

## The Challenge of Urban Governance

The preceding analysis of the demographic, social, and economic aspects of the urban transition has emphasized three important features. First, we have demonstrated the inevitable tendency for the global population to become urbanized. Second, we have illustrated the growth of a system of urban places—at both an international and national level—dominated by very large urban regions that are responsible for generating a significant proportion of national wealth. And third, we have argued that these large urban regions are functional because they have been integrated through improvements in the transactional environment of the flows of people, commodities, capital, and information. One of the least well-understood elements on this list is information.

The information requirements for the management of large cities are important conditioning factors in the cities' institutional elaboration. With the spread of democratization and decentralization now under way almost everywhere, local governments are increasingly being required to operate with the speed and efficiency of private business while facing ever more complex political and regulatory issues. Local governments must digest an immense amount of information to perform their duties in a fair and efficient manner. Yet data are severely lacking in many cities throughout the developing world. The typical 10-year interval between censuses presents a problem for policy analysis and planning for large cities, where the metropolitan population may easily grow by 1 or 2 million inhabitants in 5 years. Moreover, demographic data at the subnational level typically are not processed or made available for several years after a national census has been conducted.

Governments could also benefit greatly from data on population size, growth, and composition; differential fertility and mortality rates; and socioeconomic characteristics for numerous small-area units, which could then be aggregated to analyze trends within various parts of a metropolitan region. Employment data are particularly important here, since population growth has outstripped job growth

in urban places in most developing countries. These data are also lacking or at least not readily available to planners and policy makers. Planners often have only rudimentary knowledge of the numbers and characteristics of recent migrants in most large developing-country cities. Moreover, cities' own projections of their future population growth often have been widely off the mark.

Planning is further hampered by limited information about local land markets. Most large cities lack sufficient, accurate, and current data on patterns of land conversion and infrastructure deployment. Frequently, urban maps are 20 to 30 years old and lack any description of entire sections of cities, particularly burgeoning periurban areas.

In most large cities in developing areas, each municipal agency or department typically maintains its own database, often using differing standards and rarely sharing data. Computerization of such data is still relatively uncommon. Many municipal agencies continue to rely on paper files and maps, which are often stored in formats and at scales so diverse that they cannot be compared or collated and are not easily updated (Bernhardsen, 1999). There are almost no examples of integrated databases for the constituent parts of large metropolitan regions. This is hardly surprising given the large number of political entities constituting most metropolitan regions, with their differences in age, socioeconomic needs, and financial and managerial capacity. Typically, there are reasonable data for the central city, with data (often noncomparable) for the outlying municipalities being of varying quality.

This chapter is concerned with the political and institutional implications of the urban transition. For some commentators (Ohmae, 1990; Scott, 1998), the urbanization process is a result of powerful global forces that are, at the same time, leading to a reduction in the political power of the nation state. Whether or to what extent this may be the case, there appears to be ample evidence that the urban transition of the twenty-first century will involve a significant renegotiation of political relationships between national and urban governments. Just as the present system of governance grew out of the replacement of city states by national states (Mumford, 1961), new systems of governance may very well emerge from the current urban revolution.

Underlying these political questions is one fundamental fact. The way in which present patterns of urban growth are being framed territorially differs from that of earlier periods of urbanization. Previously, government was organized on the basis of rural-to-urban responsibilities that were defined both spatially and structurally. Government was organized vertically so that tasks were divided among the national, provincial, and county levels, as well as highly local units of urban administration such as cities and towns. Each of these levels of government was defined in terms of discrete spatial areas, although there were often overlaps in administrative responsibilities.

Today there is general agreement that the rapid urbanization of developing countries should involve some reorganization and even reconceptualization of sys-



terms of governance. For example, the increasingly close interaction between central cities and their rural hinterlands (made possible by improvements in transportation and information transmission, among other things) suggests that rural and urban jurisdictions need not always be administered separately. And the fact that very large urban regions (including their hinterlands) are in many countries the source of both major economic initiatives and advances in national productivity suggests that these city-regions should not remain under the restrictive control of other levels of government if they are to reach their full potential for development (see Scott, 2001). Finally, the emerging importance of cities and city-regions in the world economy underlies the generalized shift from power relations based on pyramidal and hierarchical structures to those grounded increasingly in networks and horizontal relationships (Castells, 1997).

This chapter begins with a brief discussion of the concept of urban governance and the issues involved, which are illustrated by the case of the Bangkok Metropolitan Region. We then undertake a detailed review of the major challenges of urban governance in developing countries. Next we examine the question of whether there is, in fact, a single "best" model of urban governance. The final section of the chapter presents conclusions and recommendations.

### THE CONCEPT OF URBAN GOVERNANCE

While the concept of governance is widely used today, its common usage in the social sciences is a product of the last decade and a half. In a lengthy discussion of governance as applied to urban examples throughout the developing world, McCarney, Halfani, and Rodriquez (1995) find that an important element in the development process, explicitly lacking in many official and agency-based definitions, is the connection of government, and particularly local government, to emerging structures of civil society. Accordingly, they define governance as "the *relationship* between civil society and the state, between rulers and ruled, the government and the governed" (McCarney, Halfani, and Rodriquez, 1995: 95). Important elements of this definition were adopted by other researchers writing about comparative local government in developing countries (Wilson and Cramer, 1996) and were eventually incorporated into the United Nations Development Program (1997a: 2-3) current definition:

Governance can be seen as the exercise of economic, political and administrative authority to manage a country's affairs at all levels. *It comprises the mechanisms, processes and institutions through which citizens and groups articulate their interests, exercise their legal rights, meet their obligations and mediate their differences* [emphasis added].

One reason for the emergence of the concept of "governance" or "urban governance" is that the context within which local government operates has become much broader and more complex. In the United States, researchers dealing with

metropolitan problems increasingly use the term "metropolitan governance" rather than "metropolitan government" because of the more inclusive connotations of the former (Stephens and Wikstrom, 2000: 47). Similar ideas have begun to take root in Europe. In an important article on France (where a Law of Decentralization was first passed in 1981), Le Galès (1995) argues for a shift in nomenclature from "the government of cities to urban governance." While the term "local government" is associated with a formal description of powers and responsibilities of urban authorities, local politics and the way in which French cities are administered are changing rapidly. According to Le Galès (1995: 60), "the term 'governance' suggests . . . functions and actions of government, but without the idea of uniformity, rationality, or standardization. The term 'urban governance' implies a greater diversity in the organization of services, a greater flexibility, a variety of actors, even a transformation of the forms that local democracy might assume, and taking into account citizens and consumers, and the complexity of new forms of citizenship."

The emergence of a discussion of "governance" in a continental European context is of more than purely scholarly interest, since for some time the concept was considered an Anglo-Saxon term, and as such inappropriate outside English-speaking countries. Some Latin American researchers believed the more apt terms to be "governabilidad" and "governabilidade" in Spanish and Portuguese, respectively, which essentially mean "governability." But as Coelho and Diniz (1997) argue, the problem in the case of Brazil after formulation of the 1988 Constitution was not decision-making incapacity (or "ingovernability"), but rather the inability of leadership to achieve sufficient support and legitimacy to implement a whole host of technical measures. As a result, the authors propose retaining the concept of governability (*governabilidad*), but at the same time accepting a new concept, *governance*, to denote the state's command and steering capacity, its capacity to coordinate among politics and interests, and its capacity to implement measures from the level of the center to the local area. The concept of *local governance*, they add, brings to bear the political dimension "and places the interdependence of state and civil society at the center of the debate" (Coelho and Diniz, 1997: 113). The intersection of state and civil society, in this view, takes place at all levels of government—from the most local to the national.

