04.
CONCLUSIONS

1.
INTRODUCTION

The year 2015 gathered significant momentum for a convergence of forces towards the transition of our societies to a more sustainable and inclusive long-term development cycle.[1] The international community reached a consensus that this new cycle will at the same time necessitate a shift in economic and social systems that are inclusive and oriented towards sustainability. These are to eradicate poverty, reduce inequalities and support development within planetary boundaries.[2] The transformative potential of this transition is subject to much and lively debate.

The adoption of the UN Agenda 2030 and the Paris Agreement on Climate Change that stemmed from the COP 21 are a clear political recognition that we live in a new era – the 'Anthropocene' – where humanity exerts a dominant influence on our planet's environment. Moreover, inequalities have reached extreme levels and our future economic systems must now have environmental safeguards.[3]

This change is taking place at precisely the moment when the majority of the world's global population find themselves to be urban citizens. People are spread across a variety of settlements, ranging from small towns, through to intermediary cities (i-cities) and large metropolitan areas. If UN projections are correct, the size of the urban population is set to double over the next four decades to 2050, by which time as many as seven billion (out of a total population of 9.5 billion) people may be living in urban settlements. Given this scale, it is thus clear that the answers to problems at the level of cities and territories will pave the way for global solutions to global problems.[4]

Previous chapters have described the challenges facing different levels of human settlements and necessary solutions. In this concluding chapter, we place these in the new context being redefined through the international agreements that cohere under the Sustainable Development Goals (SDGs) for 2030, the Paris Agreement, and the New Urban Agenda.

Our conclusions explore the key interlocking trends that will pave the way to a sustainable future, at the same time considering different solutions for current urban and territorial challenges. Finally, we present UCLG's policy recommendations to its membership, partners, the rest of the local government community, and international institutions.

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The answers to problems at the level of cities and territories will pave the way for global solutions to global problems

Photo: Insights Unspoken - Addis Ababa (Ethiopia).

2.
THE GLOBAL CONTEXT

The international summits and agreements of the past few years are an unprecedented opportunity to take stock of the progress made since the Earth Summit in 1992, Habitat II in 1996, and especially the adoption of the Millennium Development Goals (MDGs) in 2000, as a programme of action to deliver against the renewed development consensus. It has been an enormous achievement to foster an **international consensus based on fundamental preconditions for a peaceful and prosperous world**. Since the early 1990s, the recommended approach to national development has rested on **democratization of the state and civil society** to ensure the political and civil rights are fully expressed and guaranteed. This process, rooted in the **Universal Declaration of Human Rights**, has sought new economic and social models consistent with the precepts of **sustainable development**.

Moreover, an overview of the post-1990 UN development agendas shows that the global policy community **has progressively recognized the important role of sub-national governments** in the implementation of global policy agreements. The recent suite of policy agreements – Sendai, Addis Ababa, Agenda 2030 and the SDGs, and COP 21 – consolidates these changes arriving at a much clearer understanding of the multilevel governance (MLG) implications of inclusive and sustainable development. For local and regional governments, as well as the international community as a whole, the universal agendas adopted last year point to the transformations that are urgently needed to address the unprecedented economic, socio-spatial and environmental changes and challenges unfolding in the early 21st century. These actions and accords are interconnected and should be seen **as a common global development agenda.** However, while these agendas define actual institutional and governance arrangements, it must be emphasized they do not properly address the magnitude of the demographic transition towards a more urbanized world – nor the staggering implications of this for the development agenda. If the New Urban Agenda fails to adequately address this issue, it will have far-reaching and devastating consequences.

In this regard, the current juncture can also be seen as a period of unique opportunity. For the first time in human history, we have the capacity to eradicate poverty and hunger. There is an emerging view that we are entering an era in which the technology exists to reorganize the economy to ensure that everyone has access to food, health, education and other basic services. **Moreover, thanks to increasing automation, we can all enjoy more leisure time and life-long learning, while becoming contributing members to self-reliant communities and a broader political life**. This perspective is reflected in the cultural rise of the 'sharing economy', the 'maker culture', open-source learning, and co-production as a fundamental cultural principle of identity, belonging and aspiration. These trends are particularly significant in large urban agglomerations. The embrace, for the first time, of new social media, mobile sociality and economic transactions by young people from all world regions and cultures is a phenomenon that reveals an ever more interconnected, 'crowd-sourced' and responsive urban ecosystem.

The new international consensus necessitates certain structural changes. It centres on the need for a more intelligent approach that recognizes the centrality of well-informed, accountable and proactive public institutions, willing to take the lead in establishing societal consensus and broader civic participation. At deeper levels of society where technology, demographic change, cultural awareness and new economic business models intersect, **the next few decades are an ideal opportunity to radically reconfigure social structures, economic opportunities and cultural systems of belief and attachment**. Local and regional governments can lead in the formulation of bottom-up solutions and take advantage of their proximity to create a new model of 'shared governance'.

Currently, however, this is constrained by structural and institutional lags at different levels. The world financial crisis that began in 2007 is widely held in international policy circles to mark the end of one era and the start of a global transition to another. 2009 was the first year since the Second World War (WWII) that the global economy actually shrank (in terms of GDP). **There is considerable debate amongst policy analysts about whether a new long-term development cycle will emerge or if large parts of the global economy will sink into long-term stagnation**.

However, the equivalent of the Bretton Woods Conference in the middle of the 20th century, to agree on a new world economic order that restores regulatory controls at macroeconomic levels, has not yet taken place. National economies are even more vulnerable to indebtedness and speculative capital flows. The financialized era, debt-driven models of economic growth and the commodification of public goods affect national and local economies alike. This is seen in the ever more frequent food and housing crises around the world. They also precipitate financial aftershocks that heighten insecurity and inequality. Phenomena that are linked to the evolution of economic systems, the new international division of labour and means of production, have further fuelled a crisis of employment, enlarged wealth disparities, and fertile conditions for disaffection and social unrest.

At the same time, the current model of growth is unable to stop over-consuming non-renewable and renewable resources and harmful emissions that are exacerbating climate variability. In essence, humanity is shaping contemporary society in a way that is increasingly unequal and significantly exceeds the capacity of our planet to renew its natural life-support systems. The processes by which it is doing so co-exist with dynamics that see almost half of the global population eke out an existence on less than USD 2.50 a day.

The world is faced with the negative consequences of unsustainable consumption. Majorities in the Global South can barely make ends meet and are trapped in poverty, while in the Global North more and more people are vulnerable to falling into precarious existences if they lose or fail to get a job. This, combined with different levels of institutional weaknesses, represents a threat to the achievement of the new development agenda for 2030. Indeed, across the world, public institutions appear powerless to implement a new paradigm of socially inclusive and sustainable development. They seem often to be trapped in obsolete institutional constraints that stifle experimentation and innovation. Declining levels of public welfare; over-burdened or insufficient infrastructure systems resulting from partial state disinvestment; ineffective public regulation of markets' dominance; and weak planning, aggravate the crisis of legitimacy of public institutions.

Consequently, most governments are investing in capacity-building, performance-management improvements, information technologies and forms of MLG that enhance administrative efficiencies. At the same time, there has been a marked shift in the understanding of the importance of a more effective, capable, and confident state, in the last decade in particular. These developments coincide with a 20-year trend towards decentralization and the replenishing of democratic participation as a cultural expectation and institutional prerequisite for responsive governance. This trend also pervades the current global debate, as the draft of the New Urban Agenda shows.

The necessary shift from an ineffective exclusionary and unsustainable model of socio-economic development to a more sustainable and equitable one is increasingly being referred to as the next 'great transformation'.[5] While limited progress is being made at the global level to define the terms of the next long-term development cycle within the bounds of our planetary capacity, we are seeing – as this report has highlighted – **an encouraging proliferation of sustainability-oriented 'experiments' in**

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Unless urban and territorial action is taken to combat inequalities and climate change and its impact, the massive gains made in the last century will be swept away, worsening the contemporary challenges of poverty, inequality and environmental degradation

urban settlements and territories across the world.[6] The evolutionary potential of these may be just as significant as any agreement at the UN level. Their spread and scale may be significant enough for them to represent the emergence of a new mode of urban and territorial governance. Specifically, the structural limits of the contemporary global economic model and system have been exposed, along with their underlying unsustainable production, which in turn relates back to consumption preferences and behaviour.

The blight of rising inequality, as opposed to simply poverty, is now firmly on development agendas, and there is a recognition that unless urban and territorial action is taken to combat inequalities and climate change and its impact, the massive gains made in the last century will be swept away, worsening the contemporary challenges of poverty, inequality and environmental degradation. The future of humanity is contingent upon the way in which urban and local challenges will

be addressed. **This is why it is so important to examine what is now emerging within our urban settlements and territories in order to discern the potential dynamics of a new, inclusive and sustainable socio-economic order**. To this end, the evolutionary potential of the present moment needs to be understood for possible transition pathways in the future.

Discussions and policy processes throughout UCLG regions and various local government networks show a strong willingness amongst local and regional governments' leaders to proactively address the deep institutional challenges. This is essential to jointly devise local solutions to complex inter-sectoral problems such as inequality, social exclusion, environmental pressures and changing local and regional economies.

The report's structure and analysis mirror the cross-cutting nature of these issues: how socio-economic informality and marginalization; the lack of infrastructural interconnectedness; and environmental resilience affect metropolitan areas, intermediary and small cities, and rural areas. These all pose challenges that local and regional governments must address according to the particular needs and strengths of their territory and communities.

The next section summarizes some of the key issues relating to the different levels of sub-national government spelt out in previous chapters. After a brief reminder of the substantial transformative dimensions of the new global agendas, the conclusions move on to a novel policy perspective. This reinforces the importance of an integrated territorial development approach to involve people and local communities. It identifies the different drivers of change that can ultimately bring about the necessary transition for a sustainable future in metropolitan areas, i-cities, and mixed rural-urban areas. It also refers to the reforms needed in national institutional frameworks and policies to tap the potential of territories. In so doing, it builds on two critical dimensions: the establishment of a new social contract with citizens, founded on the 'Right to the City'; and the appropriate financing of the urban and territorial objectives of an emerging global urban agenda. It concludes, finally, with a series of recommendations for all actors willing to support change, sustainability and inclusiveness in local, national and global governance systems.
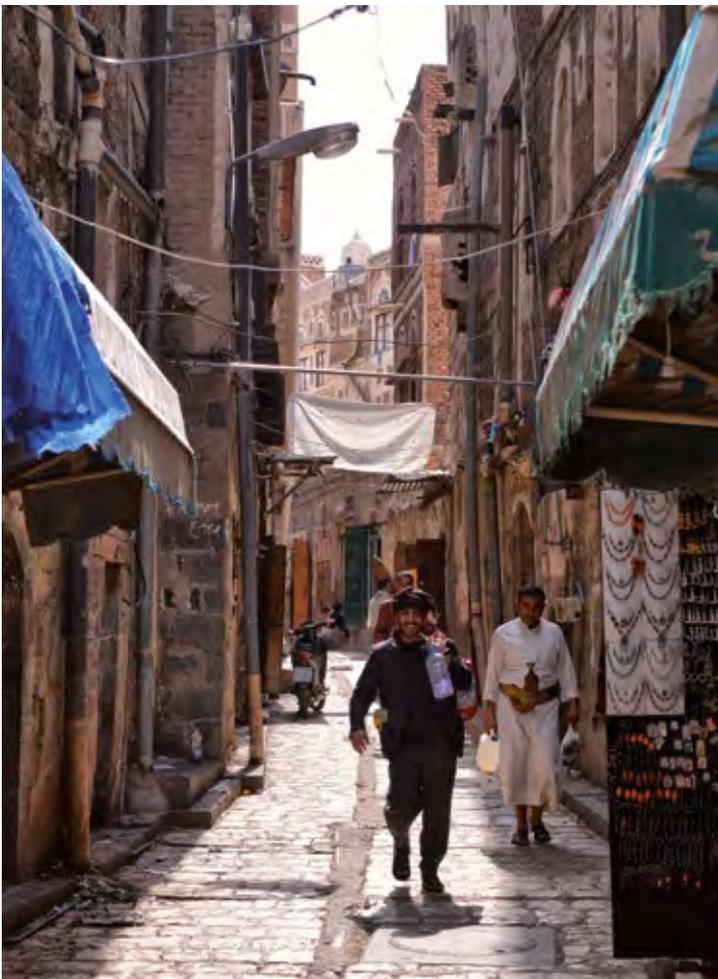

Photo: Rod Waddington – Sana'a (Yemen).

3.

METROPOLITAN AREAS, CITIES AND TERRITORIES: MAIN OUTCOMES

The aim of the GOLD IV report is to put local and regional authorities at the centre of the New Urban Agenda, thus strengthening its links with the 2030 Agenda and the Paris Agreement on Climate Change, and translating its normative horizon into practical policies that will transform human settlements, with the involvement of citizens and communities.

In light of this, the analysis moves away from traditional sectoral approaches, favouring instead a broader territorial approach that builds on the vision, experiences and practices of local and regional leaders in charge of metropolises, i-cities, small towns and regions.

Starting with an analysis of the expansion of metropolitan areas that is reshaping the world's urban landscape, the report underlines – in its first chapter – some disturbing contrasts that characterize most of these urban agglomerations.

These are: concentrations of wealth and poverty; strong opportunities but increasing social exclusion; promises of better quality of life versus inadequate housing; congestion, pollution and in developing countries marginalized slums. Metropolises are considered 'engines of growth' and, as such, play a central role in our societies, but have not yet resolved key issues related to governance, democratic management and financing.

