The role of metropolitan areas in the global agenda of Local and Regional Governments for the 21st Century

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1 Introduction

1.1 The promise of the metropolitan century

It is a strange and striking reality that the 21st century is a metropolitan age for which the world has neither prepared nor adjusted. With 1.4 billion more people living in cities since Habitat II in 1996, urbanisation has reached and crossed the threshold to become the principal way of human life. Another two billion more will be added to the urban population up to 2050, right across the spectrum of city sizes and global regions.

We are already one sixth of the way into the "metropolitan century". Many of the world's regions are evolving rapidly from predominantly rural to highly urbanised societies, and this century will see urbanisation eventually level out at around 85% of a global population that will have stabilised. In effect, this means that over the next half century a new global urban system is being set in train, notwithstanding other shocks or imperatives that will arise. There is a need to shape this emerging global system of cities and metropolitan areas to avoid the system becoming locked in to unsustainable, unjust, or unproductive patterns.

The pace and pattern of urban growth have triggered the rise of a metropolitan scale of development and infrastructure. Most cities have quickly outgrown their defined legal boundaries and long ceased to be single jurisdictions. But higher tiers of government have been slow to revise boundaries as fast as population growth and settlement spill over them. As a result, most growing cities now span many municipal and other political territories. Yet at the same time these urbanised areas are emerging into integrated or functional labour markets and single communities of common assets and potentially shared interests. More residents of metropolitan areas now adopt an 'urban mindset'.[1] Therefore it is essential to foster the leadership, strategies and governance that can manage this growth in an inclusive, equitable and effective way.

Metropolitan areas are where many of the world's most pressing challenges can be tackled and resolved. As they account for a clear majority of global economic output, and as the most logical geographic unit for sub-national economic policy, they offer real promise to address poverty, disadvantage and socio-economic imbalances.[2] Their capacity for density, connectivity and efficiency also raises the prospect of de-coupling growth from wasteful energy use, land consumption and environmental damage. And their spatial forms can enable a more integrated systems-led approach to development that is smarter, more affordable and equitable.[3] Yet nearly all metropolitan areas are a kind of 'orphan' of national urban policies: often ignored, resisted, or un-recognised by national frameworks, they present a major and historic challenge to the ways that governments organise.

1.1.1 Growth and change in metropolitan areas

Metropolitan areas are still growing very fast, even though the pace has begun to slow down in regions such as Asia and Latin America. Among the 200 largest metropolitan areas, average population growth was 46% between 2000 and 2014. Only seven of the 200 regions lost population over this period, while in the fastest growing metropolitan areas, such as Xiamen, Abuja and Dubai, population nearly tripled in these 14 years. Strong future growth is also forecast, with the fastest growth likely to take place in Asian and African metropolitan areas.[4] This is due to a mix of 'push' factors - such as rising agricultural productivity, land pressure, conflict and natural disasters in rural areas - and 'pull' factors of job opportunities, investment, institutions and services found in cities.

METROPOLITAN AREAS SINCE HABITAT I: KEY FIGURES

- There are over 500 metropolitan areas with population over one million in 2016. In 1996, at the time of Habitat II, there were 315. In 1976, upon Habitat I, there were just 169.
- The 500 most populous metropolitan areas today are home to over 1.6 billion people. Just nine of these 500 have lost population since Habitat I. Glasgow and Budapest have lost the biggest share, while the planned cities of Nay Phi Taw and Shenzhen are among the fastest growers.

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[1] Joan Clos, "Towards a new urban agenda", p.5, Ricky Burdett, Philipp Rode, Priya Shankar and Shan Vahidy (editors), *Governing Urban Futures*, Urban Age, London, 2014.

[2] Joseph Parilla, Jesus Leal Trujillo, Alan Berube and Tao Ran, *Global Metropolitan Monitor: An Uncertain Recovery*, The Brookings Institution, Washington, D.C., 2015.

[3] Sustainable Development Solutions Network, *Why the world needs an urban sustainable development goal*, 2013; Steve Cochrane, Megan McGee and Karl Zandi, Global Metropolitan Areas: The Natural Geographic Unit for Regional Economic Analysis, Moody's Analytics, 2012

[4] UN DESA, *World Urbanization Prospects: The 2014 Revision*, United Nations, New York, 2014

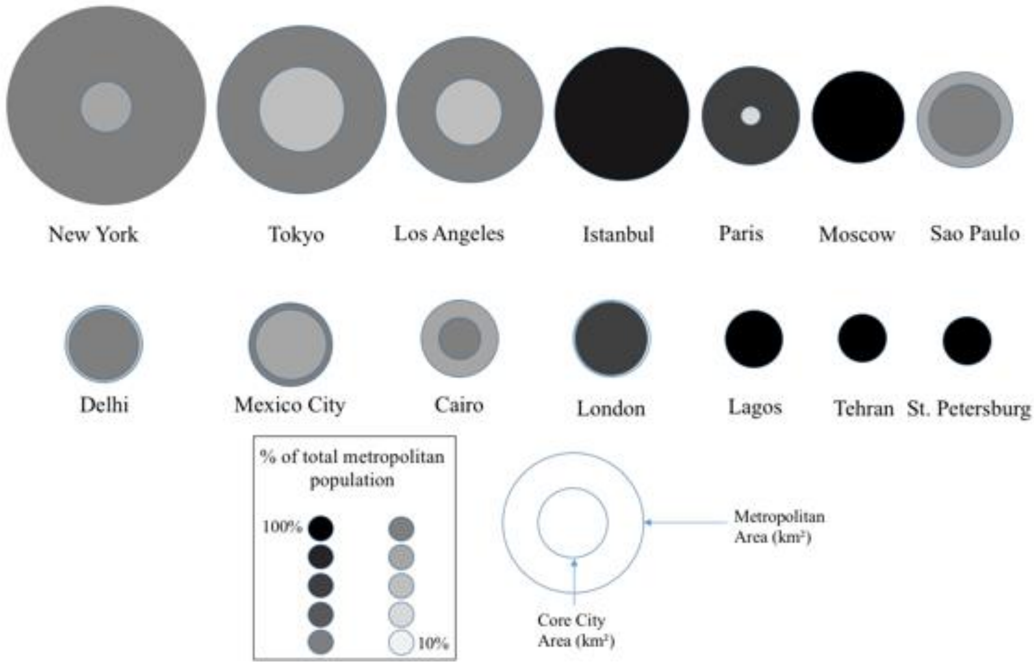
- There were just five megacities of more than 10 million inhabitants at the time of Habitat I – Tokyo, Osaka, Mexico City, New York and Sao Paulo. Today there are 31, three quarters of them in the global South. Nearly half of these new megacities had populations of less than five million 40 years ago.

Source: United Nations Population Division (2014). 'World Urbanization Prospects: The 2014 Revision'.

The long-run processes of globalisation and urbanisation mean that nearly all metropolitan areas are set to continue to experience cycles of growth and change. Each inherits distinct assets and identities as they seek to adjust to these dynamic processes. Most literature has been devoted to the highly globalised, 'established' world cities, home to the deepest concentrations of firms, capital and educated labour – such as Hong Kong, London, New York and Tokyo. But there is also a recognisable group of 'emerging' world cities, the business and political capitals of the larger emerging economies, such as Istanbul, Sao Paulo and Shanghai. And there is a growing cluster of 'new' medium-sized world cities - such as Boston, Cape Town and Melbourne - that deliberately specialise in a limited number of international markets.[5]

Figure 1 shows how metropolitan areas vary both in scale and in the share of growth absorbed within the core city. The population of metropolitan areas such as Istanbul and St. Petersburg is fully contained within one metropolitan entity, whereas in New York and Tokyo the majority of the population is located outside the core city. This variation gives rise to different challenges of governance and peripheralisation. Population growth and concentration is a hallmark of the metropolitan century but it brings with it critical risks, choices and challenges that must be addressed.[6]

Figure 1: Relative land mass size of core city and metropolitan area in the two largest metropolitan areas in each of UCLG's seven regional sections (shades denote proportion of population in city vs metropolitan area)



DEFINING METROPOLITAN AREAS

Metropolitan areas are a phenomenon whose definition is still complex and opaque. Broadly speaking two common meanings prevail. The first describes a continuously built up area that reaches a certain level of density beyond the political boundary of the city. The second defines the wider urban settlement system including towns and villages that are highly dependent on the main urban centre or group of centres. For the OECD, an area

[5] Greg Clark, Jonathan Couturier and Tim Moonen, *Globalisation and Competition: The New World of Cities*, Jones Lang LaSalle, 2015

[6] Remi Jadwab, Luc Christiaensen, Marina Gindelsky, "Demography, Urbanisation and Development: Rural Push, Urban Pull and...Urban Push?", *Policy Research Working Paper 7333*, World Bank Africa, Washington D.C., 2015; Brian H. Roberts, *Managing Systems of Secondary Cities*, Cities Alliance, Brussels, 2014.

outside the central city is part of a metropolitan area if more than 15% of employed residents commute into the city.[7]

This chapter uses the term 'metropolitan area' to span both concepts, both the physical contiguous urban area and the real pattern (functional geography) of the labour market. It defines metropolitan areas as *functional urban agglomerations*, to take into account the movement and relations of people in daily life.[8]

So far the OECD has identified more than 140 urban agglomerations larger than one million inhabitants within its 34 country aegis. But more than three-quarters of metropolitan areas are in less developed regions and this share is set to rise. The UN Population Division identifies 512 metropolitan areas with more one million inhabitants in 2016, with the total number growing by approximately 10 each year.

The term **city region** is also widely used to capture urbanisation at a metropolitan or larger scale. Other terms include **megacities**, **meta-cities**, **super-cities**, **megalopolises**, **mega-regions** and **polycentric metropolises**, all of which try to grasp how urban form has been stretched and reshaped by economic and technological change.

However, the range of terms used to describe metropolitan processes often conflate different factors of function, scale, spatial form and level of development:

- **Mega-cities** are widely understood to mean cities with a population of over 10 million.
- **Meta-cities** and **mega-regions** have both been used to describe regions larger than 20 million people.[9]

Similarly, some terms have more of a functional dimension:

- **city region** often signifies a regional tier of authority.
- **metropolis** implies a single metropolitan area which is a major centre of commerce.
- **megalopolis** denotes overlapping adjacent cities.
- **super-city** refers to a governance structure where a larger and more powerful authority has been created.

Care needs to be applied when selecting terms. Failure to observe these distinctions means that many international benchmarks of city size and development can lack the internal coherence to be used as units for scientific comparison and for policymaking. In this chapter, **metropolitan area** is the preferred terminology, while region will typically denote continents.

1.1.2 Meeting the demands of the metropolitan age

The planning and leadership of metropolitan areas entails large, even seminal political challenges that need urgent attention and focus. In particular, it has become critical to include and integrate areas that are, or have become, peripheral to the urban economy, spatial form or institutional process. In developing countries the rapid urbanisation process has suffered from the absence of planning, weak institutional development, and the rise of informal settlements where many people live without formal citizenship rights.[10] In more advanced industrialised regions the physical footprint of metropolitan areas is growing as people flee land inflation and seek suburban lifestyles, and as more cities become part of new industrial value chains.[11] As recent surveys of city leaders highlight, these phenomena are a cause and effect of congestion, inadequate public transport and low productivity, exacerbated by limited options to finance new infrastructure.[12]

METROPOLITAN PERIPHERIES

The different conceptions of metropolitan areas have given rise to different versions and definitions of **periphery.** This is indicated by the variety of words that are used in many languages to describe peripheral development: e.g. *banlieue, subordio, suburban, extraradio, borghetta, periferia, tan da bing*. The growth of metropolitan areas has given rise to at least five dimensions of 'peripheral' development, any combination of which may be visible.

- First, many cities, municipalities and settlements are *geographically* situated in the outer ring or far reaches of a metropolitan area. These may include intermediary cities and urban towns that play mediating roles between the rural and urban areas. The degree to which they are spatially peripheral often changes over

[7] OECD, *The Metropolitan Century*, OECD, Paris, 2015

[8] Rudiger Ahrend, Catherine Gamper, Abel Schumann, "The OECD Metropolitan Governance Survey: A Quantitative Description of Governance Structures in large Urban Agglomerations", *OECD Regional Development Working Papers*, OECD Publishing, Paris, 2014

[9] UN-Habitat, *State of the World's Cities 2012/2013: Prosperity of Cities*, UN-Habitat, Nairobi, 2012

[10] Alexandra Linden and Jos Verbeek, "The Challenge of metropolitan governance in the face of rapid urbanisation", 2013. http://blogs.worldbank.org/developmenttalk/challenge-metropolitan-governance-face-rapid-urbanization [Accessed online: 13 October 2015]

[11] Brian H. Roberts, *Managing Systems of Secondary Cities*, Cities Alliance, Brussels, 2014

[12] UN-Habitat, UCLG, LSE Cities, "The Urban Governance Survey", 2014, https://lsecities.net/media/objects/events/the-urban-governance-survey-by-un-habitat-uclg-and-lse-cities, [Accessed online: 9 October 2015].

time. As metropolitan areas expand, those that are at the periphery today may become part of the inner ring tomorrow, and vice versa.

- Second, cities and municipalities may be *institutionally constrained*, because of a lack of involvement, decision making and political influence in metropolitan governance. This form of periphery may arise because of the prominence of the central city, weak relationships with higher tiers of government, or conflict and fragmentation with surrounding municipalities.
- Third, many cities and municipalities in a metropolitan area are *economically disadvantaged* and lack access to jobs and prosperity. These marginalised spaces may be settlements that have grown rapidly at the outer fringes, or more central locations where there are entrenched socio-economic disparities, or where there are concentrations of land that have been left redundant by a change in economic use.
- Fourth, areas may be *under-served* as a result of co-ordination problems and social divisions that cause exclusion and disengagement. This dimension of 'peripheral' urbanism refers to weak public services, a lack of integration into key transport and infrastructure systems, or an absence of amenities and galvanising local institutions.
- These four dimensions add up to fifth - a *subjective perception* of periphery by local residents who perceive themselves as living in marginalised neighbourhoods and who often look to other areas as part of the core.

As this chapter illustrates, cities and municipalities within a metropolitan area may display some elements of 'peripheral' status but not others. Being economically peripheral is not always the same as being spatially peripheral, for example. The extent to which areas are central or peripheral may change and evolve as a result of economic trends, planning decisions and political choices, and it is important for metropolitan areas to develop a much more sustainable strategy for their peripheries.

Across the income and development spectrum, the dilemmas of metropolitan growth and expansion will not go away. Cities and suburbs on the metropolitan fringe will inevitably be important sites of new economic growth and will accommodate a large share of future population. But in order to meet sustainable development goals, new solutions are needed to improve access to adequate, affordable and safe housing, public transport and green space, while reducing the environmental impacts of metropolitanisation. If solutions can be scaled and sustained, then metropolitan areas present a huge opportunity to build citizen participation and identity in the 21st century.

As a result, key questions arise as to how metropolitan areas can grow smartly and sustainably in the future:

- Where and how should metropolitan areas accommodate growth and how can they facilitate mobility and accessibility?
- How should metropolitan areas combine housing, land use, planning, and transport functions in order to avoid negative externalities such as excessive congestion, inflated housing markets, or extreme stress on infrastructure?
- How should governance systems be organised so that the metropolitan areas can enjoy democratic leadership that attends to development challenges as a system of coordinated institutions?
- Can metropolitan areas work together to promote their combined attractiveness to external opportunities?
- How can metropolitan areas develop in ways which avoid segregation, marginalisation, and gentrification?

1.1.3 Over-burdened but under-powered: metropolitan areas today

The growing political and economic importance of metropolitan areas is not matched by public policies and reforms to serve them. Weak political cooperation, government fragmentation, and divisions of bureaucratic authority, all discourage joint efforts to tackle sprawl, congestion, unemployment and peripheral exclusion.[13] Local governments, mayors, councils, and other appointed city level authorities have found themselves under-powered, as the process of reform and adjustment has not kept pace with the intensified demands made upon them.[14] Most metropolitan areas face substantial governance and investment deficits, and the way they are spatially, politically and economically organised has become asymmetric and incoherent.[15] The institutional conditions to address the problems of the periphery in particular have not yet materialised.

[13] Paul Kantor and Jen Nelles, "Global city region governance and multicentered development: a North American perspective", *Environment and Planning C: Government and* Policy, Vol. 33, pp. 475 –495, 2015.
[14] Greg Clark, Emily Moir, Tim Moonen, "Underpowered Cities", *Governing Urban Futures*, LSE Cities, London, 2014.
[15] Willem Salet and Federico Savini, "The political governance of urban peripheries", *Environment and Planning C: Government and Policy*, Vol. 33, pp. 448-456, 2015.

The friction between the 21st century phenomena of metropolitan areas and the capacity of existing institutional frameworks to support them is giving rise to inventiveness and innovation worldwide. After a decline in the profile and attention of leadership and governance in cities, in recent years there have been important efforts to re-organise effectively for a metropolitan age. Awareness of the gaps, deficits, enablers and opportunities for metropolitan areas has grown.

Key constraints for metropolitan areas	Key enablers for metropolitan areas
Instruments for municipal finance encourage short-term competition and distort developmental policies in favour of urban sprawl.	Financial instruments encourage inter-municipal co-operation and long-term strategic investments.
Siloed, single sector approach to services and policies, such as education, transport, planning, housing, waste, energy, immigration, or the economy.	'Whole of government' and inter-governmental approaches to cross-cutting policy challenges.
Lack of national support for urban agendas. Education, skills, housing, health, and social services poorly adapted to local urban contexts.	National policies calibrated to distinctive character of metropolitan labour markets and housing markets; greater participation of local governments in service provision.
Vertical and horizontal relationships shaped by historical accident. Institutional 'lock in' unable to address the evolving functional area.	Institutional frameworks tailored to social, economic, and geographic logic.
Political unpopularity and financial costs of governance reform.	Joined-up metropolitan coordination around land-use, transport, business clustering and sustainable development.

Source: Rt Hon Greg Clark MP and Greg Clark, *Nations and the Wealth of Cities: A New Phase in Public Policy*, Centre for London, London, 2014; William Thompson, 'Achieving Policy Coherence for Cities'. Workshop on Colombia's Misión de Ciudades, Bogota, 2013.

The world is only a short way into the journey towards coherently organised and economically sustainable metropolitan areas, and knowledge sharing about the success factors is critical. Despite their constraints, metropolitan areas hold out a promise: if well-organised they can be competitive economic units, effective infrastructure and logistics platforms, and they can reduce carbon emissions and foster more mixed income communities. Through examples and explanations, this chapter reports on the progress so far.

2 Governance: established and emerging models for metropolitan areas

KEY MESSAGES

- There are many different models of governance for metropolitan areas, each with different patterns of 'shared authority.' Across all of them, it is clear that a high degree of negotiated collaboration is desirable between local governments, metropolitan authorities, national and state governments, and non-governmental organisations and representatives.
- Metropolitan areas make faster progress towards a sustainable governance model when channels of communication and consultation about future goals and priorities are high, and when party political and inter-governmental conflict is constructive rather than destructive.
- As a general pre-condition for this negotiated collaboration, local and metropolitan governments depend on an adequate, clear, predictable and fair system of intergovernmental transfers that ensures local independence and flexibility
- A number of enablers appear critical for governance gaining the flexibility to match the dynamic evolution of the metropolitan century.
  - **Recognition and new laws from higher tiers of government.**
  - **Buy-in from the vast majority of local governments.**
  - **Clarity of roles between each tier of government.**
  - **Institutional and financial capacity to support metropolitan authorities.**
  - **Quick wins, success stories and momentum during the reform process.**

As cities have grown beyond their historic political and electoral boundaries, the governance of metropolitan areas has become complex and often fragmented. For only a minority is most or all of the metropolitan population governed within a single administrative territory (see Figure 2). For many, such as Sydney and Zurich, the original core city is dwarfed by the wider metropolitan area.

Most metropolitan areas are, in effect, 'accidental' outcomes of many cycles of development, in the sense that they are composed of bundles of local governments, authorities, agencies and interests that typically were not originally designed to address questions at the metropolitan scale.[16] This means that they are usually governed by a form of 'power sharing', ad hoc and temporary coalitions with varying levels of legitimacy and transparency.

[16] The concepts of metropolitan and regional scale are not the same in all languages and traditions. In Europe, for example, regional entities were often created long before urban expansion processes took place. Occasionally, these regions have coincided with the geographies of emerging city-regions, allowing the 'city-region' to become a default administrative scale once the urban area grew outwards. Examples include Paris-Ile de France and the Comunidad de Madrid. Whereas in Europe the word 'region' usually means a historically demarcated space, in North America it usually refers to a 'metro' or city region, because no previous historic regions were defined in this way, and state/province boundaries have been more important. This can lead to confusion about whether the term 'regional' is referring to a functional urban area or a specified territorial unit.[16] In other parts of the world, metropolitan entities have been set up to adjust to rapid and largely unforeseen expansion. Istanbul Metropolitan Municipality and Tokyo Metropolitan Government are such examples. The evolution in scale and the competencies that each level of government were originally set up to have continues to shape governance capacity and the political appetite for change.