Discussing Africa, the French planning writer Jaglin (1998) first notes how the concept of governance permits the incorporation of a wide variety of actors and groups in both the formal and informal sectors, as well as local, national, and international groups and agencies. The situation in South African cities in the mid-1990s, however, was extreme. In the transition from an apartheid system in which the majority population was totally excluded from power to a (potentially) fully democratic local government system, an elaborate process of dialogue and negotiating forums ensured a relatively smooth movement from exclusion to inclusion. Jaglin argues that the complexity and multisectoral nature of this process can best be described under the rubric of governance. "In imposing a form of representation of the political class, the private sector and local residents (through the



'civics' based in black townships) at the center of the required forums, the law made governance official, since it obliged the different actors to negotiate before local policies could be considered" (Jaglin, 1998: 31).

Beyond the pure concept of governance, which to us denotes the neutral relationship between government and the governed (mediated for some through culture and political practices), many writers and policy makers now speak of "good governance." While one must be careful not to reproduce in such a value-laden concept all the sociocultural and institutional prerequisites of government in developed countries, the notion of good governance carries with it a premise of institutional design that is at once open and accountable to civil society in general, and effective in terms of financial management and policy implementation. Good governance involves an effective balance between the raising of revenue and the proper expenditure of this revenue on services and investments that are based on accountable decisions. This model, in turn, implies that many levels of government and many local stakeholders and social groups will be involved.

The task of analyzing these changes in the patterns of governance in developing countries is complicated by the diverse paths and scenarios of urbanization and socioeconomic development that exist in the developing world. Yet the expansion of the urban built environment is occurring everywhere, and thus the development of systems of urban governance that can cope with urban expansion is a major priority.

The issues associated with urban governance are illustrated by the example of the Bangkok Metropolitan Region (BMR), which consists of the Bangkok Metropolitan Administration (BMA), with a population of 8 million, and the five adjacent provinces. In 2000, the BMR was estimated to contain 11.5 million people. Adding the adjacent industrial heartland of Thailand creates an extended metropolitan region (EMR) of 17.5 million people, making up 28 percent of the total population of Thailand in 2000 (Webster, 2000a: 8).<sup>1</sup> This region has been the focus of much of Thailand's economic development, involving a major change from an agricultural rice-exporting economy to an economy open to foreign direct investment (a high proportion from Japan) in the 1980s and a very rapid increase in export-orientated manufacturing. The result was a period of hypergrowth that made the Bangkok region one of the fastest-growing urban economies in the world, with an annualized growth rate of 17.5 percent in the period 1990 to 1996. With government encouragement, this economic expansion also led to the rapid outward sprawl of the region from the city (Webster, 2000a: 9), resulting in increased traffic congestion; environmental pollution; and serious infrastructure problems, including inadequate provision of water and sewerage and a substantial proportion of the population in the periphery living in substandard housing.

As the region grew in size and territory, no adequate system of governance emerged that could solve these problems in a coordinated manner. The city core,

<sup>1</sup>Much of the discussion in this section is summarized from Webster (2000a).

the BMA, is under the leadership of an elected governor; 60 elected councilors (one per 100,000 people), making up the Bangkok Metropolitan Council; and a large number of elected councilors in 50 local districts who advise district directors appointed by the governor. While it has a huge staff complement (numbering 82,950, including teachers, in 2001) (Bangkok Metropolitan Administration, 2001), the Metropolitan Administration has limited powers—although much greater than is the case for other local authorities in Thailand. Moreover, many of its key functions, such as water and electricity service, are under the control of national agencies. Outside the BMA, in the BMR, matters are even more complicated as provinces control most of the planning, and there is no overall plan for the EMR. Webster points out there are more than 2,000 local government authorities (many of them serving small villages) in this outer region of urban activity.

The period of hypergrowth in Thailand was abruptly halted by the economic crisis that began in July 1997, which was focused on Bangkok. Between 1997 and 1998, the city product fell by one-half. By 1999 the official unemployment rate had increased from 1.4 percent in 1997 to 5.1 percent, reflecting a decrease in construction employment. But the major effect was a decline in income among the urban informal sector, such as taxi drivers. Inflation caused increases in food and gas prices that also adversely affected the poor. Estimates suggest the slum population of the BMA grew from 1.2 million in 1996 to 1.5 million in 1998, and there appear to have been deteriorating social conditions, including increasing crime, drug use, and suicides (Webster, 2000a). In contrast with the Indonesian case, however, there was no massive social and political disruption, for several reasons. First, households proved very adaptable—adopting strategies of outmigration, sharing of income, and increased participation by women in informal-sector activities. Second, many foreign companies, particularly in the manufacturing sector, did not lay off workers but stopped giving bonuses; this was the case, for example, with a number of Japanese companies. As the *baht* devalued, these firms were able to take advantage of this strategy to export more cheaply. Finally, the government remained stable during this period.

In fact, some writers have argued that the crisis benefited Bangkok, first because the city has been able to rebound more quickly than could either Vietnam or Indonesia, its chief competitors for export-orientated manufacturing in Southeast Asia; and second because the cost of living (including rent) has been substantially reduced, making Bangkok more competitive as a site for foreign investment. In addition to these factors, public works programs designed to provide employment have led to a decrease in pollution and traffic congestion. And the national government has been forced to accelerate its program of administrative decentralization to the local level despite very weak institutional capacity at this level. In this case, important attempts to develop new systems of urban governance are being made during a particularly volatile phase of contemporary globalism.

The urban form of the larger EMR of Bangkok is thus assuming many similarities to other large mega-urban regions in the developing world (see McGee, 1991,



and McGee and Robinson, 1995, for a description of mega-urban regions in the Asian region.) Basically, the EMR is divided into three zones—the core, suburbs, and exurbia—on the basis of typical characteristics of each zone. While these three zones function as an economic region, there are sharp differences among them (see Table 9-1).

Is there a preferred governance model that best fits such a mega-urban region? There are essentially four categories of mega-urban governance. These categories reflect attempts in other parts of the world to manage large metropolitan regions, a subject to which we return in the penultimate section of the chapter. The first category, which can be called the *fragmented* model, is characterized by a myriad of autonomous local government units, each with jurisdiction over a particular function and/or territory. There is sporadic and poor coordination among the various units. This model is the most typical of the American approach to metropolitan governance, though some examples exist in developing countries as well. A second category, which can be termed the *mixed* model, encompasses regional governance approaches in which both central and local government play a role in the administration of a region. This approach is typical of most mega-urban regions in developing countries, including the case of Bangkok discussed above. A third form of administration is the *centralized* model. This model, still found in transitional societies such as Vietnam, is dominated by a central government. Finally, we should mention the *comprehensive* metropolitan governance model, although no pure examples of this approach currently exist in developing countries. In this model there is either a single coordinating governance unit for the whole mega-urban region or a two-tier system in which local governments (or municipalities) perform a number of local functions, but cede to a higher metropolitan (subnational) authority the performance of region-wide functions. A version of this model has been operating in Abidjan, Côte d'Ivoire, since 1980, and a "unicity" model has been emerging in South Africa since the local elections of November 2000. Four major Chinese cities that are governed as provinces also fall into this category.

