

AN INTRODUCTION TO URBAN MANAGEMENT

Prepared for the  
Economic Development Institute  
of The World Bank

by

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1985



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## INTRODUCTION

This paper discusses what is involved in improving urban management in cities of the developing world. Part I, which makes up the main part of the paper, presents an overview of the principal issues in urban management. Its initial section identifies some of the major issues and problems that affect the growing cities of developing countries. This is followed by a second section which presents an overall approach to urban management, identifying its principal components and showing how they interrelate. The final section of Part I suggests a strategy for how governments can assess their management shortcomings and identify some priorities for early action to strengthen their managerial capabilities.

Part II of the paper is addressed specifically to participants in the Economic Development Institute's Course on Urban Finance and Management. This part raises a series of questions about urban management that participants should think about prior to their attendance at the course. In addition, it suggests the type of documents and materials that participants should assemble regarding the situation in their own cities and countries and bring with them to the course. It is anticipated that these documents and materials will provide a useful basis for the participants' own work on developing Action Plans as part of the course.



## PART I. AN OVERVIEW OF URBAN MANAGEMENT

### THE NEED TO IMPROVE URBAN MANAGEMENT

The rapid and substantial population growth that characterizes the cities of developing countries raises very serious issues of urban management. To carry out even the most basic managerial tasks--such as supplying water and removing solid and liquid wastes--is a difficult challenge under the pressures of poverty and population expansion that burden both secondary cities and metropolises such as Calcutta, Manila and Karachi.

As they face this challenge, most cities of developing nations are sharply constrained by the lack of financial resources. Under the difficult pressures that affect them, it is hardly surprising that their managers also frequently exhibit an inability to achieve the efficient allocation of those scarce resources they do have, as well as a general lack of planning to meet the critical needs of their expanding low income populations. Many of the problems local governments face are compounded by national or state governments that are unwilling either to allocate to local governments the resources they urgently need to pay for essential public services or the power to raise the resources themselves.

The urban management problem has many facets. Some are reflected in the lack of public services essential to growth and strengthening of the urban economy. Others detract from human health and environmental amenity. Poor to non-existent solid waste collection and disposal systems afflict many growing cities. Streets, storm drains and other essential infrastructure components are incomplete or, where built, are poorly maintained. Evidence of managerial shortcomings are evident throughout the developing world--in the clogged and overflowing drains of Bangkok, the long-unfinished Calcutta subway, the staccato power supply of Lagos, and the interrupted water supplies of these and many other cities. Public management shortcomings afflict the private sector, too. In many developing cities, traffic congestion and other transportation problems raise costs for private business and unnecessarily increase the level of fuel consumption. The lack of adequate land records, a basic governmental responsibility, hampers the operation of the market in urban land, obstructing residential and commercial development. In other instances, because of the lack of appropriate government action, private development is allowed to proceed even when it precludes or raises the cost of desirable municipal growth patterns, as for example when essential drainage paths or transportation routes are built on. Government is also at fault when too-rigid building codes preclude the legal construction of affordable housing.

Some of the penalties paid for poor management may be less visible but are nonetheless serious. The failure of many cities to raise their own revenues leaves them without the ability to provide the basic facilities and services needed for development or makes them overly reliant on

national or state governments for financial support. Such over-reliance can constitute a misuse of scarce national resources and can also lead to a continued inefficient over-centralization of public administration.

The price of poor management is paid by all segments of urban society. Lack of amenity, health and safety, and loss of achievable economic growth affect all city residents. The poor, who must often rely more heavily on public service provision because they cannot afford private substitutes, suffer most seriously of all.

Developing countries need their cities to be centers of economic development, not drags on the national economy. A growing body of research evidence demonstrates that cities can help significantly in achieving national economic growth. Typically, cities account for a much larger share of gross domestic product than they do of population in developing countries, a reflection of their contribution to national economic growth. It is reasonable to conclude that they could do even more in this regard if their governments acted to remove obstacles to economic growth through better management of public service delivery and by taking appropriate action to enable the private market to operate more efficiently.

The quality of urban management can make a difference in the ability of developing world cities to respond to the needs of their residents and economies. The purpose of the following sections of this paper is to suggest ways in which progress can be achieved through strengthening urban management.

#### THE SCOPE OF URBAN MANAGEMENT

If efforts to strengthen urban management are to address the full range of issues and problems that confront developing world cities, they will have to encompass activities that span across the full range of managerial concerns. This section describes each of these categories of concern and suggests approaches to action that appear to be appropriate in a program of urban management improvement. It may not, of course, be feasible or even desirable to initiate and carry out the full range of these possible activities in any single city or group of cities at the same time. Instead, a "building block" approach, with emphasis on the most critical components initially, is likely to be a necessary strategy. Nevertheless, it is useful to examine the full range of potential activities before selecting priorities for initial emphasis.

This part describes urban management under two basic headings: governance and private sector relationships.

- o Governance, as the term is used here, describes the basic public functions of local government, ranging from the relationships between higher levels of government and their cities to the internal management activities that are an essential basis for competent public service delivery by city agencies.

- o Private Sector Relationships describes the important ways in which local government relates to the private sector, ranging from regulation and control of private business activities to the use of private sector firms in the delivery of public services.

Each category is subdivided into various components or systems reflecting the principal concerns of urban management. Of necessity, the discussion is generalized so as to apply to the most commonly occurring conditions in the developing world.

## 1. GOVERNANCE

The broad category of governance includes a number of important subcategories, each of which has a vital bearing on the quality of urban management. The principal subcategories discussed in this section are:

- o Intergovernmental relationships between national (and, where appropriate, state) government and the local governments in urban areas.
- o The central administrative functions which determine many of the ways in which local government decisions are made and carried out.
- o The central staff functions, of which the most significant include development planning, personnel management and financial management.
- o Public service delivery, the process by which urban governments address the basic service needs of their citizens.

The basic purpose of the discussion is to provide a starting point for viewing the emerging concept of urban management and the role that it can play in bettering living and working conditions. It is, of course, essential to realize that the conditions that characterize the cities of Asia, Latin America and Africa are enormously varied. No simple generalizations, even of conditions that are common to a number of cities, can reflect the full diversity of these nations and cities. Nor can any single set of prescriptions be offered that will fit all situations.

### 1.1 Intergovernmental Relationships

A major source of problems for urban governance arises from the imbalance of power and responsibility that is often found between national and state governments on the one hand and local governments on the other. With few if any exceptions, the imbalance in the developing world is on the side of excessive power and authority for local matters being retained by central governments.

1.11 Setting the Framework. The basic legal, electoral and administrative framework of local government is almost always established by higher levels of government. In most nations of the developing world, this is done by the national government through its constitution or other

enabling legislation. In some, the responsibility for establishing this framework is entrusted to state governments. It is at these higher levels of government that many of the most fundamental characteristics of urban governments are determined: what responsibilities they will have to carry out public functions; what powers they will have to carry out these responsibilities; how they will be financed and under what financial principles they must operate. In many cases, even the most particular details of how local government must operate are spelled out by higher levels of government. Delegation of significant amounts of independence and authority to urban government is not a common feature of public administration in most developing countries. Especially in countries freed from colonial rule in recent decades, there has been a tendency for national governments to withdraw powers and responsibilities from lower levels of local government and to centralize it in national ministries.

Some developing world nations, including many of those in Latin America, do have a long-standing tradition of considerable municipal autonomy, albeit often limited by periodic national intervention. Other countries such as India, Brazil and Nigeria have long-standing federal traditions in which states or provinces (though usually not local governments) have powers that pre-date or parallel national constitutions. Despite these partial exceptions, however, the general rule in the developing world is that there is little municipal autonomy or "home rule". This is especially true in cases such as Francophone Africa where a highly centralist tradition was inherited from the colonial era and where the pattern of "tutelage" has often been further reinforced by independent governments. But it is also generally true in much of Asia, the Middle East and elsewhere in the developing world. Even in countries with strong state governments, such as India, few states devolve much independence to their urban centers.

More recently, trends toward an increased degree of delegation of authority to urban government have appeared in some nations. These may reflect a higher degree of stability and confidence on the part of national administrations and perhaps also some painfully learned lessons about the difficulty of achieving effective municipal management from the distant viewpoint of the national capital and national ministries. They may also reflect the reality of constrained national resources and the inability to subsidize local government to the same degree as in the past. Among the nations that have recently begun to move in significant ways toward decentralization of governing powers to urban areas are Mexico, Turkey and Sri Lanka. Even in these instances, however, national government retains the authority to terminate local independence at its own initiative.

Within the context of what is allowed to them by national and state decision, urban governments are called upon to assume responsibility for various combinations of service delivery responsibilities. Issues of the scope and jurisdiction allocated to urban governments are among the most complex and difficult matters with which they must cope.