Figure 2: Population size of administrative 'core' city and metropolitan area in the largest metropolitan area in each of UCLG's seven regional sections

Visual model developed by LSE Cities.
Source: United Nations Population Division (2014). 'World Urbanization Prospects: The 2014 Revision'.

THE CHALLENGES AHEAD

In the 21st century, metropolitan areas have to address the unintended consequences of growth and sprawl that occurred in previous phases of development, and the continued pace of growth and change in the current cycle. These phases have often left a legacy of high infrastructure need and created competition and inequality between different parts of the metropolitan region.

Leaders in cities and metropolitan areas work within governance parameters which often provide them with insufficient formal authority to meet the challenges their city faces. Often the most serious gaps include:

- **Fiscal and financial deficits**. Many local governments in metropolitan areas have very limited fiscal resources to invest in the infrastructure required to manage demand. As a result, they are compelled to enter into competition with other jurisdictions for sources of revenue. This often has the effect of distorting developmental policies in favour of urban sprawl. Government grants may also require money to be spent within a certain time period or in a specific way, with outcomes that are not always in line with wider development goals and local needs.
- **Siloed services and policies** towards education, transport, planning, housing, waste, energy, immigration, or the economy. Sectoral, 'place blind' departments and ministries do not embrace spatial and territorial issues, and suffer from information gaps. Their regulatory frameworks may also inadvertently distort land markets in metropolitan areas.[17]
- **Lack of national support for urban agendas**. Policies have traditionally seen urbanisation and (in the global North) de-industrialisation as problems to be contained rather than opportunities to bring about positive change.[18] National support for decentralisation to lower tiers of government has been scarce and erratic.
- **Vertical and horizontal institutional relationships that are locked in** to obsolete or unproductive arrangements. Many metropolitan areas have dozens of local governments, operating with limited coordination, weak competences and powers. Other national and subnational authorities and interests also preside, all with different political leadership cycles and reporting mechanisms.
- **Short termism and opposition to reform**. The big development challenges faced by metropolitan areas require continuous action through several cycles of development and investment. But most governance systems provide leaders of cities and municipalities with mandates that rarely last more than five years.

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[17] Alan Harding and Brendan Nevin, *Cities and public policy: a review paper*, Foresight, UK Government Office for Science, 2015.
[18] Future Cities Catapult, Urban Innovation and Investment: The Role of International Financial Institutions and Development Banks, Future Cities Catapult, London, 2014.

The global momentum to recognise metropolitan areas and grant them legal status is growing: in Brazil, more than half of the population already lives in 71 formally designated metropolitan regions, and a new metropolitan law has made integrated metropolitan planning a clearer priority.[19] In Chile, metropolitan areas have now been recognised for the first time, and in Colombia a 2013 law improves the legal framework for coordinating and financing its six metropolitan areas.[20] Meanwhile in Italy, 14 'metropolitan cities' were established by the Delrio law in 2014 to oversee transport and planning.

But many of these reforms have lacked cooperative mechanisms to support the integration of metropolitan areas or to provide specific resources to finance them. For metropolitan areas to acquire and retain a governance structure that supports growth and captures its opportunities, many have had to innovate through new models and new kinds of reform.

Most reviews of metropolitan governance only address local governmental arrangements (bottom-up). They rarely cover the role of higher tiers in direct services and infrastructure provision (top-down) or the role of non-governmental bodies (civic). In this section we review local and metropolitan arrangements first but also examine the roles of higher tiers of government and civic organisations, and case studies of good practice or distinctive experience.

2.1 Different models of metropolitan management

Some kinds of metropolitan system of authority and representation can now be found in most parts of the world. A 2015 review found that 68% of metropolitan areas in the OECD have a metropolitan governance body working on regional development, transport or planning. However only a quarter of these bodies have substantive regulatory powers.

There are many forms and types of metropolitan governance that aim to achieve the desired goals. Often these models reflect deep national political and cultural traditions:

- Countries with a long history of bottom-up democracy tend to have de-centralised or laissez-faire governance systems (e.g. New York, Zurich) and are resistant to authority accruing to citywide or metropolitan bodies.
- Others operate in a tradition of strong state authority and centralised planning (e.g. Paris).
- Different kinds of development state also condition the approach taken by large metropolitan areas in some Asian countries (e.g. Beijing, Seoul, Tokyo).[21]
- Other countries have undergone a transition from authoritarian to democratic rule have since tried to empower municipalities at the expense of metropolitan or regional level powers (e.g. Sao Paulo, Warsaw).

These legacies shape the appetite for localised and hierarchical metropolitan governance.

There are many models in operation in the government and management of metropolitan areas. In recent years, scholars and analysts have sought to compare and categorise them, and four models have been widely described (see Figure 3). These models, however, only explain parts of the story as they do not account for the role of higher tiers or non-governmental bodies in delivering services and providing direct investment and regulatory frameworks at the local and metropolitan levels. This dimension is developed in Sections 2.2 and 2.3.

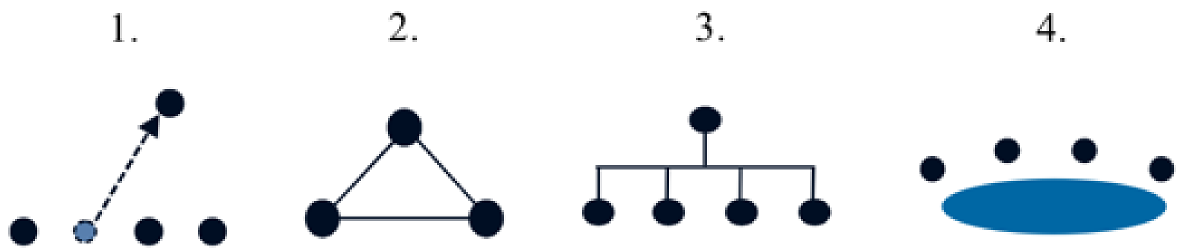
Figure 3: Four models identified by OECD[22]

[19] World Bank Group, *Metropolitan Governance in Brazil: Inputs for an Agenda and Strategy*, The World Bank, Washington D.C., 2015; Rose Compans, "Metropolitan Ungovernability", *R.B. Estudos Urbanos e Regionais*, Vol. 17, 2, pp. 11-24, 2015.

[20] OECD, "Revitalising Chile's Urban Governance Architecture", *OECD Urban Policy Reviews, Chile*, OECD Publishing, Paris, 2013.

[21] Peter Newman and Andy Thornley, "Global Cities: Governance Cultures and Urban Policy in New York, Paris, Toyko and Beijing", Greg Young and Deborah Stevenson (editors), *The Ashgate Research Companion to Planning and Culture*, Ashgate Publishing, Surrey, 2013

[22] A 2015 UN Habitat and GIZ GmbH Discussion Paper entitled *Unpacking Metropolitan Governance* also refers to four models: (i) Metropolitan/Regional Government, (ii) Bottom up Metropolitan/Regional Authority, (iii) Consolidated/amalgamated governments, and (iv) Fragmented governance with some local government co-ordination.



Special status of metropolitan cities with broader competences	Inter-municipal and multi-purpose authorities	Elected or non-elected metropolitan supra-municipal structure	Soft, informal co-ordination in a polycentric system

Source: OECD (2015)

This typology accurately spans most of the range of models, and in the section below we will explain each of the four models in more detail. The main caveat is that not all cities in model 1 have been designated as special 'metropolitan cities' or 'federal cities', but may instead be single tier citywide or metropolitan governments whose authority encompasses most of the functional metropolitan area.

1. The single tier metropolitan government model sees one government authority provide services to most or all of the metropolitan area. Often this model is either the result of a historic merger, or has been designated by a central government naming a city or group of cities as special "metropolitan cities" or "metropolitan municipalities" (e.g. Moscow, Shanghai) Sometimes these areas are 'over-bounded' well beyond the built-up area, as in the case of Chongqing or Istanbul. More commonly, they are 'under-bounded' and have experienced spillover, as is the case with Brisbane or Toronto.

In principle these single tier models are more financially efficient and enable economies of scale in the way services are provided. They enable a larger tax base for the government to protect the interests of the whole area. They are also conducive to the creation of an identity and vision for residents and business to rally behind. Although some examples of this model include channels for democratic engagement and participation, there is however, a risk that the institutional apparatus will be non-responsive, bureaucratically inefficient and only weakly accountable to citizens.[23]

2. The inter-municipal partnership model sees local governments voluntarily partner for one or more purposes, within a formal or informal framework. This mode of governance has become increasingly popular globally, as it offers economies of scale without undermining the autonomy of local authorities to tax and spend. This system works well when all cooperating municipalities share similar finite objectives.

The challenge for this model is to manage conflict between municipalities. Whereas some Swiss, Swedish and Dutch metropolitan areas have a deep-rooted ethos of consensus politics that make this voluntarism effective, these are exceptions rather than the rule.

Until recently, **Paris** has had no authority or inter-municipal body that addresses the metropolitan unit. Regional planning has been co-ordinated by the regional Ile-de-France government, while the City of Paris and other municipalities are in charge of local plans and delivery.
In order to fill the vacuum, over time more than 100 inter-municipal *communautés* with fiscal powers emerged to deliver services and foster development, feeding fragmentation. This co-ordination proceeded on a step-by-step basis through bilateral agreements. But in 2006, a new metropolitan conference in recognition of Paris's interdependence initiated a new phase of broader collaborative discussion. New laws in 1999, 2004 and 2010 also reinforced the process of inter-municipal cooperation.
After a decade of joint working, a new metropolitan government (*La Métropole du Grand Paris*) system operating between the local and the regional came into force on the 1^{st} of January 2016. It incorporates the three surrounding *départements* and a total of 126 municipalities into a Greater Paris metropolitan authority.[24]
Galvanised by the forthcoming Grand Paris Express transport network, the new entity has its own taxation powers and powers for planning, land use, housing, environment and climate strategies and economic development.
The agreement has settled on a balanced governance model with strong respect for the principle of subsidiarity. A 209-member Grand Paris Council is complemented by new inter-municipal bodies that preside over a minimum of 300,000 inhabitants and which possess local planning and service delivery powers that must align with the

[23] Enid Slack and Andre Côté, "Comparative urban governance", *Future of Cities: Working Paper*, Foresight, Government Office for Science, 2014
[24] Stephanie Kirkland, "Paris' Future Governance: An Interview with Pierre Mansat", 2013, http://stephanekirkland.com/pariss-future-governance-an-interview-with-pierre-mansat/, [Accessed online: 13 October 2015]

metropolitan strategy.[25] The multi-layered complexity of the new governance framework and the fact that the *Métropole* spans only 60% of the metropolitan population means that there is uncertainty if the new model can effectively address Paris's development challenges.

One variant of this model is the special purpose agencies model. Some metropolitan areas rely on special purpose vehicles to manage key infrastructure functions, regeneration and re-investment more effectively. In the United States, metropolitan partnerships have been created in the form of 'special districts', in which shared services are provided across municipal or county boundaries. Metropolitan development agencies also exist to co-ordinate public assets and support re-development in complex ownership situations, and can act as mediators with central government, the private sector and the non-profit sector.[26]

3. The two-tier government model features an upper-tier citywide or metropolitan authority above a system of smaller local authorities. The upper tier usually manages spatial planning, development and delivers certain services, while responsibility for education, housing, healthcare and welfare is often retained at the local level. The balance of power between the two tiers varies, from a so-called 'strong mayor, weak boroughs' equilibrium to a 'weak mayor, strong boroughs' structure. At both ends of this spectrum, this model aims to combine the benefits of consolidated government while maintaining local accountability and responsiveness.[27]

There are many metropolitan areas in which the two-tier model operates at the citywide level, while other regional or local governments preside over the wider urbanised areas into which development has spilled over. London, Seoul and Tokyo are all examples of this arrangement. An alternative variant is a two-tier model operating at different spatial scales, with a city government surrounded by a regional government. Madrid is an example of this model, which offers strong and efficient capacity to coordinate the management of spatial and economic growth, but which limits the capacity and budgetary resources of local governments.[28]

In 2000, a metropolitan local government system was established in **Dar es Salaam**, one of the world's fastest growing cities. The new model consisted of three municipalities of equal size and a coordinating body, the Dar es Salaam City Council (DCC), which oversees waste management and other services across the territory.
The three municipal councils do not report to the DCC but to the regional department within the national Prime Minister's Office, while other central government agencies retain significant influence. The population has more than tripled since the reform in 2000, and there is now urgent requirement for a wider metropolitan system of growth management and service provision.
All four entities have struggled to generate own source revenue and are still very reliant on transfers from central government, especially for capital investment. A new formula-based grant to replace the previous discretionary system has reduced favouritism and improved fiscal equality between the local governments.[29] The three local municipalities receive considerably higher transfers than the metropolitan authority, although the latter is now managing many of the arrangements for the citywide Bus Rapid Transit project, which is set to improve the reliability and safety of transport between residential and commercial areas in the city for nearly 500,000 passengers per day.[30]

4. The informal and fragmented one tier model has numerous separate local governments delivering services within the metropolitan area, without any overarching authority or body to encourage co-operation. The large number of local governments limits opportunities for the coordination that can optimise economies of

[25] Métropole du Grand Paris: Mission de Préfiguration, 2015, www.prefig-metropolegrandparis.fr/, [Accessed on 19 October 2015]; Île de France, "Schéma directeur de la Région", 2015, www.iledefrance.fr/competence/schema-directeur-region, [Accessed online: 13 October 2015]

[26] Enid Slack and Andre Côté, "Comparative urban governance", *Future of Cities: Working Paper*, Foresight, Government Office for Science, 2014; Stephen Town, "Project Auckland: Single agency CCO will achieve change for Auckland", *The New Zealand Herald*, 9 December 2014, www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=11370734, [Accessed online: 19 October 2015]

[27] Slack and Côté, "Comparative urban governance".

[28] Jesús Leal Maldonado, "Metropolitan government and development strategies in Madrid", pp. 359-374, In Willem Salet, Andy Thornley and Anton Kreukels (eds.), *Metropolitan Governance and Spatial Planning: Comparative Case Studies of European City-regions*, 2003, p. 372

[29] Mats Andersson, "Metropolitan Governance and Finance", pp. 41-92, In Catherine Farvacque-Vitkovic and Mihaly Kopanyi (editors), *Municipal Finances: A Handbook for Local Governments*, The World Bank, Washington D.C., 2014, p. 73

[30] African Development Bank Group, "AfDB approves US $141.71-million for the Dar es Salaam Bus Rapid Transit System Project", Abidjan, African Development Bank Group, 2015, www.afdb.org/en/news-and-events/article/afdb-approves-us-141-71-million-for-the-dar-es-salaam-bus-rapid-transit-system-project-14767/, [Accessed 19 October 2015].

scale. Los Angeles is one prominent example, a 13-million-person region governed by 200 city governments and five county governments, at the centre of which is Los Angeles County. This model is common in systems that embed a strong system of local government and democracy, such as the United States. One common outcome of this model is high fiscal and economic disparities between different municipalities.[31]

Finally, there are a number of ***exceptions*** that do not fit neatly into any of the other models. Among the most prominent exceptions are Singapore, Hong Kong and Dubai, three highly empowered cities that have much greater autonomy that nearly all other cities, and whose wider built-up areas beyond their borders have weakly defined parameters.

Table 1: Models of metropolitan governance

Model		Model variant	Examples	Potential advantages	Risks and disadvantages
Single tier metropolitan/ regional governments		Over-bounded	Auckland, Chongqing, Istanbul	Strong strategic approach, long-term planning, visible leadership.	Lack of accountability to local communities.
		Under-bounded	Brisbane, New York, Toronto		Frequent conflicts between municipalities and the regions.
Two tier citywide or metropolitan government		Weak upper tier, strong lower tier	Dar Es Salaam, London, Vancouver	Effective balance between local accountability and strategic capability	Capacity to co-operate with rest of metropolitan area has been found wanting.
		Strong upper tier, weak lower tier	Berlin, Madrid, Seoul, Tokyo	High capacity to coordinate spatial and economic development; efficient management and delivery.	Limited capacity and innovation at local level
Voluntary inter-municipal partnerships, alliances, communities and special purpose authorities			Paris (pre-2016), Seattle Stockholm, Zurich	Minimal government restructuring; organic adaptation; strong dialogue over time.	Limited investment capacity; dependencies between larger and smaller cities; rarely functions across whole metropolitan area; challenging cross-sectoral coordination.
Fragmented horizontal co-operation			Los Angeles, Mumbai.	Responsive to resident preferences, flexibility for local municipalities.	Inefficient service delivery, slow to agree and co-ordinate large projects, high fiscal disparities.
Exceptions		Semi-autonomous	Abu Dhabi, Dubai, Hong Kong, Macau	Long-term strategic capacity, full control over land-use and financial tools.	Challenges building links with surrounding cities and settlements.
		City-state	Singapore	Highly integrated 'whole-of-government' approach.	Hierarchical, conformist, democratic deficit.
		De facto state government leadership	Bangalore	Regional focus.	Top-down authority. Lack of local government autonomy.

2.1.1 Comparing the models: the case for metropolitan co-ordination

International experience indicates that there is no 'right' or 'correct' model of governing metropolitan areas. Any governance structure has to accommodate to national legal frameworks and precedents, and negotiate existing institutional traditions and barriers. These models do not stand alone, as they are nested

[31] Enid Slack and Andre Côté, "Comparative urban governance", *Future of Cities: Working Paper*, Foresight, Government Office for Science, 2014

within governance structures 'above' and 'below' them. No one model of metropolitan governance is therefore a 'silver bullet'. All choices present trade-offs around scale, efficiency, access and accountability.

These caveats aside, international evidence does suggest that mechanisms for metropolitan co-ordination can help unlock progress on integrated infrastructure, balanced development, increased rates of investment and shared identity. The subsidiarity principle remains essential, because local governments are typically the most effective decision-makers in the delivery of basic services. But a co-ordinated metropolitan approach is vital to ensure inter-governmental and multi-level coherence: it can eliminate perverse incentives, align strategic decision-making, and offer a common overarching goal for common development. It can also solve data and measurement gaps and develop more evidence-based policy and monitoring.

	Metropolis Off	**Metropolis On**[32]
Co-ordination	Low co-ordination equilibrium. Many voices for the region. Weak vertical relationships.	High co-ordination equilibrium. One voice for the region. Strong vertical relationships.
Integration	Sectoral policies lead. Systems ownership is fragmented. No joined-up approach to resilience.	Integrated solutions. Enables the pooling of resources. Manage wider risks and vulnerabilities.
Cohesion	High socioeconomic and racial disparities and segregation. Perverse incentives have greater impact.	Potential to equalise disparities and reduce poverty. Correlation with faster per capita income growth.
Land and development patterns	Growth management decisions is highly politicised. Price and supply of housing is a barrier against co-operation. Land assets are under-utilised.	Lower levels of sprawl. Higher public transport satisfaction. Higher population density and lower levels of air pollution.
Project pace and scale	Active planning is internally difficult and sporadic. Delays to key transport upgrades.	Proactive approach towards development agenda. Ability to assemble large infrastructure projects.
Financial relationships	Unequal tax base. Low value capture. 'Free rider' governments. More costs for specialised staff and facilities.[33]	Cost sharing, and sometimes cost-saving. High value capture. Capacity to negotiate for financial devolution.

In practice, metropolitan co-ordination is rarely if ever absolute and seamless. It is usually partial, overlapping and not properly sequenced to match goals. Metropolitan areas must decide what their long term development strategy is and focus their co-ordination targets accordingly. If they decide the development agenda is competitiveness, then the areas to prioritise metropolitan co-ordination may relate to branding, infrastructure, and economic development. If the agenda is social cohesion, then the priorities are to synchronise education, health and social policies.

DEMOCRATIC METROPOLITAN AREAS AND THE ROLE OF LOCAL GOVERNMENTS AS CONVENORS

It a key challenge for metropolitan governance to deliver services and strategy effectively and accountably, via strong citizen participation, rather than through hierarchical, bureaucratic policy-making. The limited sense of citizen belonging and identity with larger-scale metropolitan areas means that opportunities to participate in metropolitan processes as well as municipal processes are necessary. This not only improves democratic legitimacy but is also a precondition to achieving many of the behavioural changes

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[32] Andersson, Mats, "Metropolitan Governance and Finance", p. 49, Catherine Farvacque-Vitkovic and Mihaly Kopanyi (editors), *Municipal Finances: A Handbook for Local Governments*, The World Bank, Washington D.C., 2014; Benedict S. Jimenez, "Separate, Unequal, and Ignored? Interjurisdictional Competition and the Budgetary Choices of Poor and Affluent Municipalities", *Public Administration Review*, vol. 74, issue 2, pp. 246–257, 2014; Robert H. Wilson, "Metropolitan Governance Systems in the Global South: Forms and Effectiveness", *Regional Studies Association Global Conference*, 2012, pp. 15-30; Ahrend, Rudiger, Gamper, Catherine and Schumann, Abel, "The OECD Metropolitan Governance Survey: A Quantitative Description of Governance Structures in large Urban Agglomerations; Abdulai Kuyini Mohammed, "An Assessment of the Impact of Local Government Fragmentation in Ghana" Public Organization Review, pp. 1-22. 2014; Taufiq Hidayat Putra, Johan Woltjer and Wendy Guan Zhen Tan, "Metropolitan Governance and Institutional Design: Transportation in the Jakarta Metropolitan Region", Ronald L. Holzhacker, Rafael Wittek and Johan Woltjer (editors), *Decentralisation and Governance in Indonesia*, Springer, Switzerland, 2015.