While there is no consensus on the type of mega-urban governance that may emerge in this new era of urbanization, there is general agreement that as the wealth of these regions grows, some new form of governance will be required. As mega-urban regions grow in wealth, however, they will need to develop systems of taxation and governance that operate at both a regional and a highly local level, a process that will involve both decentralization and privatization. The next section reviews some of the major issues involved in both designing and implementing governance structures at the metropolitan level in developing countries.

TABLE 9-1 Extended Metropolitan Region of Bangkok, Characteristics of Main Zones

Population	Economic	Government	Built Form	Main Drivers	Main Threat
<i>Core</i>					
High density	Knowledge	City government elected	Polynuclear	Global and national property developers	Too-rapid decentralization
Longer-term residents	Tourism Services	National service agencies	Mixed land use Hotels, convention centers		Political and social instability
Generational contrasts					
<i>Suburbs</i>					
Medium density	Service industry	Provincial Changwad towns	Gated suburbs	Thai property developers	Industry uncompetitive
Outward flow of core households	Specialized agriculture		Shopping malls Leisure (golf) Market gardens		Environmental pollution
Some low-income population			Squatters Expressways		
Legal and illegal housing					
<i>Exurbia</i>					
Rural migrants	Industry	Provincial Changwad towns	Industrial estates In-situ agriculture Squatters Industrial housing Ports	Foreign direct investment	Overly dependent on exogenous drivers

SOURCE: Adapted from Webster (2000a: 9).



### MAJOR CHALLENGES OF URBAN GOVERNANCE IN DEVELOPING COUNTRIES

As the example of Bangkok illustrates, the governance challenges of large metropolitan areas in developing countries are both diverse and complex. It is arguably the case that this diversity and complexity are increasing with population growth and globalization, and that as this process unfolds, new approaches to governance and the management of cities will emerge. To impose some order on a very large subject, we examine these major urban challenges along five major dimensions: *capacity* (with a focus on urban services and service delivery); *financial resources* (with emphasis on generation of local revenues); *diversity* (in particular, issues of inequality and fragmentation, often leading to violence and a failure to regulate social conflicts); *security* (involving crime and violence, and approaches to the preservation of public order and the alleviation of violence); and *authority* (with a focus on decentralization and distribution of powers, local jurisdictional configurations, and political participation).

The literature on these interrelated topics is voluminous, but a certain disciplinary specialization tends to attach itself to each of these dimensions: geographers (with some economists) are more likely to focus on urban services, public finance economists on the financial dimension, sociologists and criminologists on the diversity and security dimensions, and political scientists and public administration specialists on the authority dimension.

Each of these dimensions can be related to demographic dynamics. The sectoral policies adopted to address the challenges associated with each have implications for such demographic variables as urban migration, the differential treatment of gender and age groups in the population, and the quality of life of urban residents.

#### The Capacity Dimension

During the 1980s, rapid urban growth throughout the developing world began to seriously outstrip the capacity of most cities to provide adequate services for their citizens. Beginning in the 1960s, this incapacity was made visible through the increasing number and extent of slum and squatter settlements in the cities of developing countries. The 1960s and 1970s were a period of extensive contention between municipal (and national) authorities and low-income urban residents. While the authorities sought to limit the use of urban land to the purposes for which it was usually zoned (i.e., high-income residential, commercial, and industrial uses), low-income populations attempted to build individual shelters on some of this land or to organize "invasions" for more concerted attempts to convert the land to their use. Clearly, the supply of cheap, serviced urban land fell far behind the demand for land on the part of a rapidly growing low-income population—a

population that, in addition, had to be close to centrally located sources of income and employment to subsist economically.

In many countries, government response to this demand originally took the form of setting up centralized housing banks and construction agencies. For example, the National Housing Bank of Brazil (established in 1964 and closed in 1986) produced around 4 million units; two major agencies in the Ivory Coast produced close to 40,000 units during the 1960s and 1970s; in Egypt, public housing agencies built 456,000 units between 1960 and 1986; and in Singapore, some 460,000 units were built from 1969 to 1985 (United Nations Centre for Human Settlements, 1996:219).

While this housing made up a substantial proportion of low-income housing in a number of countries by the 1980s, there were major problems: maintenance was poor, public subsidies were high, it was difficult to avoid corrupt practices entirely, and the pace of construction was in any case inadequate to respond to the level of immigration (Cohen, 1974; Mayo and Gross, 1989; Perlman, 1976; Stren, 1978). Notwithstanding exceptions, such as Hong Kong or Singapore, in which high-quality housing was successfully developed and maintained, (Yeung, 1998a: Chapter 4), international agencies turned to more collaborative approaches.

Two policy responses stand out. The first is the *sites and services projects* of the 1970s and 1980s (Cohen, 1983), in which minimally serviced plots in large subdivisions were allocated to low-income applicants, who were expected (with some assistance in the form of training and loans of materials) to build their own homes. The second is *squatter upgrading projects*, which regularized land tenure and improved services and infrastructure in "slum" areas to encourage the orderly improvement of neighborhoods without displacing existing residents. Variants of these approaches are still operative today, but both involve complex, costly planning and administrative organization, as well as the design of an incentive system to encourage investment by the poor and discourage "leakage" to higher-income groups. From the building of housing units, public policy approaches in developing countries have shifted to "enabling" strategies that encourage land and infrastructure development, as well as support for medium-sized and small-scale enterprise (United Nations Human Settlements Programme, 1996). Prominent among these strategies are reforms in the governance of urban services—from arrangements based entirely within the public sector, to arrangements based on partnerships with private and nongovernmental groups (Fiszbein and Lowden, 1999; Freire and Stren, 2001), to various kinds of arrangements with private service providers (Batley, 1996).

Overall, these enabling and partnership strategies are consistent with what some observers see as a shift toward "neoliberal" economic policies, as applied at the local level. While the typical package of neoliberal policies (such as fiscal discipline, reduction of public expenditures, deregulation, open exchange rates, and trade liberalization) was generally applied at the national level when first introduced, new approaches to reform include social safety nets and decentraliza-



tion. In the case of the former, many countries began in the late 1980s to develop redistributive programs and agencies targeted at the very poor; these programs were inevitably operated (at least partially) through institutional mechanisms set up locally—though not, in most cases, within existing local government institutions. As for decentralization, while most studies of national reform policies in the 1980s and 1990s relegate it to a minor role, some authors claim it is an essential element of neoliberalism. Vilas (1996), for example, sees the elaboration of what he calls “neoliberal social policy” in the 1990s as having three basic characteristics: privatization, targeting of the poor, and decentralization. Lowi (2001:18), with special reference to the United States but by implication including developing countries as well, argues that decentralization (which he qualifies as devolution and links to privatization and deregulation) is a fundamental part of strategies to “address the spillover effects of extreme inequalities” caused by neoliberalism. Behind this assertion is the argument that local elites and political institutions in the United States are better able to manage the “fallouts” from continuing and increasing inequalities than are national institutions.