1.12 Scope, in the sense used above, refers to the range of functions and services for which an urban government is responsible. This can vary

from a few common services to a broad and comprehensive array of responsibilities. Among the most common services provided by urban governments throughout the world are: solid waste collection and disposal; storm and sanitary drainage; the construction, maintenance and cleaning of public streets and the operation of markets and abattoirs. In addition, most urban governments have some degree of responsibility for enforcement (and, at times, the adoption) of the body of laws and regulations that govern key aspects of private behavior such as land use restrictions and building and health codes. Some urban governments operate a number of other public services, such as water distribution, fire prevention and protection, public transportation, parks and recreation, education, health facilities and social services. Other urban governments go even further, assuming responsibility for such activities as housing, economic development, electricity distribution, cultural activities, or community organization. Others establish commercial enterprises to manufacture products or sell goods and services to the general public or to selected groups of the population. No worldwide consensus exists on precisely which functions a city ought to be responsible for, although there does appear to be general agreement on two aspects of the question: first, that those cities that are responsible for only a bare minimum of governmental functions may lack the critical mass of activity necessary to develop a strong administrative base on which substantial personnel and financial systems can be built; and, second, that those urban governments that serve large populations can generally undertake to deliver a broader range of services than can smaller municipalities. Very large cities, which are often national capitals, often tend to take on some of the characteristics and broader functions of a state or provincial government.

1.13 The jurisdiction or geographic area served by a government is a matter of significance, but one that is often beyond the locality's control because it may lack the power to extend its boundaries. This can become a serious problem when continuous development spreads beyond the city's boundaries, either into an adjoining jurisdiction or into unincorporated territory without any form of local government. For want of corrective action by higher levels of government, some urban areas have become fractionalized among more than a dozen different governments, creating complex problems of coordination; the city of Lima is often cited as an example where this is a problem. Development that spreads across local boundaries can also create service problems--for example, with respect to storm drainage or traffic routes--that become jurisdictional disputes difficult for local governments to solve. There can also be an equity aspect to metropolitan development, such as occurs when wealthier communities are split off from poorer ones to avoid sharing a tax base, or where people live and work in different jurisdictions. Multiple jurisdictions inevitably create difficulties in arranging for services that need to be planned at a broader, metropolitan level.

An approach to the jurisdictional problem that has often been found workable is to allow the central city in a growing metropolitan area to annex adjoining communities to assure that public services are provided and that important facets of the metropolitan economy are not omitted from the urban tax base. In some countries the very large area of jurisdiction

initially allotted to the major city (as in the case of Nairobi, Kenya) has allowed major growth to take place within the city's original boundaries. In other cases new metropolitan governments have been set up to address the questions created by growth that overwhelmed municipal boundaries; this is an approach that is being used in a limited way in Brazil where special purpose metropolitan agencies have been created. Metropolitan-level agencies operating in multi-jurisdiction settings can appropriately assume those functions which are best planned and executed at the largest scale. These include the basic provision of water supply, major transportation routes and region-serving facilities such as specialized hospitals or universities. Areawide planning, including coordination of local plans to assure integration of service systems across municipal boundaries, is another appropriate metropolitan function.

1.14 The Parastatal Corporation. Another aspect of national/local relationships that has come into prominence in developing countries in recent years is the role played by parastatal corporations. These entities, usually created by national or state governments, are often the form in which an important public service is delivered in urban areas. Parastatal corporations, or enterprises, can be established at the local or metropolitan level as well; one common form of local parastatal is the independent water and sanitation agency that may serve one or more local jurisdictions. Parastatal agencies operate in many different fields: water supply, sanitation, highway construction, electrical power supply, port facilities and railroad operation are only a few of the fields in which parastatal corporations are active. Many of these activities are of great importance to the development functions of urban areas.

Parastatal corporations have much to recommend them. Many are less burdened than are long-established entities by governmental "red tape", and they can pay higher salaries and can, therefore, recruit better trained staff. Most parastatals are single-purpose agencies and therefore don't have to face the complex pressures that make life difficult for general purpose governments. These factors enable many parastatals to operate with at least some of the flexibility and speed of the private sector and to deliver high quality, focused services. This is not always the case, of course. For example, in India, where parastatals are required to observe much the same staffing and salary rules as are municipal governments, there do not appear to be significant differences in the speed and competence of the two types of organization, at least in most cities.

From the viewpoint of urban government, however, parastatals can be as much part of the problem as the solution. For one thing, when the parastatal agency is created by pulling out functions for separate operation from city agencies, such action often weakens the local government. In addition, because they have considerable power and discretion, parastatal organizations often select the most rewarding--but perhaps least complex--parts of public service functions as their field of operation, leaving the messy remainder to an overburdened, understaffed municipal agency. This has frequently been the case in the water supply and distribution field and in transportation where parastatals tend to design and build the capital investments--and then leave the problem of maintenance and upkeep to inadequately prepared and poorly financed local governments.

1.15 Intergovernmental Financial Relationships. Apart from the issue of how responsive national government is likely to be to particular urban needs, an especially difficult problem for local management of municipal activities is created when there are wide discrepancies between the responsibilities delegated to or imposed on urban governments and the financial resources allocated or otherwise made available to them by national authorities. National mandates on urban governments to deliver costly services such as elementary education, sanitation and public health cannot be carried out effectively unless the local authorities are also provided with the revenues to finance them, either by national sharing of centrally-generated revenues or through a grant of authority to levy local taxes or charges.

Financial support from higher levels of government to cities and other local governments can take a number of forms, including:

- o Direct financial support through grants or loans
- o Sharing in the collection of national taxes
- o Authorizing local governments to collect their own revenues from taxes, service charges and other sources.

Each of these approaches has a role to play in the intergovernmental relationship; each can represent a source of strength or weakness in improving urban management.

Nearly everywhere in the world, including the industrialized nations, it has become common practice for higher levels of government to provide at least some financial support to urban governments; for example in the OECD nations national governments provide an average of about 45 percent of local government revenues. (Cited in Linn, J. F. (1981). "Urban Finances in Developing Countries" in Urban Government Finance, Vol. 20, Beverly Hills: Sage Publications.) In many developing nations the proportion reaches this level; in others, national support for local governments is well below this level; and in a few cases national governments supply nearly all the local revenues. While there is no clear consensus on what level of budgetary support higher level of support higher levels of government ought to provide, it should relate to (1) the range of services that the local government is required to deliver and (2) the strength of the national government's own resource base. A concept that is gaining support in some nations is that national financial support of local government should also be conditioned on local efforts for self-improvement. This implies the inclusion in national revenue-sharing formulas of factors that reflect such actions as local tax effort or local activities designed to strengthen the quality of financial and personnel management.

From the point of view of economic efficiency, there are advantages to national or at least statewide collection of some forms of tax. Income and sales taxes are good examples of forms of taxation that are usually most efficiently and effectively levied by a higher level of government. So,

too, are customs excises. Even in these instances, however, a good case can often be made for local sharing in the revenues from such taxes; the case is especially strong when functions such as health, education and the social services--which tend to place burdens on localities disproportionate to their ability to raise revenues--are assigned to local governments. In Brazil, for example, receipts from the important value-added tax are shared between the national, state and local governments, even though all collections are the responsibility of a national agency. The share that Brazilian localities receive is an important element of their fiscal base.

Sound arguments can also be made for national governments to allow--or require--urban areas to raise their own revenues to cover at least part of their expenditures. First, in most developing nations the national tax base is likely to be already hard-pressed with little capacity to expand to cover local needs. Second, there is evidence that some forms of resource mobilization (especially, real property taxation) are best carried out at the local level, and that such action may not compete seriously with national revenue raising efforts. Third, to the degree that local governments seek to obtain revenues from local taxpayers, a useful feedback relationship is set up: citizens satisfied with the quality of local services are more likely to accept their tax-paying responsibility--and vice versa. It is generally agreed by authorities on taxation that such local revenues as real property taxes can be levied most effectively by urban governments because they are in the best position to develop property lists, assess values and collect receipts from individual taxpayers. Evidence also suggests that urban governments have the capacity to tap revenue streams from charges for services such as water supply and sanitation that are not readily accessible to national government and in ways that do not appear to detract from national taxing capacity. In addition, connecting the payment of taxes to the receipt of services within the same urban jurisdiction creates a constructive information flow from the taxpayer to public officials. Generally, where people are satisfied that they are receiving services, they are also likely to be willing to pay for them; this useful signal favoring good service delivery (and condemning inadequate service) tends to be lost in the anonymous format of national finance. An especially difficult aspect of the intergovernmental relationship arises when national or state governments limit the ability of cities to adopt their own resource mobilization measures. For example, many national governments set difficult constraints on property taxes, such as preventing the frequent reassessments necessary to keep pace with inflation, or requiring that valuations be kept abnormally low through rent control laws, or putting ceilings on the tax rates that localities can charge. Many cities cannot adopt any new tax or fee, or even change rates for existing taxes, fees or levies without approval from higher levels of government.

Another negative feature which has arisen in the central-local fiscal relationship occurs when the national government preempts or eliminates an effective local tax. This was the case, for example, in Kenya where the national government abolished Nairobi's effective income tax and in Sri Lanka where the national government preempted Colombo's tax on motor vehicles. In each case, a national revenue subsidy was substituted but its growth rate failed to keep pace with trends from the preempted tax.

While it is not possible to prescribe for all countries what the central-local fiscal relationship should be, certain principles do emerge from the patterns that are visible around the world:

- o National (or state) governments, due to their broader revenue-raising authority have a basic responsibility to provide financial aid to help cover local costs, especially where urban governments are required to provide services of a broad character such as education and health.
- o National governments should design their aid programs, insofar as feasible, to provide incentives for better management at the local level.
- o Predictability of the level of national aid that a local government can anticipate may be almost as important as the amount of aid itself. Abrupt cutbacks in aid levels can prove highly disruptive to local management practices.
- o National governments should extend broad authority to local governments to engage in their own resource mobilization efforts. While the political temptation to keep strict limits on local authority is difficult to resist, it inevitably proves disruptive to responsible local efforts to develop effective systems of taxation and cost recovery.

