# Introduction

Today cities and municipal governments all over the world are faced with the same primary challenge: where to find the money to meet the growing demand for infrastructure development? As urban populations grow, the deficit between the demand for services and the ability of governments to supply those services gets wider. Our greatest challenge in the twenty-first century must be to try and build sustainable cities. In order to do this, we need to better understand what it will take to deliver sustainability. To date this has not been done particularly well. This publication sheds a very important light on the urban development canvas. Namely, how are some cities and municipalities in the Commonwealth dealing with the challenges of finding the resources to meet their infrastructure development needs?

In the twenty-first century, the world faces challenges unlike any in human history. New conflicts, climate change and rapid industrialisation in the developing world are placing unparalleled pressures on our planet's resources. To compound matters, the current global economic meltdown demonstrates how inter-connected the world has become, but at the same time, vulnerable. As the world's population grows rapidly, there is one single unequivocal truth. More people want to live in cities now than ever before. Harnessing and managing the forces of urbanisation in a way that does not undermine our planet's resources is now our greatest challenge. In that challenge, institutions charged with the responsibility of building a sustainable future come under greater scrutiny than ever before.

We know that in the next 20 years, most of the world's population will be absorbed by urban areas in Africa and Asia. Predictions of people moving from rural areas into urban agglomerations are startling. The Asian Development Bank (ADB) forecasts that by 2030, half of the Asian region's population will live in cities. Faced with this reality, how do our cities, their leaders and policy-makers intend to meet the challenges ahead? Governments of all kinds from Kampala to Ulaan Baatar will have to address the impacts of hyper urbanisation on economic, social and environmental conditions in their respective regions.

Cities of all sizes face major service delivery challenges, which require mobilising resources. In Asia alone, the ADB estimates the need for $250 billion per annum for the next 25 years. How to finance such requirements is a key issue facing many developing countries. Municipal governments, often faced with deficit budgets, lack the resources to finance infrastructure provision. Co-financing through regional and national governments, government grants and subsidises contribute to infrastructure funding in many developing countries. However, this also falls short of meeting demand for delivering infrastructure and service needs. In recent years, municipal governments in developing countries have explored other ways and means of overcoming this – namely drawing on private sector resources.

If we believe that municipal governments lack the wherewithal to finance infrastructure, then it would seem natural for the public sector to seek out new forms of financing. That said, municipal governments all over the developing world have done little to help themselves or inspire confidence for a number of reasons. First, the governance and financial health of municipal governments remains weak. Second, the lack of technical capacity to structure projects has undermined the ability of governments to successfully implement large-scale infrastructure. Third and most critically, the lack of desire to modernise the public sector by introducing elements of new public management means governments are configured in the traditional Weberian mould. So, we ask ourselves, how can municipal governments help themselves and free much-needed resources before turning to other options?

Many municipal governments lack good governance and fiscal management. Though it is fair to say that the lack of autonomy to raise and use their resources is a contributing factor, poor public expenditure management exacerbates the problem. Traditional budget-making processes, lack of fiscal control and inadequate expenditure management leave governments with limited resources. Equally important is the need to develop basic skills in finance, accounting, auditing and institutional capacity in strategic human resource and performance management. In recent years, successful fiscal reforms attempted in cities like Faisalabad (Pakistan) and Ahmadabad (India) show how municipal governments can move from being cash strapped to healthy fiscal positions.

The capacity to structure strategies, plans and projects is woefully poor in municipal government in developing countries. In recent years, while initiatives like the World Bank's Cities Alliance have been assisting cities to prepare medium- to long-term urban development frameworks, there are hundreds that have yet to embrace the tenets of strategic management. This inability to define projects conceptually and in terms of their potential financing should be addressed. In India, the Jahwarlal Nehru Urban Renewal Mission (JNNURM) an urban development policy framework incentivises small and medium-sized cities to prepare city-level plans in exchange for infrastructure financing. Though the response of cities has been significant, the plans are little more than infrastructure project 'wish' lists, supported by inadequate financial analysis. Municipal governments should invest in building their capacity to strategise, plan and structure projects effectively.