Many metropolitan governance systems around the world are in fact being reformed and upgraded. Reforms, however, are rarely flawless and often involve trade-

offs on different issues. This experience demonstrates that there is no 'one-size-fits-all' solution.

This being said, the analysis proposes some basic principles that tend to bolster democratic and collaborative metropolitan governance systems. These are: local democracy, accountability, subsidiarity, effectiveness, adequate resources and financing instruments to foster a polycentric and balanced development, as well as 'equalizing' financial mechanisms for more cohesive and harmonized metropolitan areas.

At the core of the main issues for metropolitan areas lies the need for metropolitan leadership that embraces experimental alternatives and seeks new management and cooperation paradigms. Furthermore, leaders need to move from fragmented sector-specific decision-making to a strategic approach that takes into account the systemic tensions between inclusion, environmental policies and the need for sustained growth.

The report insists on the democratization of metropolitan governance and the need for a larger role for both local organizations and citizens, well beyond formal electoral channels. Indeed, a buoyant local democracy is a precondition for the emergence of a new form of metropolitan governance, able to recognize and mitigate the tensions and contradictions inherent in complex urban societies. It should be supported by clear participatory mechanisms that facilitate the active engagement of civil society, especially

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excluded and disenfranchized groups, including immigrants.

Although not entirely new or risk-free, the strategic planning approach is presented here as a promising model on which to build such an integrated vision for the whole metropolitan area, linking the different dimensions of urban sustainable development.

It offers an opportunity to plan and decide collaboratively across the many territories that are involved, preserving a participatory approach that includes local stakeholders and civil society. Citizens and their effective participation can ultimately help overcome the asymmetric distribution of power that is inherent in the policy-making arena and the productive ecosystem of metropolitan areas. **Strategic participatory planning can be seen as a powerful tool to move towards the idea of a 'co-creation' of the city.**

Metropolitan areas, often recognized as 'engines of growth', function as drivers of national (and even international) economies by providing critical advantages and externalities to the local and national economies within which they are embedded. Their role has been central to the economic transformation of many emerging and developing countries in recent decades.

These dynamics are closely related to their characteristic quest for competitiveness and to attract investments and international firms, and are fuelled by the financialization of urban economies. The deregulation of financial markets; the appetite of institutional investors for fixed assets; the privatization of public spaces and services; and the securitization of mortgages and municipal bonds, have substantially reshaped metropolitan economies, creating new and entrenched challenges.

As part of these challenges – and as a 'negative externality' of this competitive approach – the report highlights a pattern of exclusionary dynamics (e.g. gentrification and marginalization) that shapes metropolitan areas and leads to unsustainable development pathways.

This could trigger the emergence of a 'two-speed' city, with prosperous areas, on the one hand, and zones with a disadvantaged population, on the other hand (a reality that is structural in the Global South). In this context, one of the biggest challenges facing metropolitan areas today, as highlighted in the report, is how to **combine 'attractiveness' strategies with an agenda that preserves inclusiveness and sustainability.**

A buoyant local democracy is a precondition for the emergence of a new form of metropolitan governance, able to recognize and mitigate the tensions and contradictions inherent in complex urban societies

Another dimension that is becoming a cornerstone of metropolitan policies is environmental sustainability. To various degrees, cities around the world are contributing to and even taking the lead in environmental sustainability, implementing initiatives in many different areas. This is both individually and through their participation in global networks such as the Global Covenant of Mayors for Climate and Energy.

Although such initiatives have proven successful, the commitment of local governments is often hindered by several obstacles relating to, for example, funding, institutional settings, regulations and legislation, technology and knowledge. As these issues cannot be unilaterally addressed by cities, there is a need for a stronger collaboration framework between all levels of government, the private sector and civil society.

Key dimensions of environmental sustainability and social inclusion need to be addressed within a comprehensive, holistic framework of action. Indeed, the quest for a greener production and consumption system has severely tilted the balance towards the economic side of this 'greening' approach. The de-politicization of the issue – or 'greenwashing' – has focused attention (and resources) on the competitiveness and affordability of the 'green' paradigm, neglecting the social and spatial issues that this may engender at the metropolitan scale.

Metropolitan areas and cities in general face a critical situation when it comes to the provision of housing and basic services. Indeed, as mentioned in the report, across developing countries, there are still 2.4 billion people lacking access to improved sanitation facilities and 1.9 billion people using unimproved or potentially contaminated water sources, many of them in urban areas. There is an urgent need for robust policies that facilitate access to land and housing – most importantly control over land-use and real-estate regulations by local governments. Furthermore, new mechanisms to ensure that the management and delivery of public services is performed in a coordinated manner, striking a balance between inclusion and financial sustainability, are crucial.

In the context of growing difficulties for central governments to preserve their welfare systems, the **notion of local governments – and metropolitan governments in particular – as key actors in the 'regulation' of an urbanized society and pillars of local democratic quality is becoming more and**

more central. This is particularly so given their growing responsibilities for the social, economic, environmental and cultural dimensions of urban life.

A review of people-centred approaches, focusing on rights and quality of life at the city level, suggests that the 'Right to the City' approach represents a comprehensive framework to integrate recognized human and social rights for all urban inhabitants with the different expectations and goals set by the SDGs and the New Urban Agenda. This is supported by deeper local democracy and stronger involvement of citizens in the co-production of the city.

In its second chapter, the report focuses on i-cities, which – historically – have contributed significantly to the territorial cohesion and development of their respective regions and countries. This is as regional centres and providers of administrative and social services, conventionally linked to local economic activities. However, despite their demographic (they are home to 20% of the world's population) and territorial relevance, as well as their pivotal role within their national urban systems, i-cities are still largely neglected by development agendas. Meanwhile, their role and functions are being challenged in many countries by the transformation of national and global economies.

Indeed, the internationalization of finance and other trade sectors, the growing exposure of national economies to worldwide competition and structural reform, as well as the radical changes in production systems, have subjected i-cities to unprecedented pressures.

The traditional role, location and scope of i-cities in **national urban systems** are being functionally redefined in the context of evolving national and global systems of cities. The pace of urbanization is reshaping traditional systems of cities, which are more networked and less hierarchically based on functional linkages and interdependence. In this context, i-cities throughout the world now face common challenges inherent in the increased asymmetry of performance, both between i-cities and metropolitan areas, and between i-cities themselves. Indeed, many i-cities have developed advanced clusters serving major cities, or evolved into urban corridors that sometimes even straddle national boundaries.

But for others, particularly those located outside or on the periphery of more dynamic regions, the reality is one of stagnation or decline. While capital gains are concentrated in growing urban systems and economically dynamic regions, shrinking cities are being affected by a depreciation of their assets and declining investments. Increasing socio-economic differences between metropolitan regions, i-cities and rural regions contribute to growing inequalities, elicit migration to larger cities, and accelerate the marginalization of peoples and territories – a situation that benefits none of these areas.

As is suggested in the report, tackling this urban dualism requires diversified policies

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I-cities are still largely neglected by development agendas

Photo: Seba Della y Sole Bossio - Allahabad (India).

and investment strategies between 'core' and 'non-core' cities, to correct imbalances within countries and regions. **Inclusive national urban and spatial policies are necessary to counterbalance increasing inequalities, promote robust and well-balanced urban systems and enhance territorial cohesion.**

This being said, many i-cities have been able to capitalize on their economic, social and cultural relations, elicited by urban proximity and human scale, developing shorter and more efficient economic flows; supporting local markets and production; and improving inter-municipal cooperation in service and infrastructure provision. They have begun the transition to more knowledge and technology-driven manufacturing and services and have become attractive cultural and touristic centres.

At the same time, other i-cities are struggling to turn their comparative advantages into economic development opportunities. Although there are no simple or immediate solutions to the problems they face, the report highlights a series of strategies that can be turned into leadership opportunities.

For example, fast-growing i-cities in developing regions need to prioritize flexible and integrated urban planning approaches; land-use management (including secure land tenure); and the reform of urban governance systems, financial administration, and basic services. This is to underpin decent living standards for everyone, based on human rights principles.

I-cities that go through structural reforms in the face of economic downturns should focus on re-education and re-skilling; the participation of local communities; strong political and business leadership, as well as embrace innovation and new technologies. In this context, specific policies include: creating a culture of cooperation; promoting effective decentralization; making the transition towards environmentally sustainable models; taking advantage of the ongoing transformation of the global economy; and putting the 'Right to the City' at the heart of the i-city agenda.

As is suggested, although it is difficult to anticipate future scenarios and opportunities for i-cities, changing models of production, consumption and social organization give reason for optimism.

Finally, the report explores the role of territories (regions, small towns and rural municipalities), whose dynamism and sustainability condition the wellbeing of a significant share of the world's population – including those in urban settlements.

Overcoming a rigid rural-urban dichotomy is a precondition for the achievement of many of the SDGs and the New Urban Agenda. As acknowledged in the process that is paving the way for Habitat III, many of the key components of the New Urban Agenda require, in fact, a wider territorial approach. The involvement of regions, small towns and rural municipalities, therefore, is as critical as that of metropolitan areas and i-cities, to strengthen collaboration and integration along the rural-urban continuum.

The growing relevance of regions has been strongly emphasized in the recent past, as a result of an emerging 'new federalism'

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Overcoming a rigid rural-urban dichotomy is a precondition for the achievement of many of the SDGs and the New Urban Agenda

as well as 'regionalization' processes within the framework of decentralization. This being said, the decentralization of resources has not always been adequate.

Indeed, the report emphasizes a clear-cut difference between federal and unitary states in terms of sub-national governments' fiscal autonomy and relevance. While regionalization has in fact progressed significantly, the concrete conditions of its implementation – and, in particular, the issues concerning autonomy and the availability of financial resources and capabilities – are in many countries hindering the strength and effectiveness of regional authorities in the fulfilment of their mandate.

To ensure the efficiency and adequacy of decentralization processes, the report highlights the need for an adequate MLG framework as the policy-making mechanism of choice for collaborative and integrated development strategies. An enabling legal and institutional environment, with a clear vision of responsibilities and powers for every level of sub-national government, as well as effective fiscal decentralization, are necessary to harness the potential of regional governments.

As mentioned, national and regional development policies are going through major transformations, having to adapt to the growing relevance of regions; respond to the pressures of the global economy, and integrate consistently into reformed national institutional frameworks.

As intermediary between national and local levels of government, regions can clearly benefit from leading and coordinating territorial development strategies more efficiently. There is a growing global trend towards the regionalization of development strategies, both in federal and unitary countries. While in federal countries, the role of states and regions in regional planning is more consolidated, in unitary states, it is more variable – from very active to passive – and often more limited (because of financial constraints). In many countries, however, the inconsistency of decentralization policies and limited local capacities hamper the potential of regional governments in shaping development strategies.

The policies that have emerged since the end of the last century to support sub-national economic development are, however, increasingly place-based, and revolve around 'regional endogenous development' and competitiveness. These new approaches tend

to address and bolster the emergence of proactive and dynamic regional actors, able to mobilize local assets and tap into unexploited local potential.

The report highlights the fact that opportunities for growth exist in all types of regions, and that localized approaches improve territories' resilience in the face of a volatile global economy, and lead to a more equitable distribution of the benefits of economic growth, both within and between territories.

As regards the role of regional governments in environmental policy and protection, the relationship between regional and sustainable development has grown all the more apparent throughout the process of definition and negotiation of the different UN development agendas. As we have seen, regional governments are responsible for the design and implementation of laws and policies in sectors that are essential to environmental sustainability.

Most climate change effects take place at the supra-local level. Sub-national interventions are usually more adaptable to the geographic (e.g. ranges, valleys, hydrography) and biological (e.g. the different habitats and ecosystems) components of a territory. Thus, the environmental commitment of sub-national governments has often been hindered by a lack of adequate support from central government.

As suggested in the report, the linkages and interactions between the 'rural' and the 'urban' have become increasingly strong. As the relationship between urban and rural areas evolves, the borders between urban and rural areas are becoming increasingly blurred, as the two become ever more interdependent.

As a consequence, there is a need to revise the long-established classification of all human settlements as 'rural' or 'urban', since this rural-urban dichotomy tends to undermine – rather than support – households and businesses in smaller towns.

Emerging approaches to rural-urban partnerships demonstrate the opportunities for sustainable development that exist outside large urban centres. Rural-urban partnerships are essential to mobilizing actors and stakeholders from involved communities, engaging them in the achievement of common goals and a shared vision and, at the same time, providing the necessary institutional, political and economic resources.

Such partnerships have a direct impact on regional development as galvanizers

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National and regional development policies are going through major transformations

of participation. Moreover, they have an important role to play in the governance of regional and rural-urban relations. Successful partnerships address the effectiveness of existing policies and governance institutions and the potential benefits of these for their communities.

The broad territorial approach adopted in the report has enabled the identification of a **series of cross-cutting concerns** that are highly relevant across all territorial units (i.e. metropolitan areas, i-cities, territories). Through an in-depth analysis of contemporary development challenges, the report suggests the fundamental need for a paradigm shift in national development strategies, revising top-down approaches to move towards more 'territorialized' and partnership-based ones.

The report calls for better coordination between national, regional and local policies to strengthen the value of interconnectedness and cooperation – rather than competition – between territories, metropolitan areas and i-cities.

As argued throughout, more cooperative relationships between different levels of government and territories – as the basis of a more integrated and balanced urban system and territorial cohesion – can only be achieved through a radical transformation of our governance culture. This is a notion that needs stronger consideration in the New Urban Agenda.