As nations decide how to allocate fiscal responsibilities among the various levels of government, they need to take into account such factors as: equity, efficiency, responsiveness to local priorities, accountability, avoidance of corruption and administrative capacity. Each country must cope both with its past traditions and its current political realities. Within this framework, however, it is vital for national and local authorities to seek a balance that will allow local government sufficient independence and authority to support its public service costs.

## 1.2 The Central Administrative Functions.

Every urban government must determine how it will carry out the two most central functions of governance: policy-setting and central administration. In addition, there is a third central function, oversight, which may be carried out at the local level or, more commonly, is a joint responsibility of the city and one or more higher levels of government such as a state or national ministry. These three central functions are discussed in this section.

1.21 Policy-setting involves decisions on the government's overall goals and priorities. In most jurisdictions, this function is the responsibility of the local council or legislature, a body which may either be elected or appointed. The policy-setting function involves many different activities, among the more important of which are:

- o Framing broad policies and plans for public service, such as how the locality will adapt to population growth and seek to further economic development through its public investment and other decisions, as well as what public services it will seek to supply itself as compared to what services it will attempt to induce the private sector or individuals to provide for themselves.
- o Adopting the principal local laws or regulations that govern the way in which the local government will operate. Such laws or regulations typically include developmental controls (for example, zoning or other forms of land use regulation) and standards for public services (for example, health codes that apply to food stores or restaurants).
- o Making the major decisions on municipal finance, such as the decisions on how local revenues will be raised through such means as the adoption of taxes or service charges (to the degree that state or national laws allow the locality such discretion) and adoption of the annual recurrent and capital budgets.

The selection of broad-gauged public policies and goals is, at bottom, a political process in which many different groups within the city will want to have a voice. The ability of elected local councils to reflect the different views of community interests such as neighborhoods, business communities or professional associations is one of the arguments most often advanced in their favor. Concern that local disputes over the appropriate policies to adopt may become a basis for competing political parties to develop power bases has been viewed as a threat to national unity in many developing countries, leading to the weakening or suppression of locally-elected governing bodies. The problem has been an especially acute one in the case of national capitals, which are typically the largest city of the nation and where the dominant political party at the national level wants to be certain of retaining control. Thus, local policy-setting can often not be separated clearly from regional or national politics.

1.22 Administrative direction is generally the prerogative and responsibility of an elected or an appointed chief executive (referred to in various cities as the mayor, commissioner, administrator or town clerk). In the developing world, appointed chief executives tend to predominate. There are wide variations both in the methods of selection and the scope of responsibility allotted to the chief executive, making it difficult to cite any single common standard against which the executive's performance can be measured. But among the more commonly accepted responsibilities of chief executives are:

- o Direction or, at the least, oversight of the process of formulating the locality's budget prior to its submission for adoption by the local legislature or to some higher authority for approval.
- o Appointment of the principal public officers (often subject to concurrence by the local legislature or some higher level authority such as a civil service board) and overall supervision of the work

of these officers who are typically the heads of city departments or key staff units such as finance or personnel. Many chief executives carry on this supervision function through such means as periodic "cabinet" meetings of the principal officers, through requiring them to submit regular reports on the activities of their departments, and requiring them to consult with the chief executive whenever a critical situation or emergency affects the work of their department.

- o Acting as the principal management adviser to the local legislative body and to its committees.
- o Serving as the principal spokesperson for the government in its dealings with higher levels of government, with major community organizations, with the private business sector, and with the media.

The structure and position of the executive's office also varies widely. A major element in such variation is the degree to which individual agency heads are seen as reporting to a single executive or directly to the local legislature or higher level ministries. Some chief executives are supported by strong staff organizations that include financial and personnel units, legal and public relations departments and planning units. In other cases, the chief executive's authority is highly restricted—at times to ceremonial functions—and executive power is dispersed throughout the agencies of local governments.

The political functions of chief executives also vary over a broad range. At one extreme are the cases where directly-elected executives are the dominant political leaders of their city. At another extreme, the chief executive may be viewed as a non-political administrator whose role is to accept policy direction from the local legislature or a higher level government agency and carry out policies in a manner which is administratively efficient and responsive to the policy direction given him. Either style can be effective, given the right conditions, but each style of executive also needs to develop means to compensate for those aspects of administration that are less readily amenable to the structure of the local government. For example, the politically-based executive often experiences difficulties with the execution of long-term municipal policies, such as those having to do with staff development or planning; by contrast, an appointed executive may be less well placed to provide leadership to subordinates or to cope with partisan political pressures.

1.23 Oversight is a function that can be exercised either within an urban government or by a higher level of government. Essentially, it consists of observing if policies are being carried out in an acceptable manner. From the viewpoint of national government, oversight typically involves such major concerns as:

- o Making certain that financial requirements such as a balanced budget are met, that proper accounts are kept, and that local governments stay within prescribed levels of expenditure or borrowing.

- o Insuring that local governments observe nationally mandated standards and policies. These may have to do with preventing abuse of power by local officials or rooting out corruption. They may also relate to assuring that localities provide those public services they are supposed to or refrain from entering into activities beyond those assigned them by the higher level of government.

Among the means used to exercise oversight by higher levels of government are: requiring submission of key local policy decisions (such as tax and fee increases or the annual budget) for approval before they can become effective; requiring submission of periodic or year-end reports on revenues and expenditures; and sending inspectors or auditors into local government offices to observe their operations. Suspension or replacement of local government officials is an ultimate weapon that higher levels of government can use to enforce their decisions. Typically, the national or state organizations that are involved in the exercise of the oversight function are ministries of local government and auditor generals.

Urban governments can exercise oversight through such means as legislative hearings at which public officials and citizens testify on agency operations and services, by requiring periodic reports by the chief executive or agency heads, or by using audits to assess fiscal and managerial performance. One good method to provide a basis for legislative oversight is through the preparation of an annual report on municipal operations by the chief executive.

Many oversight concerns involve money, the single most critical resource available to local government. Subsequent sections of this part will discuss additional means of financial oversight under the headings of accounting and audit, two important components of financial management.

### 1.3 Central Management Systems.

A key to the effective operation of urban government is the role of certain key central management functions. These are often referred to as the "staff" functions of government (on the military model of staff and line functions). Three of these are discussed in this section:

- o Development Planning
- o Personnel Management
- o Financial Management

Other staff functions in addition to these three include: the legal advice function; the central purchasing and inventory control function; and the public information or public relations function. Depending on local considerations and the size and complexity of the urban government in question, there may be central management or support functions as well, such as community organization, artistic or historic preservation, and economic development.

1.31 Development Planning. The adoption of long-range goals and plans for the growth and development of the city is one of the basic policy-setting functions of the local legislature. To assist the legislature in this process, staff support is essential. The role of the development planning staff often begins with the assembly of an information base on the city--its population characteristics and trends, its economic base, its physical patterns and other key characteristics and problems. The development planning function then proceeds to the identification of strategic goals, including the major options that the city can select among to guide its future growth.

One of the important features of development planning is long range planning of urban land use and transportation patterns. This is especially the case in rapidly growing cities where each new settlement represents a major commitment to a future pattern of land use for residential, commercial, industrial or other purposes.

Development planning is an important prerequisite to the asset development process, helping to set the framework for major public and private investment decisions. In this regard, development planning constitutes an important linkage between the public and private sectors with respect to such things as the public investment commitments planned in the annual capital budget and the multiyear capital program. Many of these commitments--especially those involving water supply lines, roads and other infrastructure components--have a significant influence on the pace, character and timing of private investment in houses, stores and manufacturing facilities. Another way in which development planning influences private investment is by serving as the basis for municipal regulation of the use of land. In some countries, national legislation places considerable authority in the development plan, even to the extent of providing that land designated for future public uses may not be built on unless it is first offered to the local government.

At its best, development planning can be seen as an ongoing process which enables the city to review on a continuing basis how its overall strategic framework relates to the realities of urban growth and change. The promulgation of a development plan should be the culmination of a multiyear process of planning, analysis and consultation with the many public and private organizations that are concerned with the direction of growth. Interim stages of the planning process, in which principal attention is focused on particular sectors (such as housing or transportation) or on particular neighborhoods are often resorted to as means to produce usable information before the end of a multiyear planning process.

1.32 Personnel Management. In the views of many observers, the quality of local public officials is the principal problem confronting urban management in developing world cities. The problem is especially difficult with respect to personnel with technical training and experience in such fields as finance and engineering. Overcoming these shortages, and establishing a personnel system which assures both competence and continuity, is a central challenge for urban governments.

Among the factors that complicate improvement of local personnel systems are inadequate salary structures. In most instances, urban governments are subject to salary structures that prevent them from competing in pay and benefits with job opportunities available to skilled people in state or national administrations, much less those in the private sector. Those local governments whose staff are part of a unified national personnel system may be better off in this regard, but they must still compete for personnel against the prestige of jobs in the national government itself. Lack of opportunities for advancement, or for continued upgrading of skills, are other problems that often obstruct personnel retention, especially in smaller urban authorities.