Critically, municipal governments in developing countries (including Commonwealth countries) are traditional administrations. The lack of strategic management and unwillingness to embrace information and communication technologies and new public management helps explain why public service provision remains poor. The inability to innovate through new strategic partnerships in delivering public services is one reason why many municipals governments lag behind in delivering quality services. Similarly, the unwillingness to reform, moving from the old to the new, undermines the ability of municipal governments to respond to a new global environment and public service orientation. If municipal governments could commit to a new kind of organisational and institutional configuration, one more akin to the private sector, they might be better placed to finance and supply infrastructure provision. Despite these lacunae, significant efforts are being made in managing and developing cities in developing countries through public and private sector means.

Even with these weaknesses, there is no reason why municipal governments shouldn't embrace new modes of financing infrastructure. The journey is not likely to be easy and previous results from developing countries are mixed. Experience thus far points to the need to develop capacity and 'know-how' in accessing market-based options and domestic or international lending sources. This will not be achieved alone, and many municipal governments in the Commonwealth and outside will need greater support in accessing expertise in these areas. This is where institutions like the Commonwealth Secretariat, ADB and the World Bank could do more to assist. Nevertheless, the onus must be with developing countries and their municipal governments to ask for this assistance and then demonstrate the commitment needed to implement sustainably financed infrastructure provision in cities across the world.

Hence, the publication of this book is timely. It arrives at a juncture when the debate about finding resources for sustainable city development this century is at a zenith. As a collection of case studies across Commonwealth cities and countries in Africa and South Asia in municipal infrastructure development, through private sector means, this book catalogues the experiences of cities like Karachi and Kampala in securing financial resources for effective public service provision. What emerges is a story of common challenges and issues, but very different strategies and approaches. This very much tells the tale of the degree to which decentralisation has occurred in each of the case study countries examined.

Critically, the book presents an important running theme. Namely, that the key bottleneck to private sector investment in many developing countries and cities is the poor physical infrastructure and investor perception of local government efficiency. This raises the spectre of reforming public sector management in Commonwealth and other developing countries before significant private sector participation in urban service delivery can take place. Dar es Salaam's attempts to reform the management of the transport sector for private sector involvement is heartening. However, the broad experience based on the evidence of this book is that private sector participation activities will remain incoherent and sector specific until investor confidence can be improved. That is unlikely to take place unless cities and the institutions that run them change.

The other significant point to emerge from this publication is the notion of bankable projects. Municipal governments and cities across Asia lack the ability to structure commercial and bankable projects. Typically, the process of prioritising investments with suitable financing plans tends to be inadequate. This deters private financiers, who perceive local government authorities as not being creditworthy and hence highly risky. One among many reasons for this is the lack of good governance. Often, in many Commonwealth municipal governments the responsibility for preparing bankable projects rests with different stakeholders. This lack of co-ordination and co-operation scatters investment possibilities, administrative and functional jurisdiction. This is especially true of South Asia.

Notwithstanding these challenges, the book traverses the potential of market-based financing citing several successful examples from India, South Africa, South East Asia and Latin America. The book presents successful case studies of local governments raising funds through municipal bond markets, finance intermediaries and public-private partnerships. This should give practitioners, policy-makers and officials the confidence that alternatives to traditional financing for infrastructure development exist. However, this calls for innovation in government.

What emerges is the need for wholesale policy, regulatory and institutional reform if cities in the Commonwealth are to fill the funding gap in infrastructure provision. Notably, it is the view of this author that this must start with systemic reform of key public sector institutions responsible for delivering urban services. Unless there is change in the way our governments are configured at the national, regional and local levels, we can expect still to be looking for ways to improve urban service delivery 20 years from now.

Let me congratulate the Commonwealth Secretariat and authors of this study in addressing the key challenges in improving municipal financing and also shedding light on how they can be overcome practically. This is a relevant piece of work for all those interested in sustainable urban development.

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1. This introduction reflects the views of its author and not the Cities Development Initiative for Asia (CDIA) or the Asian Development Bank as an institution. CDIA is a multi-donor programme based in Manila, supported jointly by the governments of Germany, Sweden, Spain and the Asian Development Bank.