Even if MLG is a necessity that can benefit local and regional governance in a number of ways, it carries certain risks. MLG should be seen as a **complement, and not an alternative, to a better, more autonomous and ambitious self-government for regional and local authorities**. An adequate MLG framework would ensure that decentralization processes are as efficient as possible.

However, this model should respect some basic principles – **subsidiarity, local democracy and autonomy** – to guarantee that regions and local governments are self-reliant, interdependent and co-responsible for decisions that directly affect their communities and territories.

In most countries, an ongoing 'democratic transition' is eliciting administrative and fiscal territorial decentralization; strengthening the role of local governments; and supporting democratization through participative democracy and innovative city governments.

However, across the whole territorial spectrum, governance reforms have delegated an increasing number of responsibilities to elected local authorities, often without dedicating commensurate resources and powers to them to adequately fulfil their mandate and tap into their respective comparative advantages.

When it comes to local economic development, the advent of the 'third' industrial revolution, based on new digital technologies and in which agglomeration factors and economies of scale have a much lower importance, could diminish the 'tyranny' of mass production and reward economies and societies built on proximity rather than distance, and human needs rather than mass consumption.

The expansion of the service sector, including direct services to the consumer, and the growing integration of different stages of the product cycle (especially production, use and maintenance), are creating new market opportunities for certain functions that could either be better performed locally or traditionally carried out in a household environment (e.g. eldercare, early childhood care). The pace and scale of change gives rise to untold opportunities in our ever-transforming societies.

There is an overall and urgent need to find alternatives that enable us to **simultaneously promote a prosperous economy, social inclusion and environmental sustainability**. In this regard, the report proposes a series of steps. These include: taking advantage of the ongoing transformations of the global economy, in order to support a model of open innovation and place-based factors and foster improved job creation and economic opportunities; imagining an 'open' and inclusive urbanism that avoids marginalization; facilitating universal access to basic services and urban mobility; and promoting effective financing models to counterbalance the financialization and commodification of urban economies, as well as the volatility of the land market.

In many places, such dynamics and tensions have prompted the demand for a 'Right to the City', the claim for a collective space in which residents can directly participate in the creation of the city they aspire to. In fact, as suggested in the report, the 'Right to the City' approach can be the foundation of a 'new social contract', leading to societies that are more democratic, sustainable and inclusive, and in which cities and territories are co-created and co-managed by the people that live in them.

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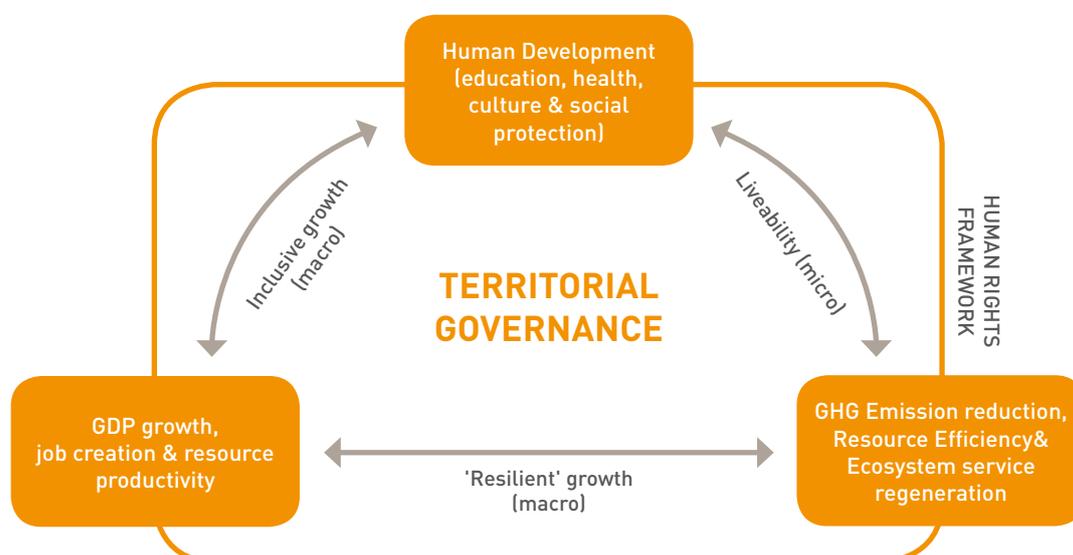
4.

GETTING READY FOR THE TRANSITION TOWARDS A SUSTAINABLE URBAN AND TERRITORIAL AGENDA: KEY CONCEPTS

The SDGs, Paris Agreement and New Urban Agenda represent a vital new international development consensus that recognizes that economic growth must be sited within the bounds of environmental sustainability, while at the same time be more inclusive so as to reverse inequality and foster cultures of peace-building and cosmopolitanism.

All these imperatives are extensions of the fundamental rights established in the 1948 Universal Declaration of Human Rights. Figure 1 provides an overview of the three primary components of these new development agendas, embedded in a commitment to realize and preserve human rights across the world.

Figure 1 **Dimensions of sustainable and integrated development**

Source: Adapted from Pieterse, 'Recasting Urban Sustainability in the South'

Human development

At the heart of the new development agendas are people and their capabilities, cultural rights, identity and wellbeing. The evidence is irrefutable that the quality of life of nations and cities cannot be improved sustainably without substantial investments in people's rights, livelihoods, dignity and universal access to essential services like education, health and social protection. As stated in the SDGs, 'no one should be left behind'. Social protection measures should be adopted in all countries, and particularly the less developed among them where socio-economic vulnerability and the challenge of resilience and sustainability inevitably affect the poorer and more marginalized majority.

Inclusive economic development

As signalled in Goal 8 of the SDGs, economic growth is a precondition for development. The quality of this growth, however, needs to fundamentally change so that it is inclusive, generates employment opportunities, while also reducing environmental impact through the dematerialization of value chains.

Over the medium term, national, regional and local governments will have to become proactive in fostering sustainable growth coalitions that actively seek to incubate, nurture and promote inclusive and sustainable economies, businesses, clusters and innovation systems. **Local governments will need to play a catalytic role in the sustainable economy by adopting, for example, an inclusive and dynamic approach to infrastructure investment**. This is consistent with Goal 9 of the SDGs (for resilient infrastructure, inclusive and sustainable industrialization and innovation) and Goal 11 (for inclusive, safe, resilient and sustainable cities and human settlements).

Environmental sustainability

Environmental constraints demand a fundamentally new approach to the relationship between the natural, economic and social worlds to reduce the quantum of GHG emissions and ensure the regular regeneration of our ecosystems. This demands a radical reduction of natural resource consumption per unit of economic output. **The implication for production and consumption is clear, and has a profound effect on how settlements occupy territory and interact with natural systems**. Four systemically interrelated interventions and

experiments are emerging in cities around the world. If implemented in an integrated way, they can result in highly resource-efficient urban outcomes: sustainable energy, including radical resource-efficient transformation of vehicles, infrastructures, buildings, and factories; spatial restructuring of the urban morphology to achieve greater densities – and a richer mix – of housing, jobs and amenities at the neighbourhood level; human-scale sustainable design that creates conditions for 'soft' mobility (pedestrianization, cycling) at the city-neighbourhood scales, and for 'passive' heating, cooling and lighting at building level; promotion of sustainable behaviours, promoting waste recycling awareness, the use of public transport, walking, cycling, urban food growing, changing diets, and the creation of parks, among many others.

Human rights

All development policy frameworks operate within the norms and values of the many international conventions that exist on human rights. These frameworks can be seen as the legal and political interface that mediates the potential trade-offs and tensions between economic development imperatives, requirements of equity, and the environment. A policy framework aware and respectful of diverse human rights, is one that resonates with the recent spatial articulation of rights through **the 'Right to the City'** global movement. This report analyzes extensively the positive impact that the values and objectives enshrined in the 'Right to the City' can have on cities and territories as living ecosystems.

On the global stage, there is renewed policy clarity on what needs to be done: the SDGs, the Paris Agreement and the New Urban Agenda crystallize this awareness. However, very few actors have a clear idea of how to transition from the *status quo* to this much-awaited 'new normal'.

Long-standing vested interests; the weakness of global governance institutions to leverage compliance; scarce coordination in promoting the necessary changes so as to not jeopardize economic competitiveness, are all constraining the global agenda and limiting the manoeuvrability of committed actors. The imperative is to foster both the institutions and a clear agenda for implementation. The major challenges ahead can only ultimately be met by effective action.

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As stated in the SDGs, 'no one should be left behind'. Social protection measures should be adopted in all countries

Governance for a sustainable transition

As emphasized in previous chapters, decentralization of powers and functions to sub-national levels has been a general trend across many regions since the post-1970s period of globally uneven economic growth.[7] This, however, has not always been complemented by a commensurate level of funding. In most cases, the new responsibilities of sub-national governments have outweighed their financial capacity to meet them. To respond to this situation, local and regional leaders across the world are experimenting with many alternative modes of urban and territorial governance. This trend is likely to continue well into the future, as these leaders search for decisional models and institutional designs that allow them to take on the challenges and complexity of the emerging urban landscape. The chapters in the report have analyzed in detail the emergence of consultation-based, collaborative governance models in many metropolitan areas – and, in particular, the role that civil society and its organizations can play in the creation of a more transparent, participative and inclusive governance (see Section 2.5 in Chapter 1).

At the core of adaptive governance reform is a commitment to experimentation and innovation. An urban experiment should be '[a]n inclusive, practice-based and challenge-led initiative designed to promote system innovation through social learning under conditions of deep uncertainty and ambiguity'.[8]

It is under the aegis of adaptive experimental modes of urban governance that cities and territories can become the laboratories of the future, and the hallmark for the current global transition towards sustainable and inclusive development.

Two patterns have so far emerged. The first is a peculiar 'algorithmic' urbanism that backs the ever more common 'smart city' agendas. This is a perspective that has attracted massive investment but also criticism as a corporate-thinking greening of splintered urbanism, and is advocated and adopted all over the world. The second is a more heterogeneous and creative urban experimentalism, committed to city-wide and open-source inclusiveness, with specific attention to cooperation and rural-urban co-existence.

Local and regional governments have an important role to play in stimulating and supporting urban and territorial innovation which embodies and commits to the principles mentioned above. Transitions towards a more sustainable and inclusive future, however, are different in each context. **The narratives that drive urban and territorial transitions are a product of different power relations and understandings of what needs to be transformed, how and why**. There is no single best practice, political strategy or universally applicable formula that leads to a seamless, incontrovertible transition to a better sustainable urban future.

In the next section, we explore some of the substantive elements (and challenges) of these dynamics.

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It is under the aegis of adaptive experimental modes of urban governance that cities and territories can become the laboratories of the future

Photo: Matthew Pintar - Ushuaia (Argentina).

5.
A TERRITORIAL PERSPECTIVE ON A NEW DEVELOPMENT AGENDA

The relevance of sub-national territorial units in development policy has increased significantly in past decades, partly as a consequence of globalization processes that have accentuated and galvanized their centrality.[9] As argued in the chapter on Territories and Small Towns, 'globalization is progressively increasing the importance of regional processes and the role of local actors in shaping development trajectories'.[10]

These phenomena are taking place within the framework of decentralization and regionalization across all world regions. This has reinforced the role of metropolitan areas as 'engines of development', redefined the functionality of i-cities as nodes of territorial development, as well as the role of regions in taking a more proactive role in development strategies.

These trends create conditions to promote a paradigmatic shift in the approach of national development strategies. The concept of a **territorial approach to development** (TAD) is emerging as an operational tool to boost endogenous, integrated and incremental growth strategies at local levels that reconcile human and sustainable development.

Chapter 3 of the full report posits TAD, focusing not just on the origins and different applications of the concept, but also its prospective role in the emergence of coherent regional planning and development strategies worldwide. This is so as to empower sub-national governments and take full advantage of their proximity to territory. TAD is instrumental to supporting the transition towards a sustainable future that could only be achieved with the **strong involvement of people, local communities and institutions to co-create their cities and territories**.

This process should be activated by the construction of broad local alliances of actors founded on a **shared vision** that triggers a set of **levers of change**. This vision is consistent with the goals of empowered local governments and inclusive local communities advocated throughout the report.
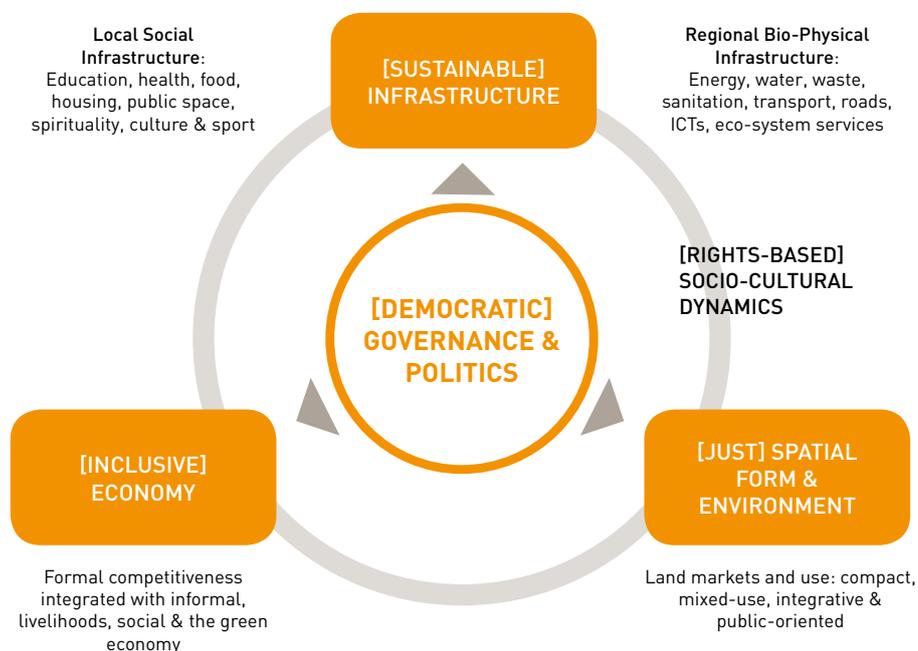
It builds on a simple thesis. Irrespective of whether it is highly developed or socio-economically constrained; serves an array of complex functions for a whole metropolitan area, or is a small town between rural and urban environments, a city can be conceptualized as being constituted by different interdependent **operating systems**.