Another problem affecting some urban government's efforts in personnel management is a lack of assured tenure. Where there is no civil service or other form of assurance of merit employment and promotion the positions of local government employees may be threatened by changes in administration and by the pressures of political patronage. Political factors, heightened by the difficult economic conditions in many developing world cities, also tend to create another problem: over-employment of unskilled persons, hired either to support political objectives or in a short-sighted effort to generate economic development by a public employment program designed more in terms of welfare than the delivery of public service.

A number of efforts have been mounted to try to resolve at least part of the problem. Unfortunately, some of them, including those listed below, have a tendency to create additional problems even while solving some particular situation:

- o Utilization of protected environments, such as those that can be created within parastatal organizations, may help to assure that qualified employees can be hired or retained to deliver critical technical services. This is a technique that has frequently been utilized, with at least partial success, in the delivery of public water and sanitation services. The parastatal corporation can often pay higher salaries and benefits and can offer qualified employees a more secure, less political working environment. Such parastatals tend to be found most frequently under conditions where a source of revenue, such as water service charges, can be dedicated to support of the organization, enabling them to support better working conditions for their staffs without having to appeal for funds from governmental budgets. Parastatals are not, however, a generally applicable solution to many of the concerns of local government and, where they are utilized, may have a tendency to worsen personnel problems in local governments by hiring away their best qualified managers and technicians.
- o Use of private companies to deliver public services is another approach which is often utilized where public agencies are seen as inefficient, costly or inept. This approach is discussed further in section 2 below (in connection with Private Sector Relationships).

Approaches to replacing general public work forces by organizational methods that avoid at least some of the personnel problems of local governments can help. They cannot, however, resolve all aspects of the personnel problem. Every urban government needs to maintain at least a core of public employees responsible for general administration and oversight, including its policy-sensitive financial management and planning processes. Most local governments also need to maintain staffs of public employees to provide services not amenable to privatization or parastatal operation, or which it does not find appropriate or economically feasible for such operations. Such services generally include provision of public health and education, enforcement of municipal regulations and revenue collection, although examples of the conduct of virtually every public service under contract operation can be found, either in the developing or industrialized world. For example, in Karachi the collection of the octroi tax has been contracted out on a competitive bid basis; so too, many cities use private firms to do property tax valuations. Most urban governments, however, still find it essential and appropriate to maintain their own work forces in addition to partial reliance on contracting out or other indirect means of service provision.

Whatever a locality's decisions are as to the appropriate mix of parastatal, private and public employees in its provision of public services, it needs to develop a personnel management system that is capable of performing certain essential functions. These include:

- o Job requirements that set forth the work that is to be performed by the employees retained for each municipal function. These can range from detailed specification of qualifications and assignments for technical personnel to more general descriptions of the tasks and qualifications required of common laborers. Generally, such requirements apply most rigorously to newly employed persons. Those already in public service are often assumed to be qualified by virtue of the fact of their employment.
- o Working conditions, such as hours and days of employment and the provision of equipment or working space.
- o Pay provisions, including the salary or per hour wages to be paid to each employee in a given position, plus provisions for salary improvement to take into account increasing levels of responsibility or skill, seniority and changes in the cost of living. Pay provisions, together with other aspects of public employment, are at times the subject of collective bargaining between local government and unions representing its employees. In other instances, these features of employment are unilaterally determined by the urban government or are set by national or state personnel regulations.
- o Job tenure provisions vary widely. Many cities have elaborate civil service systems operated at either the local or national level which set virtually all standards under which employees are hired and fired and which provide opportunities for employee

grievances and appeals to be heard and decided. In others, workers serve at the discretion of local government managers or political leaders. Each system has its own strengths and drawbacks.

Less frequently found in urban governments are provisions for training and upgrading of employees through such activities as in-service training programs, released time for training, payment for the cost of technical training and other approaches to enhancement of skills. An important feature of improved urban management should be more widespread use of training. Some governments couple such training with employee agreements to remain with the local government for a sufficient period of time after training so that the locality, as well as the individual, shares in the benefits. Unfortunately, in most developing world cities training is more often characterized by its absence; and even where it exists, little evidence is yet available as to the effectiveness of various approaches in upgrading the quality and character of public administration.

Personnel management, or human resource development as it is often termed in the corporate world, is an important but difficult to achieve aspect of general urban management. It is a basic responsibility of urban government, whatever mix of service provision it is responsible for and however it chooses to deliver its services. Beyond the minimum requirements of a professional personnel system, managers must seek ways to motivate municipal employees if they are to meet high standards of service delivery.

**1.33 Financial Management.** The financial management system deals with a basic resource of governmental activity; how money is raised, spent and accounted for. City governments in the developing world, almost without exception, are characterized by severe shortages of money. In part, this is a by-product of poverty at the national as well as the local level. But it is also due to other features of local government arising out of administrative, legal and technical shortcomings. Many of these can be remedied at relatively low cost. Indeed, some of the most important improvements that can be made will themselves generate resources that can help to meet the financial problems of municipalities. These include:

- o Improved approaches to resource mobilization, through such means as better cost-sharing arrangements with higher levels of government, better local tax assessment and collection and better cost recovery for services to individuals.
- o More careful budgetary planning in the use of resources, better control and management of how expenditures are made, and post-audit of expenditures to generate feedback to help improve financial management.
- o Good personnel management is also an important underpinning to improved financial management, to assure that qualified people are available to perform the critical technical tasks that are involved.

- o So, too, is careful systems design to help assure both the efficient utilization of scarce technical manpower and to take advantage of modern advances in use of computers and other record-keeping and control devices.

The great importance of financial matters in urban management is well illustrated by the responses of a broad-based group of American city managers who, when asked what matter involved more of their time than any other, responded that it was budgeting. It took up nearly half of their time, well ahead of any other managerial time commitment. (Cited in Morgan, D. R. (1979). "Managing Urban America," Massachusetts: Duxbury Press.)

Financial management is best understood in terms of its different parts. One way of viewing it is in terms of five inter-linked components: goal-setting, budgeting, accounting, auditing and performance management. Each is discussed briefly below.

1.331 Goal-setting is the starting point for good financial management. It is also, however, the aspect which is least often recognized by local policy-makers and even top administrators as an overt duty that they must perform. Most assume without thinking that government must continue to perform all of the functions it now performs in much the way it now does and that their principal responsibility is somehow to find the additional resources to meet perceived service needs. This is a limited view of the goal-setting responsibility of government and one which is likely to trap policy-makers and administrators in an almost insoluble set of constraints. Beginning the process of upgrading local financial management by at least examining the city's major options may well reveal that there are significant choices that can be made. These choices can help concentrate efforts where they can make a difference. For example, cities often have choices as to whether or not to provide particular services at all. They can choose the levels at which services will be provided, and whether they will be provided free or for a fee, and what technology will be used. They can choose whether to provide services through public work forces or by means of a contract with a private company. Furthermore, they have choices as to whether to seek funds to finance their services from higher levels of government or raise them themselves. They can decide whether it is more important to seek additional resources first or to upgrade the efficiency and effectiveness of municipal services before seeking more money to pay for them. None of these basic policy choices is easy, especially within the very difficult pressures for more service to remedy undesirable conditions that are faced by most local governments in the developing world. It is, nevertheless, vital that the concept of choice not be overlooked among the pressures simply to do more or to raise more money.

Goal-setting for the financial management system should be seen as an outgrowth of the city's overall strategic and development planning process. In the absence of an overt and carefully thought through goal-setting process, it becomes much harder for cities to address the question of how to focus their limited resources most effectively.

1.332 Budgeting is the central process of financial management in which the city's goals are translated into the mobilization and allocation of financial resources. Budgeting is a planning process in which specific plans are made for public expenditures in the near term (generally, a year) and, in the best cases, for the medium term as well (generally, three to five years). To be effective, budgeting needs to be linked to processes of control, management and feedback. These three processes generally correspond to the three other financial management components--accounting, performance management and auditing--which are discussed in subsequent sections.

Budgeting involves both the mobilization of resources and planning for their utilization over time. Given the dire shortage of financial resources that characterizes most local governments in developing countries, perhaps it is best to begin with resource mobilization, or revenue generation. This can be carried out in a variety of ways, of which the most important are:

- o Revenue-sharing with higher levels of government, through such means as sharing in tax collections, through general-purpose grants or specific, categorical grants. Intergovernmental financial relationships vary widely in the developing world, from the relatively rare instances where higher levels of government provide little or no support to localities to (more common) situations where they provide a substantial fraction or even all of them. The situation in most industrial nations lies between these extremes; for example, in the OECD member countries, higher levels of government typically provide a medium range of support--25 to 50 percent of local budgets. (Cited in Organization for Economic Co-Operation and Development (1983). "Managing Urban Change," Vol. I, Policies and Finance. Paris: OECD.)
- o Local taxation, of which perhaps the most common and significant component is taxes on property such as buildings and land. Property tax systems are seen by many authorities as both economically appropriate and, realistically, as the most politically acceptable source of tax revenue for local governments. Unfortunately, in the developing world many real property tax systems produce much less revenue than they could because of problems associated with the identification and valuation of taxable property and poor methods of collection and enforcement. For example, a World Bank staff study of real property taxation in three West African countries estimated that tax receipts were only about a tenth of what they could be if better systems of property identification, valuation and tax collection were put into effect. Other local taxes from which developing world cities obtain revenues include taxes on business, sales and use taxes on goods and services, personal income taxes, taxes on imports and

poll taxes. In South Asia, the octroi tax on goods movement is an important local tax. A common problem in levying local taxes is that it is far harder to identify taxable activities by businesses that operate in the informal sector; thus, most taxes are focused on the formal sector. A useful feature of property taxes is that, while they are not easy to administer, they can often be applied to the informal sector as well (although most cities exempt properties of very low value).