One example of a large city confronting its service and infrastructure challenges in an energetic and innovative fashion is Shanghai. With a population in its metropolitan area of more than 13 million (not including the transitory, unregistered population, which may account for a further 3.3 million) and a total land area of 6,340 square kilometers, Shanghai is the largest city in China and one of the largest in the world. The metropolitan area consists of 14 urban districts in the city proper (2,057 square kilometers) and six suburban counties, all within a single area with the status of a province within the Chinese system of government (Wu, 1999a: 207).

While Shanghai was a major industrial and commercial center from the mid-1850s until the takeover of the Chinese Communist regime, it experienced neglect and disinvestment after 1949. Overall, from 1949 through 1983, some 87 percent of Shanghai's revenue was remitted to Beijing, leaving 13 percent for local allocation. By contrast, Beijing and Tianjin averaged 30 percent during the same period. As a result, Shanghai was known as the “golden milk cow” of the planned economy of China (Yeung, 1996: 9). Limited investment in infrastructure and housing meant that urban amenities suffered, so that “by the 1970s and 1980s, the central city's infrastructure was near collapse. For instance, in the former French Concession, nearly 700,000 dwellings were without flushing toilets. Compared to the national urban average and Beijing (a city of comparable size), Shanghai lagged in several important indices of urban infrastructure, including per capita living space and per capita paved roads” (Wu, 1999a: 208–9).

The central government's neglect of Shanghai began to reverse itself in the early to mid-1980s, culminating in a 1988 agreement between the two to give the city more autonomy in revenue collection and expenditure. In the same year, the city established a foundation to mobilize funds for urban construction; in 1992, this became the Shanghai Urban Construction Investment and Development Com-

pany (Wu, 1999b: 2277). This state-owned company allocates funds in many different areas of infrastructure and services and to many different local agencies. According to Wu (1999b: 2278), the company "has displayed an impressive record of achievement in infrastructure financing since its creation." Wu goes on to say that the company

... has employed a wide range of financing mechanisms, particularly through such non-state channels as international capital, bank loans and credits, construction bonds, stock markets and service concessions. It has entered into concessions with profit-making enterprises to operate the three bridges and a tunnel across the Huangpu River. It also has established a number of subordinate entities, mainly in charge of water supply, which are listed on the Shanghai Stock Market. Available official information shows that in 1995 and 1996, funds mobilized by the company accounted for about 76 per cent and 90 per cent, respectively, of Shanghai's total urban maintenance and construction revenue.

These systematic investments had begun to show results by the mid-1990s in terms of road construction, park expansion, and wastewater treatment. Some massive infrastructure projects were completed, including the beginning of a new subway line, a tunnel, and three large bridges across the Huangpu River.

The most spectacular outcome of the new emphasis on modern infrastructure in Shanghai has been the development of the Pudong New Area, a virtually new district across the river from the old commercial center to the east of the city. Pudong has been designated the country's financial center, "the Wall Street of China" (Saywell, 2000: 58). Major financial institutions, such as the Shanghai Security Exchange, as well as many large international corporations (including Philips, General Motors, Eriksson, and Xerox) have already located their offices in the Lujiazui area of Pudong (Wu, 1999a: 214-15). By the end of the year 2000, some 70 foreign and joint venture companies had established themselves in Pudong's industrial parks, and some 80 foreign and domestic financial institutions were employing an estimated 150,000 white-collar staff in 20 large office towers (Saywell, 2000: 56).

As impressive as they are, these infrastructure achievements have done little to improve the living conditions of the large majority of Shanghai's working population, whose per capita living space is no more than 8 square meters on average, with 10 percent of the population living in a space of less than 4 square meters (Wu, 1999a: 208). One of the main problems with housing construction is the cost of urban land. And yet in the future, as land prices increase with major infrastructure projects and international investments, the cost of housing will rise even higher. The 1996 decision of the Shanghai municipal government to grant residency permits to those from outside the city who purchase an apartment



in Pudong worth at least 500,000 renminbi (US\$60,200) can only reinforce the polarization of the housing market.

In addition to the rising cost of land, a major factor behind the lag in housing has been a large increase in the city's population, caused partly by migration of rural peasants to urban areas. Most of these migrants (often referred to as the "floating population") do not have official urban status and live in substandard housing. Many live in so-called "villages" named for the provinces from which the migrants originally came. As documented by Solinger (1999), recent rural migrants in major Chinese cities survive under very depressed conditions with respect to access to such major city services as water, electricity, transport, and even cheap food. As one Shanghai citizen complained, "The urban environment is ruined. Wherever there's a large concentration of mobile population, shacks are erected at will, cooking is done outdoors, the streets are used as public toilets, structures are soiled, and public facilities are destroyed" (Solinger, 1999: 119). Box 9.1 describes the extremely marginal conditions under which some migrants subsist in Shanghai. The living conditions of rural-to-urban migrants in some of China's largest cities will be a major public policy issue in the years to come.

Yet in some respects, the Shanghai case is unique and very promising—at least from the point of view of urban services and infrastructure improvement. But on the housing side, with severe backlogs and pressure for improved accommodation for lower-income groups, it is more typical of the situation common in many cities of the developing world. By the end of the 1990s, a huge gap still existed across the developing world between the effective supply of adequately serviced land and minimal standard housing on the one hand and the demand for accommodation as expressed through what poor families are able to pay on the other. Because land and minimal standard housing are, in general, not supplied quickly enough to keep pace with demand on the part of low-income groups, the backlog is expressed in dramatic fashion through the continuing existence of slums, squatter areas, and other forms of informal housing or impermanent structures. These areas, often totally bereft of services and infrastructure (at least in the early stages of their development), are growing in many cities and declining in few.

Estimating the growth in the proportion of the urban population living in "self-help" housing in four major cities of Latin America, Gilbert (1998a) shows that the proportion in Mexico City increased from 14 to 60 percent between 1952 and 1990; that in Lima, Peru, increased from 8 to 38 percent from 1956 to 1989; and that in Caracas, Venezuela, increased from 21 to 42 percent from 1961 to 1991. Only Bogota, Colombia, was able to decrease the proportion of the population living in such settlements—in this case, from 40 to 26 percent from 1955 to 1991 (Gilbert, 1998a: 82).

The Global Urban Indicators Database of the United Nations Centre for Human Settlements (UNCHS), based on a major survey of 237 cities around the world (some 176 of which were listed as being in "developing" countries) reflects the same trends in housing quality. According to 1993 figures, among cities in

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**BOX 9.1 Living on the Edge in Shanghai**

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A stone's throw from the glistening skyscrapers that tower over the eastern Chinese city of Shanghai, three-year-old Wang Kun lives with his parents in a hovel surrounded by festering garbage.

A 15-strong tribe of rubbish collectors live in three rows of jerry-built shacks at the side of a rubbish dump in Shanghai's southeastern Nanhui—one of scores of makeshift villages built on the outskirts of dumps around China's gleaming economic capital.

Wang Kun and his father Wang Jun are from neighboring Jiangsu province while many of their fellow scavengers come from central China's impoverished Sichuan province. Their numbers are growing ....