These act as key levers of change: governance; infrastructure and services; economic development; social and cultural assets; and planning. Inclusive growth and social and environmental sustainability should be mainstreamed throughout all these operating systems.

This conceptualization (see Figure 2) allows policy-makers and all urban and territorial stakeholders to have an overview of the policy actions needed to promote

Figure 2 **Interdependent territorial operating systems**

Source: Pieterse, 'Building New Worlds'

Local Social Infrastructure:
Education, health, food, housing, public space, spirituality, culture & sport

[SUSTAINABLE] INFRASTRUCTURE

Regional Bio-Physical Infrastructure:
Energy, water, waste, sanitation, transport, roads, ICTs, eco-system services

[DEMOCRATIC] GOVERNANCE & POLITICS

[RIGHTS-BASED] SOCIO-CULTURAL DYNAMICS

[INCLUSIVE] ECONOMY

[JUST] SPATIAL FORM & ENVIRONMENT

Formal competitiveness integrated with informal, livelihoods, social & the green economy

Land markets and use: compact, mixed-use, integrative & public-oriented

endogenous development, inclusiveness and environmental sustainability, as defined in and pursued by the new global agendas.

Lastly, after a brief analysis of each of these levers, the section addresses strategic planning as a holistic and powerful approach to create local coalitions of stakeholders and align operating systems on a truly transformative path.

Governance operating systems

Governance denotes the full range of institutions and actors enrolled in a variety of processes to manage the affairs of a given territory. Governance is distinct from government in that it pertains to the 'relationality' between elected and administrative governmental entities and organizations within civil society and the private sector.[11] A governance operating system is co-constituted by the infrastructure, economic, socio-cultural and planning operating systems described below.

As previous chapters illustrate, layers of MLG organizations constitute the local and regional government institutional arena. The increasing complexity of the urban and regional landscape – metropolitan regions, urban corridors, metropolitan areas, i-cities,

supra-municipal institutions, small towns and regions – calls for a particular focus on MLG in order to ensure spatially balanced and polycentric development.

Certainly there is a friction between the urban phenomenon and regionalization process to have characterized the 21st century. This has challenged the capacity of existing institutional frameworks to support new forms of interaction and make them evolve towards a multilevel, collaborative or 'shared' governance approach.

Sub-national governance systems are anchored in local and regional governments that should ideally fulfil a leadership, agenda-setting and mediating role amid competing priorities and interests. The starting point for effective local government should be the criteria established in international guidelines on decentralization and strengthening of local authorities, adopted by the UN-Habitat Governing Council in 2007.[12]

As has already been stated, democratic and collaborative urban and territorial governance systems should always rest on local democracy and subsidiarity and be granted adequate capabilities and resources to set up 'equalizing' financial mechanisms and foster solidarity within cities and

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Democratic and collaborative urban and territorial governance systems should always rest on local democracy and subsidiarity and be granted adequate capabilities and resources

territories – a plea for which is made repeatedly throughout the report.

This is a necessary precondition to transform the operating systems of urban settlements and territories in the direction of integrated and sustainable development as envisioned in the SDGs and to ensure sub-national capacity to promote the 'Right to the City'.

Governance systems should ideally be complemented by a variety of participatory mechanisms that allow citizens and collective interest groups (community-based organizations and social movements) to play an active role in local and regional affairs.

Both of these domains – representative democratic processes and participatory governance – can be enhanced to ensure transparency and accountability and improve the quality and responsiveness of sub-national governments. The need to support a heterogeneous and proactive civil society will be further analyzed within the strategic planning approach – since strong local coalitions moulded by a shared vision are essential for genuinely shared governance. This will also be addressed further on in the discussion on the establishment of a new social contract in cities and territories, a principle that strengthens the SDGs, the Paris Agreement and the New Urban Agenda, and in turn the impact of their objectives.

Infrastructural operating systems

Social and economic life cannot function without flows of energy, water, transportation, waste management and data through human settlements. These constitute the socio-technical metabolism of settlements. Expert knowledge accumulated over the past century about how to manufacture, install and operate large infrastructure has been premised on a number of assumptions. These are: i) fossil fuel energy sources are infinite or, at least, sufficient for a certain level of development; ii) space needs to be designed around the needs of mobility and, during the last century, a car-based understanding of it; 3) the state has a duty to ensure the roll-out of universal infrastructural grids that could optimize economies of scale and achieve the ideal form of modern urban spatial organization, while preserving the universality principle for access.[13]

The first two assumptions have had a profound effect on the spatial form of human settlements, which are increasingly marked by sprawl and extensive land use.[14] The last is being more and more questioned by public

goods commodification trends. **The new global agreements and agenda represent a growing awareness of the obsolescence and negative effects of the premise upon which infrastructural development was built.**

As mentioned in the previous chapter, towards the end of the 20th century, the commodification of public assets favoured the emergence of a 'splintered urbanism' and fragmented infrastructural investments. This produced a growing spatial fragmentation, social exclusion and dramatic inequality in access to infrastructures.

This trend, which started three or four decades ago, has now produced a profound crisis in infrastructural provision, coverage and maintenance, which is particularly serious in developing countries. These features have worsened because of real-estate trends over the last two to three decades that encouraged gentrification processes in many cities. Shopping mall-centred, retail-driven commercial hubs contribute to these trends, further exacerbating the splintering effects of privatization of infrastructures and the public space.

In the context of the SDGs, the New Urban Agenda and climate change mitigation and adaptation imperatives, it is more urgent than ever to revise these trends and adopt an alternative approach. The market-driven, fragmented infrastructure model is now seriously in question and, in many contexts, already deemed unsustainable in the short term.

As the report argues, considering the city-wide and regional scale of network infrastructure systems, the complex institutional implications of such a paradigmatic shift require national governments, agencies and sub-national governments, as well as their communities, to collaborate and produce joint, co-owned and properly sequenced reform plans. State oversight is essential but also requires the strong involvement of and ownership by sub-national governments and local communities for a more balanced urban and territorial development. This process needs to build on polycentric approaches, to avoid extreme polarization in urban systems and the marginalization of peripheral territories in the quest for better, inclusive and efficient infrastructure development.

Economic operating systems

The economic operating system involves the production, consumption and market structure that allows for the exchange of goods and services. This spans formal and

Shopping mall-centred, retail-driven commercial hubs further exacerbate the splintering effects of privatization of infrastructures and the public space

informal institutions and usually supposes a degree of coordination or interrelationships between them. This is particularly important since formal economic systems across the Global South, for example, absorb less than half the available labour force.[15] The rest live off the informal economy or are at worst completely disconnected from any gainful economic activities.[16] In the broader context of an ever-deepening global integration of national economies and value chains, it becomes more difficult for national and sub-national governments to protect jobs, provide support to the working poor and create employment. In the current system, such actions are paradoxically perceived as undermining competitiveness.[17]

Local and regional governments already spend significant time and effort on local economic development strategies, competitiveness ranking, reducing the cost of doing business, and so forth. As argued in the chapter on Metropolitan Areas, by thinking about the economic system in more dynamic multi-dimensional terms as the outcome of vertical and horizontal coordination, it becomes possible to explore how to reconcile the imperative for growth with a deeper understanding of the interconnection of formal, social, collaborative and informal economic practices.

The primary challenge facing local governments is to understand the economic forces and dynamics that shape their territories. Only then can they build an agenda on how to best use the routine investments and regulatory powers of the state to promote the transition from an 'extractive' economy to a sustainable one.

At the heart of this agenda is a new focus on the promotion of resilient infrastructures and more labour-intensive forms of service delivery, especially in low-income countries, as explored in more detail below.

Socio-cultural operating systems

As highlighted in various sections of this report, **social policies and infrastructures should be at the heart of urban and territorial development strategies. This is essential to guaranteeing inclusiveness and a 'citizenship rights' approach**.

Decent housing; basic services delivery (e.g. water and sanitation, transport, etc.); and education and healthcare facilities, should be a strategic priority, also acknowledging cultural identity and amenities as anchor points for the wellbeing of a thriving community.

Complying with a people-centred and people-driven vision of the SDGs, cities, towns and regions everywhere should reconnect infrastructure nodes with community life; promote gender equality to protect women's rights, child and youth development, and eldercare; support ecosystem regeneration through the enhancement of open space systems operated by local community organizations and other micro-economic activities; and preserve the social clustering elicited by neighbourhood improvement, slum upgrading, mobility, education, health, sport and recreation.

The transition to an inclusive and sustainable society depends also, if not primarily, on a cultural revolution

Photo: Ed Webster - Ghent (Belgium).

The chapters on Metropolitan Areas and Intermediary Cities strongly focus on the right to housing, universal access to basic services, and culture, and argue that these basic rights are as important for a fully-fledged citizenship as the right to education, health and social protection. Although not all local and regional governments have direct responsibility for all these essential dimensions (they are often shared domains with central government), they are part of a broader approach built on social and human rights, endorsed by the UN, to ensure an adequate standard of living.[18]

Current economic trends tend to reinforce and exacerbate social and spatial inequalities, and deepen the marginalization of various groups in the city, actively eroding the prospect of their rights being fulfilled. As mentioned in Chapter 1, if these issues are not adequately addressed, two out of five urban dwellers will not have access to decent housing and adequate basic services by 2030, and will have to resort to informal settlements.

With regards to culture, **the co-creation of cities and territories requires the strong involvement of citizens in culture and creative activities, in a way that respects and celebrates citizens' diversity and promotes togetherness.** The transition to an inclusive and sustainable society depends also, if not primarily, on a cultural revolution that can drive the demand for more sustainable production and consumption.

This is why UCLG, in conjunction with UNESCO, in the run-up to the 2012 World Summit on Sustainable Development, called for the inclusion of culture as the fourth pillar in the sustainable development model first endorsed at the Earth Summit in 1992.[19] Ultimately, culture shapes what societies and citizens understand by development and determines how people act in various settings, be they familial, community, social networks, city and/or nation.

Planning and land-use operating systems

Planning allows cities to make their own growth expectations compatible with the preservation and valorization of their economic, social and environmental assets. As emphasized in the previous chapters, planning is a key instrument to manage urban and territorial development, social inclusion, environmental sustainability and functional diversity. This is by revitalizing the public space; rationalizing mobility and local infrastructure;

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Wherever local authorities have the power and capacity to deploy land-use management instruments, they can greatly improve the public resources at their disposal

organizing non-urbanized land; and taking advantage of key resources, such as historical heritage and the natural environment. The SDGs and the New Urban Agenda devote considerable attention to 'participatory and integrated planning' to build inclusive and sustainable cities (SDG 11.3).

With regards to land management, given the centrality of land markets in urban development, **it is crucial that local governments adopt clear and effective laws and regulations to mediate the functioning of such markets**. Moreover, they need to counter the emergence of intense socio-spatial gaps and inequalities usually associated with social fragmentation and sprawl-based development patterns. However, local and regional governments do not always have the necessary political or institutional capacity to engage markets so that the institutions and actors that currently control them are oriented towards a more sustainable path.

Realizing the right to housing, sustainable and integrated human settlements demands a very different approach to land-use and land-value capture. For instance, land use in conditions of scarce availability must be optimized through densification and use multiplication, in order to foster stronger economic and social synergies and positive agglomeration dynamics.

Furthermore, the regeneration of natural systems, especially ecosystems, should be central to the repurposing of land uses, to ensure optimal integration between natural and built environments. In most societies, land also has an important cultural significance. By dealing with claims for land justice and restitution, access to land can become an important driver of the social recognition and inclusion of historically marginalized groups.