- o Cost recovery, where the recipients of public services can be clearly identified and where it appears equitable to charge for part or all of the cost of service delivery. Water supply is a common focus of cost recovery, although in low income neighborhoods where service is not to the individual building (but through standpipes) it is not generally feasible to charge directly for water. Municipal enterprises, such as electric power companies, telephone companies or public transportation companies are other services which are at times operated by local governments and to which cost recovery principles can apply. Charges for betterments, such as streets, sidewalks or sewers are another source of cost recovery used by some local governments, especially in Latin America.
- o Fees and licenses for use of public property, such as market stalls or permission to run buses on city streets, are common sources of municipal revenues. So, too, are fees for parking and fines for traffic offenses or other violations.
- o Borrowing is an especially appropriate means of financing capital projects with relatively long periods of usefulness. While borrowing is not, in the strictest accounting sense, a source of revenue, it is often used to enable cities to proceed with capital projects such as infrastructure investments that they cannot afford to pay for out of reserves or current revenues. In the absence of direct access to the securities markets--the case in nearly all developing countries--cities usually must look to higher levels of government or to international assistance agencies as sources of borrowed funds. In recent years, a number of countries such as the Philippines have moved toward establishment of Municipal Development Funds which provide loans for capital projects to municipal governments. Repayment terms are negotiated within the city's ability to pay over a period of years, thus enabling it to move ahead on development projects which are urgently needed but might otherwise have to be postponed until the city had accumulated sufficient surplus funds to finance them.

Nearly as important as the amount of money that can be obtained from specific revenue sources is the predictability and growth potential of revenues. Unless reasonably accurate forecasts can be made of revenues, cities are likely to be subject to difficult fluctuations in their ability to spend on activities whose cost remains relatively steady from year to year. Also, unless a revenue source has reasonable growth potential it cannot be relied on to help sustain the rapid population growth to which most cities are subject.

The expenditure aspect of local government budgets is usually divided into two components: recurrent and capital.

- o The recurrent budget, as its name implies, deals with those items of expenditure that are likely to recur each year. The most important of these are salaries, which often account for over half of all costs. Spending on supplies, heat, light and power, rent and other repetitive costs are also significant. Debt service to repay prior borrowing is another significant factor in many recurrent budgets.
- o Capital budgets finance the planning, construction and furnishing of long-lasting items such as buildings and other structures (streets, sewers, etc.) as well as major items of equipment.

Recurrent budgets are most frequently organized in two basic ways: by the object on which funds are to be spent (salaries, supplies, rent, etc.) and by the organizational unit which is to be responsible for the expenditure (such as a local government department). Where a government department performs more than a single function, it is also a good idea to subdivide its budget into "programs" or "activities." More advanced forms of budgeting also seek to organize budgetary accounts by functional categories (for example, "environmental protection") which may include activities in two or more governmental departments.

In good practice, the municipal budget for the coming financial year is formulated well before the start of the year to allow time for the local operational and financial staff to examine the need for expenditures and to compare needs with the revenue levels expected to be available. Time is also needed for the principal administrators and policy-makers of local government to examine the proposed budget before its adoption.

Analysis of costs to be incurred is a critical step in budgeting. This can be limited to just repeating what was spent last year (which is a normal beginning point in any event) or can involve various levels of analysis, such as:

- o Pricing analysis, to take into account inflation or other cost changes in the goods and services the locality buys.
- o Forecasting of needs to see if the level of service of the previous year needs to be increased or otherwise changed.

- o Management analysis and program evaluation, to see if public services are being provided efficiently and effectively.
- o Market analysis, to see if the quantity and type of public services are in accord with the community's desires and willingness to finance.

A key feature of budgeting is the comparison of proposed spending with the revenues available. Some local governments are so irresponsible as to continue spending at levels beyond their resource availability until funds run out before the end of the financial year; this practice of hoping that "something will turn up" is patently unacceptable. So, too, is the practice of allowing expenditures outside the framework of the municipal budget through such devices as special accounts that are kept off the regular municipal books. Few local governments in developing world cities as yet can be said to have developed recurrent budget systems which are fully adequate to meet their needs. There are all too many instances of failure to meet all three of the basic purposes of budgeting: to plan expenditures so that municipal priorities are appropriately addressed; to manage expenditures so that taxpayers are assured of the efficient use of their payments; and to control expenditures so that unauthorized funds are not spent.

Capital budgets are generally organized in terms of individual projects, although it is also customary to group a series of related minor activities into a single "lump sum" project. Some of the analysis appropriate to capital projects is closely comparable to that involved in a recurrent budget, but other aspects are different. Typical of capital budgets are the following types of analysis:

- o Needs analysis linked to general physical planning, to define the highest priority capital needs of the city.
- o Cost estimation, which may require some level of engineering analysis.
- o Commitment analysis, to track the pace of design and/or construction of a capital project so as to determine when funds will be needed.
- o Funding analysis, to determine what sources of financing are available.

One of the links between recurrent and capital budgeting is through maintenance analysis, which can help determine whether it is better to spend now to keep a facility in good operating condition or replace it. Another link is in terms of the projected operating cost (and/or revenue) associated with a completed capital project. Combined analysis of capital and operating costs can be utilized in choosing among various options for achieving a municipal objective.

Both recurrent and capital budgets are typically planned for a single year at a time. Good practice, however, also calls for multiyear budget planning to give a better sense of what future commitments the city must anticipate and how difficult it is likely to be to obtain the resources to pay for them. Planning of future budgetary demands is especially important in rapidly growing cities where service demands do not hold steady from year to year and where difficult development pressures must be accommodated.

It is also important to recognize that the budgeting process does not end after the annual budgets have been formulated and adopted. Budgets must also be administered throughout the year to make certain that spending patterns remain in accordance with the plan -- or that changes are made in a consistent and controlled manner when unforeseen events mandate a shift in spending during the course of the year.

1.333 Accounting is the principal technical process through which the spending allowed in a municipal budget is recorded and controlled. Accounting systems meet several key needs of government:

- o Control is essential if the municipal budget is not to be overspent and if revenues received by the locality are to be properly received and preserved from loss. Both cash and non-cash expenditures (such as commitments for supplies to be paid for upon receipt) must be controlled and recorded, as must all receipts of revenue.
- o Cash flow analysis and control is also an important function of an accounting system to make sure not only that an item of expenditure accords with the budget but that the locality actually has the cash on hand in time to pay for it.
- o Information is a major by-product of accounting. Information on the pace of spending and the receipt of revenue, and how this relates to the amount budgeted, is a key piece of management information. So is the analysis of costs that the accounting records make possible to help in future budgeting.
- o Accounting also deals with debt management and with statements of governmental assets and liabilities.

Many local governments have adopted standard systems of accounting, in some cases based on guides promulgated by higher levels of government. These standard municipal accounting systems tend to resemble private business accounting in some ways, but differ sharply from it in several important respects. Two of these are:

- o First, the fund basis of accounts is normally utilized in municipal accounting, rather than the consolidated practice common in the commercial sector. This is because municipal revenues are often segregated into separate funds which can

only be used for particular purposes. For example, water revenues may only be available to pay the costs of water service or an intergovernmental grant may be restricted for use in a particular program such as a creche or health clinic. Most localities maintain a "general fund" for their flexible revenues and general-purpose expenditures. In addition, they may have several more special-purpose funds such as a capital projects fund or a water enterprise fund.

- o Second, the budget generally plays a much more important role in municipal accounting where, for the most part, there is no concept comparable to the private sector's use of "profit" or return on capital to employ as guides to appropriate performance. Some aspects of municipal finance, such as those which apply to profit-seeking public enterprises, can utilize accounting methods closer to the practices common in private business accounting because they do include the concept of profitability in their operations.

A good accounting system requires both appropriate design of the basic system and the internal controls that assure that it operates properly. It also requires trained personnel for its operation, at least some of whom should be qualified accountants. These are challenging requirements for many local governments who presently lack both good accounting systems and competent professional personnel. To some degree, the growing availability of computer systems can ease the problem of installing effective accounting systems in city governments. Computer systems can also result in very useful increases in the speed and flexibility of obtaining reports from the accounting system. Computerized accounting systems can help managers be better informed about the fiscal situation because they learn about possible problems much sooner. They can also obtain many more varieties of data to help in analysis. But before the many benefits of computer-assisted accounting can be obtained, most developing world cities are faced with challenging tasks of installation of well designed accounting and control systems. Without them, even the best-intended financial management system seems certain to founder.

1.334 Auditing is a municipal financial system which is often thought of solely in connection with accounting but it also plays an important role in budgeting and program management. There are three aspects of auditing which are important to local government:

- o Financial audits are essential to assure that accounts are properly kept and truly reflect the financial condition of the locality. Most national laws require a complete audit of municipal accounts each fiscal year. Often, such audits are conducted by a higher level of government; less frequently, they are done by a private accounting firm. The audit may be produced in an interim form suitable for discussion between the auditor and the local government before it becomes finalized.