"Rubbish collectors do play an important role in cities and authorities have an ambivalent attitude towards them," said Sophia Woodman, research director of Hong Kong-based Human Rights in China.

Crackdowns on garbage collectors can be triggered for arbitrary reasons ranging from National Day celebrations to a senior leader driving past a cluster of migrant dwellings and "thinking we don't want this in our gleaming modern city," she added.

For 26-year-old Liu Tian, his wife and four-year-old son, who live on a rubbish tip in Sanlitang village in Shanghai's southern suburbs, the insecurity is bearable.

The 800 yuan (97 dollars) Liu can rake in every month operating a smoke-belching machine that turns old plastic bags into rubber is four times more than he would earn in his Jiangsu village.

"It's not a bad life. I earn much more than I would at home and when my son is old enough I want to send him back to school in Jiangsu," Liu said ....

The Sanlitang rubbish dump is run by an entrepreneur who hails from Suxian, the same Jiangsu village as Liu Tian and his co-workers. Liu said his boss is doing well for himself but the authorities have asked him to relocate.

"We have to move on in a few weeks, some of the other workers have already moved but we don't know where we're going yet. We have to wait for the boss to tell us," he explained ....

However, for Wang Jun, the smell of the refuse and filth as well as the threat of being driven out by police is no deterrent.

"Although work here is dirty and hard, I have more freedom and human dignity than in a factory job," he said.

SOURCE: Agence France-Press (2001)

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Africa, on average only 49 percent of dwellings could be considered in compliance with local building regulations; for the Asia Pacific region (which in the survey does not include Korea, Singapore, or Japan), the figure is 59 percent; and for Latin America, the comparable figure is 74 percent. These figures show that access to adequate housing is still a distant goal for large numbers of people living in these three regions; they also show—all too clearly—that there is a strong relationship between the per capita income of countries (and cities) and the level and quality of housing and urban services supplied to their people (United Nations Human Settlements Programme, 1999). In general, writes Angel (2000: 320),

... while the formal housing sector [has] produced the bulk of housing for high-income groups, and while public housing [has been] of limited scope everywhere—except in Hong Kong and Singapore—most low-income housing in the developing market economies was and is produced by the informal housing sector ... occupying land illegally (squatting) or built in land subdivisions that do not conform to zoning ordinances and planning regulations ... without adequate infrastructure, without any state subsidies, and without any formal housing finance.

This picture of housing supply lagging badly behind demand runs parallel to a variety of other statistical measures of urban service delivery. Based on the same UNCHS database of 237 selected cities, Table 9-2 reveals a major difference between developing and industrialized regions. In terms of water, sewerage, electricity, and telephone connections, the proportion of urban households receiving urban services is much lower in the former regions. By region, however, there is a clear gradation for each of these services from a low in Africa, through Asia and Latin America, to a high in the industrialized world. The poorest countries (in this case those located in Africa) claim the lowest level of urban services, regardless of which service is being measured. A similar gradation of urban service levels—from a low in the poorest cities of Africa to a high in the industrialized world—obtains for virtually all other major urban services not included in this table, including waste disposal, expenditures on roads per person, education, and health services (United Nations Human Settlements Programme, 1999).

In the specific case of health statistics, the UNCHS database shows that African cities lag considerably behind cities in all other regions. Thus in the 87 cities representing Africa in the database, there is an average of 954 persons per hospital bed, compared with 566 for Asia Pacific (which includes China), 288 for Latin America and the Caribbean, and 132 for the industrialized world. Child mortality (under age 5) is also high in African cities, at a rate of more than twice that in the Asia Pacific region (United Nations Human Settlements Programme, 1999: Socioeconomic development tables), and 30 times greater than that reported for the industrialized world. The low quality of health services in African cities is closely related to poor sanitation. The introduction to a major recent comparative

TABLE 9-2 Percentage of Urban Households Connected to Utility Services, by Region

Region	Water	Sewerage	Electricity	Telephone
Africa	37.6	12.7	42.4	11.6
Asia (Pacific)	63.2	38.5	86.1	26.0
Latin America and the Caribbean	76.8	62.5	91.6	41.2
Industrialized	99.4	97.8	99.4	89.1

SOURCE: United Nations Human Settlements Programme (1999).

study of waste management in African cities (Onibokun, 1999: 2-3) makes the following observation:

The rapid rate of uncontrolled and unplanned urbanization in the developing nations of Africa has brought environmental degradation. Indeed, one of the most pressing concerns of urbanization in the developing world, especially in Africa, has been the problem of solid-, liquid-, and toxic-waste management. Recent events in major urban centres in Africa have shown that the problem of waste management has become a monster that has aborted most efforts made by city authorities, state and federal governments, and professionals alike. A visit to any African city today will reveal ... heaps of uncontrolled garbage, roadsides littered with refuse, streams blocked with junk, disposal sites constituting a health hazard to residential areas, and inappropriately disposed toxic wastes.

As many commentators have observed, the poorest cities in the world (which are also among the most rapidly growing) have acute capacity problems when it comes to servicing their populations. Not only is there generally a severe shortage (verging on absence) of trained, professional staff to deal with complex urban management problems, but the overall resource levels of poor municipalities are extremely low. Since water and sewer reticulation systems, to say nothing of electrical and telephone networks, cost no less in developing than in industrialized countries, substantial financial resources must be found to finance major infrastructural investments. But with per capita municipal revenue figures at such levels as US\$13.20 in Nairobi, \$2.60 in Lagos, \$17.10 in Delhi, \$27.70 in Dhaka, and \$31 in Abidjan, only the most elementary municipal activities and local services can be supported. Latin American revenue figures are somewhat higher—again, depending on the wealth of the country in question—but in rapidly urbanizing countries such as Bolivia (where the revenue per capita in La Paz is US\$108) or Guatemala (with Guatemala City having a per capita revenue of \$26) (United Nations Human Settlements Programme, 1999), services and infrastructure cannot even come close to keeping pace with population growth. When services (such



as water or electricity) are either partially or fully privatized, the new owners have difficulty raising rates to finance new infrastructural investment.

Cities in the industrialized world (such as Toronto, with municipal revenue per capita of US\$2,087; New York, with \$5,829; or Amsterdam, with \$4,559) have a much larger pool of local resources from which to finance needed infrastructure. While the individual returns may be somewhat unreliable, the UNCHS survey indicates that in 1993, the average per capita revenue received by municipal governments in Africa was US\$15.20, in Asia (Pacific) \$248.60, in Latin America and the Caribbean \$252.20, and in the industrialized world \$2,763.30. The ratio between the lowest and highest regions is on the order of 1:182. This ratio is much higher than that between per capita income in sub-Saharan Africa and that in the "high-income" countries (1:51) listed in the *World Development Report* (World Bank, 2000c: 275).

As discussed in the following section, one important means of dealing with local service capacity problems is to devolve more power to local authorities. While there have been problems in many countries with undertaking devolution before the necessary financial resources are available, local governments are often in closer touch than more central authorities with community and other civil society groups that can support service initiatives.