The land-use operating system will prove particularly important in ensuring the viability of local finance-raising strategies. The material application of the New Urban Agenda, moreover, will be accelerated through the 'smart' calibration of renewable energy systems; intelligent mobility systems; sustainable economic clusters; mixed-use precincts; all underpinned by regional innovation systems. These investments will impact land markets significantly, while offering an unprecedented opportunity to optimize land-value capture instruments and further finance the urban transition towards sustainability.
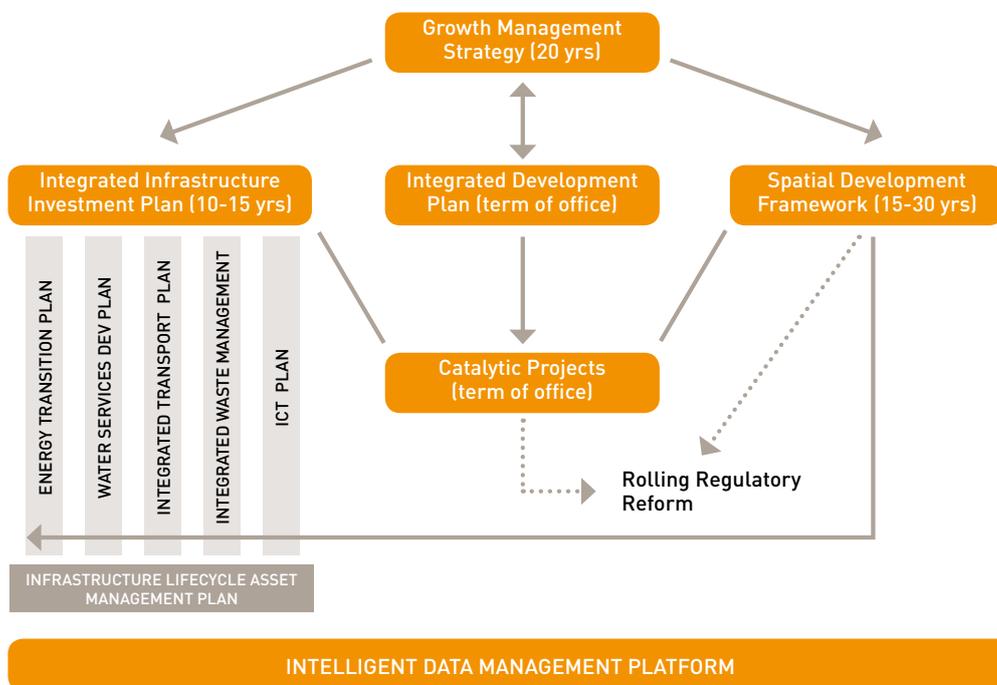
Wherever local authorities have the power and capacity to deploy land-use management instruments, they can greatly improve the public resources at their disposal through

Figure 3 **Institutional elements of developmental local governance**
Source: Adapted from UN-Habitat and UNECA, Towards an Africa Urban Agenda

Strategic planning: a powerful governance lever for an integrated approach

At the apex of the local and regional governance planning system is a long-term **integrated development strategy**. This is to put into practice the structural transformation envisaged in the SDGs and the New Urban Agenda, within a 15-20-year timeframe.[20] As emphasized in previous chapters, local and regional leaders need to move away from fragmented sector-specific decision-making to a more **strategic approach**. This must take into account the systemic tensions between inclusion and sustainability, and the necessity of economic growth.

Strategic planning, as argued throughout the report, is a powerful way to engage institutions, businesses, community bodies and citizens, as well as other levels of government, in a common project about governing cities and territories. Regions, cities and metropolitan areas are building experience in strategic planning to create consensus and foster strong local coalitions in support of a long-term vision for all stakeholders. Their agreement and cooperation on *status quo* conditions and future prospects and trajectories is pivotal to defining what needs to be done in the short, medium and long term.

Strategic plans should be founded on a holistic understanding of demographic and environmental changes, economic structure, labour market shifts, and the operating systems (both formal and informal) active in a given area. A strategic plan should be supported by an **integrated infrastructure plan** and the above-mentioned **spatial development plan**: if consistently integrated, these can generate a land-use regulation approach that enables innovation, integration and value generation for public interest (see Figure 3).

None of these instruments – the life cycles and effects of which span several decades – can be meaningful, credible or robust unless

smart taxation instruments – reaping the benefits of land-value increases due to public investments and strengthening planning and market regulation. The complex implications and conditions that refer to the financing of these levers of change are examined in detail in Section 8.

Strategic planning is a powerful way to engage institutions, businesses, community bodies and citizens, as well as other levels of government, in a common project about governing cities and territories

they are produced by local authorities with substantive engagement from non-state actors and other tiers of government.

Transitions towards a more socially inclusive and sustainable economy will depend on the extent to which strategic plans secure a number of profound infrastructural shifts. This needs to be combined with an effective human capital (i.e. education) strategy for the local authority area. For example, as developed in Chapter 1 on Metropolitan Areas, local governments should consider renewable energy systems that blend grid infrastructure networks, decentralized mini-grids and off-grid generation capacity when those are the only affordable options.

This potentially transformative trajectory will require coordinated infrastructure planning; aligned fiscal investments; the encouragement of renewable energy firms and social enterprises (including informal sector economy); training and support systems to allow new technological approaches to mature and find social and cultural resonance. Similarly, transforming local mobility systems to ensure inter-modal operability for consumers will go a long way to make local areas more fair, accessible, socially diverse and efficient.

This is all the more true if these strategies are combined with an expansionary focus on efficient and affordable public transport, and coordinated with micro-entrepreneurs and the informal sector. These plans should deploy new infrastructure and planning regulations to support non-motorized mobility. The effectiveness of these actions, moreover, can be enhanced if these participatory dimensions take place within an actual MLG architecture that is both horizontally and vertically integrated.

Spatial plans should not be conceived as traditional master plans or blueprints, but rather as a landscape analysis of land uses, histories, heritage values, cultural norms, natural systems (even disappeared or degraded ones). They should of course consider the built fabric and extent to which it contributes to common, public spaces, and democratic public life.

It is impossible to enhance the social value of land – as required by the 'Right to the City' – without rigorous spatial analysis. In fact, engagement with the spatial dynamics of a city is an effective way for citizens and communities to energetically engage with the dynamics of their micro-environments at a neighbourhood scale.

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it is vital for local authorities to co-generate a compelling narrative about the identity and future of a city, region or town

It also provides important entry points to analyze and discuss the imperatives of spatial justice by looking at how various parts of the city, towns and territories have access to infrastructures and services, economic opportunities and social and cultural assets.

These policy tools empower elected local authorities not only to formulate plans for their term of office, but also to shape a portfolio of catalytic projects that contribute to a longer-term transition narrative. Of course, not all strategic plans are successful in either formulation or implementation. Development priorities are contested, and there is a risk that certain governmental or corporate interests negatively affect or jeopardize meaningful citizen participation.

The range of services and actions of most local authorities are often too vast and too dull to meaningfully engage citizens and media. In the contemporary media-driven polities of our era, it is vital for local authorities to co-generate a compelling narrative about the identity and future of a city, region or town. This discourse needs broad-based public support and legitimacy. On the one hand, a few high-profile projects that are vested with a lot of political and symbolic capital are perhaps the easiest way to generate this kind of consensus-driven approach.

They are often the source of useful resources for local and regional political leaders and contribute to building unity and common purpose in a community. These catalytic projects, on the other hand, should not be based on sheer self-promotion or place marketing. Strategic planning can only be truly effective and radically change the prospects and development trajectories of a community when it provokes imaginative responses to local structural problems and reflects the cultural ingenuity of local creativity, talent and solidarity.

6.

NATIONAL URBAN AND TERRITORIAL POLICIES: IMPERATIVES OF MULTILEVEL SHARED GOVERNANCE

As argued in Chapter 3, local action is already half the institutional story. To support the paradigmatic shift towards TAD, urban settlements and territories also need vertical alignment and coordination with other tiers of government. If national sustainable development is to succeed, a massive cultural and institutional transformation is required to replace traditional, nationally-driven, top-down public policies and sectorally-segmented plans. This is in favour of a more coherent, polycentric and distributed model that harmonizes national priorities and frameworks with local and regional expectations and initiatives.

MLG frameworks acknowledge that there are numerous interdependent actors with an interest in the functioning and future prospects of a given area, town, city or region. Both the horizontal and vertical dimensions of the MLG system can typically be analyzed from a sectoral perspective (e.g. health, transport, energy, housing, among others). However, given the high degree of interdependence between urban sectors, as well as rural and urban environments, high-performance territories must build on cross-sectoral mechanisms for coordination.

As Chapter 3 on Territories shows, different levels of government will inevitably have overlapping roles, functions and responsibilities. There is no one-size-fits-all model, and what

gets devolved, how and to whom, is a very specific feature of each individual sector. The final outcome is not a well-ordered picture consistent with a conventional hierarchical structure, but rather a fluid, variable mix that needs to be constantly (re-)negotiated and facilitated.
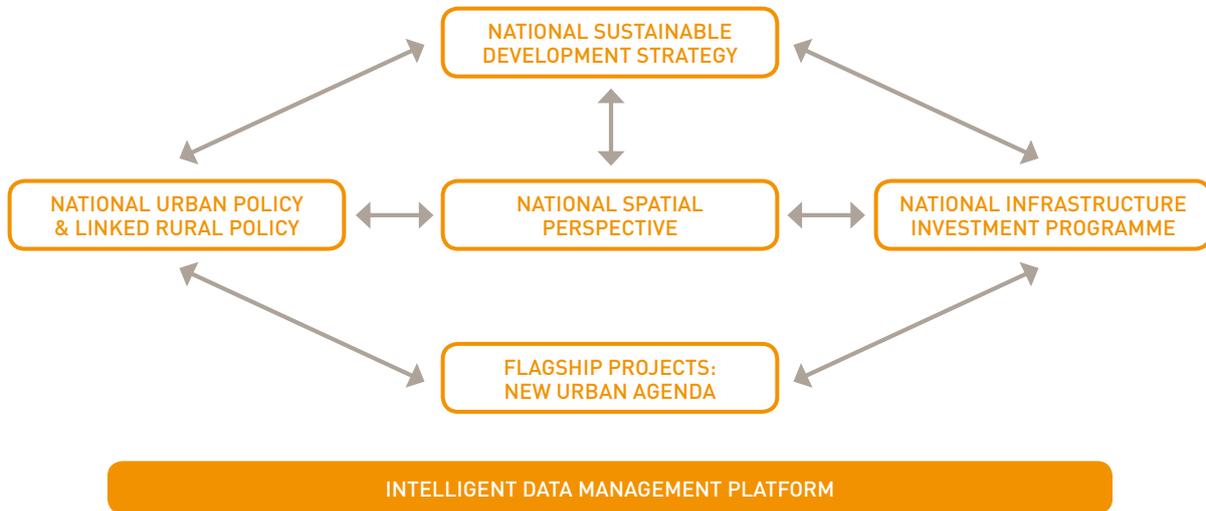
This section sets out how the new multilevel architecture can function to deliver on the SDGs and the New Urban Agenda. In keeping with the overarching thesis, it sets out the generic elements of a multi-actor local governance system that serves as the primary driver of national mechanisms, which are discussed later.

Multilevel governance (MLG): national dimensions

Urban and regional strategic planning frameworks also have huge repercussions for the way in which a country plans and defines its overall development policies. Strategic planning at the local level affects (and should contribute to) the development of comprehensive national urban and rural policies, national regional and spatial plans, and sustainable national infrastructure investment programmes.

These are all key components of what the UN prescribes as a national sustainable development strategy (NSDS). The NSDS is a core recommendation of 'Future We

Figure 4 **Enabling national institutional mechanisms**

Want',[21] the outcome document of the 2012 United Nations Conference on Sustainable Development, and builds directly on the proceedings and results of the 1992 Rio Summit (see Figure 4).

These mechanisms oil the wheels of vertical MLG systems: national governments, through regular dialogue with other tiers of government, foster negotiation across the national territory. **They also institutionalize a bottom-up national planning and coordination system that supports the achievement of the SDGs and enables an effective flow of national resources to local and regional levels.**

Because of patterns of uneven development across national territories, ongoing negotiations about differential investments and support will need to be conducted to ensure the overall territorial system moves towards the goal of a balanced development rooted in place-based specializations and complementarities. This indicative framework provides the minimum institutional requirement to make MLG work in practice. However, as argued in Section 2.2.3 in Chapter 3:

'[M]ultilevel governance (MLG) is the policy-making mechanism of choice for integrated, collaborating and networked territories, local and regional governments. Furthermore it can bring about a number of beneficial effects for local governance but is hindered by certain persistent risks. It is not ultimately a neutral concept. Its quest for integrated concertation and efficient policy-making can be at odds with local and regional authorities' demand for democratic legitimacy or more relevant inclusion in traditional top-down policy-making logics – a goal that is more resonant with federalist ambitions'.

The need for a strengthened MLG framework is a view shared by the emerging global consensus. The SDGs reflect the spirit of the broader sustainable development agenda enshrined in the 1992 Rio Summit. The outcome of that event was Agenda 21, which established the normative and programmatic framework for the role of nations or countries in sustainable development.

Chapter 8 of Agenda 21, in particular, calls on countries to adopt their NSDS, building upon and harmonizing the various sectoral economic, social and environmental policies and plans that are operating in the country. Paragraph 21 of the 2030 Agenda Resolution, moreover, acknowledges 'the importance of the regional and sub-regional dimensions, regional economic integration and interconnectivity in sustainable development. Regional and sub-regional frameworks can facilitate the effective translation of sustainable development policies into concrete action at

national level'.[22] As these global reference documents show, there is strong awareness that national policies alone are not enough and require a local expression.

National urban, spatial and infrastructure policies

Ideally, national development strategies should be defined in a coherent and coordinated manner with national urban, rural and spatial policies, and regional infrastructure investment strategies. They should take into account macroeconomic indicators to establish the connection between urbanization and demographic dynamics and the overall process of national development.

Specifically, '[n]ational urban policy should help to harness the benefits of urbanization while responding to its challenges through the development of a much broader, cross-cutting vision of an urban landscape'.[23]

This assumes that national offices in charge (ministry, department, ad hoc units) are employed to generate the evidence and coordinate the intersections of economic and investment policies and other related public policies, with spatial changes (i.e. urbanization and ruralization), thus altering demographic patterns and national and sub-national strategies.

The unique value of a national urban policy (NUP) is that it is able to project better urban outcomes by clarifying how sectoral policies connect and are best aligned. An NUP can then have concrete impacts on what the dimensions of an enabling institutional environment – including MLG institutions – might look like and create the basis for transferring a greater proportion of funds to the regional and local scales.