- o Management audits are usually focused on a particular program or activity. They attempt to ascertain if the program is being run well, instead of simply keeping within its budget. Management audits are typically conducted by independent agencies (most often by higher levels of government rather than by private accounting firms) and usually result in both finding and recommendations for improvement.
- o Internal audits can focus on either financial or management concerns or on both. They differ from the other types of audit because they are done by a unit internal to the city government rather than by an independent external auditor. It is often easier for a government agency to respond quietly to an internal audit than it is to accept the "bad news" that may be turned up in an independent audit.

These three types of audit inform the managers of a local government of the adequacy of their performance, a useful if sometimes politically painful feedback role.

1.335 Performance management is the term given to a fifth form of financial management system (sometimes also called performance measurement or productivity program). Its purpose is to record and compare municipal agency activities in non-financial terms so that efficiency, effectiveness and quality of service can be assessed along with monetary expenditure. Typically, a performance system includes:

- o A management plan which sets forth the expected results of a municipal program as well as its anticipated cost. Actual results, recorded monthly or quarterly against the plan, give a sense of how well each local government agency is doing. The plan should be designed to set target levels of accomplishment for each important city agency, as well as providing targets for city-wide action.
- o Indicators which measure performance in non-financial terms are the basic units in a performance system. For example, each city agency can be assessed in terms of how well its employees perform with respect to coming to work on time, use of sick leave or unexplained absences. A fire department can use response time to measure how long it takes to arrive at the site of a fire once the department is notified of the fire. A solid waste collection agency can measure what fraction of its collection equipment is ready for service each day or how clean it keeps the city's streets. A highways department can utilize indicators that measure how many potholes it fills while trying to keep the streets in good repair, or the square meters of pavement it installs. Many municipal activities are best measured against a set of planned accomplishments or "milestones." For example, a road building agency might be measured in terms of the time it

takes to construct a new highway. An agency assigned to start up a new health center can be measured in terms of how close it comes to meeting its schedule.

When performance targets are combined with measures from the accounting system, the results can be used to generate cost-accounting data, a very useful measure of managerial efficiency. For example, data on the area of highway paved by the highway department crews, combined with accounting data on crew salaries and the cost of paving material, can be used to calculate the cost per square meter of highway paving by city crews. Comparing this to the bid price for similar work offered by private contractors can give the city's managers a good sense of whether they should be doing street paving with their own crews or contracting it out.

#### 1.4 The Management of Specific Services.

The planning, personnel and financial management functions of local government discussed in the preceding sections are normally viewed as staff, or supporting, activities. By contrast, the city's line, or operating, functions are represented by the departments of government that are responsible for the actual delivery of public services. There are, of course, many linkages between the staff and line functions of the city. Among them:

- o The development planning process should be based on the needs and concerns of each major line function and should in turn set the framework for more detailed departmental planning.
- o Personnel management must be carried out at the departmental as well as the city-wide level.
- o So, too, financial management functions provide a detailed framework for the expenditure functions of city departments (some of which also have resource mobilization responsibilities).
- o Perhaps the closest linkage, however, can be that formed by a performance management plan which integrates departmental goals and actions into an overall framework for city operations.

The number, size and character of line departments differs widely from city to city, depending on the scope of municipal responsibilities as well as other factors. It is beyond the scope of the present text to discuss each of the many different possible departments that a city may establish. However, there are many common features of line departments which are of importance to the process of urban management. The following paragraphs discuss some of the most salient of these.

1.41 Command structure. Municipal departments are normally headed by a single individual who, in turn, reports to the administrative head of the government. The departmental head may also have a reporting responsibility

to the local legislature (or one of its committees), either directly or through the chief executive. Depending on local practice, departmental heads may be appointed by and serve at the pleasure of the chief executive or legislature or may be long-time public servants with tenure secured by local civil service practice.

The departmental head, together with his principal aides, is responsible for his agency's organization and performance. In order for the agency head to be held accountable, good practice in public administration calls for his position to be characterized by certain key supports and responsibilities, such as:

- o Budgetary authority and responsibility: The head should be involved in budgeting even before the annual budget is adopted through his submission of estimates of personnel and other needs. Following adoption of the local budgets, the department's head should be informed of what his department's budget will be, how much authority he has to change it (and when he must request prior approval of some higher authority) and of his responsibility to keep spending within the planned level. Because of the difficult financial constraints under which most local governments operate, agency heads often learn that they must also be prepared to cut back or reprogram spending on short notice.
- o Personnel authority and responsibility: depending on local practices, departmental heads may have more or less authority over the appointment of the people who work for them. In all cases, however, once the employee is appointed, it becomes the duty of the head and his principal aides to assure prompt and appropriate performance. The extent to which this is achieved in practice is usually a good measure both of managerial competence and of how disciplined is the work environment.
- o Performance in service delivery: Another key standard against which heads can be evaluated is how well they use the resources of money, manpower and equipment available to them to deliver services to the public. Unfortunately, few city governments have moved far in the direction of setting defined standards for performance. Most depend on looser, more subjective approaches. In well-run governments each head should subscribe to performance targets that are susceptible of measurement by objective indicators, and report periodically to the chief executive on how well his department is doing in meeting its targets. The performance management system, described as part of financial management in the previous section, is the link between these targets and the local budget.

1.42 Delegation of Authority. No departmental head can oversee every activity, except in very small agencies or governments. Thus, a major measure of performance is how authority is delegated to subordinates and how they, in turn, delegate responsibility. Performance measures are also appropriate means for departmental heads to use as an internal device to assure that their subordinates are achieving the goals that the agency has been assigned.

1.43 Organizational Structure. A key responsibility of the administration of a city department is to ensure that it is properly structured to carry out its functions. Obviously, no single structural pattern can apply to all organizations; each must adapt to its service requirements and to the other constraints and demands on it. Good practice calls for assurance that, in addition to line units capable of carrying out the basic service functions of the department, they also establish essential staff functions (such as planning, budgeting, personnel management, etc.) and assure that they operate to support the line units.

1.44 Interagency Relationships. One of the most complex challenges to governmental operations is when an activity requires the cooperative effort of two or more municipal agencies. Such situations, which are not usually subject to the "command" approach that can be utilized within a single department, are tests of competent managers. Typical of these cooperative relationships are those between line service units and central purchasing or construction organizations. At other times, specific municipal projects may call for two agencies to cooperate in a single project (as may be the case, for example, when a street must be installed and a storm sewer built at the same time).

It is not possible, within the framework of this text, to do more than describe a few of the facets of public service management. In the real world, however, it is this aspect of government that most frequently comes to the attention of the residents of cities. It is here that basic attitudes toward the quality of performance of local government are often set. Improving this aspect of the operation of local government is among the most fundamental challenges facing city managers, especially in those cases where services must be provided to rapidly expanding settlements of low income residents.

## 2. PRIVATE SECTOR RELATIONSHIPS

In most developing world economies, a major responsibility of city government is to support private sector activity so as to promote economic development and income enhancement. Another, closely related aspect of government's relationships with the private sector is the need to guide and stimulate private investment along patterns of sound community growth as well as to control private actions so as to prevent the deterioration of the urban environment. The private sector can also play a useful role in public service delivery, either under contract with local government or by substituting private service for public. The important public/private inter-relationships discussed in this section include:

- o Private provisions of public services, either under contract or in other ways.
- o Land management, a public sector activity that is vitally important as a stimulus to private development.
- o Public regulation of private sector activity.

### 2.1 Private Provision of Public Services

Perhaps the classic view of public services is that they are what is provided by the public sector itself -- in the case of cities, by the municipal work force. In reality, both in the industrialized and in the developing world the private sector plays an important role in the provision of public services. This is done in three major ways: by private firms contracting to provide public services; by private action substituting for public services; and through collaborative public/private enterprises.

2.11 Private contractors are often utilized by cities to provide such public services as solid waste collection or in capital construction. Water supply is another function that can be provided by private firms under contract with public agencies. These are, however, only the most frequent services that are contracted out. Examples can be found of virtually every conceivable public service being carried out by private firms, including equipment supply and maintenance, fire protection, health and building code inspection, social welfare services, education and many others.

The determination as to whether or not a public service should be contracted out is generally based on whether or not it can be done at less cost and with at least equal quality. Among the factors that urban governments need to take into account in deciding whether or not to contract out a public service function are:

- o What the cost will be as compared to direct public service delivery. Often, obtaining this information is made difficult by the absence of good information on what current public service functions actually cost; such calculations should include not only the actual pay of public employees whose jobs are to be "privatized" but also the harder to calculate overhead and ancillary costs associated with public sector work.
- o Whether or not competition can be obtained in determining the cost of the service. Where more than one firm can be expected to bid on providing a service, the chance of the city's obtaining a good price is considerably enhanced. In some cases, it may be possible to insure competition by having private firms bid against public agencies for service to sections of a city.
- o How the public sector will monitor the private company providing a public service. Governments that want to rely on private contractors need to make sure that they have a competent core of municipal personnel capable of overseeing the award of competitive contracts and monitoring performance under them. They should also make certain that the conditions of employment in the private sector are consistent with the safety and health of workers. Too often, governments contract out services without developing the capacity to monitor contractors to assure that government gets its money's worth and that local residents get adequate service. A further concern is that once a local government has eliminated its own capacity to provide a service directly, it may find itself at the mercy of a private monopoly operation.
- o Another consideration for a local government that is deciding whether or not to contract out an existing service is what to do about the present public employees who are involved in its delivery. One way is to require that public employees be given first opportunity for employment by the private contractor. Unless some provision can be made to reduce the size of the public payroll while adding the costs of an outside contractor, no savings at all may be achieved.

