990–1995	2000–2005
Cameroon	5.2	4.2
Congo	3.9	3.7
Cote d'Ivoire	4.8	3.6
Ethiopia	4.0	5.7
Ghana	4.2	4.2
Kenya	6.1	5.0
Malawi	5.6	5.2
Mali	5.6	5.0
Mozambique	9.6	4.8
Niger	6.9	5.6
Nigeria	5.3	4.6
Somalia	4.1	4.8
South Africa	2.9	2.7
Sudan	4.5	4.6
Tanzania	6.3	5.2
Uganda	5.6	5.5
Zimbabwe	5.0	4.1

Snapshot of Urban Sub-Saharan Africa

- From 1975 to 1995, the average African country's urban population grew 5.2% per annum while GDP declined 0.66% per year.
- No other world region has experienced such high rates of urbanisation with such low economic growth.

- Two thirds of urban dwellers live in informal settlements with inadequate water, sanitation, electricity, transport and health services.
- Fifty million people are expected to migrate to cities in West Africa alone in the next 10 years.
- By the year 2020, 63% of Sub-Saharan Africa's population will live in cities.

Sources: World Bank and United Nations (UN) 1996 projections revised; World Development Indicators, 1999; World Resources Report 1998–1999; Enhancing the Productivity of Urban Africa, Hicks et al, Conference Paper, July 1998.

Snapshot of East Asia/Pacific Region

Regional Urban Statistics and Projections

Urbanisation Levels and Rate of Urban Growth

	% 1996	Average Rate (1990–1995)
Korea (South)	82	2.3
Philippines	55	4.2
Malaysia	54	4.0
Fiji Islands	44	
Indonesia	36	4.6
China	31	3.7
Myanmar	26	3.2
Vietnam	19	2.0
Papua New Guinea	16	4.0

Urban Populations (millions)

	1996	2020
China	377	712
Indonesia	72	146
Philippines	40	70
Korea (South)	40	48
Vietnam	15	28
Myanmar	12	26
Malaysia	11	20
Papua New Guinea	0.7	2
	568	1,052

GDP from Urban Areas (% 1997)

Korea (South)	79
China	68
Myanmar	54
Philippines	53
Thailand	41

Intra-regional Urbanisation Pattern (% 1996)

Japan/Korean Peninsula	78
South-east	37
China	30
Pacific Islands	19

Snapshot by 2015

- More than one billion in cities
- Nine megacities > 10 million
- Seventeen very large cities > five million
- Sixty per cent urban population in secondary cities

Sources: World Bank and UN 1996 projections revised; World Development Report 1997; World Resources Report 1998–1999.

Snapshot of Europe and Central Asia
Population Living in Urban Areas (% 1998)

North Europe	84%
Western Europe	82%
Russia	75%
Eastern Europe	70%
Caucasus	68%
South Europe	64%
Central Asia	42%

Most Highly Urbanised Transitional Economies(% 1996)

Belarus	86.1
Russian Federation	76.3
Ukraine	70.7
Bulgaria	68.7
Czech Republic	65.6
Hungary	65.1
Poland	64.1
Kazakstan	60.0

Snapshot of Urbanised Countries by 2020

Urban Populations	(000)	%
Russian Federation	112,020	83
Ukraine	37,364	79
Belarus	8,004	82
Baltics	5,666	81
Lithuania	2,901	81
Hungary	6,661	75
Poland	29,268	73

National Projections Elderly Populations* (60 and above)

	1996	2010
Belarus	18.1	19.0
Bulgaria	20.7	24.4
Czech Rep	17.4	22.6
Estonia	18.6	23.9
Georgia	16.7	18.7
Hungary	19.3	21.5
Latvia	19.1	23.3
Lithuania	17.6	20.0

Poland	15.8	18.2
Romania	17.4	19.2
Russian Federation	17.1	18.3
Slovenia	17.8	22.3
Ukraine	19.4	20.9
Yugoslavia (Federal Republic of)	18.0	19.1

* High percentage of urban elderly live in poverty.

Key Urban Features of the Region

- Highly urbanised, with low population growth
- Large and rapidly increasing aged population
- Urban poverty increasing, especially elderly and families with dependents
- Poor not spatially segregated
- Low productivity use of central business district land
- Services coverage good but over capacity and condition and quality poor
- Subsidies to housing and communal services 2% to 4% of national GDP
- Many cities potentially creditworthy but need municipal and intergovernmental financial reforms
- Socialist legacies: weak real estate and land markets

Sources: World Bank and UN 1996 projections revised.