[33] Rebecca M. Hendrick, Benedict S. Jimenez and Kamna Lal, "Does Local Government Fragmentation Reduce Local Spending?", *Urban Affairs Review*, vol. 47, no. 4, pp. 467-510, 2011; Mark Callanan, Ronan Murphy and Aodh Quinlivan, "The Risks of Intuition: Size, Costs and Economies of Scale in Local Government", *The Economic and Social Review*, vol. 45, no. 3, pp. 371–403, 2014.

that accompany sustainable metropolitan development, from energy use to transport modes, waste management and public space.

In general, the higher the level of direct democratic influence, the larger the mandate for long-term decisions that metropolitan areas need to make on infrastructure investment, spatial form, fiscal systems and environmental sustainability. The most durable and flexible metropolitan strategies tend to be developed by governments with some sources of democratic mandate.

The role and capacity of local and regional governments in building successful and democratically legitimate metropolitan areas is a subject that has yet to receive sufficient focus. There are many examples where forced amalgamation of local governments, or the super-imposition of metropolitan governments, have been unsuccessful and unpopular.[34] By contrast, bottom-up processes involving influential and charismatic local and city leaders are often at the heart of a longer-term process of building support for metropolitan collaboration and collective action.

Metropolitan areas with a limited history of cross-border partnership are beginning to create more opportunities for dialogue and joint co-ordination of growth. This is important as peripheral jurisdictions often find it difficult to advance their interests over those of central cities, whose bargaining power with investors and higher governments can be superior.[35] Sustained periods of stable city or regional leadership help drive these bottom-up processes of co-ordination, whereas in fragmented arrangements political parochialism and competition prevail. International experience shows that local governments need reliable resources, transparency and accountability in order to support metropolitan and urban-rural collaboration. Examples in Europe indicate that democratic legitimacy of local government-led metropolitan partnerships is often derived from citizen perception of increased effectiveness and increased decision-making power over larger regional issues.[36]

BUILDING A METROPOLITAN VISION FROM THE GROUND UP: GRAND MONTRÉAL.

Historically leaders in metropolitan **Montreal** have struggled to collaborate on collective projects. After a provincial government attempt to compel all 28 municipalities on the island of Montréal to merge was rejected in 2006, a broader metropolitan organisation grew in the background into a regional management approach that offered a balance between the needs and interests of the centre and periphery.[37] The Montréal Metropolitan Community (CMM) has been governed by a council of 28 mayors, and after the global financial crisis it began to overcome parochial concerns to tackle the impact of a struggling economy.

The first-ever Metropolitan Land Use and Development Plan was devised and adopted in 2011, focusing on the economy, environment and transport, and ambitious long-term targets were set. The CMM's sizeable budget for social and affordable housing has been important in establishing the right to housing and housing assistance at the metropolitan level, rather than being left to individual municipalities.[38]

High quality communications, public education and relationship-building have helped sustain momentum for the metropolitan process. A guidebook helps stakeholders implement the transport-oriented development plans, and a regular report outlines all the progress made on plan objectives. A day-long Metropolitan Agora is organised every two years to bring elected officials, city workers, planners and civil society groups together from the 82 municipalities to discuss the future. This dialogue has deliberately focused on developing pride and belonging in the region, and allowed Montreal to trade its cultural production and quality of life assets to an international audience.[39]

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[34] UCLG, Financing Urban and Local Development: the Missing Link in Sustainable Development Finance, UCLG, 2015, p.3; Dollery, B., Goode, S., and Grant, B., "Structural reform of local government in Australia: A sustainable amalgamation model for country councils". *Space and Polity,* Vol. 14(3), pp. 289-304, 2010; Dollery, B., Kortt, M., and Grant, B., "A normative model for local government de- amalgamation in Australia", *Australian Journal of Political Science*, Vol. 46(4), pp. 601-615, 2011; Jean-Philippe Meloche and François Vaillancourt, "Public Finance in Montréal: In Search of Equity and Efficiency", Institute on Municipal Finance & Governance Paper 15, 2013.

[35] Willem Salet and Federico Savini , "The political governance of urban peripheries", *Environment and Planning C:Government and Policy*, vol. 33, p.p448-456, 2015.

[36] Arild Gjertsen , "Legitimacy in Interlocal Partnerships: Balancing Efficiency and Democracy", *Urban Studies*, vol. 51 no. 9 pp. 1926-1942, 2014; UCLG, Financing Urban and Local Development: the Missing Link in Sustainable Development Finance, UCLG, 2015.

[37] Peter Trent, *The Merger Delusion*: *How Swallowing its Suburbs Made an Even Bigger Mess of Montreal, McGill–Queen's University Press*, Montreal and Kingston, 2012

[38] Centre for Human Settlements, "Montreal: Amalgamation to Consortiation", *New Public Consortia for Metropolitan Governance*, University of British Columbia, 2010

[39] Julie-Anne Boudreau, "Penser la ville-région. Acteurs économiques et stratégies de développement à Montreal et à Toronto", pp. 77-96, Christian Lefèvre, Nathalie Roseau and Tommaso Vitale (editors), *De la ville à la Métropole: Acteurs, Projects, Cultures,* Paris, L'Oeil d'Or, 2013.

The co-operation shown has given confidence to the Quebec provincial government to grant more municipal autonomy on spending and governance, as agreed in a new fiscal pact with local governments. This is important for Montreal because, despite the progress, public transport agencies remain under-funded by the municipal, provincial and federal governments and so struggle to expand the network.[40]

There are many examples where local governments have built a voluntary bottom-up metropolitan partnership even in a national context where metropolitan arrangements have previously been managed from the top down. Greater Manchester is one example where a culture of joint working and voluntary partnership emerged under the stewardship of committed and charismatic local politicians. This has resulted in a Combined Authority being established that brings together the 10 local authorities to provide a stronger and more democratically legitimate model of metropolitan governance. This is the first statutory combined system of its type in the UK, and is distinct from the two tier system of government established in London. From this platform, Greater Manchester has been able to undertake astute negotiation with central government to achieve substantial public sector reform, create new investment models, and gain control over key items of spending.

Representation of local governments in metropolitan assemblies or public-private governing bodies therefore provide an important indirect mechanism of democratic legitimacy, but there are additional approaches that also important. Directly elected regional assemblies with representation outside of any party or municipal affiliation have also proven effective and highly legitimate in places such as Stuttgart and Portland. Elsewhere, the involvement of a wider range of societal actors in tandem with governments has been an important vehicle for building legitimacy. For example, summits, conferences and assemblies dedicated to issues of planning, infrastructure, transport or economic development are important mechanisms to build channels of democratic participation.[41] For metropolitan areas such as Tokyo, summits that assemble leaders across the metropolitan area are important vehicles for providing local reviews and consultations on broad metropolitan issues, and for formulating strong policy proposals to the national government. These gatherings allow room for conflicts of interest to be negotiated and overcome. Similarly leading newspapers in metropolitan regions are important in explaining governance processes, making elected leaders visible and accountable, and enhancing citizen perceptions of democratic legitimacy and trust in government.[42]

2.1.2 Reforming metropolitan governance

Whichever metropolitan governance arrangements cities inherit, the test each of them faces is how to adapt to economic and social changes. Because their spatial footprint and the technologies that shape travel-to-work patterns (e.g. high speed trains) are constantly in flux, metropolitan areas are impossible to define once and for all. Increasingly metropolitan areas are no longer self-contained and overlap others. A flexible geometry is therefore essential.

Governance systems are increasingly being reformed and upgraded, as national and city leaders lead substantive processes of invention and innovation. Often processes of reform are motivated by concerns about industry competitiveness, spatial growth patterns, investment deficits and regional co-ordination failures. Reforms are a way to adjust and update the governance structure to 'catch up' with constant spatial expansion. This means that it is uncommon for a revised metropolitan governance system to be 'over-bounded' and span more than the whole urbanised area, although Chongqing and Istanbul are distinctive exceptions.

TYPES OF GOVERNANCE REFORM

Metropolitan governance reforms can take a wide variety of formats:

Re-arrangements to government authority	1	Creation of metropolitan entity that represents municipalities.	Barcelona
	2	Supra-municipal elected government and parliament	Stuttgart
	3	Metropolitan authority and directly-elected Mayor	Seoul

[40] Flavie Halais, "In the Montreal Area, 82 Municipalities Begin to Think and Act as One", *CityLab*, 2015.

[41] Greater London Authority, "London Infrastructure Plan 2050", 2015, https://www.london.gov.uk/priorities/business-economy/vision-and-strategy/infrastructure-plan-2050/updates , [Accessed online: 19 October 2015]

[42] Anna Christman, Daniel Kübler, Karin Hasler, Frank Marcinkowksi and Christian Schemer, "New Regionalism—Not Too Complex for the Media Watchdog", *Urban Affairs Review*, vol. 51 no. 5, pp. 676-707, 2015

	4	Metropolitan Combined Authority	Greater Manchester
	5	Shift from two tier to single tier.	Johannesburg
Boundary changes	6	Expansion of the boundaries of the metropolitan municipality.	Istanbul
	7	New city to absorb expansion	Mumbai
Metropolitan partnership agreements	8	Regional alliance for international promotion	Stockholm
	9	A voluntary Metropolitan Planning body for economic development	Seattle
Reforms to local government	10	Reduction in number of municipalities	Berlin
	11	Amalgamation of municipalities	Toronto

Some metropolitan areas adapt their governance structures incrementally to adjust to their process of evolution. In these cases, traditional administrative boundaries are being gradually superseded, or alliances expanded, to adjust to new spatial realities (e.g. Amsterdam since 1990s). Alternatively, an initial reform is then supported by periodic adjustments that add or alter the powers held by city or metropolitan government (e.g. London since 2000).

Other metropolitan areas are the subject of deliberate one-off reforms to solve institutional fragmentation. This may include a merger of local councils under a new executive mayor (e.g. Auckland in 2010), or a land extension to the metropolitan government (e.g. Moscow in 2012). Big one-off reforms involve important changes to metropolitan management. They often depend on a smooth well-directed transition to allow a comprehensive strategy to be built, and financial or institutional support in future political cycles. Agreement about the appropriate size and scale of metropolitan authority is often critical. In cities such as Toronto, the merger of local governments only integrated the central core of the wider functional region, rendering it too small to address regional transport and development issues.[43]

THE IMPACT OF REFORMS

Achieving substantive metropolitan reform is no easy task. Cultural resistance to institutional amalgamation is widespread, as residents tend to have a deeper sense of belonging and allegiance to localities than to large conurbations. In addition, local political hostilities, disparities in municipalities' tax and institutional structure, fiscal emergencies at higher tiers of government, and legal disputes around spending and policy powers, are all common in the derailing or circumscribing of processes of reform. Furthermore evidence from Canada and Australia by no means do all metropolitan consolidations manage to achieve greater public sector efficiency or economic growth.[44]

Metropolitan governance reforms clearly vary in their ambition and scope. Many have only tackled limited issues rather than wider metropolitan challenges. Reforms are rarely perfect and often involve trade-offs on certain issues. Although greater long-term evaluation of reforms is necessary, it is clear that many have had a demonstrable effect on the functionality and governability of functional metropolitan areas. Effects on leadership, growth management, co-ordination and investment are especially visible. Reforms:

- Help establish a **new metropolitan leadership** to galvanise local governments. A more collaborative ethos of leadership, and a more horizontal political consensus about development needs has been a result of reforms in Amsterdam, Hamburg and Stockholm, where the role of leaders in education, chambers of commerce and business has increased as a result of new metropolitan bodies or alliances. Elected or appointed leaders of metropolitan areas are well placed to advocate and negotiate with central government regarding policy, regulatory frameworks, or funding decisions. They also provide visible accountability to citizens, and are ambassadors to better promote a metropolitan area in international markets and diplomacy.

[43] Slack and Côté, "Comparative urban governance", p. 12.
[44] Rose Compans, "Metropolitan Ungovernability", *R.B. Estudos Urbanos e Regionais*, Vol. 17, 2, pp. 11-24, 2015; Chris Aulich, Graham Sansom, and Peter McKinlay, "A Fresh Look at Municipal Consolidation in Australia", *Local Government Studies*, Vol. 40:1: 1-20, 2013.

Ahmedabad is one of the only cities in India to have a single authority, the Ahmedabad Municipal Corporation (AMC), which delivers all responsibilities assigned to urban local bodies for the approximately 5.5 million residents. As a result it has a more coherent municipal policy and decision-making process. This approach has seen a reduction in urban poverty, environmental improvements, active civil society and urban residents engaged in political processes. Strong local governments and the prominence of the AMC at a metropolitan scale have been vital components in the success of Ahmedabad.

At the centre of Ahmedabad's urban improvements is fiscal reform which allowed the AMC to become the first municipal body in Asia to enter the financial markets and issue municipal bonds. The AMC has maintained a strong credit rating, and has sought to eradicate cash losses. It has also reformed the property taxation system, improving inefficiency, accountability and transparency. Citizen participation in decisions to invest in transport and slum upgrades has been a core aspect of metropolitan development.

Challenges still remain in Ahmedabad. Unequal access to services and social tensions along religious lines persist, while urbanisation has placed pressure on the ground water table. But the metropolitan area's experience has shown the ability of consolidated government in tandem with civil organisations to extend access to public utilities and integrate residents into the wider urban community.[45]

- Allow metropolitan areas to begin more comprehensive approaches to their **spatial, land-use and economic growth management**. The reshaping of boundaries and the consolidation of governance can eventually create a stronger system of long-term infrastructure co-ordination. Although the evidence around cost-saving is mixed, amalgamations and inter-municipal collaborations have often achieved fairer outcomes in public services, in cities such as Guangzhou, Toronto and Seoul, at least among those municipalities included within new arrangements. They have also resulted in more effective usage of public land, as seen in London and Barcelona.
- For many metropolitan areas, governance adjustments can reduce **co-ordination** failures between municipalities. Regions with established metropolitan governments and parliaments have shown the capacity to resolve regional spatial tensions, improve lines of communication and raise trust between previously conflictual municipalities.

Abidjan is an example where metropolitan governance has been strongly shaped by central government. Between 1980 and 2000, the city had a two tier system whereby ten local councils were all equally represented on the city council. However the central government had complete control over authorising building work, while delivery of key services such as water and electricity supply was contracted privately at a national scale by central government. This made it difficult to adapt to specific needs that arose within the metropolitan area. [46]

The city government underwent reform in 2001 when it was given special status; the city council was replaced by an expanded metropolitan government operating at a higher tier. The new government is now led by a district governor appointed by the president of the Cote D'Ivoire. As a result of this reform, the metropolitan government manages development and planning for the 10 municipalities and three adjacent sub-prefectures. However serious political conflict in 2010-11 has hampered further progress towards co-operation and more recently there continue to be signs of a lack of inter-jurisdictional co-ordination over urban transport developments.[47]

- Metropolitan governance reforms have also helped improve the **investment system**. More unified metropolitan areas can agree more effective mechanisms of transport financing, and can attract more investment from higher tiers of government for key projects. The process of metropolitan collaboration and reform has seen central governments agree to devolve powers

[45] Tanvi Bhaktal, William Avis and Susan Nicolai, "Towards a Better Life? A cautionary tale of progress in Ahmedabad" *Case Study Report: Urban Poverty*, Overseas Development Institute, London,2015.
[46] Ulrich Pfeiffer and Julia Krakau, *Urban Development and Metropolitan governance*, Berlin: Federal Institute for Research on Building, Urban Affairs and Spatial Development, 1999; UN-Habitat, *State of the World's Cities 2008/9: Harmonious Cities*, Nairobi: UN-Habitat, 2008.
[47] Youssouf Meite, "Gouvernance du transport urbain et mobilité durable dans le district d'Abidjan (Côte d'Ivoire)", *Sociology*, Université de Strasbourg, 2014.

and financing responsibilities in key areas (e.g. Manchester) and seen momentum gather for private investment when bottlenecks ease (e.g. Paris).
- Finally, metropolitan governance reforms often create an environment for more **innovative practices** around marketing, development and sustainability. One common outcome is a wider use of the powerful 'city' brand which all municipalities and agencies can share (e.g. Amsterdam, Stockholm), and progress on organising for innovation so as to involve universities, medical hospitals or start-up incubators. In general, metropolitan governance adjustments can produce a more future-oriented public discourse, and more ambitious plans for inclusion and competitiveness.

The global inventory of good practice suggests that for metropolitan governance changes to gain momentum and then be effective upon implementation, they rely on:

- Robust background research and independent expertise to build a credible case for change.
- Strong advocates, in the form of personalities or institutions, to sustain momentum for reform.
- A long-term process of co-operation and incentives from central government leadership.
- Collaboration and buy-in from local governments that is fostered by concrete projects and initiatives.
- Financial solutions that match new governance structures with corresponding investment resources.
- Data openness and data sharing is important to inform and speed up decision making.
- A system of incentives and compensations for those opposed to reform or who stand to lose out in the way resources are re-allocated.

2.2 The adjustment of national and state governments to the metropolitan century

National and sub-national (state, provincial) governments are critical partners in the development of metropolitan areas, but there are many tensions that underlie these vertical relationships. A new deal between metropolitan areas and their higher tiers of government is necessary to ensure a properly aligned multi-level governance framework. This section highlights the importance of longer-term national policies for the spatial economy and infrastructure development, of national support for metropolitan governance and investment reforms, and attention to the needs and aspirations of smaller and intermediary cities.

As metropolitan areas grow they experience side effects and *negative externalities* for which national support and adjustments are essential. These externalities include:

- **Externalities associated with national sectoral policies**. The absence of spatial dimensions in siloed national departments can mean a failure to join up thinking across sectors such as education, transport, planning and housing. This is one reason why highly unequal social conditions arise across different municipalities.
- **Externalities within metropolitan areas**. The outcomes of unmanaged growth may include price inflation, transport congestion, stretched housing and labour markets, infrastructure deficits, environmental vulnerabilities, and social divisions.
- **Externalities within wider regions and nations.** The 'pull factors' in metropolitan areas can result in over-concentration of high value economic sectors, 'brain drain' and skills gaps, and growing disparities in productivity and prosperity. These are exacerbated when metropolitan areas attract more investment projects because they are more bankable than other parts of the country, and when they are perceived to have more political leverage over national government policies.

Despite these externalities, higher tiers of government are often slow to react to changes in the profile of their cities and to adjust city boundaries or powers to take account of growth. International experience suggests that state and national governments rarely attempt to support the integration of local governments or redraw boundaries as these exercises are politically unpopular and involve substantial adjustment costs and/or political capital. But metropolitan areas still rely on central government to endorse processes of devolution, decentralisation, and metropolitan thinking.

HOW DO NATIONAL GOVERNMENTS SHAPE THE DEVELOPMENT OF METROPOLITAN AREAS?

- By shaping the national legal, regulatory and institutional framework.
- By channeling investments to support metropolitan infrastructure and strategic assets
- By managing and controlling migration into, and often across, their territories.
- By deciding planning policies and regimes.
- By lobbying for intergovernmental rules, trade agreements and regulations.
- By protecting key industries during economic downturns.

- By redistributing revenues to safeguard national cohesion.

HOW DO HIGHER TIERS OF GOVERNMENT ADJUST?

After past failed or flawed attempts to contain larger metropolitan areas, in recent years, there are recent examples where higher tiers of government have embarked on different forms of recognition, dialogue and collaboration. This adjustment has taken place in order to improve governance and investment systems, and enhance the complementary roles of multiple cities within the national territory, and to develop national policies and platforms that can support different kinds of metropolitan areas. In this section we highlight the role of senior levels of government in improving governance, fiscal arrangements and regulatory frameworks.