2.12 Private service substitution is an alternative method of achieving public service delivery without direct public expenditure or employment of staff. One area where private service substitution has become quite common in developing countries is in mass transportation. Private bus, jitney and taxi companies have demonstrated in many cities that they can provide transportation that is responsive both in price and service to the demands of the general public. While many cities may want to retain some elements of public transportation service, experience in cities such as Manila, Jakarta and many others have shown that a substantial public service can be generated by allowing widespread private entry into the field.

Other forms of private service substitution are also available. Perhaps the most common form occurs when the higher income residents of a city decide to finance a better level of service than is available from the city itself. Such services can cover a wide range, including solid waste collection, police and fire protection, street improvements and many others.

2.13 Public/private collaborative enterprises are a third approach to private provision of public service. Perhaps the most common example of such collaborative efforts in developing countries occurs in the case of retail markets where the structures are erected by the city and private merchants rent space in which to carry on their activities. As in the case of other forms of private service provision, the potential range of such collaborations is very broad, limited only by the imaginations of municipal officials and private entrepreneurs.

## 2.2 Land Management

The single most valuable resource of an urban community is the land on which it is built. Management of the use and transfer of this vital commodity is an important aspect of urban management.

Land management involves both public and private uses of land:

- o Public ownership of land is a key means to direct and guide city development, either through the use of public land for specific purposes (public buildings, roads, parks, etc.) or through holding it for subsequent sale for private use. Some cities have extensive holdings of public land, others purchase only what they need for immediate use.
- o Private use of land usually involves the bulk of land in any city. Private land holdings may be subject to the forms of land use regulation that occur in connection with development planning.

One of the most important public sector roles in land management is establishment of sound basis for a land market. Imperfections in the land market -- due to inadequate information on ownership or unclear land laws -- have become recognized as a serious problem for cities in developing countries. While improvement of the legal framework that affects land is normally a national responsibility, cities have an essential role to play in creation of means to identify the location and ownership of land so that it can be transferred between buyers and sellers. In many developing countries the same problems of inadequate records that obstruct property tax systems are also an obstacle to private transfers of land. In addition, efficient operation of a market in land requires means to record the transfer of title and establishment of clear title.

The type of land register (or cadastre) needed as a basis for a land title and transfer system is more complex than that required as the basis for a property tax system because it requires detailed data on ownership and the precise location of each parcel of land. However, once a city has developed a fully functional cadastre it can use it for tax purposes as well as to stimulate the operation of the private land market. Without such a system, land owners may find it difficult to sell their property or to obtain loan financing for it.

Another among the complex problems that affect the market for land in many developing countries is the occupancy of land by poor migrants to cities who need places to live but are not able to obtain them except by extralegal approaches and construction of slums. Realistic recognition of these informal settlements has begun in many countries. In some cases, this recognition has been accompanied by public assistance to provide title to land occupiers, to offer them basic public services (such as water and drainage) and to make credit for house construction available. The response has generally been spontaneous upgrading of the quality of structures by the residents of these settlements.

Other governmental approaches to stimulating community improvement through land market actions can involve the creation of sites for new residential or industrial use supplied with essential utility and other services. By means of such "sites and services" projects, communities have been able to stimulate residential, commercial, industrial and other forms of desirable economic development.

Local government can acquire and hold land for public purposes, such as parks and reservations, or for future use for highways, schools or other public uses. Selected advance acquisition in areas where urban development is expected to occur can help assure adequate land for public open space and facilities. If excess land is acquired it may be possible to use it both to assist in soundly planned development and raise municipal revenue by appropriately timed release of such land for sale to private developers.

Public acquisition of substantial areas of land on the growing fringe of cities is a technique that has been used in some countries in an effort both to guide the pace and nature of urban development and to hold for the city the financial gains that usually accompany the conversion of land from rural to urban uses. In some countries, such as India, techniques are utilized under which a city can designate lands that it proposes to acquire and freeze the price of such land so as to avoid speculative increases in its value prior to public acquisition. This approach, as well as other approaches to what has been termed "land banking" are viewed differently by various authorities on urban land. Some see land banking by public authorities as a valid recapture by the public of values created in the urbanization process itself; others view such efforts as unnecessarily speculative and potentially damaging to the efficient operation of the urban land market.

An interesting approach that combines public and private action for improved land development is the technique known as "land pooling." Under

this approach private owners agree to a rearrangement of poorly laid out parcels according to a plan laid out by a public agency which redesigns the layout to provide for streets, utility lines and revised lot lines. The properly laid-out sites, which are now ready to be served by streets and utilities, are worth far more to the owners than before the rearrangement. This technique has been widely used in Korea, Japan and other countries.

### 2.3 Regulations

Another municipal function that is important to urban management, especially through its impact on private economic development, is the power to adopt and/or administer local laws and regulations. Within the over-riding framework of national and state laws, cities possess varying degrees of discretion to adopt regulations and laws. In some cases, legislation is adopted nationally and there are few options or choices for the locality; in other cases localities can adopt rules that govern many different aspects of economic life. Among the types of municipal regulation that can have significant impacts on the private economy are:

- o Zoning and other forms of land use regulation which control how private individuals may utilize land they own or lease.
- o Building codes and building-related provisions of housing and health codes can have important positive or negative economic impacts on private land owners. For example, where standards as high as those that prevail in the industrialized world are applied, the effect can be to block developing trends for the efficient and appropriate private use of land, or to pressure owners and developers into extra-legal approaches to the public officials who administer the codes. Development of realistic and appropriate regulatory standards is important to the growth of developing world cities.
- o Working conditions in private establishments and many other facets of economic life are also potentially subject to scrutiny by public officials charged with enforcing local laws. Soundly conceived, local laws and regulations can constitute a useful method to protect sound entrepreneurs, their workers and the general public by ensuring an adequate level of public health and safety. At the same time, caution must be exercised so as not to adopt and try to enforce unrealistic and costly standards that may weaken the possibility of private sector economic initiatives. The question of what regulations to adopt and how to enforce them can be a thorny problem for cities in developing countries. In the immediate post-colonial era many cities adopted high standards for land and buildings, only to find that much of the population could not afford to meet these standards. A difficult trade-off has had to be faced between the desire for higher standards and the reality of urban poverty.

### 3. MOVING TOWARD IMPROVED URBAN MANAGEMENT

To the managers of local governments in many cities of the developing world, achieving a high standard in the full array of urban management dimensions described in the preceding sections of this paper may seem to set an almost impossible challenge. They find themselves hard pressed by the problems of rapid population growth, often at a pace unprecedented anywhere in the industrialized world. Furthermore, a major part of this growth is occurring under conditions of extreme poverty. They are confronted with dire shortages of money and trained personnel. In many cases, they lack even the authority to undertake the delivery of public services or the installation of essential components of infrastructure. Where, one might well ask, should administrators facing such imposing challenges begin? This section suggests some starting points.

#### 3.1 Beginning the Improvement Process

A good way to initiate the process of upgrading the quality of urban management in a particular city is by assessing what needs to be done and, on the basis of this type of information, setting some priorities for attention. Some useful steps that can be taken are the following:

- o Establish a committee or task force which includes the city's key managers to oversee the effort. It is important to make sure that the chief executive and other significant decision-makers are included on the committee. Unless the group is perceived as having the attention of the highest authorities it is unlikely to be taken seriously or to have significant impact. Try to include other important influences on the committee, such as people from the national or state Ministry of Local Government, Finance and Auditor-General. In some situations, top-level local business and union leaders could also be useful additions to the committee.
- o Establish a written charge for the committee and a specific time frame for its work on the assessment.
- o Using the list of urban management activities in Section 2 of this paper as a checklist or guide, start to describe the strengths and weaknesses of each aspect of local government. But do not be limited by this checklist; if there is an important aspect of local government that has not been included in Section 2, perhaps because it is something unusual to the system of government in a specific country, province or locality, include it anyway.
- o Look over the "line" functions for which the city is now responsible to see if they are all appropriate public responsibilities, or if it might be possible to shift some of them to the private sector.

- o On the basis of your review of strengths and weaknesses, and of the functions that the city performs (or doesn't) the committee should set some priorities for improvement action.
- o Start work on the top three or four priorities, setting some internal targets for what you need to do first. For example, if the decision is to give top priority to upgrading the financial management system, decide on the order in which you will start (and try to complete) work on each phase. Also, is it more important to try to hire new financial personnel first or to bring in assistance to help upgrade parts of the system? Do you want to give priority emphasis to increasing resources or is it your first choice to get your budgeting under better control?
- o Establish a time frame for what you need to do and hope to accomplish under each of your priority objectives. It is a useful idea to establish a series of sub-objectives or "milestones" that can mark progress along the way. Periodic reports on how well you are doing against such a time plan is a good technique to use in managing the process. So is the appointment of a project manager responsible for each of the major priority areas of endeavor.

At times, it will be helpful to enlist the support of outside groups to help provide advice and perhaps financial and technical assistance to this process. Among the international groups that may be willing to help by offering experts or financial aid are multilateral assistance organizations such as the World Bank and UNDP as well as the many bilateral assistance organizations.