In the Philippines, for example, the Local Government Code of 1991 transferred responsibility for overseeing the implementation of primary health care to local government units. While the Ministry of Health apparently resisted devolution at first, the decentralization of many health services in fact took place on January 1, 1993, at which time 595 hospitals, 12,859 rural and urban health units and health centers, and most health programs were (at least formally) transferred from the national to the local level. Significant financial challenges resulted at the local level since revenues were allocated by the central government on the basis of demographic and poverty measures, not the existing distribution of health facilities and programs (Stover, 1999). Here, civil society helped buffer the shock. Since the central Ministry of Health had expended considerable effort on developing relations with nongovernmental organizations (NGOs), volunteer health workers, and other community organizations at the local level before the advent of mandated decentralization, local governments were able to find partners to carry out their primary health mandate, and according to some, the transition in many areas took place relatively effectively (Bautista, 1998).

#### **The Financial Resources Dimension**

While it is impossible to separate the capacity (or incapacity) of cities to deal with the service needs of their population from the financial resources they have at their disposal to do so, it is also the case that the level of resources available is not immutable. While wealthy countries can direct much higher levels of taxes and fees for service to their municipalities and/or private service providers than

can poorer countries, the elasticity of supply of municipal revenue in relation to per capita income is clearly greater than zero. One of the reasons for this is that cities and their surrounding regions are often the most dynamic economic units in the country; the more effectively municipalities can build services and infrastructure to facilitate productive economic activity, the more both the country and individual urban citizens will benefit. The logic behind this relationship was at least one of the factors underlying the major decentralization reforms of the 1980s and 1990s throughout the developing world. There is some discussion among researchers as to the fundamental factors behind decentralization in different settings and different countries, as we have seen above, but the balance of opinion on these initiatives appears to be positive. In any case, as a result of these decentralization reforms, local governments (and cities in particular) have been given substantially more power by central governments in many countries around the world. As Manor (1999: 1) points out:

Decentralization has quietly become a fashion of our time. It is being considered or attempted in an astonishing diversity of developing and transitional countries ... by solvent and insolvent regimes, by democracies (both mature and emergent) and autocracies, by regimes making the transition to democracy and by others seeking to avoid that transition, by regimes with various colonial inheritances and by those with none. It is being attempted where civil society is strong, and where it is weak. It appeals to people of the left, the center and the right, and to groups which disagree with each other on a number of other issues.

The nature of these decentralization policies varies tremendously—from incremental changes in protocols for intergovernmental relations on the one hand to major constitutional amendments or even new constitutional dispensations on the other. Three large countries gave new constitutional powers to municipalities during the period.

In Brazil, a new constitution in 1988 considerably increased the power of municipalities in relation to the states, assigning to them control of intracity transport, preschool and elementary education, land use, preventive health care, and historical and cultural preservation. On the participatory side, municipalities in Brazil were given the right to establish councils of stakeholders (termed in English “municipal boards” or “community councils”). These bodies, established in most of the largest cities in the country, include nonelected representatives of community groups and deal with such important matters as urban development, education, the environment, health, and sanitation.

In India, an important constitutional amendment in 1992 provided an illustrative list of functions that were henceforth to be considered appropriate for municipal government; among these functions were planning for economic and social development, alleviation of urban poverty, and even urban forestry. The amendment



also limited the degree to which state governments are able to suspend democratic local government (a practice that until then, had frozen democratic local governments in nearly half of the largest cities in the country), provided for a revision of state-local fiscal relations, and required that no less than 33 percent of all elected local councilors be women.

The new South African constitution of 1996 devotes a whole chapter (containing 14 separate articles) to local government. Among other things, this chapter (Section 152) states that the objectives of local government (including municipal government) are "(a) to provide democratic and accountable government for local communities; (b) to ensure the provision of services to communities in a sustainable manner; (c) to promote social and economic development; (d) to promote a safe and healthy environment; and (e) to encourage the involvement of communities and community organisations in the matters of local government."

There are two clear messages in these reforms. The first is that municipalities (and other local governments) are now expected to undertake *and to finance* a much broader range of services and other economic and social activities. The second is that community and important local stakeholder groups must be engaged in the local governance process.

In spite of this general assignment of greater powers and responsibilities to municipalities in many countries, revenue has not kept pace with expenditure requirements. Not only are most local authorities dependent for up to one-third of their revenue on other levels of government, but their own resources are inadequate. One important reason for this inadequacy of own-source revenue is that it is usually based on fees for service and property taxes, rather than on more lucrative and collectible taxes (such as gasoline and income taxes) (United Nations Human Settlements Programme, 1996: 178-81). In many countries, even mandated central government transfers are not reliable. In poor countries, collecting fees and property taxes is notoriously difficult. Most municipalities in developing countries cannot borrow, and they cannot run a deficit. In addition, local revenue is highly dependent on both macroeconomic factors (for example, whether national economies are prospering or in distress) and on the level at which municipalities are permitted to borrow through the market. Under recent conditions of crisis in such countries as Argentina, Brazil, and Indonesia, local authorities have been negatively affected even though they have been able to borrow, and their potential sources of local revenue have been augmented by improving the tax base.

Comparative data on local government revenues and expenditures are particularly difficult to obtain. Most countries do not supply consistent and reliable revenue and expenditure data. Even the *Government Finance Statistics Yearbook* published by the International Monetary Fund, the primary and most authoritative source of international data on government finance, gives information on local government finance for only 52 of its 114 listed countries in its 1998 edition, with time-series, detailed data being provided for only 12 developing countries (International Monetary Fund, 1998). Revenue and expenditure figures reported

in the UNCHS database, referred to above, appear questionable in the case of some developing-country cities. Havana, Cuba, for example, reports revenues of US\$1,418 per capita and capital expenditures per capita of \$1,318, while Toronto reports, respectively, \$2,087 and \$253, and New York reports \$5,829 and \$582 (United Nations Human Settlements Programme, 1999). For the most part, as argued above, the level of revenues and expenditures for all cities in poor countries is very low.

Given the increase in devolution of powers and responsibilities that has characterized the last decade, figures on municipal expenditures are slowly rising in comparison with national government expenditures, but the levels are still low. Figures published in the 1996 *Global Report on Human Settlements*—covering a sample of 18 wealthy countries; 4 transition countries; and 16 countries in Asia, Africa, and Latin America—show that on average, local government expenditures are 22 percent of total government expenditures in the first group, 20 percent in the second group, and only 9 percent in the third group (United Nations Human Settlements Programme, 1996: 174). Unfortunately, many of these figures are over a decade old. Under Bolivia's *Ley de Participación Popular* (the implementation of which began in 1994), municipal governments automatically receive 20 percent of all central government revenues through fiscal transfer. And starting in the early 1990s, Colombia began to transfer an increasing fixed proportion of national recurrent income to municipalities—from 14 percent in 1993 to 22 percent in 2002 (Hoskin, 1998: 105). Looking at municipal spending as a proportion of total public-sector spending between the 1970s and the early 1990s for Colombia, Argentina, Chile, and Peru, one finds increases of, respectively, 10.5 to 15.7 percent, 5.4 to 8.6 percent, 4.7 to 12.7 percent, and 2.2 to 9.2 percent (United Nations Human Settlements Programme, 1996: 167). There is good reason to believe—as the Colombian example of fiscal transfer already indicates—that these proportions will rise further in the early years of the twenty-first century.