- *Recognition of metropolitan areas.* Many if not most national governments do not fully recognise the role of cities and especially metropolitan areas in their development, especially their economic role, as the primary engines of prosperity in the 21st century. Changes to the macro-economic framework may have helped globalising sectors, but often without the systems (land-use, energy, governance) in place to support and manage the growth that follows.
  There are examples of higher tiers of government becoming more alert to the needs of its cities, and no longer favouring an entirely equalised, 'spatially blind', approach. In India, the JNNURM investment programme was introduced in 2005 as a demand-driven approach to cities for the first time, releasing large sums for urban projects. And in January 2015 a Brazilian federal law called the 'Statute of the Metropolis' was dedicated to metropolitan regions, obliging states in Brazil to develop integrated plans for metropolitan development.[48]

ETHIOPIA'S NATIONAL URBAN AGENDA

Ethiopia is actively attempting to manage the urbanisation process that will turn it into a predominantly urban country within 20 years. A national urban agenda that forms part of the Growth and Transformation Plan (GTP) which aims to elevate Ethiopia to a middle-income status country by 2023.[49] The urban agenda includes spatial and economic strategies, infrastructure development and the empowerment of local governments. This plan has linked Ethiopia's economic and spatial strategies for the first time and identified the strategic growth corridors and the number and hierarchy of urban centres. Delivery has also been a focus to ensure that Ethiopia's urbanisation is socially and economically inclusive, climate resilient and environmentally efficient.[50]

The national urban agenda has been guided by coordination and leadership at the ministerial level of the Ethiopian national government. Its Urban Local Government Development Programme forms a key part of the national urban strategy.51 Funded by national government in partnership with the World Bank, the programme aims to incentivise strong local governments in urban areas, in recognition of their growing role. This commitment is accompanied by fiscal decentralisation measures and a desire for Ethiopia's future metropolitan areas to be 'green', well-governed drivers of economic and social development.

Programmes and policies of recognition are usually welcomed because they have the effect of raising the profile or investment rate in metropolitan areas. They are usually more effective when accompanied by a clear spatial strategy, reforms to planning processes, and improved institutional mechanisms for government co-operation.

- *Promote reform of governance*. National or state governments are usually the actors with the financial and legislative capacity to promote metropolitan reform, facilitate inter-municipal co-operation, and to discourage local clientelism.[52] Financial incentives are often an important tool to encourage inter-municipal cooperation on public transport and utilities.[53] For example,

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[48] World Bank Group, *Metropolitan Governance in Brazil: Inputs for an Agenda and Strategy*, The World Bank, Washington D.C., 2015

[49] World Bank, "Ethiopia: Second Urban Local Government Development Program (ULGDP II) as a Program-for-Results (PforR) Operation", *Technical Assessment Report*, World Bank, Washington D.C., 2014, p. 2

[50] New Climate Economy Partnership, *Unlocking the Power of Ethiopia's Cities*, Ethiopian Development Research Institute, Addis Ababa, 2014, p. 4

[51]World Bank, "Ethiopia: Second Urban Local Government Development Program (ULGDP II) as a Program-for-Results (PforR) Operation", *Technical Assessment Report*, World Bank, Washington D.C., 2014.

[52] Willem Salet and Federico Savini, "Le paradoxe de la démocratie dans les périphéries urbaine", pp. 65-76, Christian Lefèvre, Nathalie Roseau and Tommaso Vitale (editors), *De la ville à la Métropole: Acteurs, Projects, Cultures*, Paris, L'Oeil d'Or, 2013.

[53] Slack, Enid and Côté, Andre, "Comparative urban governance", p.17, *Future of Cities: Working Paper*, Foresight, Government Office for Science, 2014

the Swiss government funds urban transport infrastructure and supports municipal cooperation, and in Australia the federal government plays a direct role in infrastructure, planning and service delivery, providing financial support for local governments.

- *Alter planning and regulatory frameworks*. National governments can 'champion' and promote metropolitan areas and certain locations within them.55 France, Japan and Korea are among those to have adjusted their national planning regimes to shape land-use decisions in their leading metropolitan areas, through subsidies, exemptions or special zones. Others in emerging regions are managing inflation, and improving public sector efficiency, legal certainty and transparency, in order to incentivise the private sector to partner in a socially responsible way on key projects. Reforms to make countries open to international workers and students are also important to those metropolitan areas that decide they wish to be attractive to companies in industries that are traded globally.

- *Fiscal support and decentralisation*. Many metropolitan areas operate within a 'low-investment, low-return' equilibrium, and so lack the fiscal resources to invest in the infrastructure required for long-term growth. There is a widespread lack of both capacity and desire among central or state/provincial governments to invest in housing, urban redevelopment, and infrastructure. As a result fiscal decentralisation has become a key agenda that affects the ability of large metropolitan areas to promote sustainable development, equity and liveability.[56] Comparison of OECD countries indicate that fiscal decentralisation is strongly correlated with increased prosperity and productivity, so that doubling the sub-national share of spending is associated with an average 3% increase in GDP per capita.[57]

Poland illustrates the challenges national governments have developing a strong national policy for metropolitan areas. The decentralisation process after the transition to democracy did not consider the need for municipal boundary reform and meant that Poland's metropolitan areas became fragmented between core cities and suburban areas, just as the suburban population began to grow rapidly. The addition of new tiers of government (voivodeships and poviats) in 1998 caused further fragmentation. In 2003, metropolitan areas were recognised in the Spatial Planning and Development Act but this was not followed up by statutory delimitation of their boundaries.

In the past decade Poland has made substantial attempts to improve metropolitan collaboration. New legislation proposed making inter-municipal government for spatial planning obligatory for Warsaw, Upper Silesia and Gdansk, and voluntary elsewhere. But resistance from regional governments and representatives of rural areas have delayed and blocked implementation. National documents for spatial development, urban policy and metropolitan areas have not come to fruition.[54]

As a result integrated metropolitan approaches are mostly being developed as bottom-up non-binding initiatives involving local governments. One example is Poznan, where an Agglomeration Council was established as a forum for information exchange and common policy development, resulting in consensus on a 2020 development strategy. Success in this area is building enthusiasm for metropolitan co-operation that has the potential to evolve into more formal structures in future.

Progress in this area nearly always depends on national and state governments providing enabling legislation to treat metropolitan areas as distinct from local authorities. In many emerging countries, national legislation on metropolitan policy is not always accompanied by mechanisms to finance a metropolitan

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[54] Lukasz Mikula, "Planning for Urban Regions in Poland: top down failures, bottom-up struggles", Institute of Socio-Economic Geography and Spatial Management, Adam Mickiewicz University, Poznan, Poland, date unknown, www.unil.ch/files/live//sites/igu-urban/files/shared/Mikula_planning_urban_regions_Poland.pdf. [Accessed 19 October 2015].

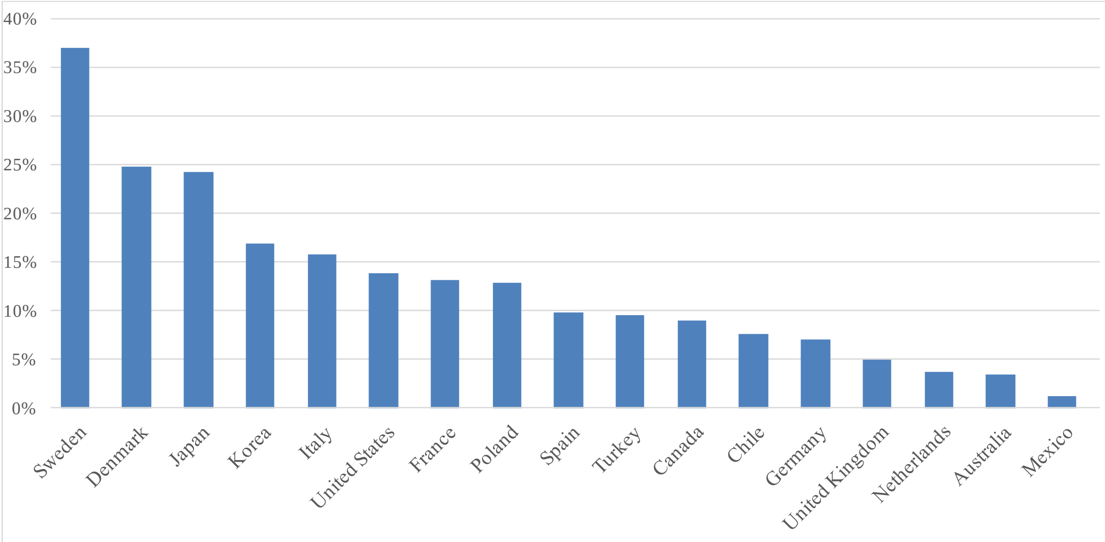
[55] Federico Savini, Stan Majoor, Willem Salet, "Urban peripheries: reflecting on politics and projects in Amsterdam, Milan, and Paris", *Environment and Planning C: Government and Policy*, Vol. 33, pp. 457 –474, 2015

[56] Abdu Muwonge and Robert D. Ebel, "Intergovernmental Finances in a Decentralised World", pp.1-40, Catherine Farvacque-Vitkovic and Mihaly Kopanyi (editors), *Municipal Finances: A Handbook for Local Governments*, The World Bank, Washington D.C., 2014, p. 1

[57] Hansjörg Blöchliger and Balázs Égert, "Decentralisation and Economic Growth - Part 2: The Impact on Economic Activity, Productivity and Investment", OECD Working Papers on Fiscal Federalism, No. 15, OECD Publishing, 2013.

agenda. Despite the returns that can accrue to the whole nation if agglomerations are successful, many higher tiers of government have effectively abdicated responsibility for investing in metropolitan areas.[58]

Figure 4: Local government share of total government tax revenue



Source: OECD Fiscal Decentralisation Database, 2014 data. Figures from Japan, Poland, Netherlands, Australia and Mexico are from 2013.

Metropolitan areas around the world share the following common fiscal challenges:

- **Low retention of the taxation revenue raised** which results on excessive reliance on inter-governmental transfers and equalisation measures. In 2010 the UCLG GOLD II report *Local Government Finance* highlighted that progress in terms of revenue autonomy has been very uneven despite the benefits of local accountability. Of 35 countries for whom recent data is available, sub-national governments account for an average 24% share of total government spending, of which only just over half is generated from own-source revenues.[59] Many of the taxes that do exist are inelastic property taxes that do not rise in accordance with increased spending demands on areas such as social welfare and housing supply.
- **Net fiscal outflows**. The sums re-invested into metropolitan areas through government allocations is often disproportionately low compared to the total tax revenue their activity generates.[60] London, for example, has over the last decade generated a net fiscal surplus, reaching over £34 billion in 2013/14. Evidence from countries such as Italy suggest that rising redistribution from successful urban areas often fails to activate a process of convergence between different regions.[61]

Since Nigeria returned to civilian rule in 1999, **Lagos** has developed a much more effective model of metropolitan governance. The Lagos State government has seized the opportunity of stability and managed to raise its tax revenues and use them to restore basic infrastructure and expand public services and law enforcement.

Without access to national oil revenues and after unsuccessfully demanding increased capital market borrowing powers from central government, Lagos State undertook to increase its own fiscal capacity to meet public demands. Improvements in compliance and accountability have seen annual income and property tax revenues

[58] Roy Bahl, Johannes Linn and Deborah Wetzel, "Governing and Financing Metropolitan Areas in the Developing World", In Roy Bahl, Johannes Linn and Deborah Wetzel,(editors), *Financing Metropolitan Governments in Developing Countries*, Lincoln Institute of Land Policy, Cambridge, Massachusetts, 2013, p. 6.

[59] UCLG, *Local Government Finance: The Challenges of the 21st Century*, GOLD II, 2010, www.uclg.org/sites/default/files/gold_ii_en_0.pdf, [Accessed online 22 December 2015]; World Bank, Fiscal Decentralization Indicators, 2014.

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[61] Horst Zimmermann, "Net Fiscal Flows and the Size of Cities", *Raumforschung und Raumordnung*, pp. 1-5, 2015; City of London Corporation, "Economic Development Research Programme Review of 2014", 2015, www.cityoflondon.gov.uk/business/economic-research-and-information/research-publications/Documents/Research-2015/Economic-Development-Research-Programme2014.pdf [Accessed online 21 December 2015]; Adriano Giannola, Carmelo Petraglia and Domenico Scalera, "Net fiscal flows and interregional redistribution in Italy: A long run perspective (1951-2010)", MPRA Paper No. 62426, 2014.

grow from $190 million in 1999 to over $1.2 billion in 2014.[62] These additional funds have been used to build and maintain roads, clean up the city, improve security, and introduce new public transport options such as high-capacity bus corridor systems. Annual capital expenditures nearly trebled in the five years from 2006 to around $1.7 billion. Access to tax revenue has also given the government a strong financial incentive to promote economic growth.

The reform process was driven by electoral pressures as well as state government leadership, notably by governor Babatunde Raji Fashola since 2007. The last two political cycles have seen a more efficient state administration emerge with high-calibre employees to run enhanced agencies such as waste collection. The implementation of tax reforms relied on partnerships with private contractors and public outreach endorsing a social contract between taxpayers and the state. Meanwhile a new metropolitan transport authority – LAMATA – received high-level political support from Lagos State. Lagos's experience highlights the importance of gaining societal buy-in by drawing attention to visible early achievements and by being committed to wide service coverage.[63]

- **Erratic alignment of national, state and city-level funding** and a lack of clarity about the assignment of expenditure and delivery responsibilities among the different tiers of government. Many metropolitan areas have been assigned revenue and spending tasks before functional competencies were defined, and vice versa. [64]
- **Handicaps in the ability to borrow** capital because of restrictions from higher levels of government is a challenge especially for many Latin American and African metropolitan areas, and can discourage innovation and delay important infrastructure development.[65]
- **Limited experience of delivering large and complex projects**, particularly in partnership with private entities, sometimes due to complicated legal frameworks. This may affect national government confidence that governments in metropolitan areas will be fiscally responsible in the way resources are deployed.

Although local governments are the obvious unit to deliver services because they can be held most directly accountable by residents, their inability to raise significant revenue reduces ambition of local leaders and delays progress on important infrastructure and redevelopment projects. [66] The priorities for metropolitan public finances everywhere are to find ways to capture some of the economic growth they generate in order to finance their rising spending needs, while ensuring that fiscal decision-making is transparent and inclusive.[67]

SOLUTIONS AND INNOVATIONS

Local and metropolitan governments are active in debates about fiscal and investment systems with their national and state governments. Many are exploring both the creation of new taxes and different ways to share existing taxes. They are also developing new mechanisms to capture future value and enhance the efficiency and accountability of private sector partnership. This process of innovation is being sped up as national departments recognise the distinct fiscal challenges of their largest metropolitan areas. Important examples of fiscal innovations include:

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[62] Edward Paice, "Lagos proves Africa's Property Tax Potential", *The Africa Report*, 5 February 2015; Lagos State Government, *Report of the Accountant-General: Financial Statements 2014*, Ministry of Finance State Treasury Office, 2014, www.lagosstate.gov.ng/LASG%20FINANCIAL%20STATEMENT%202014.pdf . [Accessed online: 17 October 2015]; Exchange rate = $1 = 156.81 NN (2012 prices).

[63] Diane De Gramont, *Governing Lagos: Unlocking the Politics of Reform*, Carnegie Endowment for International Peace, Washington D.C., 2015, http://carnegieendowment.org/2015/01/12/governing-lagos-unlocking-politics-of-reform, [Accessed online 17 October 2015]

[64] Muwonge, Abdu and Ebel, Robert D., "Intergovernmental Finances in a Decentralised World", p.5, Catherine Farvacque-Vitkovic and Mihaly Kopanyi (editors), *Municipal Finances: A Handbook for Local Governments*, The World Bank, Washington D.C., 2014

[65] Olga Wong and Sijia Jiang, "Billion-dollar dividend plan to help pay for third runway at Chek Lap Kok airport", *South China Morning Post*, 28 April 2015, www.scmp.com/news/hong-kong/article/1702361/billion-dollar-dividend-plan-help-pay-third-runway-hong-kong-airport, [Accessed online: 19 October 2015]

[66] Abdu Muwonge and Robert D. Ebel, "Intergovernmental Finances in a Decentralised World", pp.1-40, Catherine Farvacque-Vitkovic and Mihaly Kopanyi (editors), *Municipal Finances: A Handbook for Local Governments*, The World Bank, Washington D.C., 2014p. 4; Enid Slack and Andre Côté, "Comparative urban governance", *Future of Cities: Working Paper*, Foresight, Government Office for Science, 2014, p. 5

[67] Bahl, Roy, Linn, Johannes and Wetzel, Deborah, "Governing and Financing Metropolitan Areas in the Developing World", pp. 1-28, Roy Bahl, Johannes Linn and Deborah Wetzel (editors), *Financing Metropolitan Governments in Developing Countries*, Lincoln Institute of Land Policy, Cambridge, Massachusettes, 2013.

- **Horizontal fiscal equalisation** can be used to support tax revenue-sharing throughout a metropolitan area to deliver combined services or economic development programmes. Municipalities share evenly the proceeds of a pool of locally raised revenue. This model of redistribution helps improve equity, reduce competition, and provides a collective fund for investments that facilitate metropolitan growth.[68] If designed correctly, equalisation mechanisms can maintain or increase the incentive for local government revenue performance and enterprise. It is often necessary to extend fiscal equalisation when increasing fiscal autonomy in metropolitan areas to mitigate potentially increased fiscal disparities across jurisdictions.[69]

Copenhagen is widely considered to have one of the most equitable and efficient metropolitan fiscal equalisation systems in the world. Within the Greater Copenhagen area, fiscal equalisation is entirely dependent on the municipalities, with no direct grants coming from central government. Wealthier municipalities contribute to poorer ones, with the result of increased equity in investment and service delivery across the metropole.[70] In 2014, 17 municipalities contributed EUR 250 million to 17 other beneficiary municipalities.
Tokyo has also successfully implemented a fiscal equalisation programme at a much larger scale. Its metropolitan government (TMG) levies taxation and redistributes funds between the 23 wards. While it retains 48% of funds to provide collective metropolitan services, the remaining revenue is distributed between wards based on need. Meanwhile **Minneapolis St. Paul** has also run a successful equalisation programme for over 40 years. 40% of the increase in commercial-industrial property tax goes into a pool, and a third of the 176 jurisdictions contribute more tax base than they take back. The programme has fostered balanced development while preserving local government autonomy, and helped inspire other metropolitan areas such as **Seoul** to adopt a similar scheme.[71]

- **Taxes and user fees.** Income taxes, property taxes and consumption taxes all have a role to play in large metropolitan areas. Licence fees and user charges on facilities operated by local governments (e.g. roads, water, waste disposal sites, visitor attractions) can be effective ways to finance services and raise funds. User fees are usually more successful if priced fairly and simply in order to manage consumption, to drive behaviour change, and to ensure access to poorer citizens.[72] Their appeal as a revenue tool has to be balanced with robust mechanisms to subsidise or guarantee access to basic services to all citizens.
- **Value capture finance** has become a very popular way for metropolitan areas to leverage some of the financial value created by new developments and redevelopments to help finance related infrastructure and other costs of making that development work. A range of mechanisms can capture rising values: public landownership and trading, local general taxation, development levies, planning approval fees, or negotiated investment pools. Indebted cities in Brazil and Colombia have managed to capture value to fund initial infrastructure by selling developers an option to densify in specific areas of the city. So-called 'Urban Operations' allow certificates to build additional density to be auctioned as long as the projects are compatible with the upgraded infrastructure. Meanwhile Delhi and Hyderabad have also applied value capture techniques to finance their metro rail projects.[73]
- **Improved value from public landholdings**. Many metropolitan areas are finding ways to achieve additional savings and revenues from their existing land and infrastructure. For example, some metropolitan infrastructure agencies are adopting a more entrepreneurial approach to their property portfolios.[74] Important steps towards strategic asset management

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68 David K. Hamilton, *Governing Metropolitan Areas: Growth and Change in a Networked Age*, Routledge, New York, 2014, p. 305
69 Muwonge and Ebel, "Intergovernmental Finances in a Decentralised World", p. 22; Hansjörg Blöchliger and Oliver Petzold, "Taxes and Grants: On the Revenue Mix of Sub-Central Governments", *OECD Network on Fiscal Relations Across Levels of Government*, 2009.
70 OECD, OECD *Urban Policy Reviews Poland*, OECD Publishing, Paris, 2011, p. 191
71 Sun Ki Kwon, "The Impact of the Shared Property Tax System on the Localities' Fiscal Capacity", MPA/MPP Capstone Projects, Paper 70, 2012.
72 Andersson, Mats, "Metropolitan Governance and Finance", pp. 41-92, Catherine Farvacque-Vitkovic and Mihaly Kopanyi (editors), *Municipal Finances: A Handbook for Local Governments*, The World Bank, Washington D.C., 2014
73 Martim Smolka, "Value Capture: a land based tool to finance urban development", International Property Tax Institute &
Centre for Urban Research and Land Development at Ryerson University, Toronto, February 2 2015, http://munkschool.utoronto.ca/imfg/uploads/306/mos_vc_toronto_feb_15.pdf, [Accessed online 19 October 2015].
74 Kate Allen, "Development Securities lands TfL housing deal", *Financial Times*, 2 March 2015, www.ft.com/cms/s/0/36cb5ae8-c000-11e4-a71e-00144feab7de.html, [Accessed online: 19 October]

include full inventorying and life cycle costing, and the preparation and de-risking of sites. However, reliance on land sales alone, an approach favoured by some metropolitan areas, is not a sustainable revenue source and can provide incentives to sprawl.