Accordingly, 'a national urban policy complements rather than replaces local urban policies by embracing urbanization across physical space, by bridging urban, peri-urban and rural areas, and by assisting governments to address challenges such as integration and climate change through national and local development policy frameworks'.[24]

It is important that national policy instruments create mechanisms that can ensure a dynamic understanding of how the different typologies of settlements (metropolitan areas, i-cities, small towns and rural areas) intersect and are co-dependent, with a view to how the coordination of national and local policies can optimize synergies.

With this in mind, NUPs typically contain five dimensions: i) a sound diagnostic of the drivers of urbanization and uneven development patterns at the national, regional and local levels; ii) a strategic agenda to deploy infrastructure and service provision, connecting urbanization and structural transformation; iii) context-specific guidelines for MLG arrangements; iv) effective monitoring frameworks that can ensure transparency and accountability; and v) a methodology for sustained policy dialogue across the different levels of government, institutional (public, civic and market) and sectoral divides.

A number of practical outcomes can be achieved once an NUP is mainstreamed.

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National development strategies should be defined in a coherent and coordinated manner with national urban, rural and spatial policies, and regional infrastructure investment strategies

Photo: Alexander Fisher – Almaty (Kazakhstan).

Some of the salient ones are:

1. establishing a technical and political consensus on an NUP, including the objective, added-value, contents, scope and timeframe;
2. establishing a participatory mechanism to facilitate policy dialogues between national and sub-national levels, as well as state and non-state actors, to engage from the outset all key stakeholders in the NUP process;
3. creating a national and shared vision/strategy for urban policies, with clear objectives, targets, responsible institutions, and implementation and monitoring mechanisms;
4. reviewing and adjusting existing national legal, institutional and fiscal frameworks and guidelines of all sectors in light of the agreed strategy;
5. agreeing on the devolution of national resources to the local level, whether regional, metropolitan or town-wide;
6. setting in motion various capacity-building interventions (human, institutional, financial and technical) at all levels of government;
7. maximizing the use of technology to help evidence-based decision-making;
8. establishing a global mechanism – such as an intergovernmental panel – to ensure follow-up and stimulate policy-relevant research to support NUPs and the implementation of the New Urban Agenda.

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A shared understanding of how space-economy dynamics intersect with demographic patterns, land-use change and other spatial indicators, is imperative

An important caveat is shown in Figure 4, that there should ideally be an equivalent policy that deals with rural areas and, ultimately, that the national level needs to have a coherent understanding of the territory, rooted in the evidence and arguments for both urban and rural policies.

Both institutional and academic analyses have pointed to the place-bound dynamics of globalization.[25] The flipside of this is the growing inequality between countries as well as increasing spatial inequalities within cities and regions.[26]

Similar patterns of spatial economic inclusion/exclusion are manifest in national territories. This is highlighted in previous chapters. As regards the global agendas – Sendai, the Paris Agreement, etc. – it is clear that negative environmental impacts differ across national and regional territories.[27] A shared understanding of how space-economy dynamics intersect with demographic patterns, land-use change and other spatial indicators, is imperative. Without this, it will be much harder to reach an agreement about priorities and how to optimize connections within a polycentric system, fostering specialization but not abandoning the goals of balanced development.

Another pillar of national strategies that requires a coordinated approach with urban, spatial and land policies is infrastructure investment. **In the near future, the ability to assimilate growing urban populations in productive, peaceful and healthy cities is contingent upon their access to urban infrastructure and services** (energy, transport, sanitation and housing, among others). In addition, infrastructure systems and standards can make an enormous difference for an economy's overall inclusiveness and environmental impact.

Energy is perhaps the most common example. Many countries continue to rely mainly on fossil fuel-based energy sources for base-load energy (e.g. coal) and mobility systems (e.g. mostly oil-based). Changing the energy mix of a country or regional bloc can bring huge efficiency gains. Nordic countries, as well as China, Germany, Morocco, Rwanda, Costa Rica, Uruguay, South Korea and Ethiopia, among others, have demonstrated the importance of national infrastructure plans to accelerate these reforms.[28]

The ways in which these investments shape sub-national regional economies is key. **Through adequate national funding mechanisms, governments can contribute to articulating and aligning national and local-level plans and investments, raising important questions about MLG implications.**

New technological opportunities that favour localized production and coordination of service provision can be even more cost-effective and efficient. National infrastructure strategies can be an ideal deliberation space for different levels of government and stakeholders to strike a deal on these issues. This is particularly important in poorer countries, where the national government often has to underwrite all infrastructure revenue collection and local governments have neither the capacity nor the autonomy to access international financial markets.

A consistent MLG framework provides a basis for intergovernmental negotiations about how national investment priorities will manifest at the regional and local scale, and ensure consistency with local planning and development instruments.

Lastly, NUPs and spatial and infrastructure strategies should be publicly available through open data policies, encouraging interest groups and citizens to continuously improve the evidence base, analysis and choices.

An open-source data management system that provides insights into the differential spatial dynamics of the territory and sub-regions is invaluable for accountable and responsive MLG. This also helps enhance transparency, accountability and legitimacy about public sector decisions across sectors and territories.

The New Urban Agenda must be consistent with the SDGs and therefore break with a 'business as usual' approach. The deep institutional and political changes needed for the public sector and key social partners to deliver on the promises of Agenda 2030 are contingent upon the legitimacy and confidence of institutions and actors.

Legitimacy tends to flow from participatory policy processes that are genuine and meaningful. Confidence grows when diverse social actors can see the tangible effects of the new agenda's consistent implementation. The SDGs and targets are so numerous that all countries and governments will have to identify and pursue priority flagship projects that embody the new agenda. These projects must be carefully selected and substantive in nature.

Local and regional governments within this framework must act strategically, continuously learning, adapting and innovating, and marshalling the diverse institutions and interests of a given territory towards the shared goals of sustainable development. Such local state actors will be able to lead and foster strong leadership, action and knowledge networks spanning diverse institutions across society, and consolidate durable partnerships that are fully equipped to deliver on democratically-defined mandates.

In summary, **the MLG approach must spell out the principles and mechanisms to ensure an interdependent aligned function that is consistent with the imperatives of democratic decentralization and subsidiarity**. Furthermore, MLG must address transnational coordination; multilevel functional arrangements between spheres of government and associated agencies; and differentiated sub-national institutions; thus ensuring overall integration and transparency. Sustainable settlements require sub-national regional priorities and greater localization, in order to foster citizenship and democratic community control.

Photo: Steven Pisano - New York (United States).

7.
A SOCIAL CONTRACT EMBEDDED IN SHARED GOVERNANCE

Shared governance

MLG between different levels of government – as discussed in previous sections and chapters – is not enough on its own to achieve the goals of the emerging global agenda. As important is shared governance between the state and a variety of social and private actors. In fact, the accountability that flows from shared governance is the only real guarantor that the institutional elements of MLG will fulfil their potential.

Nevertheless, it would be naïve to assume that local and regional authorities and their social partners will eagerly embrace this agenda. It actually necessitates breaking with the *status quo*, at the same time adopting uncharted institutional formats that could be perceived as a loss of power and control.

Formal democratic systems arguably exist to order and regulate power so as to avoid undemocratic outcomes. Democratic elections for different political parties that represent diverse ideological and programmatic agendas go a long way to calibrate the values and aspirations of citizens and those political representatives they elect.

Nonetheless, **evidence from regions around the world shows that citizens can be disenchanted because their expectations are not always met by the political system.** It is for this reason, among many others, that modern political processes need to extend beyond formal systems to cultivate an empowered citizenship, democratic CSOs and thriving social movements.

◉
For the necessary political reforms to happen, the agenda needs popular support

Since the early 1990s, the global movement towards participatory democracy has been characterized by countless policy attempts to extend formal political representative processes beyond the ballot box. This has tried to include all instruments that give citizens and their organizations an opportunity to shape public policy. The spirit of this was strongly present in the Habitat Agenda adopted in 1996.[29]

As underlined in Chapter 1, however, even when political systems incorporate a formal commitment to participatory governance, a number of vested interests can still jeopardize processes and produce exclusionary and retrograde outcomes.[30] In this regard, strong, independent movements able to mobilize around a rights-based agenda are a precondition for participatory politics.

That said, as a consequence of this steady evolution towards more inclusive and participative politics, over the last decade a new discourse on the 'Right to the City' has taken hold in an ever-growing number of countries and cities, and should be the beating heart of the New Urban Agenda.

'Right to the City'

The 'Right to the City' is a rallying cry from a variety of social actors to put a strong and wide-ranging normative framework at the centre of the New Urban Agenda. As a discourse and movement it seeks to consolidate the first, second and third generations of established rights as defined

in the 1948 Universal Declaration of Human Rights and the 1966 UN covenants, among many other key reference documents.[31]

Exacerbating spatial inequalities and deepening marginalization of various groups have so far impeded the fulfilment of basic rights (e.g. access to health, housing and property) in many regions around the world. Against this backdrop, the 'Right to the City' seeks to establish a new 'common order' that promises to protect and expand the commons and strengthen the social and environmental functions of the city.

In this sense, **it develops as an inalienable right for all those who reside in a settlement, irrespective of nationality or status.** Concretely, 'the Right to the City is a collective and diffuse right that belongs to all inhabitants, both present and future generations, analogous to the right to environment enshrined in international agreements on sustainable development, which states interpret through their own national laws and jurisdiction'.[32]

Its all-encompassing nature is evident in the catalogue of components identified in the UCLG Global Charter-Agenda for Human Rights in the City and the World Charter for the Right to the City.[33]

The following lists its core features: a city free of discrimination; a city with inclusive citizenship granting equal rights to all the residents, enhanced political participation, equitable access to shelter for all, goods, services and urban opportunities; a city that prioritizes the collectively defined public interests, quality public spaces, cultural diversity, inclusive economies, secure livelihoods and decent work for all; a city that respects rural-urban linkages, protects biodiversity, natural habitats and surrounding systems, supporting city-regions' and city-towns' cooperation.

For the necessary political reforms to happen, the agenda needs popular support. This implies large-scale mobilization and advocacy by coalitions of committed stakeholders. It is therefore important to link the aspirations of the 'Right to the City' to far-sighted, tenacious and patient efforts to raise awareness among popular classes and excluded groups.

When they are organized, these constituencies have the potential to bring about change, be proactively engaged in policy formulation, acting in their own interests by fostering alternative forms of development, and using legal strategies to reinforce these cultural processes while

Photo: Jeff Attaway - Dakar (Senegal).

including and involving more citizens and collectives.

Thus, the 'Right to City' will only take hold if there is explicit political commitment by local and national governments to entrench its agenda in law, with supportive policies. It is crucial that local authorities who champion it recognize the constitutive importance of a rich, vibrant, plural, democratic and expansive public sphere.

A large, constructively 'noisy' public space needs a buoyant civil society and a high degree of tolerance for diverse (or even competing) forms of democratic expression.

Ultimately, the 'Right to the City' reflects a political vision, a new horizon. It offers a set of comprehensive actions that can help put cities and towns on the right trajectory to progressively and autonomously fulfil this vision.

Beyond the political ideals, it will require unwavering commitment to shared governance and the co-production of the urban space as an institutional landscape of regions, cities and towns.

Co-production of cities and territories

Co-production has emerged as a key theme in the broader governance politics of basic service delivery, especially for the

urban poor and in the cities of the Global South. It highlights a persistent reality: many local authorities are endowed with the responsibility for basic service delivery in their jurisdictions but are typically unable to meet the scale of the demand, especially when they are not provided with sufficient resources to do so.

This can be due to a lack of capacity, institutional means or political will, or a combination of these. In such situations, oppositional 'claims-making' politics can only go so far before needing to identify effective practical mechanisms for actual equitable service delivery.

This is the context in which various slum-dweller movements and federations, often organic in nature, will have to operate and produce different forms of political engagement.

In terms of access to basic services – the bedrock of the poverty reduction agenda of the SDGs and the New Urban Agenda – co-production denotes collaborative processes between social movements and the local/regional government to engage systematically.

This is necessary to figure out a shared understanding of the scope and scale of both the problems they face and potential responses. Co-production should begin with evidence of the challenges and obstacles that hinder or impede service delivery, as well as possible social policies to overcome these.

Movements, communities and groups should be a primary source of information and knowledge in this regard. The collection of reliable data about a given community is both a source of power and a mechanism to embed the social movement in the community. It also gives relevant movements an entry point to return and mobilize households to participate in service planning and implementation processes.

Accordingly, 'the reasons favouring co-production, including the need to build strong local organizations, able to demonstrate alternatives that have local popularity and scale, draw in multiple resources and strengthen local organizational capacity for planning and implementation'.[34] As discussed in the chapter on Metropolitan Areas, the work of Shack/Slum Dwellers International (SDI) and the Asian Coalition for Housing Rights (ACHR) are powerful examples of this approach.[35]

This form of co-production is just one part of a much larger area of shared governance that draws from: 1) strategy, plans and monitoring systems at the city-wide or neighbourhood scales; 2) service delivery processes; 3) advocacy and agitation; and 4) social learning. Table 1 provides a synoptic summary of these possibilities.[36] The discussion then moves on to the equally important enabler of sustainable and inclusive local development that is finance.