As a result of changes in intergovernmental relations, the financial health of municipalities is slowly improving—at least in some countries. A compilation of data from case studies carried out in the mid-1990s for Brazil, Bolivia, Colombia, Chile, and Peru shows that transfers from other levels of government to the local level are now relatively high, representing 62.7 percent of total local revenue in Brazil, 54.7 percent in Bolivia, 47.8 percent in Colombia, 42.7 percent in Chile, and 58.1 percent in Peru (Aghón and Casas, 1999: 77). At the same time, property tax reforms in some countries have resulted in a much higher level of recovery. In La Paz, for example, after the *Ley de Participación Popular* (1994) devolved property taxes from the central government to municipal jurisdictions, property tax recovery increased considerably—from US\$4.6 million in 1993 to \$9.3 million in 1996. In Bolivia, the new law also created “vigilance committees” at the central municipal level, composed of local citizens who were to monitor the use of resources by elected mayors and councils, could propose investment projects, and in some cases could censure and dismiss the mayor (Grindle, 2000: 95–7). The



creation of these groups contributed to a heightened sense of local "ownership" in municipal government, and probably to the higher rate of tax recovery as well. And in Bogota, Colombia, recovery rose from approximately 9 million pesos in 1993 to 30 million pesos in 1996 once a system of self-evaluation of property tax had been instituted (Aghón and Casas, 1999: 78–9).

That local tax collection and revenue generation may be as much a governance as a technical issue (requiring, for example, changes in tax codes, property attributions, and accounting systems) is illustrated by examples in China and Brazil. In the case of China, market-oriented reforms since the late 1970s have resulted in the devolution of important decision-making powers from the center to localities (Wang, 1994), as well as in changes in the fiscal relations between the two levels of government. While there have been many twists and turns in the redefinition of the fiscal relationship between levels of government, a decentralized market environment has clearly emerged. Local governments now enjoy considerable "off-budget" revenues, generated from such sources as donations by individuals and enterprises to specific public projects, profits from township-owned enterprises, fees for services and fines, and revenue from the leasing of public land to enterprises and developers (Gang, 1999). Indeed, the sale of land use rights has constituted the largest source of income for many cities in the coastal region since the late 1980s (Yeung, 1998b: 177–78, 271–74).

In 1992, the last year in which off-budget revenues were officially counted as fiscal revenue, such revenues had reached 93 percent of total formal budgetary revenues at the local level, and they are presumably still rising, at least in the aggregate. Although observers remark on the difficulty of estimating the contribution of off-budget revenues to large government structures (such as city government), that contribution is undoubtedly considerable. By 1996, such revenues accounted for close to 40 percent of all funding for urban infrastructure (including local public utility and construction charges, transfers from the central government, and regular municipal budgetary allocations) (Wu, 1999b: 2271–72). While there is controversy over the legitimacy of the way these revenues are allocated (see below), local governments use informal revenue generation systems—with the involvement of their citizens—to generate necessary resources for the provision of public goods. Gang (1999: 234–5) remarks on the close connection between local participation and effective mobilization of local tax resources:

A real challenge ... is to develop a new type of local governance. Case studies in various regions show that in most places where off-budget revenue makes up a large share of local public revenues, some kind of democratic mechanism has emerged spontaneously. For example, people have started to use the local People's Assembly as the mechanism for decision making and monitoring of local public finance. Qingde town of Zhejiang province established three years ago an Assembly subcommittee, a "Financial Committee", as the de-

cision making body for local public finance. Almost 30 per cent of the Assembly delegates joined the committee, whose main task is to discuss and decide whether public projects should be initiated, how they should be financed, how the resources should be mobilized and how the revenues (mainly off-budget revenues) should be distributed and used .... In Shahe town of Shantou city in Guangdong province, the local people set up three years ago a special local "Board of Directors for Public Projects". It functions as the decision making (legislative) and administrative body for local public projects, mainly physical projects for infrastructure, including roads, schools and hospitals. The board consists of most of the "elite" of the town, elected by the local people, but includes no current local government officials. It not only makes decisions on projects and fund-raising but also takes responsibility for project implementation and fund expenditures. In some sense, the board functions like a "parallel government" in charge of special fields of local public affairs. Meanwhile, the local administration plays the role of an outside monitor: it still carries out other government duties and at the same time monitors the work of the board and reinforces the formal government policies which need to be taken into consideration.

In both cases described ... we can see the development of democratic mechanisms and a new type of local governance. Such new mechanisms minimise the problems that have arisen with off-budget revenues. As it develops spontaneously, based on solid economic motivations, this local democracy holds promise, with an obviously far-reaching impact on local governance.

While these new participatory mechanisms undoubtedly open some local economic systems to participation from the community, there is another side to this process. On the one hand, as researchers have pointed out, local governments and officials in China have been developing large collective enterprises, whose income (described above as "off-budget") can be used in a constructive fashion for administration, infrastructure improvement, and the establishment of new enterprises that can expand the revenue base of local governments (Oi, 1992, 1995; Walder, 1994). On the other hand, as Sargeson and Zhang (1999) point out in a case study of Xihu, a suburban district of Hangzhou, the provincial capital of Zhejiang, some local officials have taken advantage of these new enterprises to enrich themselves. They have done so by translating their political influence into stock shares, preventing a more balanced distribution of enterprise benefits throughout the local area. The costs and benefits of this decentralized fiscal system in China clearly warrant further evaluation.

Another and much better-known case is the development of "participatory budgeting" in Brazil. While versions of this system have been operating through-



out Brazil (see, for example, Singer, 1996), the most well-known example of a city practicing the participatory budget system is Porto Alegre, a city of about 1.3 million in the south of the country. The system—which essentially involves ordinary citizens in planning for the yearly capital budget—is based on the work of 16 forums based on local regions of the city. In addition, there are 5 thematic forums (created in 1994), addressing education, health and social services, transportation, city organization, and economic development. There is also a municipal budget council with representatives from the regional and thematic forums.

The system was originated in 1989 by the Union of Neighborhood Associations. By 1995, some 7,000 people were participating in the regional assemblies and 14,000 more in further meetings to negotiate compromises among regions' conflicting demands. The system is complex and continues virtually throughout the year. The regional forums even micromanage the actual implementation of capital projects (Abers, 2001). According to the municipality, more than 70 cities elsewhere in Brazil and throughout the world (including Buenos Aires, Barcelona, and Saint Denis) have adapted this system to their own needs (Porto Alegre, 1998: 10).

A study of the city management process in Porto Alegre (Pozzobon, 1998) reveals that even from 1992 to 1995, the city increased its total tax receipts by 34 percent. The former mayor of the city claims the popularity of the budgeting system contributed to a tripling of the city's tax revenues during the period 1989–1999 (Pont, 2001). Abers (2001: 140), examining the participatory budget process, emphasizes the widespread democratic learning that was entailed:

Along the way, [citizen] participants have developed a series of democratic skills. The most elementary are the basic habits of collective decisionmaking—holding coherent meetings, allowing all to speak, and learning how to debate and vote on complex issues where choices are multiple. Participants have also gained critical skills in negotiating with the administration. They pressure agencies to produce information about government actions and to demystify technical rules. They often successfully force administration officials to talk in ordinary people's terms and, in doing so, unmask attempts to veil in technical complexity the real reasons for rejecting or changing the demands prioritized.