Shanghai's municipality comprises most of the metropolitan area having annexed ten counties around it as long ago as 1958. The city has made an extremely rapid economic transition since the 1980s largely thanks to a pragmatic process of institutional building and revenue-generation.

A critical innovation in Shanghai was a new approach to raising funds in response to massive new infrastructure pressures. The fund-raising capacity was increased in 1997 with the merger of all municipal, local and industrial fund-raising into one agency called Chengtou, acting as a one stop shop for urban infrastructure. By acting as a developer, the municipal development company made enough money to finance nearly half of the city's total infrastructure upgrades during the 1990s and 2000s.

State-owned enterprises (SOEs) acquired land from municipalities very cheaply, and after a first round of development sold the land or opened up shares at market prices to help maintain liquidity and pay for the next stages of development. More recently, the centralisation and simplification of transport asset ownership has helped the municipality co-ordinate and integrate the transport network.

Shanghai's model is incomplete, however, and may need a future cycle of reform. The act of selling land will eventually provide diminishing returns as the cost of development rises and the supply of land shrinks. A lack of transparency and information sharing has also fed resistance among peripheral neighbourhoods and districts, which are trying to preserve their tax base and autonomy in how they deliver their services.[75]

- **Municipal borrowing and bonds.** Access to capital market funds allows some local governments to catalyse investment without public money being used to provide direct loans or to finance infrastructure up-front. Municipal and other types of bond are a viable option if local credit markets are deep and private investors perceive the local authorities to be low-risk. Although most advanced in metropolitan areas in the United States, bonds have been used in Bogotá, Moscow and Johannesburg among many others.
- **Robust PPPs.** Public-private partnerships (build-operate-transfer, concessions, joint ventures, etc.) can play an important role in improving the efficiency of service delivery in some metropolitan areas where local governments can operate as active partners. When the risk sharing between the private and public partners is fully defined, and when the legal framework is well enforced, PPPs can be a way to share project risks, improve service and deliver better value-for-money. Although some PPP contracts have been unsuccessful, the risks of failure are reduced when local governments are fully informed about the sector in question and have enough leverage over the private partner. The Bogotá Transmillenio bus system concession and Lahore's composting plant BOT are two widely praised PPP schemes.[76]

In most metropolitan areas where national or state government is a major source of decision-making and grant finance, it is important to build channels of communication to ensure that government engagement is effective and not wasteful. Many leadership groups are now actively advocating and influencing policymakers to consider substantive devolution on the basis that it provides benefits for the metropolitan region and the rest of the country. UK metropolitan areas have made big strides in this area, through positive case-making by England's 'Core Cities' and the London Finance Commission and 2050 Infrastructure Plan, that helped achieve the full devolution of local business rates in 2015. Effective advocacy involves publicising and lobbying for metropolitan issues – planning, participation, tools, governance and equal service provision.

Metropolitan areas begin from different starting points in terms of the trust and confidence in their relationship with national government. For those that are only just beginning, it is often important to pick one project at a time around which to build trust and dialogue between local governments, central government and the public, in ways that respect local autonomy and the principle of subsidiarity. As new development challenges emerge, the metropolitan/nation-state dialogue will become an enduring feature of the metropolitan century. The speed at which national governments adjust to having metropolitan areas will be critical to sustainable development.

[75] Dominique Lorrain, "Governing Shanghai: Modernising a Local State", pp. 97-152, Dominique Lorrain (editor) *Governing Megacities in Emerging Countries*, Ashgate, Surrey, 2011.

[76] Maria Freire, "Managing External Resources", pp.325-378, Catherine Farvacque-Vitkovic and Mihaly Kopanyi (editors), *Municipal Finances: A Handbook for Local Governments*, The World Bank, Washington D.C., 2014;

Plenary Group, "Financial Close for North West Rail Link PPP". *Plenary Group Press Releases*, 18 September 2014, http://plenarygroup.com/news-and-media/news-articles-and-press-releases/2014/financial-close-for-north-west-rail-link-ppp.html, [Accessed online: 19 October 2015]

2.3 The role of civic and non-governmental organisations in the governance of metropolitan areas

The active engagement and participation of actors outside the sphere of government is essential if metropolitan governance is to be effective and legitimate. However, the degree of public participation and inclusion in the way decisions are made in metropolitan areas varies greatly. Much is influenced by historic tradition, political culture, social networks, local capacity and the objectives and activities of metropolitan authorities themselves. Currently many large metropolitan areas with high residential mobility have low attendance of public meetings and limited activity in community projects, highlighting a lack of trust and social capital.

In general, however, the role of civic and non-governmental organisations in governance structures has been increasing in many parts of the world. Legislative frameworks such as the National Reconstruction Development Programmes in South Africa, or the City Statutes in Brazil, have shaped inclusive urban reforms subsequently in metropolitan areas such as Sao Paulo, Johannesburg and Cape Town. In Europe, the United Nations Local Agenda 21 Programmes provided much-needed impetus to participatory initiatives among local governments. There is a strong and growing imperative to ensure that local and metropolitan governments fulfil democratic aspirations.

In recent years, a number of Indian metropolitan areas have launched participatory programmes to engage citizens, non- governmental agencies and community bodies in the quest to improve city infrastructure and economic development.

In **Bangalore**, civil society partnerships with the state government have taken the form of citizen-led task forces such as Bangalore Agenda Task Force (BATF), the Agenda for Bangalore Infrastructural Development (ABIDe) and Bangalore Political Action Committee (B.PAC). These have provided input into traffic and road infrastructure, waste, civic amenities and pedestrianisation. A similar Bhagidari Programme in **Delhi** is a neighbourhood-level platform for citizen, resident and traders groups to partner with government departments, that has had impacts on water conservation, litter collection and senior citizen care. Several Indian metropolitan areas – notably Hyderabad - have also initiated forms of 'e-governance', saving time and improving the accountability and transparency of government. A Municipal Action Plan for the Poor (MAPP) has been an effective participatory planning tool in **Hyderabad**, improving relationships between politicians and the public and raising awareness about the roles and responsibilities of Urban Local Bodies.

Many of these promising initiatives reflect a failure to empower local governments in Indian metropolitan areas, and the outsized role of state governments in shaping city finances and in creating parastatal bodies. Citizen initiatives require statutory backing that would enhance accountability without undermining local elected representatives. Another challenge is to improve outreach to less affluent and less literate urban residents who face barriers to participation.[77]

Good metropolitan governance also creates mechanisms for women's participation and decision-making in metropolitan institutions. It involves women leadership at every level of urban governance, including at the metropolitan scale where they are even less well represented, and active policies to end violence and discrimination against women. Metropolitan areas that have made the biggest steps in this area have invested in improving women's safety and security in public spaces, and in training women to participate in and influence policy. They have also enacted laws or guidelines to make new governance institutions more inclusive.[78]

CivicAction

Toronto is an example of a metropolitan area whose civic leaders have organised and galvanised over a set of common goals over the past 15 years. The establishment of the Toronto City Summit Alliance, later renamed Greater Toronto CivicAction Alliance (CivicAction) brought together a wide mix of leaders and volunteers to debate metropolitan challenges. By building a common fact base and incubating new ideas, CivicAction has helped launch initiatives such as income support reform to help the working poor, an immigrant employment council (TRIEC), and a sustainability strategy called Greening Greater Toronto.

Toronto's civic leadership has convened the agenda to enhance the representation of minorities and marginalised groups as experts, leaders, board members, and elected officials. CivicAction and the Maytree Foundation were instrumental in raising awareness that a more diverse leadership was required to create a

[77] Nirmala Rao, Reshaping City Governance: London, Mumbai, Kolkata, Hyderabad, Routledge, New York, 2015, pp. 191-192; Christoph Dittrich, "E-Governance Initiatives in India: Case Studies from Hyderabad and Bangalore", pp. 211-217, Frauke Kraas, Surinder Aggarwal, Martin Coy, Günter Mertins (editors), *Megacities: Our Global Urban Future*, Springer, New York, 2014; http://www.orfonline.org/cms/sites/orfonline/modules/analysis/AnalysisDetail.html?cmaid=49387&mmacmaid=49388

[78] UN-Habitat, Gender Issue Guide: Gender Responsive Urban Legislation, Land and Governance, UN-Habitat, Nairobi, 2015, pp. 28-29

stronger and more prosperous metropolitan region. The DiverseCity project aimed to generate the buy-in and participation of organisations, governments, businesses, and individuals from across Greater Toronto. It has involved several action-oriented leadership development initiatives that supported hundreds of new leaders to emerge across the public, corporate, and non-profit sectors.
In a region that lacks municipal capacity and shared metropolitan leadership between different tiers of government, Toronto's civic leadership has made an important contribution to social and economic development.[79]

2.3.1 Strategic planning

One governance instrument that enrols local, national and non-government partners in order to pursue integrated and inclusive metropolitan development is strategic planning. Strategic plans have become important tools in many larger metropolitan areas that seek a long term framework for managing their growth. It is favoured when a consensus emerges that challenges in housing, transports and sustainability cannot be solved during just one four to eight year political or investment cycle.

Strategic planning offers an opportunity to address the metropolitan area as a whole system, rather than as the individual jurisdictions that comprise it. It goes beyond urban planning in that it is not only about land-use and infrastructure, but also involves strategies for economic development and flexible and sustainable growth. It offers one of the few means to plan collaboratively between the many territories that share a functional metropolitan geography. Its impetus is to go beyond official political mandates and synchronise activity between local governments, as well as with the private sector and key regional institutions.

Many different metropolitan areas undertake strategic planning, from advanced and high-income metropolitan areas, to large 'mega-city' agglomerations, to medium-sized metropolitan areas seeking to overcome local constraints. They usually launch new strategic planning initiatives because of either a change of circumstances, long-term population growth, the imperative to become more resilient to emergencies, or to react to competitive global systems of trade and investment.

Metropolitan strategic plans vary in terms of their leadership and legislative status. Some are single public sector-led regional plans delivered by a regional authority, such as the Paris-Ile-de-France SDRIF and the Auckland Plan. Others are delivered by collaborating municipalities and sponsor horizontal problem-solving rather than enforced solutions. In metropolitan areas where much a higher tier of government takes responsibility, advisory strategic plans are brought forward by a state or national government, for example in Sydney. And in highly fragmented metropolitan areas, strategic plans may be developed by non-government organisations but are usually non-binding and rely on the endorsement of civic and business leaders.

Table 2: Examples of Strategic Planning approaches at the metropolitan level

City	Strategic Plan	Year last updated	Target date	Areas of focus
Auckland	Auckland Plan	2010	2040	Transport, housing, liveability, young people.
Barcelona	Barcelona Vision 2020	2010	2020	Entrepreneurship; research; transport.
Dar Es Salaam	Master Plan	Going through	2032	Spatial structure, transport, density [80]

[79] Allison Bramwell and David A. Wolfe, "Dimensions of Governance in the Megacity: Scale, Scope and Coalitions in Toronto", Neil Bradford and Allison Bramwell (editors), *Governing Urban Economies: Innovation and Inclusion in Canadian City Regions*, University of Toronto Press, Toronto, 2014

[80] Ministry of Lands, Housing and Human Settlements Development, *Dar es Salaam Masterplan 2012-2032*, www.planning4adaptation.eu/Docs/newsInfoMaterial/05-2013/08/FONTANARI_22_APRIL_2013.pdf, [Accessed online: 19 October 2015]; World Bank, "Dar es Salaam Metropolitan Development Project", *Project Information Document*, http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/AFR/2014/11/12/090224b0828543bc/1_0/Rendered/PDF/Project0Inform0nt0Project000P123134.pdf, [Accessed online: 19 October 2015]

		approval process		
Lima	PLAM 2035: Metropoli-tan Urban Development Plan for Lima and Callao	2015	2035	Budget planning, project structuring, legal tools, single transport authority.
London	London Plan	2015	2031	Regeneration areas, town centres, transport.
Melbourne	Plan Melbourne	2014	2050	Jobs and investment, Housing choice, governance, water, liveability, transport.
Nairobi	Nairobi Integrated Urban Development Master Plan (NIUPLAN)	2014	2030	Decentralised CBD, railway development, water distribution network, storm water drainage system.
New York	Fourth Regional Plan	1996 (2017)	2040	Parks, waterfronts, open spaces, transport projects.
Rio de Janeiro	Strategic Development Plan of Integrated Urban Metropolitan Area	2015	2030	Universal sanitation; transport integration and electronic card; information system between local governments to avoid natural disasters; broadband access; tax incentives.
Riyadh	Metropolitan Development Strategy for Arriyadh Region (MEDSTAR)	2003	2023	Road network, traffic management plan, King Abdullah Financial District, suburbs, new sub-centres.
Seoul	Seoul 2030	2009	2030	Citizen participation, equal opportunity, jobs, culture, sustainability
Shanghai	Shanghai 2040	Tbc	2040	Human-oriented, green and innovation-led development
Tokyo	Creating the Future: The Long-term Vision for Tokyo	2014	2020	Aging society; disaster resilience; economic zones

2.3.2 Factors of success for strategic planning

If undertaken in an inclusive way and supported by mechanisms for execution and implementation, strategic planning has the promise to prevent certain peripheral areas or population groups becoming permanently excluded from access to jobs, prosperity and social capital.

New York metropolitan area consists of over 2,000 local jurisdictions in a highly decentralised bottom tier whose governments are heavily dependent on their own fiscal resources, and whose suburban residents feel few ties to New York City or to the wider region. Metropolitan policies often arise as an unintended or *de facto* by-product of economic competition for people and business investment, and of informal coordination by local governments seeking common solutions.
Access to economic opportunity is declining in peripheral parts of the New York region, and investment from New York State and federal governments in housing, density, amenities and rail infrastructure lags behind what is necessary to adapt to New York's future economy. Financially independent public benefit corporations such as the Port Authority and Metropolitan Transportation Authority compete to build and run programmes for transportation and other regional services, but their governance has come under spotlight in recent years.
The Regional Plan Association (RPA) is the metropolitan area's main advocate for strategic cooperation. It receives no public funding and relies on its credibility and support from business, philanthropic, civic and planning communities to carry out research on regional environmental, infrastructure and economic development. These provide a regional perspective for governments and other leaders. The RPA's broad-based funding model allows its research and advocacy to be non-partisan, participatory and evidence-led. Its forthcoming Fourth Regional Plan has drawn on international strategic planning expertise and citizen outreach, will make a substantive case to increase the rate of investment and collaboration in the New York region.

Only a minority of metropolitan areas worldwide currently have a fully-fledged regional strategic plan. This is often because government frameworks lack capacity to develop strategy as well as to deliver services, or because the political culture is cynical or mistrustful of change. Many of the plans created are scarcely implemented. There are a number of lessons to be learnt from recent metropolitan strategic planning efforts. Metropolitan areas need:

- Advocacy for metropolitan approaches from higher tiers of government and from civil society organisations;
- The political will for investment and co-operation from local governments and other interests;

- The design of a broad-based ‘delivery architecture’ that can sustain commitment to a long-term pipeline of projects and initiatives;
- Business and civic leadership that is committed to evidence-led policy and which can play a mediating role between different institutions in the region;
- The consent, communication and mobilisation of citizens to devise and implement plans;
- A consistent plan with projects that offer early visible benefits in order to sustain enthusiasm and avoid ‘plan fatigue.’

3 Economic development in metropolitan areas

In the recent era of globalisation, metropolitan areas have become the key drivers of economic growth and innovation in their national economies. Worldwide, most metropolitan areas register growth faster than the national average in either GDP per capita or job creation.[81] Larger metropolitan areas in particular have the potential to help a national economy be more globally connected and productive, and to spread multiple benefits across national systems of cities through connectivity, economic specialisation, and co-operation.

This section highlights the positive and negative implications of economic growth that is oriented around metropolitan areas, and the need for economic development strategies to harness and address these externalities. It reviews the range of applied tools and solutions to broaden the system of economic leadership, and to combine competitiveness with a strong inclusiveness agenda.

3.1 Metropolitan Economies.

3.1.1 Metropolitan economies, agglomeration, and positive externalities

There are at least ten positive externalities that the presence of metropolitan areas is known to provide for their national economies:

- Their density of firms, workers and support services encourage the sharing of infrastructure, services and information around the country.
- Their tax yield from higher-value industries (e.g. finance, ICT), when re-distributed, helps raise the standard of living in lagging national regions.
- Their scale of activity fosters supply chain development around their region and nation.
- Their international firms help domestic firms learn about new techniques, products and processes, as well as providing access to international markets and international capital for new cycles of investment.
- Their financial expertise and trade and export management capabilities facilitate mass employment in manufacturing industries.
- Spending by the international functions that they host increases demand for national goods and services – for example in medicine, retail, education and construction.
- They are transport gateways to the rest of the country for tourists and visitors who may otherwise not visit.
- They are often ‘escalator regions’ for upskilling national workers who then, later in their career, take their knowledge and proficiency to intermediary cities and rural areas.[82]
- They usually have higher levels of entrepreneurship and can diffuse new firms and sectors into the national economy.
- They can improve the ‘business brands’ for nations because of their association as leading business cities.

In cases when urbanisation has been welcomed and planned for, rather than resisted, it has been central to the economic transformation of many countries in recent decades. Metropolitan areas have the customer and employer base, the scale of activity, the deep labour markets and the ability to achieve efficient connectivity that are major drivers of economic growth. The BRICS nations are all examples where the concentration of population in large cities has tended to improve prosperity and living standards, notwithstanding ongoing imbalances and inequalities.

The effects of agglomeration

The ability of firms and households in metropolitan areas to draw on a common pool of resources, to match up with jobs, and to learn from regular face-to-face contact, is by now a well-established feature of ‘agglomeration economies’.[83] Although existing models to explain agglomeration remain far from complete, it is widely

[81] Joseph Parilla, Jesus Leal Trujillo, Alan Berube and Tao Ran, *Global Metropolitan Monitor: An Uncertain Recovery*, The Brookings Institution, Washington, D.C., 2015.

[82] Tony Champion, Mike Coombes and Ian Gordon, “Urban Escalators and Inter-Regional Elevators: The Difference that Location, Mobility and Sectoral Specialisation Make to Occupational Progression”, Spatial Economics Research Centre (SERC) Discussion Paper No. 139, 2013

[83] E.J. Meijers, M.J. Burger and M.M. Hoogerbrugge, “Borrowing Size in Networks of Cities: City Size, Network Connectivity and Metropolitan Functions in Europe”, *GaWC Research Bulletin*, 2015

accepted that agglomeration enables efficient logistics, advanced clustering, access to diversity, and entrepreneurial creativity. Agglomeration effects have been widely measured in high-income metropolitan areas, but are now also being observed in the BRICS and other emerging countries. They are viewed to be especially significant in metropolitan areas with a high share of knowledge-intensive jobs.[84]

There is also increasing evidence that metropolitan areas located near others also generate significant benefits from this proximity. Cities that belong to a network or 'system' of nearby cities are able to 'borrow size' and acquire higher level metropolitan functions such as firms, international institutions and science.

Yet there is no simple law of agglomeration or critical mass that guarantees metropolitan areas become economically successful. Diseconomies of agglomeration also can and do occur when urbanisation is poorly managed, when there is a lack of continuity and coherence in the way metropolitan institutions implement policies, and in particular when infrastructure is not financed or delivered to match growth in demand.[85] This means urbanisation alone is not an adequate strategy for economic development.

However the international evidence so far does suggest that large metropolitan areas tend to be significantly more productive and specialised than small cities, and that absolute specialisation is strongly correlated with higher wages and living standards.[86] It is also apparent that the effect of living in large urban areas alongside a more highly educated labour force has a noticeable positive effect on overall productivity.[87] The social interaction and dense networks of formal and informal institutions that metropolitan areas host can be very important in capturing and fostering economic activity.

Economic development has become more critical with increased global integration, economic liberalisation, population mobility, technological change, and resulting spatial differences, imbalances and inequalities. Jobs, workers and capital have become highly mobile. Global foreign investment has more than trebled since the year of Habitat II, 1996, from $350 billion to well over $1 trillion, and the share of inflows to developing countries has increased from a third to more than half.[88] Numerous economic sectors are becoming globally traded, from established sectors such as financial and professional services, to newly internationalised sectors such as creative industries, clean technology, higher education, engineering and architecture.[89]

Figure 5: Average annual GDP per capita and employment growth of the 30 most populous metropolitan areas, 2000-2014.

[84] Gilles Duranton, *Agglomeration effects in Colombia*, University of Pennsylvania, 2015; Juan Pablo Chauvin, Edward L. Glaeser, and Kristina Tobio, "Urban economics in the US and India", manuscript in progress, Harvard University, 2015; Pierre-Philippe Combes,, Sylvie Démurger, and Li Shi, "Migration externalities in China", *European Economic Review*, Vol. 76, pp.152–167, 2015; Pierre-Philippe Combes and Laurent Gobillon, "The empirics of agglomeration economies", pp. 247–348, Gilles Duranton, Vernon Henderson, and Williman Strange (editors), *Handbook of Regional and Urban Economics*, Volume 5A Elsevier, Amsterdam, 2015; Matthais Duschl, "Patterns, Processes and Causes of Economic Growth: Analyses at the Level of Firms and Regions", *Philipps-Universität Marburg*, 2014; Ron Martin, "Rebalancing the spatial economy: The challenge for regional theory", *Territory, Politics, Governance*, Vol. 3:3, 2015.