> ◎ **Ultimately, the 'Right to the City' reflects a political vision, a new horizon. It offers a set of comprehensive actions that can help put cities and towns on the right trajectory**

Table 1 **Co-governance instruments at the local level**

BUILDING BLOCKS	POTENTIAL CO-GOVERNANCE MECHANISMS
1. Strategy and planning	• Macro long-term strategic. • Spatial development frameworks. • Local and neighbourhood level plans.
2. Service delivery innovations	• Participatory service delivery planning, budgeting, management and monitoring. • Joint delivery systems at the local level. • Public auditing mechanisms. • Digital crowd-sourcing of service delivery problems and bottlenecks. • Digital feedback mechanisms (e.g. sensors). • Dedicated financial and training resources.
3. Advocacy and agitation	• Ensure open spaces for public consultation. • Ensure legal protection for civic actors. • Ensure right to information, a free press and freedom of expression.
4. Social learning mechanisms for innovation	• Establish and support regional innovation systems. • Promote a culture of public debate to foster a shared dialogue and life-long learning.

8.

FINANCING URBAN AND TERRITORIAL DEVELOPMENT

The call for action launched by the New Urban Agenda addresses the key issue of financing the public goods, infrastructure and public services necessary to ensure inclusive and sustainable urban development.[37] **This challenge is further complicated by unfavourable macroeconomic conditions, including a slow-down in emerging markets where investment needs are in fact the greatest.**

In an era of global economic 'financialization' in which profits accrue not through trade or commodity production but financial channels, the finance sector has a crucial role to play.[38] Urban development has not escaped this phenomenon,[39] and increased financial flows to the city scale, new allocations and reformed terms for the extension of finance are all needed.

At its core, **this means redefining the role of the finance sector in economic development. This has context-specific dimensions.** But unless the global finance sector has deep pockets to support sustainable cities, the current phase of urbanization will continue to be associated with the misallocation of capital, truncated development opportunities and the incubation of systemic risks.

Framing the supply and demand challenge

Finance is a means to economic and social ends.[40] The process of ensuring adequate flows of finance to the world's cities and territories has to be tailored to the higher-order goals of poverty alleviation, social inclusion and ecological restoration, as described in the SDGs and the Paris Agreement.

The stability of the global finance sector depends upon this success. In other words, the global finance sector itself has a vested interest – not direct or short-term nor fully understood yet – in achieving the New Urban Agenda and low carbon economies.

Current investment in support of the SDGs is USD 1.4 trillion per annum. This represents a funding gap of USD 3.9 trillion a year, with the greatest deficits being for power supply, climate change mitigation and education.[41] **Raising the money to address this funding need is important but it is not, on its own, sufficient.** Attaining the SDGs will mean overcoming the structural challenges that currently impede the flow of investments to rapidly urbanizing cities of developing countries and to localized human needs.

According to different sources, between 2013 and 2030, an estimated USD 57 trillion will be required to address the global infrastructure finance gap. This implies an additional USD 1.16 trillion to be added to the USD 2 trillion that has, on average, been invested annually in infrastructure in the past 18 years.[42]

BOX 8.1 NEW SUPPLIES OF GLOBAL FINANCE[48]

The rise of Asian (principally Chinese) funding sources is frequently over-reported. But it does offer new opportunities for developing country cities that have struggled to access finance from OECD banks. China invested roughly USD 13 billion a year in the African continent from 2011 to 2013. The Green Climate Fund, which itself offers the potential for financial sector reform, will similarly need to find ways of engaging sub-national actors if it is to gain real traction beyond mega-projects in the context of the world's poorest but most rapidly urbanizing cities.

Public finance has an important role to play in establishing the template for sustainable urban development

According to the Cities Climate Finance Leadership Alliance: 'global demand for low-emission, climate-resilient urban infrastructure will be in the order of USD 4.5 trillion to USD 5.4 trillion annually from 2015 to 2030'.[43]

The critical need of cities in the developed and developing world is for 'public good' infrastructure, and public finance has an important role to play in establishing the template for sustainable urban development, into which private finance can be invested.

The SDGs will not be realized unless a greater portion of USD 100 trillion held in pension funds;[44] USD 140 trillion in banks; USD 100 trillion in bonds, and USD 73 trillion in equities is mobilized.

The problem is that these funds do not, at the moment, find their way to the projects or the regions that are prioritized by the SDGs. Only 2% of the money globally held in pension funds is invested in infrastructure, and only 2% of total foreign direct investment (FDI) currently flows to the least developed countries. While there is anecdotal evidence of a 'quiet revolution' towards a more developmental and sustainable global finance sector, structural barriers still remain.[45]

Overcoming these obstacles so as to generate a flow of global finance to the regions in which urbanization is most rapid and where needs are most acute, requires financial sector innovation.[46] To be successful, this must go beyond simply ensuring greater compliance with the prevailing criteria for 'bankability' or socially responsible investment. It must reform both the supply of and demand for urban finance.

For the global finance sector, the risk is that a series of piecemeal projects, each compliant with the narrow requirements of successful finance, will combine to create dysfunctional urban systems. **Cities shaped by this type of finance are predisposed to fail.**

Crucially, the risks generated by an increase in this 'finance as usual' approach will be embedded in the long-term infrastructure that is so difficult to change. This will constitute a future burden for asset owners, financiers and insurers and contribute to a progressive haemorrhaging of economic opportunities in the world's urban centres and regions. Recognizing new types of capital, both human and ecological, and new metrics for rendering this capital productive in local economies, is a part of the supply-side reform that is needed (see Box 8.1).[47]

On the demand side, there is a need for more 'effective demand' from the communities and concerns that are key to functional cities, as well as ensuring that the portfolio of investment opportunities is more coherent in terms of advancing sustainable and inclusive cities.

This coordination of demand is best done at the local scale, by actors that understand the unique assets and challenges of their territories and are able to ensure that money is well-spent. It is, for example, local actors that have the legitimacy to ensure that land development is responsive to changing market and social dynamics, particularly where negotiations involve traditional authorities. Equally, they are best-placed to gauge and realize the potential for land-value capture.

For this reason, creating the governance and financial management systems that enable fiscal devolution is an important first step in scaling the allocations from national budgets to the local level and ensuring greater complementarity between public funds and private sector finance. Creating sub-national fiscal capacity is not a trivial undertaking, and has to be prioritized as part of financial innovation efforts at the national scale, and a broader commitment to MLG.

To be successful, the desired 'effective financing framework'[49] must be designed according to the socio-economic needs and means of the urban residents it is seeking to assist. Affordable housing, for example, needs to have a finance package that the target market can afford and a spatial framework that renders the housing attractive.

There are, however, profound and under-acknowledged obstacles to the formation of an 'effective financing framework'[50] and

'joint mobilization of all stakeholders',[51] that currently impede the flow of both public and private sector money in support of sustainable and inclusive cities as imagined in the SDGs.

Historically, **capital allocations have often failed to ease coordination problems, as was identified in the chapters on Metropolitan Areas and Intermediary Cities**. The disconnect between the needs of cities of developing countries and the rules that dictate the allocation of finance represents a chronic form of market failure that is at the heart of the urban financing challenge.

Unless a combination of development assistance and public funds can overcome the structural problems to these features of urban development, 'finance for [sustainable] development'[52] will not realize its potential, with the political, social and environmental risk of not achieving the SDGs or upholding the Paris Agreement. Seen through this lens, there is considerable unquantified risk in the decisions that currently inform the finance sector's operations, and the need for change is urgent.

Effective reforms will necessarily give greater attention to the local context and generate locally appropriate co-benefits. In the process, they will mobilize 'endogenous wealth', through land-based finance and reformed local taxation, to unlock new development opportunities, as demonstrated in cities such as Medellín, Colombia, for example.[53] As the chapter on Metropolitan Areas presents, there are a whole range of mechanisms that capture rising values: public land ownership and trading; local general taxation; added-value capture mechanisms; development levies; planning approval fees; or negotiated investment pools, among others.

When ensuring that the decision-making process remains transparent and inclusive, such instruments are essential to keep up with the growing needs in infrastructures.[54] Besides, **mechanisms of horizontal fiscal equalization have been used to support tax revenue-sharing throughout a metropolitan area to deliver combined services or economic development programmes**.[55]

It is worth distinguishing the aspects of financial sector reform that warrant attention in three broad contexts: 'least developed cities' without legitimate local governance or formal finance sectors; 'developing' cities with local governance and financial sectors but poor alignment between the two; 'developed' cities with mature infrastructure and financial governance.

Least developed cities without legitimate local governance or formal finance sectors

Only 4% of the 500 largest cities in developing countries have been able to access international financial markets, and 20% could access national markets.[56] As discussed in preceding chapters, barriers to access differ across towns, i-cities and metropolitan areas. African and Asian cities are expected to add 2.4 billion urban residents between 2015 and 2050. Unless infrastructure and services are properly financed, the inability to assimilate these people into urban operating systems will become a source of significant social and political risk.

Many cities are trapped in a low-investment, low-return equilibrium, as fiscal resources are constrained by the lack of formal employment; low per capita income; dependence on inter-household remittances that tend to escape the fiscal net; weak local capacity to collect taxes and charge users of public services, combined with low accountability.[57] At the height of the commodity boom, citizens in ECOWAS countries, for example, spent less than 1% of their household income on local taxation and tariffs.[58]

Low per capita income hinders conventional user-pay fee systems for infrastructure in these cities. Since the 1960s, Gross Capital Formation (an indicator which is also sometimes called Gross Domestic Investment) has been less than 22% in Africa, whilst in East Asian countries it has risen to 42%.[59] The under-investment in urban infrastructure in African cities is highlighted in the case of Nairobi, where the local government spends less than USD 14 per person per year on capital formation.[60] In general, Africa faces an estimated 40% infrastructure financing gap.[61] Private finance in many of these cities is either absent or prone to chronic market failure due to weak local budgets, the lack of guarantees (e.g. freehold land as collateral), and absolute poverty. Cities in the least developed category attract very little FDI and are often described by financiers as 'high-risk', while their citizens are deemed 'unbankable'.

The conjoined finance-governance deficit and resulting lack of public infrastructure profoundly impedes development. Unless the New Urban Agenda's call for an 'innovative and effective finance framework'[62] is addressed in developing country cities, there is little prospect of achieving the SDGs.

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The disconnect between the needs of cities of developing countries and the rules that dictate the allocation of finance represents a chronic form of market failure

To meet this urgent need in the medium term, cities in this category need access to financing (e.g. through lending on the bond market). But in the short term the focus should be on managing a greater portion of national budgets to support local governments and an effective marshalling of donor resources,[63] as well as designing services and infrastructures that are commensurate with the available finance and governance capacity, including through institutional and technical innovation.

As one analysis points out, 'there are clear ways to create more and better infrastructure for less'[64] and donor funding in particular has to commit to identifying and supporting these options.

A key problem for traditional finance is one of information. The underlying principle is that enhanced understanding of the local context reduces risk, opens new finance opportunities and enables public and private finance to fulfil its catalytic role in supporting development. The importance of what the UN-Habitat is calling 'multi-actor' systems is not only to enfranchise new citizens, but also to provide access to the type of market intelligence that will enable the judicious allocation of public funds and the opening up of new private finance markets.

National governments will be required to continue to play a role in these cities as part of MLG arrangements. Not only should national treasuries and ministries of finance continue to support local governments through specific funding mechanisms (such as municipal banks or local devleopment funds), but they also need to support local authorities in their interactions with the private sector so as to secure reasonable finance terms.

This is particularly true for intermediary cities that do not yet have the types of balance sheets or rate-paying citizens to access capital markets. In these cities, national transfers assist in breaking the 'low-investment, low-return' equilibrium.[65] Whilst local decision-makers are best placed to coordinate the spatial and technological specificity of investments, it is national governments that must compile national investment strategies that involve the local level and ensure consistency with urban and rural policies.

As part of the MLG approach, the formation of National Committees on Local Finance capable of transcending conflicts between spheres of government and supporting financial devolution is essential in developing countries.[66] Such committees need to be clear on locally appropriate timeframes for devolution, the process for creating accountability and effective fiscal governance at the local scale, and means of assessing the proportions of budget that should be devolved. Equipped with an observatory on local finances, these committees will be able to base their dialogue with levels of governments on concrete reliable data.

Cities with emerging local governance and finance sectors

In these cities local governments have at least partial responsibility for decision-making and a measure of influence over the allocation of public funds. Yet in developing countries, local governments receive on average between 8% and 12% of national resources. This is incommensurate with their contribution to economic growth.[67]

The primary need is to increase the proportion of national resources spent locally so as to reflect the urban contribution to the economy; enhance access to the urban financing (through lending or access to the bond market); and spend available money more effectively. **This requires strengthening sub-national fiscal systems so as to draw-down a greater share of national budgets to local levels and strengthening local revenues with a diversity and dynamic set of sources (tax, non-tax, user charges)**.

Similarly, local authorities, should explore different modalities to enhance local sources of revenues, for example, through land added-value capture. **Where local authorities possess inventories of land and are able to deploy a capital account in a manner that enhances land values through investments in public goods, they can harness a portion of these increases to levy additional investments**. In Rosario (Argentina) municipal urban regulation sees the municipality able to retain the value of property increases, especially in coastal areas, resulting from its investment.[68]

Shared governance approaches mentioned above must be fully recognized by the finance sector. The goal for local authorities should be to harness their balance sheets to become creditworthy enough to access borrowing, e.g. bond market and public or commercial banks, with or without the under-writing of central government. More inclusive strategies towards public sector investment and public procurement for municipal services have the potential to create virtuous cycles to attract investments, create jobs, improve household

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More inclusive strategies towards public sector investment and public procurement for municipal services have the potential to create virtuous cycles of work creation

incomes and better respond to the needs of communities. Such efforts forge the type of social contracts that mitigate risk ('de-risk') and at the same time enable private sector investment.