Abers also argues that participatory budgeting would not have been possible without the active, time-consuming, and persistent efforts of local government officials to work with neighborhood groups.

Pont (2001), the mayor of the city during the period 1996–2000, implies that the participatory system in Porto Alegre was so popular that it resulted in the mayor's party (the PT or "Worker's Party") winning the state governorship in 1996:

In the last election [1996] we really guaranteed Olívio Dutra's [the governor's] victory with a huge landslide in Porto Alegre. Rio Grande do Sul has a population of almost 10 million; there are about 7 million voters, and the victory was by 80,000 votes. It was a very tight contest overall, but in the capital we won with a very large margin. So we can say that it was the voters in the capital [Porto Alegre] who guaranteed the victory.

While Porto Alegre is the best known of the Brazilian cities practicing participatory budgeting, it is not the only or even the first city to do so. In Piracicaba, a municipality in the state of São Paulo, a Citizens Budgetary Committee—in which popular organizations had seats and votes—was established as early as 1980. The initiative died when a new mayor was elected, but other participatory initiatives were undertaken in such cities as Lages, Fortaleza, and Recife in the 1980s (Souza, 2001). At the time, these cities were not administered by the PT, but by other leftist parties or coalitions. São Paulo had a less-than-successful experience with participatory budgeting under mayor Luísa Erundina during 1989–1992 (Singer, 1996). Since the election in 2000 of another PT administration under Mayor Marta Suplicy, the participatory budgeting process has been revived.

On the more positive side, Belo Horizonte, a relatively affluent city in Minas Gerais State, has organized “priorities caravans” consisting of budget delegates making local bus visits to check directly on the problems identified at subregional meetings. Overall, Belo Horizonte has indicated on its Web site that some 200,000 people have already taken part in participatory budgeting (Souza, 2001: 15). In Recife, a much poorer city in the northeast of Brazil, participatory budgeting began with the election of Mayor Jarbas Vasconcelos in 1985 and has continued to the present, including a recent period when the city was administered under a coalition government. Nevertheless, in Recife as in other cities, a relatively small proportion of the total budget is under discussion in the participatory budgeting process (Melo, Rezende, and Lubambo, 2000). The needs of the poor are a long way from being solved by this process. As a knowledgeable Brazilian writer claims with reference to the process across the country, “although some of the claims and results [of participatory budgeting] deserve more research, the experience does allow low-income segments of neglected areas . . . to decide on investment priorities in their communities. Furthermore, it also argues that encouraging participation in highly unequal societies like Brazil should be valued more for heightening citizenship rather than for the material gains it may bring to some areas of the cities” (Souza, 2001: 1).

### **The Diversity Dimension**

As they grow, many cities become increasingly diverse with respect to both the cultural, ethnic, and even religious characteristics of their populations and the nature of their economies. The extraordinary internal diversity of cities has always



been a source of stress and conflict, but also of creativity and originality. Hall (1998: 7) suggests that, contrary to gloomy predictions of decline, many of the largest cities of the Western world have also served as platforms for the highest levels of innovation. While "no one kind of city, nor any one size of city, has a monopoly on creativity or the good life ... the biggest and most cosmopolitan cities, for all their evident disadvantages and obvious problems, have throughout history been the places that ignited the sacred flame of the human intelligence and the human imagination." It can be argued that one of the most important measures of a successful city—in both the developed and developing worlds—is the ability to deal effectively with social diversity and to create structures of governance that integrate diverse communities and economic interests into a functioning system (Polèse and Stren, 2000).

Studies of the morphology of cities in developing countries almost always comment on the fragmentation of the population, from both a social and infrastructural point of view. In his classic article on urban planning in developing countries, Balbo (1993: 24–5) points out that, although Western industrial cities are characterized by a certain coherence that is amenable to master planning, almost all cities in developing countries are more complex, both spatially and socially:

... the city of the Third World is a city of fragments, where urbanisation takes place in leaps and bounds, creating a continuously discontinuous pattern. In the fragmented city, physical environment, services, income, cultural values and institutional systems can vary markedly from neighbourhood to neighbourhood, often from street to street. An aerial view of the city shows a spatial structure made up of many different pieces drawn together in a rather accidental way. There are more of some kinds than others. Those in the periphery are incomplete and more "fragile", while older areas are well established with clearly defined boundaries.

Even in Latin America, where most cities date from the sixteenth century, a process of "tribalisation" seems to be under way: the city is splitting into different separated parts, with the apparent formation of many "microstates". Wealthy neighbourhoods provided with all kinds of services, such as exclusive schools, golf courses, tennis courts and private police patrolling the area around the clock intertwine with illegal settlements where water is available only at public fountains, no sanitation system exists, electricity is pirated by a privileged few, the roads become mud streams whenever it rains, and where house-sharing is the norm. Each fragment appears to live and function autonomously, sticking firmly to what it has been able to grab in the daily fight for survival.

This depiction of the situation in the early 1990s has been reinforced by evidence of the further fragmentation of urban and interurban networks in both developed and developing cities. These networks involve such essential urban services as transport, water and sanitation, electrical supply, communications, and even security. As Graham and Marvin (2001:383) argue, the urban world of the last decade has seen a "splintering urbanism" in which "standardized public or private infrastructure monopolies ... laid out to offer broadly similar services at relatively equal user charges over cities and regions, are receding as hegemonic forms of infrastructure management." While a major factor behind these changes in developing-country cities is the inability of service providers to keep pace with demographic growth, more general factors behind these changes include "the widespread retreat of the idea that networked services are 'public' services that should be available to all at standard tariffs" (Graham and Marvin, 2001: 96) and the pervasiveness of the idea that all forms of ownership (public and private) should compete for the supply of local services.

As a result of many of these factors, knowledgeable commentators were still observing social segregation in Latin American cities toward the end of the 1990s. Thus, Gilbert (1996: 91–3) observes that "Latin American cities remain highly segregated .... In Lima, everyone knows that San Isidro and Miraflores are rich while Comas and Villa El Salvador are poor; in Santiago, the extremes are found in affluent Providencia and Vitacura in the north-east and poor La Pintana and La Granja in the south. In Rio de Janeiro, the rich live in Leblon and Ipanema and the poor in the Baixada Fluminense ...." While residential segregation is becoming more complex, he argues, there is no sign that it is declining; "indeed, in some respects there is greater polarization." The complex nature of this pattern can be seen in a number of cities, as described below.

### **Rio de Janeiro**

Rio de Janeiro represents a story of "emerging dualization in a historically unequal city" (Ribeiro and Telles, 2000). The Rio metropolitan area, with a population of some 9.7 million spread over 17 municipalities, grew at a rate of only 1.1 percent from 1980 to 1991. As many of the city's population migrated to medium-sized cities in the State of Rio de Janeiro, the outer parts of the city region grew much more quickly than the central portions. The authors' observations, based on census data, show that the poor, the less educated, and nonwhites are concentrated in the periphery and the favelas (spread throughout the metropolitan area), while the white, educated population is concentrated in the city center.

During the period 1980–1991, income concentration increased—the poor became more concentrated in the periphery and the indigent poor in the central parts of the city, while the rich increased their share of total income. At the same time, as salaried employment for the poor was becoming more scarce, and many at the lower end of the income scale were moving to the city center to take advantage of