Snapshot of Latin America & Caribbean
Population Living in Urban Areas (% 1995)

South America	77
Central America	66
Caribbean	62

Average Urban Annual Growth	1980–1990	1990–1995
South America	3.1	2.7
Central America/Caribbean	3.2	3.4

Most Highly Urbanised Countries in Region by (% 1996)

Argentina	88.4
Venezuela	86.1
Chile	84.0
Brazil	78.9
Cuba	76.2
Mexico	73.6
Colombia	73.1
Peru	71.3

Snapshot by 2015

- Three hundred and sixty four million cities
- Highest urbanised region globally
- Four mega cities > 10 million
- Twenty eight per cent total population in cities of one million or more

Sources: UN 1996 projections revised and World Bank.

Snapshot of Middle East and North Africa

Regional Urban Statistics and Projections

Populations Living in Urban Areas (% 1996)

Arab Emirates	84
Algeria	56
Egypt	45
Iran	60
Jordan	72
Lebanon	87
Libya	86
Morocco	49
Oman	73
Saudi Arabia	83
Syria	53
Tunisia	63
Yemen	34

10 of 13 countries > 50% urban

Size of Urban Populations, Year 1996 (millions)

Arab Emirates	2.1
Algeria	16.2
Egypt	26.6
Iran	37.2
Jordan	3.1
Lebanon	3.6
Libya	4.4
Morocco	14.2
Oman	3.2
Saudi Arabia	16.2
Syria	7.6
Tunisia	5.7
Yemen	5.4
	145.5

GDP from Urban Areas (% 1996)

Algeria	54
Egypt	75
Iran	62
Morocco	70

Snapshot on Investment and Private Capital Flows into the Region

- On average, only a 3% of GDP put into infrastructure investments.
- Only 1% of total private capital flows gone into this region.
- During coming decade, estimated 350 billion (5% GDP) needed to meet basic service coverage gaps, 70% in urban areas.

Sources: World Bank and UN 1996 projections revised; World Development Indicators, 1998; world resources Report 1998–1999.

Snapshot of South Asia

Regional Urban Statistics and Projections

Population Living in Urban Areas (%)

	1998	2025
Afghanistan	19	40
Bangladesh	21	40
Bhutan	7	19
India	26	45
Maldives	31	--
Nepal	14	34
Pakistan	35	57

Megacities in Region by 2015 (>10 million population)

India	Bangladesh	Pakistan
Bombay	Dhaka	Karachi
Calcutta		Lahore
Delhi		
Hyderabad		

Doubling of Urban Populations (000)

	1996	2020
Afghanistan	4,000	13,642
Bangladesh	23,000	58,317
Bhutan	49	442
India	256,300	498,777
Maldives	62	--
Nepal	2,600	7,740
Pakistan	45,500	123,489
Sri Lanka	4,100	8,148
	335,611	710,555*

*Region's urban pop>doubles

Rate of Urbanisation

	1990–1995	2000–2005
Afghanistan	4.6	4.9
Bangladesh*	4.9	4.5
Bhutan	4.8	5.9
India	2.9	2.9
Maldives	3.5	--
Nepal**	7.3	5.2
Pakistan	4.6	4.2
Sri Lanka	2.0	2.9

*Bangladesh rate was 10.6%/year for 1974–1981, 5.4%/year for 1982–1990

**Nepal at 7% for 20 years

Snapshot on India's Urban Poverty

- Slums and shanty towns grow at twice the rate of all urban areas
- More than 60% of Madras and Calcutta's populations live in slums or are homeless
- In Mumbai (Bombay), slum dwellers and homeless are 50% of residents and occupy 6% of city's land
- Fifty per cent of all urban residents in India will be living in slums and squatter settlements by 2000

Sources: World Bank and UN 1996 projections revised; World Development Indicators 1998; World Resources Report 1998–1999. ■

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Territorial Competition: Some Lessons for Policy

by **Paul Cheshire** *London School of Economics* and **Ian Gordon** *The University of Reading*

Cities in Competition; Articulating the Gains from Integration

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