Fiscal constraints in these cities imply that public authorities need to be strategic in the manner in which they allocate available funds (e.g. through long-term and integrated planning).[69] A sustained flow of finance to items and activities in these cities that have conventionally been construed as risky public goods is only possible through long-term commitment by the public sector to invest in infrastructure, together with deliberate efforts to funnel private sector finance into cities. Off-take agreements – if structured through transparent public procurement policies – have the potential to create low-risk markets and crowd-in investments in urban energy supply, transport, water and sanitation, waste management.[70]

Given that these emerging cities should not pursue the same urban development pathways as cities in OECD countries, there are few precedents for decision-makers to draw on. Private sector banks, for instance, are seeking new partnerships that will enable them to co-invest in public goods in response to the global emphasis on the sustainability of projects in national policies.[71]

Sound local financing systems, combined with long-term public investment plans and stronger capacity to contract with private partners, could provide enhanced sources of financing and partnership with communities.

Cities with mature infrastructure and financial governance

In developed countries, where the partnership between citizens, local governments and the private finance sector is mature, policies are aiming at anticipating structural changes, by sustaining existing living standards while replacing ageing infrastructure and transitioning to less resource intensive development. Aligning the allocation of the deep pools of capital held by public and private funds with the best available information on current and future risks and opportunities represents important first steps.[72]

Finance in these cities has a responsibility to anticipate the changing demographic profile of its citizens (e.g. care economy for ageing population) **and protect ecological assets** (e.g. to face climate change or flood buffering and the management of coastal surges). New metrics for gauging

the return on this capital are needed to go beyond narrow notions of financial return on investment. The challenge lends itself to new social compacts between local authorities and residents that usher in technological innovation and develop competitive advantage.

Similarly, the emergence of social impact investing and social impact bonds illustrates the fact that sustainable cities depend on more than profitable businesses and work opportunities. This is shown by the shift of the Swiss Sustainable Finance initiative and their introduction of 'exclusions' – criteria that disqualify projects for environmental, social and governance (ESG) reporting that, in their current format, have proven insufficient.

In some instances, the transition to new technologies requires parallel service delivery systems that need new forms of financing (e.g. finance cooperatives, crowd-funding). For example, the 'prosumer' energy cooperatives pioneered in German towns in which residents are both producers and consumers of renewable energy, and Denmark's 'right to invest' programme in which energy companies have to allow a portion of local citizen investment in their operations, hint at the potential for new models. Public-private investment partnerships have an important role to play in transitioning to these modes of service delivery. [73]

There remains an important role for financial regulators in ensuring that new finance partnerships are accountable and that financiers and cities do not succumb to stranded or toxic assets.[74]

The case for finance sector reform

Against the backdrop of the current phase of urbanization, the economic benefits of inclusive, compact and coordinated cities are a compelling case for change.[75] However, mobilizing the necessary USD 5-7 trillion per annum over the next 15 years, and allocating it effectively within cities, is contingent upon reforms to address the barriers to finance associated with the financing of public-private goods and 'unbankable' projects at the city scale.

Sufficient resources are available, but the appetite for the required reallocation of capital is, 'essentially a matter of public choice. (...) At stake is the potential to shape a financial system fit for the 21st century with the purpose of serving the needs of sustainable development'.[76] The commitment

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Sound local financing systems provide the basis for securing access to community and external sources of finance

to devolve a greater portion of national resources to sub-national levels needs to be supported by the creation of endogenous local finance systems, motivated however by the understanding that such allocations tend to support economic growth and inclusive development.[77]

The New Urban Agenda will not be achievable by a simple financial liberalization or extension of the type of finance that has replicated environmental destruction, urban sprawl and social exclusion as part of urban development. The supply of finance has to be tailored to local contexts and its success will hinge on a clear vision of the outcomes that need to be financed.

This ambition goes beyond an extension of conventional project finance and requires a new sense of the social, institutional, spatial and infrastructural components of cities that are being built. It also necessitates new partnerships between the agents of global capital and local actors familiar with opportunities and risks within specific cities, as well as skilled and equipped to manage complex multi-stakeholder contracting.

In this context of increasing financialization, the long-term success of the finance sector is contingent upon its ability to invest in functional, inclusive and healthy economies in territories and cities.

The traditional finance sector's limited ability to invest in urban infrastructure, low-carbon technologies and essential public goods has resulted in the type of capital misallocation that has historically precipitated crises. At the core of this issue lies an information problem, embedded in uncertainty and unfamiliarity about many of the geographies, governance arrangements, technologies and economies that desperately need finance but which do not, at the moment, frame their demand for investment in the way that financiers require.

The imperative of reforming the global finance sector in order to reflect the multiple implications of urbanization (which, at the moment, includes anthropogenic global warming) makes the case for a 'global finance think-tank' committed to redressing information asymmetries and supporting new flows of finance to urban infrastructure and services.

○ **The New Urban Agenda will not be achievable by a simple financial liberalization or extension of the type of finance that has replicated environmental destruction, urban sprawl and social exclusion**

Photo: Kate - Quito (Ecuador).

NOTES

1.   Perez, 'Unleashing a Golden Age after the Financial Collapse'; Swilling, 'Economic Crisis, Long Waves and the Sustainability Transition'.
2.   Rockström et al., 'A Safe Operating Space for Humanity'; Scoones, Leach, and Newell, *The Politics of Green Transformations*.
3.   WBGU - German Advisory Council on Global Change, *Humanity on the Move*.
4.   For more information on worldwide urban trends, see the report's introduction.
5.   WBGU - German Advisory Council on Global Change, *Humanity on the Move*. This also resonates in a limited sense with the debates at the 2016 World Economic Forum on the theme of the '4th industrial revolution'.
6.   Evans, Karvonen, and Raven, *The Experimental City*.
7.   UCLG, *Decentralization and Local Democracy in the World*; UCLG, *Local Government Finance*; UCLG, *Basic Services for All in an Urbanizing World*; Harvey, 'From Managerialism to Entrepreneurialism'.
8.   Sengers, Berkhout, and Raven, 'Experiments in the City'.
9.   Smoke, 'Decentralisation in Africa'; Pike, Rodríguez-Pose, and Tomaney, *Local and Regional Development*; UCLG, *Decentralization and Local Democracy in the World*; UCLG, *Local Government Finance*; Rodríguez-Pose, 'Economists as Geographers and Geographers as Something Else'; Barca, McCann, and Rodríguez-Pose, 'The Case for Regional Development Intervention'.
10.   Ascani, Crescenzi, and Iammarino, 'Regional Economic Development'; World Bank, *World Development Report 2009*; Yusuf, Wu, and Evenett, *Local Dynamics in an Era of Globalization*. See also the OECD's *Territorial Review* series and other publications on regional development.
11.   'Governance, as distinct from government, refers to the relationship between civil society and the state, between rulers and the ruled, the government and the governed. Central to this relationship is the idea of credibility, of both politicians and governing institutions. The paths to improvement in credibility and legitimation of government lead through accountability, transparency, responsiveness, real participation, empowerment of groups in civil society and public', in McCarney, Halfani, and Rodríguez, 'Towards an Understanding of Governance', 95–96.
12.   See the *International guidelines on decentralization and strengthening of local authorities*, issued by UN-Habitat in 2007 and later complemented in 2009 by the *Guidelines on access to basic services for all*. These two documents should be read with the recently adopted *International Guidelines on Urban and Territorial Planning* (2015).
13.   Graham and Marvin, *Splintering Urbanism*.
14.   Angel, *Planet of Cities*.
15.   International Labour Organization, *The Changing Nature of Jobs*.
16.   OECD, *Is Informal Normal?*
17.   UNRISD, *Combating Poverty and Inequality*.
18.   International Covenant on Economic, Social and Cultural Rights (UNGA A/Res/21/2200), adopted in 1966 and which entered into force in 1976. For Housing, see also UN-Habitat's Istanbul Agreement and Habitat Agenda (paragraph 61). For the right to water and sanitation, see UN Resolution A/Res/64/292, 28 July 2010.
19.   UCLG, 'Culture: Fourth Pillar of Sustainable Development'.
20.   Borja et al., *Local and Global*; Landry, *The Creative City*.
21.   The General Assembly's resolution which adopts the document is available online at: http://www.un.org/ga/search/view_doc.asp?symbol=A/RES/66/288&Lang=E.
22.   UN General Assembly, *Transforming our world: the 2030 Agenda for sustainable Development,* A/Res/70/1, 21 October 2015, available online at this address: http://www.un.org/ga/search/view_doc.asp?symbol=A/RES/70/1&Lang=E.
23.   United Nations, 'Policy Paper 3: National Urban Policy', 4.
24.   Ibid., 5.
25.   Sengers, Berkhout, and Raven, 'Experiments in the City'.
26.   See also, Sassen, *Expulsions*.
27.   Taylor and Camaren, 'Strengthening Climate Resilience in African Cities'.
28.   UN-Habitat, *Urban Patterns for a Green Economy*.
29.   Paragraph 181 of the 1996 *Habitat Agenda* calls for the establishment and strengthening of participatory mechanisms.
30.   See the chapter on Metropolitan Areas in the full report, *The Role of Civil Society and Non-Governmental Organizations in the Governance of Metropolitan Areas*. See also, Mansuri and Rao, *Localizing Development*.
31.   A useful overview of the lineages and dynamics of the 'Right to the City' movement can be gleaned in http://www.righttothecityplatform.org.br/, http://www.uclg-cisdp.org/en/right-to-the-city/ and in United Nations, 'Policy Paper 1: Right to the City and Cities for All'.
32.   Ibid.
33.   Both documents are available online. The UCLG *Global Charter-Agenda for Human Rights in the City*: http://www.uclg-cisdp.org/en/right-to-the-city/world-charter-agenda/1; the *World Charter on the Right to the City*: http://www.righttothecityplatform.org.br/.
34.   Mitlin and Patel, 'The Urban Poor and Strategies for a pro-Poor Politics'.
35.   See the articles of the 2008 Issue Theme on *City Governance and Citizen Action* of *Environment & Urbanization*, Volume 20, Issue 2, available online at this address: http://eau.sagepub.com/content/20/2.toc.
36.   These points are further elaborated in Chapter 6 of UN-Habitat, *World Cities Report 2016*.
37.   UCLG Committee on Local Finance for Development, 'UCLG Inputs to Habitat III on the Discussion on Local Finance'.
38.   Krippner, 'What Is Financialization?'; Epstein, *Financialization and the World Economy*.
39.   Guironnet and Halbert, 'The Financialization of Urban Development Projects'.
40.   Mazzucato, 'Financing Innovation'.
41.   UNCTAD, *Investing in the SDGs*.
42.   Dobbs et al., *Infrastructure Productivity*.
43.   Cities Climate Finance Leadership Alliance, 'The State of City Climate Finance 2015', 14.
44.   This figure is contested. In UNCTAD, *Investing in the SDGs*, is reported that USD 20 trillion is held in 'pension funds domiciled in developed countries'.
45.   UNEP, 'The Financial System We Need. Aligning the Financial System with Sustainable Development'.
46.   Cities Climate Finance Leadership Alliance, 'The Bangkok-Johannesburg Blueprint'; UN-Habitat, 'Mexico City Declaration for Habitat III'.
47.   Mazzucato and Shipman, 'Accounting for Productive Investment and Value Creation'.
48.   Adapted from information on Infrastructure Consortium for Africa, China Exim Bank.
49.   United Nations, 'Mexico City Declaration for Habitat III'.

50   Ibid.
51   UCLG Committee on Local Finance for Development, 'UCLG Inputs to Habitat III on the Discussion on Local Finance'.
52   UNEP, 'The Financial System We Need. Aligning the Financial System with Sustainable Development'.
53   UCLG Committee on Local Finance for Development, 'UCLG Inputs to Habitat III on the Discussion on Local Finance'.
54   Bahl, Linn, and Wetzel, 'Governing and Financing Metropolitan Areas in the Developing World'.
55   Note that this is, however, hardly applicable in contexts of low political and fiscal autonomy where equalization mechanisms are generally
        implemented by the state through additional transfers to less-endowed municipalities.
56   For more information, see Hogg, 'Financing Sustainable Cities'.
57   UNCTAD, *Investing in the SDGs*.
58   AfDB, UNDP, and OECD, *African Economic Outlook 2016*.
59   Ibid.
60   Ibid.
61   Warren, 'Spanning Africa's Infrastructure Gap'.
62   United Nations, 'Mexico City Declaration for Habitat III'.
63   UCLG Committee on Local Finance for Development, 'UCLG Inputs to Habitat III on the Discussion on Local Finance'.
64   Warren, 'Spanning Africa's Infrastructure Gap'.
65   Clark and Moonen, 'The Role of Metropolitan Areas in the Global Agenda of Local and Regional Governments in the 21st Century'.
66   UCLG Committee on Local Finance for Development, 'UCLG Inputs to Habitat III on the Discussion on Local Finance'.
67   Ibid.
68   See Chapter 1 on Metropolitan Areas.
69   AfDB, UNDP, and OECD, *African Economic Outlook 2016*.
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71   Natural Capital Declaration, 'Leading Financial Institutions to Test Lending Portfolios for Environmental Risk'.
72   Mazzucato, 'From Market Fixing to Market-Creating'.
73   Ibid.
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75   Gouldson et al., 'Accelerating Low-Carbon Development in the World's Cities'.
76   UNEP, 'The Financial System We Need. Aligning the Financial System with Sustainable Development'.
77   Blöchliger and Égert, 'Decentralisation and Economic Growth - Part 2'.