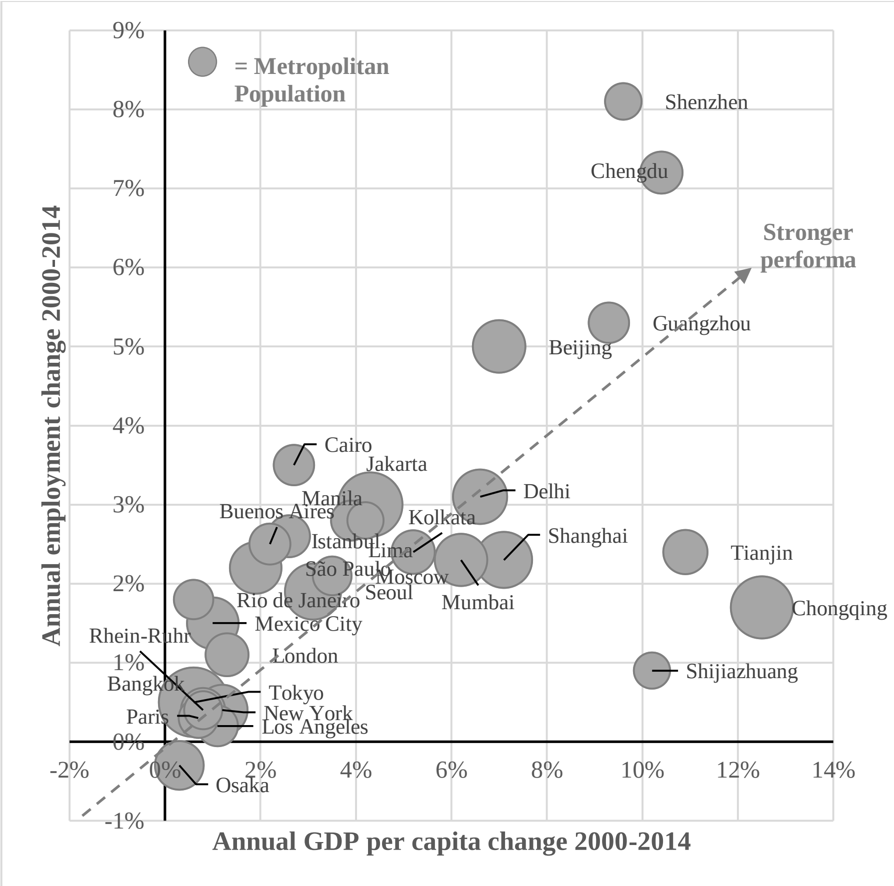
[85] Ivan Turok, "The Urbanisation-Development Nexus in the BRICS", pp. 122-138, Susan Parnell and Sophie Oldfield (editors), *The Routledge Handbook on Cities of the Global South*, Routledge, New York, 2014; OECD, *Promoting Growth in All Regions*, Paris, OECD, 2012

[86] Kemeny, Thomas., & Storper, Michael, "Is Specialization Good for Regional Economic Development?", *Regional Studies*, 1-16, 2014.

[87] Rudiger Ahrend, Emily Farchy, Ioannis Kaplanis, Alexander Lembcke, "What Makes Cities More Productive? Evidence on the Role of Urban Governance from Five OECD Countries", *OECD Regional Development Working Papers*, 2014.

[88] United Nations Conference on Trade and Development, *World Investment Report 2015: Reforming International Investment Governance*, United Nations, Geneva, 2015; United Nations Conference on Trade and Development, *World Investment Report 1997: Transnational Corporations, Market Structure and Competition Policy*, United Nations, Geneva, 1997;

[89] Greg Clark and Tim Moonen, *The Ten Traits of Globally Fluent Metro Areas: The International Edition*, The Brookings Institution, Washington D.C., 2013



Source: Brookings Institution and Oxford Economics

The patterns of economic activity within metropolitan areas change during cycles of globalisation. Investments by governments and private actors have resulted in important economic functions and institutions clustering not only around the historic core, but also around airports, station termini, hospitals, university campuses, science parks, conference centres, and many other lower-cost and higher yield sites.[90] Metropolitan areas have become more economically interdependent and collective policy solutions have become more important. But because they tend to concentrate higher-level economic and productive functions, a pattern of winners and losers tends to emerge within them. Core areas of central cities usually remain attractive for certain activities, while only some parts of the wider metropolitan area are a target of public or private investment.

3.1.2 New challenges and negative externalities within metropolitan areas

The impact of the global financial crisis has presented a new set of challenges and dilemmas for metropolitan areas. For larger metropolitan areas in established regions (e.g. the European Union), many have seen their output stagnate relative to second and third tier centres, as well as intermediary and nearby rural areas, because of their exposure to international volatility in real estate and financial markets.[91]

Even highly globalised metropolitan areas, such as London, New York and Paris, which have been very successful at growing productivity, attracting international firms and appealing to highly educated domestic and foreign workers, have found that they tend to lack a metropolitan economic development system that builds in flexibility in the face of fast-paced change. One common symptom is mono-centric economic development that struggles to absorb new sources of wealth creation or connect people with jobs. Recent data from more developed regions suggests that central cities have been growing employment faster than peripheral areas. Preferences among younger adults for urban living, and the decline of manufacturing and

[90] Federico Savini, Stan Majoor, Willem Salet, "Urban peripheries: reflecting on politics and projects in Amsterdam, Milan, and Paris", *Environment and Planning C: Government and Policy*, Vol. 33, pp. 457 –474, 2015
[91] Lewis Dijkstra, Enrique Garcilazo and Philip McCann, "The effects of the global financial crisis on European regions and cities", *Journal of Economic Geography*, Vol. 15, pp. 935-949, 2015.

distribution, mean the industrial make-up of new jobs is shifting in favour of industries that are already disproportionately located in central cities.[92]

On the other hand, for metropolitan economies in emerging countries, GDP per capita growth has averaged 6% per annum since 2000, compared to 1% in developed economies.[93] But despite their strong performance the externalities associated with their growth include a large informal economy, many low-skilled and under-integrated immigrants, and a high rate of unemployment. These conditions contribute to inequality, residential segregation and social exclusion, and tend to raise overall inequalities in their nations.

A major and concerning global trend for metropolitan areas worldwide is the slowdown in job creation. Employment in developed metropolitan economies has grown at well below 1% a year since 2000, and in developing metro areas the average rate has fallen to below 3% p.a.[94] Economic recessions, the loss of jobs in key industries, and widening income or racial disparities, are driving a paradigm shift that recognises that siloed sectoral policies and regulations are not enough to produce competitive metropolitan areas. Instead, shared and co-ordinated approaches to the future metropolitan economy are needed.

Key economic development challenges for most metropolitan areas
The absence of coherent systems, rules and practices that attract and incentivise employers and investors.
The lack of citywide mechanisms for spatial planning, transport or promotion
A shortfall in capital spending to sustain and improve key infrastructure (especially transport and housing), due to high debts or fiscal imbalances.
Competition for business between municipalities and districts.
Investment in a skilled workforce to enable businesses to expand.
A lack of stewardship and support on framework conditions from higher tiers of government.

3.1.3 Negative externalities within wider regions and nations

In countries where metropolitan areas have been strongly oriented to participate in globalisation, analysts often observe a number of costs or externalities that appear in the wider nation:

- Successful and attractive metropolitan areas can drain other regions of their more highly skilled talent, intensifying the disparities in skills within a nation. Enhanced transport links to metropolitan areas is perceived to increase demand in them at the expense of other areas.
- Some metropolitan areas can develop an over-concentration in certain higher value economic sectors that detract from the growth potential elsewhere. Easier access to finance, because of clusters of banks and venture capital firms, can give small and growing firms in metropolitan areas big advantages.
- The capacity of local and metropolitan governments in metropolitan areas to compile investable projects can mean that national government part-financing of projects happens more regularly than in other less bankable parts of the country.
- Government monetary and regulatory policy can be too oriented (sometimes inadvertently) around the needs of metropolitan areas at the expense of the rest of the country. This is visible in the effects of policy on housing price disparities in some countries. The unequal structure of the housing market is viewed to be a deterrent against labour migration between different regions.
- Metropolitan areas usually generate a higher proportion of national tax revenue and are net donors to national government revenue, but fiscal redistribution may not be viewed as enough to tackle the ever-growing welfare needs in other regions. This debate is prominent in cities such as London, Moscow, Sao Paulo, Seoul, Tokyo and Warsaw.

The extent to which these negative externalities are real or perceived is widely debated. What is clear is that metropolitan areas often need to take account of some of the perceived biases, and collaborate in order to amend them through policies and interventions that support sustainable development throughout the country.

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[92] Joe Cortright, "Surging City Centre Job Growth", *City Observatory*, February 2015 http://cityobservatory.org/wp-content/uploads/2015/02/CityCenterJobs_FINAL_2.22.pdf, [Accessed 19 October 2015].

[93] Joseph Parilla, Jesus Leal Trujillo, Alan Berube and Tao Ran, *Global Metropolitan Monitor: An Uncertain Recovery*, The Brookings Institution, Washington, D.C., 2015.

[94] Ibid.

3.2 Principles and strategies for economic development and international competitiveness

There are many approaches to economic development in cities and metropolitan areas. The purpose of all these approaches is to improve the quality of life of inhabitants by adding to the stock of locally generated jobs and firms, reducing disparities between poor and rich places, and increasing overall private sector investment. Because metropolitan economic development is not a conventional service delivery activity but involves strategic intervention to support non-governmental institutions and the wider labour market, it therefore requires new arrangements and organisational innovation across a metropolitan area.

International experience over the past three decades suggests that metropolitan economic development:

- **Aims to achieve medium-term productivity growth.** Economic development is achieved through raising productivity rather than subsidising uncompetitive industries. Therefore attention has to be paid to drivers of productivity such as skills, enterprise, innovation, investment, employment, and trade. Productivity is becoming a more important priority for many metropolitan areas, from Memphis to Auckland.[95]
- **Pays attention to 'hard' infrastructure.** The capacity of metropolitan areas to attract inward business investment depends on a commensurate infrastructure platform, logistics system and institutional asset base to host functional supply chains and enable clusters to operate and succeed. Infrastructure and development projects across metropolitan areas are often activated by growth coalitions that consist of entrepreneurial local governments and globalised business interests.[96]
- **Is mindful of quality of place and liveability**. As barriers to business re-location have declined, the importance of intangible assets to economic development has become more widely acknowledged. Quality of life and place (e.g. built environment, climate, safety, affordability, healthcare, cultural and recreational amenities, social networks and civic traditions) influence the attraction and retention of a highly educated workforce. Although quality of place attributes vary by city size, sector specialisations and career life cycles, metropolitan areas in most parts of the world have an imperative to maintain and enhance the assets they inherit.[97] Strategies around skills and densification are also important to ensure that opportunities are inclusive and equitably shared if demand grows.
- **Shapes balanced metropolitan growth. S**uccessful metropolitan economic development strategies increase demand for goods and services while also deliberately supporting the sectors, locations, and firms/people who are the channels for growth. Crucially, they also reduce social and spatial barriers to ensure that the benefits of growth and development are shared in ways which improve participation of people who are otherwise excluded.
- **Is shaped not only by nations but by the local business climate**. National and state governments set the macroeconomic, regulatory and political framework conditions that shape the incentives of firms and institutions to invest and grow. Yet metropolitan economies can adopt different stances to how they facilitate corporate investment, correct market inefficiencies (e.g. skills, finance deficits), become efficient and differentiated they are in their dealings with firms, and build capacity to foster entrepreneurship and promote their business advantages. [98] This partly explains why, for example, San Francisco and Los Angeles metropolitan areas have diverged dramatically in their economic performance since 1970, resulting in a 30% difference in per capita income today.[99]

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95 Memphis and Shelby County, "Regional Economic Development Plan", 2014, http://www.metromemphisplan.com/sites/447/uploaded/files/Metro_Memphis_Plan_Strategic_Overview_1.pdf, [Accessed 19 November 2015].

96 Phil Allmendinger and Graham Haughton, "Post-political spatial planning in England: a crisis of consensus?" *Transactions of the Institute of British Geographers*, Vol. 37, pp. 89–103, 2012

97 Meric Gertler, Kate Geddie, Carolyn Hatch and Josephine Rekers, "Attracting and Retaining Talent: Evidence from Canada's City-Regions", In Jill L. Grant (Editor), *Seeking Talent for Creative Cities: The Social Dynamics of Innovation*, University of Toronto Press, 2014, pp.3-30; Mijin Joo and Mark S. Rosentraub, "Revitalizing Cities: Amenities, Economic Development, and the Attraction of Human Capital", Journal of Tourism Research and Hospitality, Vol.4, Issue 1, pp.1-7, 2015.

98 Greg Clark, Business-Friendly and Investment-Ready Cities: City Government and the Local Business Growth and Investment Climate, Urban Land Institute, London, 2014.

99 Michael Storper, Thomas Kemeny, Naji Makarem and Tamer Osman, *The Rise and Fall of Urban Economies Lessons from San Francisco and Los Angeles*, Stanford University Press, 2015.

- **Is a partnership rather than top-down activity**. The time frame in which economic development outcomes appear are more akin to business cycles (12-15 years) than to the electoral cycles (3-5 years) of governments. Therefore economic development is more effectively orchestrated as a partnership with substantial vertical and horizontal collaboration. The combined efforts of local governments, chambers of commerce, development agencies, infrastructure and utilities providers, financial institutions, and other tiers of government can help minimise regulatory and financial barriers to entry, and manage the risks associated with commercial activity. The broad base of engagement can agree and sequence shared objectives, and also help avoid some of the negative consequences that can arise from deregulation policies, especially in terms of labour and environmental protection.
- **Addresses functional economic geography.** Metropolitan economic development is devised and promoted for a functional regional economy, or the natural geographies of business cluster and logistics platforms, rather than smaller parts of an economy. Programmes that address a smaller geography can distort what occurs within the region rather than growing and developing the metropolitan economy as a whole.
- **Identifies opportunities for value creation and reinvestment.** Successful economic development produces growth that generates revenues and resources within fiscal systems, rather than through one-off incentives or payments. The beneficiaries of these tax revenue increases should contribute to the costs of mounting the programmes that have helped to create the growth.

The goals of economic development - growth, development and inclusion – tend to require distinct but complementary tools and approaches. For example infrastructure projects or incentive programmes that have the potential to boost growth will not also deliver inclusion unless the barriers to work are also tackled. Equally, initiatives that foster social development or urban regeneration will not necessarily lead to economic growth unless they are part of wider programme that tackles barriers to growth. The importance of joining up fragmented approaches to economic and social development has been identified in metropolitan areas across Canada and South Africa.[100]

Table 3: Metropolitan economic development versus local economic development

	Local Economic Development	Metropolitan Economic Development
Skills	Single sector approach.	Integrated approach to education, housing, public health, business framework.
Assets	Local stand-alone companies and institutions.	Recognition and promotion of all assets in all municipalities; internal and external mobility.
Competitors	Internal competitors within metropolitan area. Risk of zero sum substitution or displacement.	External perspective with national and international competitors.
Target sectors	Local sector approach. Potential for unintended spillovers.	Diversified set of sectors that span the metropolitan area.

3.2.1 Metropolitan strategies for economic development

Despite financial and institutional constraints, local and metropolitan governments, and other public-private initiatives, are adapting and learning to re-organise for economic development. Reviews of OECD and non-OECD regions have found that new policies and innovations focus on supporting a wider range of companies in international markets, creating a stronger delivery framework, and renewed focus on areas of persistent under-performance.[101]

Each metropolitan area pursues an economic development strategy based on the specific strengths and challenges it inherits. For established and high-performing metropolitan areas, the focus is often to retain

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[100] Alison Bramwell, "The Politics of Coalition Building in a Deindustrialising City: Linkages, Leadership, and Agendas in Hamilton", pp. 110-134, Neil Bradford and Allison Bramwell (editors), *Governing Urban Economies, Innovation and Inclusion in Canadian City Regions*, University of Toronto Press: Toronto, 2014; Gordon McGranahan, Ivan Turok and George Martin, "Could a more positive approach to urbanisation in the BRICS have facilitated both economic growth and social inclusion?", pp. 233-261, Gordon McGranahan and George Martin (editors), *Urban Growth in Emerging Economies: Lessons from the BRICS*, Routledge, London, 2014.

[101] OECD, Delivering Local Development: New Growth and Investment Strategies, OECD Publishing, Paris, 2013

competitiveness and support new innovations and technologies. For those that are de-industrialising or modernising their economy, attention is paid to participating in new niche markets and investing not only in physical but also human capital development. For many smaller metropolitan areas, there is a priority to enhance the networks between stakeholders and improve relationships and opportunities for SMEs (see Box).

Table 4: Strategic economic development ambitions of different types of metropolitan area

	Established Global Metropolitan Areas	Emerging Metropolitan Areas	Newly Globalising Metropolitan Areas
Examples	London, New York, Paris, Hong Kong	Istanbul, Mumbai, Sao Paulo, Shanghai	Berlin, Melbourne, Oslo, Tel Aviv
Housing	Increase rate of housing supply and confront opposition to future development.	Provide safe entry level housing efficiently and quickly.	Monitor housing range and affordability to suit all generations, especially younger populations.
Inclusion	Address skills and access challenges of urban under-class.	Tackle polarisation of income, rights and service access.	Ensure a strong focus on inclusive growth via skills development and mixed use housing.
Land	Undertake big redevelopment efforts, recycle land effectively.	Rationalise land-use and spatial governance to achieve coherent metropolitan form.	Agree a spatial strategy led and managed by lead agency in tandem with local governments.
Business framework	Maintain a competitive business climate and IP environment.	Improve productivity, legal and regulatory framework, transparency and business confidence.	Enhance information-sharing and co-ordination. Foster conditions for start-up growth.
Talent	Maintain public and political support for immigration and visa systems.	Seek opportunities for international workforce, enhance local universities, foster multi-lingualism.	Gain visibility among highly educated workers and entrepreneurs, maintain affordability.
Infrastructure	Undertake infrastructure modernisation, e.g. transport, water, waste, energy.	Tackle basic infrastructure and housing deficits. Transport network to support polycentrism.	Enhance international air and port links. Focus on digital connectivity.
Sector development	Ensure affordability for new entrants in the new innovation economy.	Give sufficient support to new entrants and emerging sectors.	Expert specialisation, innovation, digital and science. Leverage big events.
Brand and identity	Maintain clear and unified identity in marketplace.	Establish identity and live up to brand promise.	Build a business and investor brand to complement its other stronger brands. Improve work-life balance.

Source: adapted from Greg Clark, Jonathan Couturier and Tim Moonen, "Globalisation and Competition: The New World of Cities", Jones Lang LaSalle, 2015

Metropolitan economic development initiatives are more difficult to execute in many developing countries because of weak framework conditions, uncompetitive local industries, and other demands on limited resources. Where they have been attempted (for example in Curitiba, Durban and Shanghai), there are signs suggesting they can build capacity and support smaller domestically focused enterprises in emerging industries with better outcomes than top-down national approaches. Technology transfer, firm performance, local networks, training organisations, and interactive learning between institutions and industries are all priorities in these contexts.[102]

[102] Federal Ministry for Economic Cooperation and Development, *Innovation Systems in Metropolitan Regions of Developing Countries*, *GIZ*, Bonn, 2015

In North America, the impact of the financial crisis triggered a new set of approaches to addressing urban problems that do not rely on the action of the federal government. This 'metropolitan revolution' has seen local governments, civil society, business leaders and urban planners start to work together to find new paths to job creation and long-term economic growth.[103] The result of this includes big expansions to public transport systems, improvements to the supply chain in advanced manufacturing, and metropolitan initiatives to integrate immigrants more effectively.

More than 25 U.S. metropolitan areas have also begun to create trade and investment plans as part of the public-private sector Global Cities Initiative whose goal has been to change metropolitan economic development practice to be more focused on international competition and higher quality jobs. Reviews of this ongoing initiative highlight the long-term character of a metropolitan export strategy, and the critical importance of basic inputs – namely skilled labour force and transport infrastructure, for which solutions have been few and far between.