### 3.2 Some Possible Priority Choices

Every city will have its own priorities, determined by what its current situation is and what its leadership views as the most pressing problems to be worked on. But it may be helpful to identify those activities which cities using loan assistance from the World Bank have considered as among the most useful starting points. These include:

- o Resource mobilization efforts, including especially ones designed to increase the efficiency and effectiveness of the local property tax system (if there is one) or to obtain and use the authority to install one (where there is not). Obtaining more resources does not assure that the city will automatically be better able to allocate them, but in the face of the severe revenue shortages facing many developing world cities, it is hard to think realistically about what additional expenditures would be most helpful.

- o A better financial management system could well be another top priority, at least partly because it is going to be important to convince taxpayers that the city has sensible plans for how to use (and control) the resources that it hopes to obtain from its expanded revenue system. Within the overall framework of financial management, it may be difficult to choose between improving the budget process and upgrading the accounting; they tend to go hand in hand and serious consideration should be given to coordinated action on them.
  
- o While it might be nice to improve all aspects of public service delivery, it is probably more realistic to pick out one or two targets for priority attention so as not to lose effect by undertaking too much. Among the public service systems whose improvement is the objective of cities participating in World Bank loans, the top three priorities for city-wide systems have tended to be (1) water and sanitation, (2) streets and highways and (3) solid waste management. Even if you decide to give top priority to only one municipal function so as to concentrate your efforts, it may also be a good idea to start work on a performance management system so that top administrators at least begin to get hard data on the accomplishments and shortcomings of other agencies of local government.

In addition to these three, it's not difficult to see other items that could well go in a local priority list such as: morale-building and motivation for city employees through improvement in the personnel system; training of employees who aren't up to the challenge of their job; and support for private sector development.

### 3.3 A Closing Note

The focus in this part of the paper is on the general principles and practices applicable to managing cities in developing countries. Examples are cited to illustrate problems or practices in some cities and countries, but no pretense is made that this paper covers all of the varied conditions and circumstances that affect individual cities of the world.

Most of the urban management issues presented here do appear to apply regardless of city size, location or other urban characteristics, but the ways in which they apply to a particular city may vary widely depending on its particular circumstances. The relative wealth of the city's population, the strength of its economy, its role in the national economy and numerous other factors tend to condition the ways in which it can and must address management concerns. Furthermore, while the management principles that apply may be the same in a mega-city of 10 million people and an urban center of 100,000, the management practices that the two cities need to adopt will tend to be very different, as will the complexity of the systems they need to cope with their service demands.



## PART II. ISSUES AND ACTION PLANS

The preceding part of this paper describes a broad and diverse range of subjects encompassed under the overall term "urban management". The principal intent of the paper is to serve as an introduction to the subject for participants in the Economic Development Institute's Courses on Urban Finance and Management.

A significant component of the efforts of participants in one of these courses will be the preparation of Action Plans designed to reflect how they see the content of the course as applying to the situation of their own countries and cities. This final part of the paper is designed to assist participants in beginning to think about how the various aspects of urban management might be encompassed in their own Action Plans.

The following sections parallel the organization of the first part of the paper (although not every section is covered). Two approaches to the Action Plan process are offered. First, issues are raised in the form of questions about urban management concepts so that participants can think about how--and whether--these concepts apply in the situation of their own cities. Second, types of documentation are identified that participants should try to assemble in advance of the course that illustrate features of urban management in their own countries and cities. Bringing such documents with them to the course will assist participants in Action Plan preparation and will also provide a useful opportunity for exchange of information among participants from different countries.

### 1. GOVERNANCE

#### 1.1 Intergovernmental Relationships

##### ISSUES FOR DISCUSSION

- o Control. What are the key controls that national government retains over local government in your country? What national or state agency exercises these controls? Do they work effectively or do they handicap the operations of the local government? Are the controls designed to help or hinder the performance of local government?
- o Scope. What are the public service functions for which your city is responsible? Are there functions where responsibility is shared between local and national or state government? If there are shared responsibilities, is it clear which functions should be performed by each level of government? Are there valid reasons for the allocation of responsibilities?
- o Jurisdiction. Is there a metropolitan jurisdiction problem that affects your city? For example, is it clear whose responsibility it is to address matters such as transportation routes that run across municipal boundaries?

- o Parastatals. What types of parastatal corporations (national, state, or local) are active in your city? Do their operations tend to support or conflict with the operations of the general municipal government?
- o Financial Assistance. To what degree and in what form does your national (and/or state) government provide (1) direct financial support and (2) tax-sharing with the local government of your city? Are there clear principles set forth in the constitution or statutes for these forms of financial assistance? Can city government make reasonably reliable estimates of the financial support it will receive each year?
- o Authorization for Resource Mobilization. Does the central (and/or state) government provide adequate authority for local resource mobilization--or does it restrict it in ways that make it difficult for cities to increase their degree of reliance on their own resources?

POSSIBLE DOCUMENTATION:

- o National or state legislation that sets forth the key authorization for local government, including the scope of its functions or activities.
- o Reports or studies on central/local or state/local relationships, assessing problems or suggesting changes in the relationship.
- o Reports on intergovernmental financial relationships, including direct assistance, shared taxes and other forms of aid (such as loans). Statistical summaries of how such aid has changed over the past decade would be especially helpful.

1.2 Central Administrative Functions

ISSUES FOR DISCUSSION:

- o Policy-setting. How are the key policy-setting functions allocated among different appointed or elected bodies and officials in your city?
- o Administrative direction. Is there a clearly identified chief executive in your city, to whom other officials report and who performs all or most of the functions described in the text? If not, how are these functions allocated and does the current structure work effectively?

- o Oversight. What agencies or officials are principally responsible for the oversight functions in your city?

POSSIBLE DOCUMENTATION:

- o Appropriate sections of statutes, charters or by-laws that indicate how the policy-setting, administrative and oversight functions are assigned.
- o Reports or studies that identify problems in the key administrative functions and suggest changes in them.
- o Audit reports or other reports by official or citizen commissions illustrating the performance of the oversight functions.

1.3 Central Management Systems

ISSUES FOR DISCUSSION:

- o Development Planning. Few developing world cities engage in development planning of the broad scope described in this section of the text. To what extent does your city engage in long-range goal-setting and development planning of this nature?
- o Personnel Management. How are the personnel management functions carried out in your city? Is there a national or state system that applies to the city, in whole or in part? To what degree would you rank personnel problems as critical issues facing your city?
- o Financial Management. Can you identify clearly where responsibility is lodged in your city for the five financial management functions cited in the text? In most cities it is easiest to identify responsibility for budgeting, accounting and audit; the locus of goal-setting and performance management activities are not usually as easily identifiable.

POSSIBLE DOCUMENTATION:

- o The most recent development planning report for the city (or a summary, in the event that the plan consists of many documents and maps).
- o Reports or publications citing personnel management issues and problems encountered by the city.
- o The most recent recurrent and capital budgets adopted by the city plus a copy of any executive budget message that accompanied it.

- o The most recent year-end financial statement and/or audit of the city.
- o Reports examining local financial trends or problems in such aspects of financial management as resource mobilization or expenditure control.
- o The long-range capital improvement program for the city.

## 2. PRIVATE SECTOR RELATIONSHIPS

### ISSUES FOR DISCUSSION:

#### 2.1 Private Provisions of Public Services

- o Private Contractors. What use does your city make of private contractors to deliver public services in return for payment by the city? Are these of long-standing or recent origin? Has the city analyzed the private alternatives to direct public service delivery in terms of cost and quality? Where private contractors are employed, is it done through a competitive award process--and does the city have the capacity to monitor the contract? Does your city have any comparative data on the performance of private contractors?
- o Private service substitution. Are there traditional public services which are delivered by private agencies or firms rather than by public agencies or under contract? If so, do these services extend to the entire city or only to its higher income sections?
- o Collaborative enterprises. Does your city engage in collaborative enterprise with the private sector? If so, has the experience been such as to warrant extension of this approach?

### POSSIBLE DOCUMENTATION

- o Reports describing the process of contracting out for private delivery of public services.
- o Reports suggesting that the city assume responsibility for services now privately provided or decide to shift responsibility for service provision to the private sector.

## 2.2 Land Management

### ISSUES FOR DISCUSSION

- o Public land ownership. Has your city engaged in an extensive program of public land acquisition or land banking? Is the extent of public land ownership--either because it is too great or too small--viewed as a problem?
- o Private land tenure. Does your city have an adequate system of land registration so that the land market can operate effectively and efficiently? Has your city engaged in efforts to regulate land prices or the size of land holdings--and, if so, how well has it worked?

### POSSIBLE DOCUMENTATION:

- o Reports on the land market issue citing problems and/or recommending changes in current procedures.

### Final Note to Participants

While an effort has been made in this part to identify issues and cite possible documents that will be relevant to as many situations as possible, it is recognized that some of these situations may not be relevant to your city and that some of the suggested documentation may not exist or be available. What is intended is that each participant exercise initiative in deciding what issues are most important with respect to his or her city--and obtain the documents relevant to those issues.

At a minimum, every participant is expected to bring to the course copies of the key urban management documents, including:

- o The most recent recurrent and capital budgets.
- o The most recent year-end financial statement and/or audit.
- o Statistical summaries describing the municipality, and especially trends in its revenues and expenditures.
- o Any recent reports that bear on one or another of the urban management issues described in the paper.

Participants from national or state ministries or from training institutions may bring documents from any city they are familiar with and from which they can obtain the documents listed above.