Many regions focus on the first phase of a long-term economic strategy on delivering fast visible results that create further momentum for change. 'Quick wins' in the first five years in terms of investment, infrastructure and institution-building are often seen as a necessary catalyst for a second and third phase of broader strategic success. Pilot projects are an important mechanism for testing the opportunities of clusters and technology over a 12-24 month period, as cities such as Hyderabad and Chennai have shown in the field of electronic manufacturing, and Brisbane with professional services.[104]

In order to make the Tokyo Metropolitan Area more internationally competitive, Japan is developing airports, seaports and railways to renew the city and enable a more business friendly environment.[105]

3.2.2 Spatial strategy for a changing metropolitan economy

Spatially intelligent sector and cluster strategies are now routine features of metropolitan efforts. Cluster specialisations are essential in providing metropolitan areas with the ability to drive exports and attract investment. Many identify an urgent need to rationalise locations of different actors and clusters, and if need be to shift the centre of gravity of economic growth away from traditional and established centres.

For fast-growing metropolitan areas especially in developing countries, this often involves large-scale expansion of subway systems, higher capacity transport corridors, and the creation of alternative city centres or 'second CBDs' as part of a polycentric approach. This is clearly visible in the ongoing development of Navi Mumbai, or Sydney's metropolitan strategy to absorb growth in Parramatta. In more developed metropolitan areas mature approaches to cluster scientific and technology SMEs around leading universities have become visible in the past decade, for example in Boston, Hamburg and Manchester.

A critical mass of infrastructure and amenities that are on-time and well-sequenced is often essential to encourage people and firms to re-locate. Integrated planning solutions that combine an education, infrastructure and cultural offer are usually needed to make this re-balancing work.[106] The example of Bilbao's complex process of regeneration since the 1980s highlights the importance of political engagement from all levels of government and vehicles for partnership between the public and private sector, such as Bilbao Metrópoli-30 and Bilbao Ria.

Many metropolitan areas have used regeneration areas as an opportunity to experiment with more collaborative planning. Seoul's Cheonggyecheon district which has been redeveloped to support the city's transition towards creative and services industries, is one prominent example. A citizens' committee composed of the general public and experts helped build a higher level of participation, and a joined-up approach across sectors - economic development, road management, civil engineering, urban planning and welfare –was coordinated by a dedicated vice-mayor of the Seoul Metropolitan Government.

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[103] Bruce Katz and Jennifer Bradley,. The Metropolitan Revolution: How Cities and Metros are Fixing our Broken Politics and Fragile Economy, Brookings Institution Press, Washington D.C., 2014

[104] OECD, Delivering Local Development: New Growth and Investment Strategies, OECD Publishing, Paris, 2013

[105] Japan National Report for Habitat III (2015)

[106] Philip McCann and Raquel Ortega-Argiles, "Modern regional innovation policy", *Cambridge Journal of Regions, Economy and Society*, Vol. 6, pp. 187-216, 2013

3.2.3 Supporting internationalisation

Achieving better reach into new global markets is a strong recent focus in metropolitan strategies. The broadening and scaling of innovation is a key tactic to boost metropolitan productivity and grow the jobs base, and international evidence from places such as San Diego and Copenhagen suggests that firms operating in international markets and in receipt of foreign investment are significantly more likely to innovate than domestically oriented firms.[107] The elaboration of strategic relationships in international markets and a co-ordinated framework to expose SMEs to international practice and trends, are often aims of metropolitan economic strategies.

The **financialisation of the metropolitan economy** is increasingly visible given the growing influence of financial markets in the investment, ownership, and management of the urban built environment. On the one hand, the long-term decline in central government grants has increased the reliance of local governments on capital markets, resulting in considerable innovation to create new instruments, such as Tax Increment Financing, to finance redevelopment based on future fiscal income. At the same time, metropolitan areas have seen their infrastructure and real estate become an investment asset, as well as the securitisation of mortgages and municipal bonds.[108]

There is evidence that local and metropolitan governments have become more reliant on property market actors and finance in order to catalyse development. Investor strategies and expectations have become more central to the activity of local planning and government authorities. Metropolitan areas are best able to shape these investment patterns when their fiscal and planning regimes are robust and capable of incentivising local governments to make decisions in the interests of long-term development rather than short-term revenue maximisation.

Global links can help improve local industry knowledge and adaptability, grow the capability to export, and attract inward investment and international students. An international strategy for trade and investment therefore offers many metropolitan areas a route to longer-term competitiveness, rather than simply a short-term boost to employment. Research from U.S. cities such as Portland and San Antonio suggests that outcomes tend to be more visible when intentional and committed efforts to enter global markets last more than one political cycle and become a priority for all governments and authorities in the metropolitan area.[109]

3.2.4 Knowledge sharing and networking platforms

Many metropolitan areas look to improve co-operation between companies by providing forums for dialogue and cross-fertilisation between previously siloed sectors. Some choose to set up a 'growth forum' that operates as a platform to include municipalities, companies and research institutions in order to improve the framework conditions for innovation and business development. When organised collaboratively, these can incubate long term plans for metropolitan development and agree targets for projects that need investment from national or supra-national institutions. In some cases, these initiatives may involve specific clusters or institutions, from teaching hospitals to engineering clusters.[110]

In the United States, one important urban reform in the past 20 years has been the devolution of greater responsibility for planning and implementation to metropolitan planning organisations (MPOs). Some of these MPOs - which involve representatives from local municipalities, planning bodies, chambers of commerce and transport providers - have been empowered to play an active and confident role in transport planning, budget approval and operating oversight.

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[107] OECD, *The OECD Innovation Strategy: Getting a Head Start on Tomorrow*, OECD Publishing, Paris, 2010; Philip McCann and Raquel Ortega-Argiles, "Modern regional innovation policy", *Cambridge Journal of Regions, Economy and Society*, Vol. 6, pp. 187-216, 2013.

[108] Antoine Guironnet and Ludovic Halbert, "The Financialization of Urban Development Projects: Concepts, Processes, and Implications", HAL Working Paper n14-04, 2014.

[109] McDearman, Brad and Donahue, Ryan, *The 10 lessons from global trade and investment planning U.S. metro areas*, The Brookings Institution, Washington D.C., 2015

[110] Philip McCann and Raquel Ortega-Argiles, "Modern regional innovation policy", *Cambridge Journal of Regions, Economy and Society*, Vol. 6, pp. 187-216, 2013

The four counties, 82 cities and nine tribal nations that comprise the **Seattle/Central Puget Sound** metropolitan area have been pioneers in North America at making this model work. The Seattle region's jobs base – principally aerospace, maritime, healthcare and IT - depends on retaining a highly skilled workforce. Numerous public and private-sector partners are co-ordinated by the MPO called Puget Sound Region Council (PSRC), which ensures policies and investment decisions integrate transport and economic development goals and thereby improve social equity.

Seattle formed a Prosperity Partnership made up of over 300 civic, business and community members which leads on the regional economic vision. The Partnership raises standards by developing a lot of economic and social data to track the relationship between education and employment. The region also has highly developed cluster-specific collaboration. The King County Aerospace Alliance brings together public sector groups, local governments and business leaders to identify strategies to ensure that existing business remain and grow, and ensure adequate job training of existing and future workers. Broad collaboration between public and private sectors has been key to attracting new aerospace contracts.

Although there is more work to be done to co-ordinate at the local level and ensure economic development priorities align with land-use and transport decisions, Seattle demonstrates the value of a broad regional organisation with a diverse set of economic stakeholders.[111] It illustrates how metropolitan areas can benefit from building a strategic and aligned approach among the players that influence economic development, labour force development, and public investment in education and infrastructure.

3.2.5 Catalysts

International events offer opportunities for metropolitan areas to raise their profile and bring forward infrastructure development. From high-profile global events such as Olympic Games and World Cups, to political assemblies, sporting championships, and cultural exhibitions, well managed events can foster investment and create new capacity in a metropolitan area.

Not all events are appropriate or successful and so require close co-operation between governments to ensure the major projects are completed on time, technical standards are met, benefits are distributed and visitor experiences are positive. The key challenge is to choose the right event, have a clear plan for the benefits that justifies the costs, and be able to manage the event to optimise the returns. The hosting of events has the potential benefit of concentrating public investment whilst also leveraging private investment and triggering international visibility all at the same time. Cities in countries with highly centralised financial systems see event hosting as a means to get more public investment. Cities in more financially decentralized countries only embrace such events if there is strong inter-governmental co-operation on the financing side.

Some major events such as the 2010 Shanghai EXPO and the 2012 London Olympics have been catalysts of infrastructure investment, and help to focus attention and resources to regenerate areas for a fixed period of time in partnership with national agencies. Other events such as the 2010 World Cup in South Africa witnessed some infrastructure and tourism benefits, but the numbers were somewhat lower than hoped.[112]

For metropolitan areas in developing countries there are also important opportunity costs when choosing to host an event. Successful and sustainable event hosting may leave a substantial physical, social and institutional legacy that can improve the future capacity and appetite to deliver major projects and promote the metropolitan area coherently. However, event hosting may be perceived as simply a means to re-allocate scarce public funds to one area or activity rather than another. Equally, failure to plan or manage an event well may result in waste of resources and loss of confidence internally and externally.

3.2.6 A multi-cycle approach

Metropolitan areas often develop their economies in observable cycles, closely related to larger cycles of global economic growth. Singapore is one of the clearest example of a deliberate cyclical approach developed over the last 50 years, while Barcelona, Munich and Seoul have also seen their economies develop in 10-15 year cycles. Cycles of growth within a metropolitan area, if they are well managed, give rise to new, or enhanced, opportunities in subsequent cycles. Successful economic development usually involves adjusting between one cycle and another, so as to 'move up' the value chains of the industries a metropolitan area hosts and to acquire new dimensions to its job and wealth creation roles.

For metropolitan areas to adjust in this way they need the agility to modify their economic development arrangements so that they are able to deal with the opportunities and changes of the new cycle, and not be oriented towards the pre-occupations of the previous cycle. Metropolitan areas that begin from a low-value

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[111] The National Association of Regional Councils and MZ Strategies, *Planning for Regional Competitiveness*, The National Association of Regional Councils, Washington D.C., 2015, https://www.mcknight.org/system/asset/document/383/McKnight_Foundation_Final_Report_FINAL.pdf [Accessed online: 19 October 2015]

[112] Thomas Peeters, Victor Matheson, and Stefan Szymanski, "Tourism and the 2010 World Cup: Lessons for Developing Countries", Journal of African Economics, 2014.

manufacturing base, for example, will need new framework conditions, tools and strategies to move into advanced manufacturing and science, a transition that San Francisco managed much more successfully than Los Angeles from the 1980s onwards.[113] Others that initially promote tourism as a growth industry may need to move on to promoting creativity and enterprise, as Barcelona has done. Each adjustment requires new audiences and new messages.

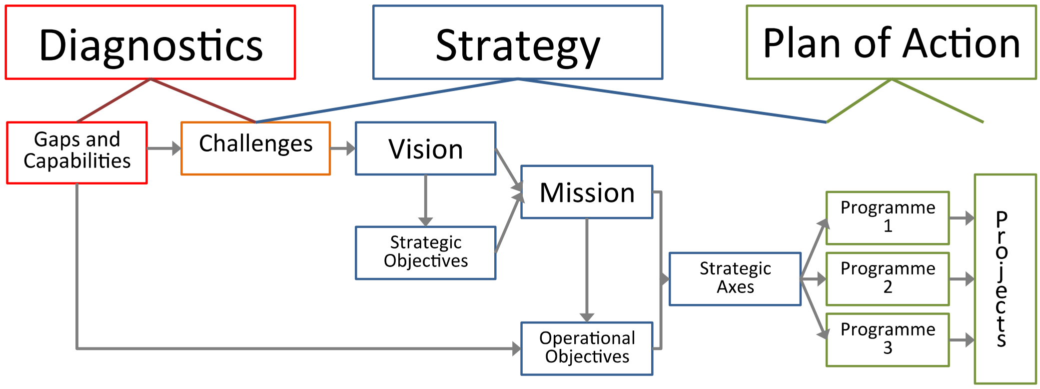
The reasons why some metropolitan areas experience prolonged economic decline are always complex in nature. Agglomeration economies alone will not solve all growth challenges, not least because some metropolitan areas inherit unfavourable industrial structures from previous economic cycles.[114] In general, however, top-down imposition of pre-packaged sectors and models do not tend to be effective.[115] Economic development policy should identify and remove barriers to firm growth (e.g. finance, regulation, metropolitan environment) rather than support specific companies.

3.2.7 The importance of data, monitoring and evaluation

Metropolitan profiling is usually a pre-requisite for effective economic strategy preparation. It is important to map the supply and demand market, and fully explore the precise areas of strength in an international context, to maximise the impact of efforts and avoid the risk of over-ambition or inappropriate replication of other city strategies. This profiling is often undertaken with the help of local governments. Metropolitan areas also rely on an effective monitoring system and forums that gain informal feedback from regional innovators, business leaders, scientists, and civil society.

Santiago metropolitan area's most recent economic strategy is focused on local firm innovation, and aims to help Santiago withstand fluctuations in the prices of export commodities, in particular copper. The strategy, which must fit with the broader aims of the Regional Development Strategy as well as the 2020 National Competitiveness and Innovation Agenda, aims to increase productivity by enhancing the productive base, reducing information failures and improving the patenting and licensing regime.

Figure 6: Santiago metropolitan area's methodology for economic transition



Santiago's strategy explicitly focuses on SMEs because the region's smaller firms are below global standards of technology, innovation and cross-sector fertilisation. The strategy depends on many sources of institutional, sectoral and private funding to develop the programmes and measures. The strategy's implementation has involved a rapid capacity building exercise to create an external entity for strategic delivery capable of full

[113] Michael Storper, Thomas Kemeny, Naji Makarem and Tamer Osman, *The Rise and Fall of Urban Economies Lessons from San Francisco and Los Angeles*, Stanford University Press, 2015.
[114] Ben Gardiner, Ron Martin, Peter Sunley and Peter Tyler, "Local Long-Run Growth Evolutions Across Britain: Some Exploratory Empirics", *ESRC*, 2014
[115] Phillip McCann and Raquel Ortega-Argiles, "Smart Specialization, Regional Growth and Applications to European Union Cohesion Policy", *Regional Studies*, Vol. 49, 8, pp. 1291-1302, 2015

coordination with local and national governments and the private sector.[116] In addition a Regional Innovation Observatory has been formed to monitor and report on progress.

3.3 Effective organisation for metropolitan economic development

Economic development has historically often been led or facilitated by local governments. But metropolitan economic development is a 'market-facing' activity that operates over longer time frames and broader geographies, it relies on wider institutional collaboration than is usual for local government services or regulatory roles.[117] Uncoordinated strategies waste resources and may fail to achieve desired outcomes.

Many of the economic stakeholders in a metropolitan economy do not exercise a vote in elections. These include businesses, commuters, tourists, investors, students, infrastructure and logistics providers. Engagement with these stakeholders in economic strategies and reconciling their interests with those of residents through visioning and agenda building is one of the key tasks of city and metropolitan leaders. This task is rarely straightforward, due to perceived trade-offs and tensions between economic growth and quality of life in most metropolitan areas.

Local governments, business leadership groups, universities, business schools, civic bodies and even the local media can all be proactive partners in economic leadership and development. Overcoming competition between different governments, ministries and sectors is essential to making metropolitan areas more business and innovation friendly, and more flexible at adjusting to changing technology and human capital trends.[118] Evidence of metropolitan economic development partnerships between local authorities, business and civil society, for example in the United States, indicates that fragmented metropolitan areas especially stand to benefit from a partnership approach that limits destructive competition.[119]

3.3.1 The imperative to re-organise

Metropolitan areas around the world have been working to make this distributed system of leadership more coherent through common strategy, partnership and co-ordination and coalition building. This may also involve new bodies for economic development that strengthen delivery and co-operation in a number of ways. Sometimes these processes are led by the national or state government but more usually are driven internally by actors within the metropolitan area. Governance adjustments reflect the instilling of a more professional approach to the fundamentally metropolitan and commercial character of their economies, and a more pragmatic approach to relations with higher and lower tiers of government.

Metropolitan areas can re-organise their economic development functions in several different ways:

- **Integrated economic development functions**. Recent institutional mergers across part or all of some metropolitan areas can result in a more robust set of agencies for supporting domestic and foreign companies, and for longer-term economic goals. Integration is often an answer when economic development and cluster actions are piecemeal and disconnected, allowing the metropolitan area to pool all of its expertise. When agencies are consolidated they can simplify the ways companies are supported to expand and participate in new markets, and they can create a more customer-oriented focus. A strengthened metropolitan agency tends to take more strategic decisions to try and attract firms that fit in with the region's future economic direction. In Paris the new Paris Region Entreprises is one such example.[120] Implementation-oriented agencies often have a lean staffing and financing structure, and may be supported by working groups convened around sectoral or issue-based areas meeting regularly.

METROPOLITAN ECONOMIC LEADERSHIP: WESTERN CAPE'S ECONOMIC DEVELOPMENT PARTNERSHIP

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[116] Gobierno Santiago, *Strategia Regional de Innovación Región Metropolitana de Santiago 2012-2016*, Santiago: Gobierno Regional Metropolitano de Santiago 2013.

[117] OECD, "Organising for local development: the role of local development agencies. Summary Report", 26-27 November 2009, working document, CFE/LEED, OECD, 2009

[118] Federal Ministry for Economic Cooperation and Development, *Innovation Systems in Metropolitan Regions of Developing Countries*, *GIZ*, Bonn, 2015

[119] Ssu-Hsien Chen, Richard C. Feiock and Jun Yi Hsieh, "Regional Partnerships and Metropolitan Economic Development", *Journal of Urban Affairs,* doi: 10.1111/juaf.12183, 2015

[120] Paris Region Entreprises, "Lancement opérationnel de l'agence Paris Region Entreprises", www.innovation-idf.org/fr/attachments/3743_CP_Lancement-operationnel-de-l-agence-Paris-Region-Entreprises.pdf, [Accessed online: 17 October 2015]

Cape Town's delivery system for solving structural development and employment challenges across the whole functional economy has been strengthened since 2012. The new Economic Development Partnership is a new kind of body in the metropolitan area, in that it is a collaborative, cross-sector and private sector-focused organisation that intermediates in order to build a unifying narrative around Cape Town's economy.

With a small core staff, and steered by a 14-member Board, the EDP uses partnerships with municipalities, companies and non-governmental bodies to distribute knowledge through the metropolitan economic development system and to incentivise job creation. Having been endorsed by the provincial government and the City of Cape Town, the EDP has acted on its mandate to develop much stronger market intelligence and pursue the shared vision of OneCape 2040.[121]

- Many metropolitan economies seek to combine leadership and management functions in a **dedicated development agency**, in order to ensure efficiency, quality and public accountability. Some development agencies help oversee major redevelopment when they benefit from political support and access to finance, for example from public land sales. Others have become the best mechanism to help cities manage multi-party joint ventures. Bilbao Ría 2000 is one example where a not-for-profit agency has successfully managed large-scale revitalisation and has expanded its remit to other municipalities in the metropolitan area, resulting in tangible impacts of new parks, public spaces, roads and cycle paths. Development agencies are often instrumental in creating a customer-facing operational environment to manage economic development missions and incoming business more quickly and at a larger scale, as in the case of Miami-Dade's Beacon Council. Successful examples, such as HafenCity Hamburg GmbH, illustrate the importance of an effective wider metropolitan development system with strong working relationships, a high degree of public control and shared agendas with local governments.[122]
- **Delivery-focused boards.** Some metropolitan areas pursue an integrated approach to the economy not through big institutional changes but by creating advisory bodies with a streamlined focus on delivery. By focusing and financing specifically the delivery priorities that will maximise job creation, this approach helps metropolitan areas set clear targets for all public and private stakeholders and is effective at allocating resources to deliver on core priorities. Recent examples include the London Enterprise Panel and Hong Kong's Economic Development Commission.
- **Cross-border co-operation** for specific economic development activities among different local authorities have become more common. There are many examples of previously siloed institutional leaders forging an important consensus around a proactive and confident economic development agenda, underpinned by an explicit inter-municipal leadership alliance and the tacit support of the business community. In Denver, a metropolitan Economic Development Corporation has a code of ethics that is binding upon participating local governments to promote regional rather than self-interested economic development. Transparent information-sharing about site selection has helped to build trust and buy-in among municipalities. Meanwhile in Stockholm an alliance has emerged between more than 40 participating municipalities, even including medium-sized cities in the wider region, all keen to extend enterprise policy cooperation.[123] In metropolitan areas without established leadership, alliances can become the main driver for municipal co-operation, especially if they have cross-party representation. Other examples of collaboration involve business agencies from the central city and other local and regional governments working together on international promotion, marketing and real estate (e.g. Vienna).

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[121] Department of Economic Development and Tourism Western Cape, *Annual Performance Plan 2014/15*, 2014 https://www.westerncape.gov.za/sites/www.westerncape.gov.za/files/assets/departments/economic-development-tourism/app_2014_15_english.pdf, [Accessed online: 19 October 2015]; Andrew Boraine, *Building effective partnerships for inclusive growth: Introduction to the Western Cape Economic Development Partnership (EDP)*, https://www.westerncape.gov.za/text/2012/7/economic-development-partnership-andrew-boraine.pdf, [Accessed online: 19 October 2015]

[122] OECD, "HafenCity Hamburg GmbH, Hamburg Germany", *Organising Local Economic Development: The Role of Development Agencies and Companies*, OECD Publishing, Paris, 2010.

[123] Leigh McIlvaine and Greg LeRoy, *Ending Job Piracy, Building Regional Prosperity*, Good Jobs First: Washington D.C., 2014, http://piedmonttogether.org/sites/default/files/attachments/Ending%20Job%20Piracy.pdf, [Accessed 19 November 2015]; Stockholm Business Region, "Frequently Asked Questions", Stockholm, The City of Stockholm, 2015, http://www.stockholmbusinessregion.se/sv/Vanliga-fragor1/, [Accessed online 19 October 2015].

The eight cantons and 120 cities and municipalities of the **Zurich** metropolitan region have been cooperating much more fully around economic development over the last decade. The Zurich Metropolitan Conference is a new strategic body designed to present the region's needs more coherently and to a wider audience. The body meets twice a year in an event open to the public, led by the president of Zurich City, and supported by canton councilors and executive members of municipalities in surrounding areas, including Lucerne. The Conference offers a platform for networking and information exchange, and promotes an integrated and large-scale development perspective. The voting power of individual members reflects their population size, and there is an equal number of votes shared by the Canton Chamber and the Municipalities Chamber.

Subsequently the Zurich Metropolitan Area Association was founded in 2009, with responsibilities over the economy, traffic and social cohesion. Its main economic aims are to improve access to know-how and new technologies for high-skilled workers, while ensuring the region is green and sustainable. It has played an active role to bring forward important rail projects such as the Brüttenertunnel and the Zimmerberg Base Tunnel II, and explores new financing mechanisms such as user fees.

Social cohesion and cultural diversity are also part of the drive for Zurich's competitiveness. In 2015 the Conference initiated a large public relations campaign on the domestic supply of skilled workers, given shortages of technical, healthcare and mathematics skills. Its 'Immigration and Population Growth 2030' project also crystallised the growing recognition of social imbalances and the need for cooperation and preparation in order to solve the less auspicious outcomes of growth.[124]

3.3.2 The role of business leadership organisations

Effective participation by a socially responsible private sector in the wider system of economic development is an important feature of successful metropolitan areas. Business is a critical stakeholder in metropolitan development success and mechanisms to ensure its voice is heard and understood are important to efficient and sustainable metropolitan management. In some cases, a well regulated private sector also can bring an ethos of efficiency and innovation to the dialogue between the wider group of stakeholders within the metropolitan development system.

Although business leaders have a long history of engaging in cities' development process, there is new evidence that business leadership and membership groups are contributing to metropolitan development in a more proactive way. Even in more public sector-led frameworks such as Paris, Hong Kong and Tokyo business leaders of large companies are playing a much more influential role in decision-making for metropolitan areas than before.

Business leadership and membership organisations engage in a variety of ways to promote and facilitate economic development. At one end, they may focus simply on providing services for their members and representing the needs of businesses. At the opposite end of the spectrum, some organisations have evolved to play a highly influential role in the metropolitan development process.

The membership size and composition of business leadership and membership groups in metropolitan areas varies widely. The newly established ProBogotá Región was set up by 32 members while the Paris-Ile de France Chamber of Commerce and Industry represents over 800,000 firms. Some organisations, such as London First, have small concentrated memberships that consist mostly of high status firms, while others such as Hong Kong's General Chamber of Commerce draw significant membership from small and medium-sized enterprises. It is common for these organisations to invite civic institutions and NGOs to participate, and nearly all of them share a metropolitan outlook, even in cases when they were originally established to support the central city (e.g. Cape Town Partnership).

Because they are often organisationally lean, business organisations are able to provide a source of leadership and advocacy for a metropolitan area's whole development without the restrictions of institutional obligations, and with the credibility of 'valued customers'. In practice, they can sometimes overcome constraints faced by local and metropolitan governments because they are able to think beyond electoral cycles and look beyond political geography in the interests of the whole metropolitan area. Their members' experience in activities such as branding, sales and agenda setting are important in helping metropolitan areas raise awareness about issues such as housing supply, airport capacity and immigration.

The participation of business networks can have mixed effects on democracy in metropolitan areas. In some cases, they can help revitalise local democracy by fostering a more plural and inclusive approach to metropolitan policymaking. However there are risks that they can concentrate political power among a

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124 Metropolitan Konferenz Zurich, "Fact Sheet", 2015, www.metropolitanraum-zuerich.ch/fileadmin/user_upload/downloads/Factsheet_MRZ_150114.pdf, [Accessed online: 19 October 2015]

narrow business elite at the expense of local governments and civil servants.[125] The most successful business leadership organisations form horizontal relationships with local governments and work together to build shared approaches to a metropolitan area's urgent development challenges.

3.4 Combining competitiveness with inclusiveness

3.4.1 The negative externalities of growth in metropolitan areas

The development patterns of metropolitan areas have often created concentrated areas of deprivation and economic exclusion. The rise of the knowledge economy has had highly unequal spatial effects, as activity tends to gravitate to places that already possess a sizeable local market, density of people, ideas and infrastructure, connectedness to other hubs, some sectoral diversification, and an ecosystem of firms. As a result growth has tended to cluster in some cities rather than others, and much more often in and around city centres. Job growth at the periphery often tends to be driven by low-paid local services for residential commuter populations, than by strong local economies in their own right. Youth unemployment in metropolitan areas also remains very high. Even highly competitive and prosperous metropolitan areas are now seeking to address deep-seated issues of skills, employment, and even social and family ties.

The challenges are especially acute for metropolitan areas that lag on some of the attributes. The literature on economic development highlights the futility of reskilling programmes if there are no matching jobs already in place. Local job supply must be matched with local demand in sectors in which the metropolitan area already has some degree of specialisation. Evidence suggests that metropolitan areas should leverage their existing knowledge and skills and industries and help them plug in to related sectors and technologies to move up the value chain and diversify.[126]

3.4.2 The dividend of inclusion

The agenda of inclusion is not optional or secondary to the pursuit of economic growth and efficiency, but in fact helps to create more innovative governance and economies in metropolitan areas. Social exclusion and marginalisation diminishes a metropolitan area's pool of human capital and adds to pressure on health and social services. Efficiency and equity do not need to be traded off, as strong inclusive neighbourhoods provide economic value in their ability to integrate people into the labour force.[127]

There is growing international evidence of a relation between high levels of metropolitan inequality and lower growth, because of the effects on social cohesion, insecurity and the metropolitan area's ability to absorb investment and withstand shocks. High inequality and high differentials between cities and suburbs are associated with shorter spells of growth during times of economic boom.[128]

3.4.3 Access to economic opportunities

Investment and innovation in school education is essential for metropolitan areas to ensure broad access to job opportunities. School education performance and employability in some metropolitan areas has improved more quickly than in the rest of their countries as a result of active collaboration and best practice sharing among teachers. International evidence increasingly highlights the value of school autonomy, data-driven leadership and well-motivated teachers. In established metropolitan areas schemes that place graduates in low-performing schools have often proved to be successful (e.g. Teach First in London).

School education is at the heart of a skills system that has a critical role to play in economic development. Evidence from the U.S. shows that higher skills attainment does not only benefit individual workers, but also leads to greater prosperity at the metropolitan level, given the large number of alumni from colleges and universities who remain in the local area.[129] Suzhou in China is an example of a city whose strategy to become a knowledge-intensive economy has relied on higher education to diversify sources of

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[125] Marcel Boogers, "Pulling the Strings: An Analysis of Informal Local Power Structures in Three Dutch Cities", *Local Government Studies*, Vol.40, Issue 3, pp.339-355, 2014

[126] Phillip McCann and Raquel Ortega-Argiles, "Smart Specialization, Regional Growth and Applications to European Union Cohesion Policy", *Regional Studies*, Vol. 49, 8, pp.1291-1302, 2015

[127] Neil Bradford and Allison Bramwell, "Governing Urban Economies: Innovation and Inclusion in Canadian City Regions", pp. 3-32, Neil Bradford and Allison Bramwell (editors), *Governing Urban Economies: Innovation and Inclusion in Canadian City Regions*, University of Toronto Press, Toronto, 2014, pp. 9-10.

[128] Chris Brenner and Manuel Pastor, "Brother, can you spare the time? Sustaining prosperity and social inclusion in America's Metropolitan Regions", *Urban Studies,* Vol 52, 7, pp.1339-1356, 2015.

[129] Jonathan Rothwell, "What colleges do for local economies: A direct measure based on consumption", *Brookings Institution*, 2015, http://www.brookings.edu/research/papers/2015/11/17-colleges-local-economies-rothwell [Accessed 19 November 2015].

entrepreneurship beyond reliance on overseas expatriates. The universities' role in creating a new generation of entrepreneurs has enabled Suzhou to become create highly specialised nano-technology and bio-medicine clusters.[130]

Metropolitan areas with integrated governance often find it easier to launch initiatives with the private sector and to re-direct government spending to target areas of economic exclusion. Examples include employer network programmes which help to organise CVs and drivers licence training,[131] and sub-regional initiatives that direct spending into locally-run programmes to improve educational achievement and job growth.

3.4.4 Integration of immigrants

There is growing consensus that the diversity and skills brought by immigrants are a driving force of social, cultural, and economic development in metropolitan areas. While national governments decide on the overall framework for immigration, responsibility for attracting, retaining, and integrating immigrants is usually the responsibility of municipalities and metropolitan governments.

In many countries national and state/provincial governments have been absent from initiatives to integrate immigrants. Collaborative governance between civil society organisations and local governments to integrate immigrants has proven effective in metropolitan areas such as Vancouver, where the Multicultural Advisory Committee has provided a bridge between civil society and municipal governments, enabling community capital.[132] Municipal administrations and community services have also collaborated in Stuttgart as part of the city's Pact for Integration that has focused on equal opportunity and the role of cultural diversity as a community and economic asset, benefiting from vigorous support by city leaders. And programmes to provide immigrant entrepreneurs with technical help, language training and access to credit have been highly successful in Philadelphia and Vienna. [133]

3.4.5 Financial and capacity support for SMEs

For many smaller and medium-sized metropolitan areas, evidence suggests that the most important firms to focus on are those that are already located in the region, especially smaller and medium-sized firms. Many recognise the importance of a higher rate of business creation and a higher rate of successful scaling of these businesses. Start-up companies are growing in number in most metropolitan areas but common challenges include high costs, a lack of suitable real estate, and a shallow financing pool for smaller firms.

Integrated policies can help to incentivise smaller firms to upgrade their business processes, whether through equipment, training, IP or design. A single metropolitan body to centralise all SME assistance functions is one option favoured by well-organised metropolitan areas. Research foundations, infrastructure authorities and development agencies are all key partners for capacity-building with SMEs and entrepreneurs, and for ensuring the region has the right amount and right kinds of business space. As the local agency of Barcelona City Council for 30 years, Barcelona Activa is an example of a successful business incubator whose infrastructure and advisory support has achieved a low mortality rate for new firms. The agency works as a mediator between the public and private sector, and has created large investment forums to encourage the participation of investment funds to support early stage growth SMEs. Other tools include equity co-investment funds to leverage private sector equity investments into early stage growth SMEs as they emerge from private accelerators and support programmes.[134]

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[130] Yipeng Liu, Xuanei Cao and Yijun Xing, "A tale of two cities in regional entrepreneurial policy making: A comparative study of Suzhou and Wuxi from a path-dependence perspective", pp.55-77, Jorg Sydow and Georg Schreyogg (editors), *Self-reinforcing processes in and among organisations*, Palgrave MacMillan: Basingstoke, 2013.

[131] Auckland Council, "Our Auckland", March 2015, www.aucklandcouncil.govt.nz/SiteCollectionDocuments/ourauckland/magazine/ouraucklandalbany201503.pdf, [Accessed online: 21 October 2015].

[132] Richard Smith, Paulina Chow-White, Graeme Webb, Renee Cheung, Karen Fung and J. Patrick Truman, ,"The Missing Link: Immigrant Integration, Innovation, and Skills Underutilisation in Vancouver", pp. 248-270, In Neil Bradford and Allison Bramwell (editors), *Governing Urban Economies: Innovation and Inclusion in Canadian City Regions*, University of Toronto Press, Toronto, 2014, p. 263.

[133] Cities of Migration, *Good ideas from successful cities, Municipal Leadership on Immigrant Integration*, Maytree Foundation and Cities of Migration, 2012, http://citiesofmigration.ca/wp-content/uploads/2012/03/Municipal_Report_Main_Report2.pdf, [Accessed 19 November 2015].

[134] Tan Weizhen, "SBF calls for a single consolidated agency for SMEs", *Today*, 22 October 2015, www.todayonline.com/singapore/sbf-calls-single-consolidated-agency-smes, [Accessed online: 21 October 2015];

3.4.6 The promise of the collaborative economy

The sharing economy is already having a disruptive impact on metropolitan areas, which function as laboratories for experimentation with new technology and business models. Although it is most famous for the rise of large multinational firms such as Airbnb, Uber and Lyft, it also encompasses smaller-scale, low-profit social entrepreneurship. Collaborative consumption is fuelling appetite for more service efficiency and on-demand information, and is resulting in higher levels of entrepreneurship in many cities.

Local and regional governments will have to manage ongoing safety, insurance and regulatory challenges, as well as the effects on employment in established industries such as transport and accommodation.[135] It is also proving important for governments to act as catalysts for these new business models to flourish. At the same time, the 'peer-to-peer' economy provides opportunities for leaders to reflect on the opportunities of these platforms and services to improve city services and relationships with citizens, and to create a more 'shareable city' and crowdfunding approach as pioneered by cities such as Seoul and Bologna.

The dividend of metropolitan economic development	
Coalitions	A co-ordinated approach that avoids duplication of effort or zero-sum competition between neighbouring local governments.
Competitive Evaluation	Strengths and weaknesses are evidenced and understood. Local economic strategy is credible.
Cross-sector	Coherent and aligned actions across sectors around a common economic strategy.
Skills and education	Labour market functions efficiently and increases employment participation and progression.
Entrepreneurship	Entrepreneurs are motivated to start-up stay, settle and participate in a start-up ecosystem.
International visibility	Distinctive assets of the metropolitan area are well understood and resonate across different audiences.
Financial resources	Productive use of public resources, local revenue-raising and leverage of third party finance.
Openness to investment	Investors are attracted to sound, well-prepared and bankable opportunities.
Business climate	Employers locate, invest, and expand job base due to more favourable conditions.
Special purpose agencies	New capacity is created when required and key projects are executed.
Institutional fit	Systems and frameworks are revised in line with need. Institutional lock in is avoided.
Policy momentum	Long-term consensus on development path is sustained and adjustments accommodated.

4 Conclusions and Recommendations

The following key messages can be drawn from this chapter on the governance and economic development of metropolitan areas:

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[135] National League of Cities, *Shifting Perceptions of Collaborative Consumption*, National League of Cities, Washington D.C., 2015, http://www.nlc.org/Documents/Find%20City%20Solutions/City-Solutions-and-Applied-Research/Brief%20-%20Shifting%20Perceptions%20of%20Collaborative%20Consumption2015.pdf, [Accessed 19 November 2015].

CONCLUSIONS

- **Metropolitan areas are complex but not ungovernable**. Many different governance models exist: legible and carefully structured models that provide co-ordination across a metropolitan area, with strong participation of local governments, help produce accountable leadership, equitable and efficient services, and productive local economies. By contrast, in many parts of the world metropolitan governance and leadership failures have had severe negative effects in terms of housing shortages, low levels of educational attainment, lack of access to jobs, crime, low productivity and poor health.
- **The success of metropolitan areas depends on a series of critical enablers.** These include the need for (i) institutional frameworks that are designed to address whole urbanised areas, (ii) financial instruments that encourage local government co-operation, (iii) 'whole of government' approaches to cross-cutting policy issues, (iv) national policies that are calibrated to metropolitan labour markets and housing markets, and (v) joined-up coordination for land-use, transport, business clustering and sustainable development.
- **National-level reforms and programmes that recognise the distinct role and challenges of metropolitan agglomerations are essential**. It is a major task to build a positive agenda for metropolitan areas among higher tiers of government while also managing the unintended spillovers and externalities for the whole nation. Attention to the needs and aspirations of intermediary cities is also critical, not least how they will complement and leverage metropolitan areas in future. This task will require significant public education and a desire to address and explain complexity.
- **Metropolitan coordination takes spatial, sectoral and stakeholder dimensions**. Policy and implementation tends to be most effective when *spatial* policies are consistent with the metropolitan scale, when planning is integrated across *sectors* (e.g. land-use, housing, transport, environment, economic development), and when collaboration between public and non-governmental *stakeholders* is meaningful. The mere establishment of new or enhanced territorial governments is not sufficient without new ways of organising all relevant stakeholders and ensuring proper co-ordination with local governments.[136]
- **Many metropolitan areas are in a low-investment equilibrium and need a higher investment rate.** These might be achieved through increased fiscal competences and new discretionary tax instruments for local and regional governments, and/or the right to retain larger shares of tax revenues. Many solutions require a dialogue that overcomes a 'zero-sum game' approach to local governments' fiscal contributions, and examines opportunities for greater revenue autonomy.
- **Long-term strategic planning is one popular approach** to overcome inter-governmental constraints and to fully engage all local communities, the private sector and other stakeholders. Successful strategic plans have the active consent and input of local governments and citizens, and design a broad-based 'delivery architecture' to sustain commitment to a pipeline of projects.
- **Metropolitan economic development requires a deep appreciation of local assets, endowments, and distinctiveness** as well as sensitive understanding of external factors such as investment returns, business cycles and market forces. It relies on full cross-sector collaboration among local governments, as well as effective communication of choices made and investments taken.
- **Civic and business leadership is an important ingredient** to ensure adaptation to the metropolitan age remains fresh and focused. A more unified economic agenda where local and metropolitan governments are empowered to lead, and where a socially responsible private sector is treated as an equal partner, tends to provide additional confidence to companies and investors. The most advanced multi-sector leadership groups are successful advocates for bold initiatives around economic development, culture, transportation infrastructure, inclusion and sustainability.
- **Metropolitan areas do not operate in isolation**. National urban policies should have a clear perspective on metropolitan areas and the interactions between them in the interests of national prosperity and inclusive growth. Networks and collaborations between metropolitan areas is helpful in preventing binary and zero sum perspectives.
- **The metropolitan age is a dynamic not a static entity**. Governance and economic development will need to evolve and adapt as metropolitan areas grow and change. Many will benefit from

[136] Salet, Willem, Thornley, Andy and Kreukels, Anton, "Practices of metropolitan governance in Europe: experiences and lessons", pp. 377-390, Willem Salet, Andy Thornley and Anton Kreukels (editors), *Metropolitan Governance and Spatial Planning: Comparative Case Studies of European City-regions*, Taylor and Francis, New York, 2003.

a flexible institutional and fiscal architecture that can respond to future patterns, circumstances and disruptors.

RECOMMENDATIONS

- **Recognise metropolitan areas and promote metropolitan governance.** It is essential to mobilise all levels of government (local, city, metropolitan, regional, state/provincial and national) to adjust to the challenges and opportunities of metropolitan areas. A legal and regulatory framework that recognises and supports metropolitan co-ordination provides an initial basis for reform and the signal for local government co-operation. Financial or award-based incentives may also be effective to encourage new leadership and co-investment arrangements.
- **Involve local governments in processes of metropolitan reform**. Metropolitan governance should be rooted in the principle of subsidiarity, such that any metropolitan-level structure must have the buy-in of local governments and their participation in many or most delivery functions.
- **Encourage dialogue and debate on the key issues.** For metropolitan governance arrangements to endure, they must have legitimacy for citizens and local representatives. Public and up-front discussion about the key political dilemmas and trade-offs for the region (e.g. density, equity, sustainability) is necessary to achieve consensus on future reforms and direction.
- **Put metropolitan areas at the heart of international and national macroeconomic policy** in recognition of their role in raising productivity and driving innovation.
- **Decide on a long term development strategy and focus co-ordination targets accordingly**. Metropolitan areas that decide the development agenda is competitiveness should prioritise co-ordination for infrastructure, branding, economic development and inclusion. This agenda should calibrate economic and labour market assets and gaps against relevant national and international metropolitan competitors, and build systems to monitor and evaluate the full range of labour force and employer needs across each cluster - from training, infrastructure, quality of life, research and real estate.
- **Build leadership and consensus around a unified economic strategy**. Metropolitan areas benefit from a unified vision with defined strategies, specific action priorities, and clarity around roles and responsibilities of local governments, civic and private sector stakeholders.
- **Public investment in hard and soft infrastructure is essential**. Infrastructure, logistics, education and liveability are cornerstones the ability to retain workers and businesses. Investment sources and timeframes from different tiers of government should be in close alignment.
- **Goals for equitable economic growth should be defined and monitored.** Social and economic metrics should be developed that measure and address disparities across metropolitan areas.

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