

**SUBNATIONAL GOVERNMENTS AND MANAGEMENT OF METROPOLITAN AREAS: INNOVATIONS FROM LAC, CHINA,  
AND EUROPE**

**RG-T2800**

**CERTIFICATION**

I hereby certify that this operation was approved for financing under the Institutional Capacity Strengthening Thematic Fund (ICS) through a communication dated **June 15, 2016** and signed by Kai Hertz. Also, I certify that resources from said fund are available for up to **US\$300,000** in order to finance the activities described and budgeted in this document. This certification reserves resource for the referenced project for a period of **four (4)** calendar months counted from the date of eligibility from the funding source. If the project is not approved by the IDB within that period, the reserve of resources will be cancelled, except in the case a new certification is granted. The commitment and disbursement of these resources shall be made only by the Bank in US dollars. The same currency shall be used to stipulate the remuneration and payments to consultants, except in the case of local consultants working in their own borrowing member country who shall have their remuneration defined and paid in the currency of such country. No resources of the Fund shall be made available to cover amounts greater than the amount certified herein above for the implementation of this operation. Amounts greater than the certified amount may arise from commitments on contracts denominated in a currency other than the Fund currency, resulting in currency exchange rate differences, i.e. represent a risk that will not be absorbed by the Fund.

ORIGINAL SIGNED

08/25/2016

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Sonia M. Rivera  
Chief

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Date

Grants and Co-Financing Management Unit  
ORP/GCM

Approved:

ORIGINAL SIGNED

08/29/2016

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Vicente Fretes  
Division Chief

\_\_\_\_\_  
Date

Fiscal and Municipal Management Division  
IFD/FMM

# TC DOCUMENT

## I. BASIC PROJECT DATA

- Country/Region: Regional
- TC Name: Subnational Governments and Management of Metropolitan Areas: Innovations from LAC, China and Europe.
- TC Number: RG-T2800
- Team Leader/Members: Ophélie Chevalier (IFD-FMM), as Team Leader; Marion Joubert (CSD/HUD); Huascar Eguino (IFD/FMM); Yuan Li (IFD/IFD); Axel Radics (IFD/FMM); Escarlata Baza Nunez (LEG/SGO), Juan Carlos Martell (VPC/FMP) and Susana Roman (IFD/FMM).
- Taxonomy: Research and Dissemination (R&D)
- Date of TC Abstract: 15 June 2016
- Beneficiary: Argentina, Brazil, Uruguay, Mexico, Ecuador and Peru.
- Executing Agency and contact name: Inter-American Development Bank (IDB) through the Fiscal and Municipal Management Division (IFD/FMM)
- Donors providing funding: Institutional Capacity Strengthening Fund (ICSF)
- IDB Funding Requested: US\$300,000
- Disbursement period: 24 months
- Required start date: September 2016
- Types of consultants: Individual consultants
- Prepared by Unit: IFD/FMM
- Unit of Disbursement Responsibility: Institutions for Development Sector (IFD)
- Included in Country Strategy and CPD (y/n): No
- GCI-9 Sector Priority: Institutional strengthening and capacity development

## II. OBJECTIVES AND JUSTIFICATION OF THE TC

- 2.1 **Background.** During the past thirty years decentralization has mostly been supported as a mechanism to bring government closer to the people, facilitating a more efficient allocation of public resources and promoting enhanced accountability. Decentralization has also been encouraged as a laboratory for development and experimentation with new forms of public policy. In practice governments decentralize as a result of multiple factors. The results of decentralization vary from country to country, suggesting the need to pay attention to the implementation details and institutional design consideration.<sup>1</sup>
- 2.2 Latin America and the Caribbean (LAC) will become the most urbanized region in the world, reaching 86% by 2050 and six mega cities will be the home of more than 100 million people, which is approximately 15% of LAC's population.<sup>2</sup> As the majority of population and economic activity concentrates in metropolitan areas, subnational governments will face greater demands for financing and delivering local services, providing new infrastructure, and promoting local economic development.

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<sup>1</sup> Subnational Governments and Decentralization Sector Framework Document. IADB. June 2015. GN-2813-3.

<sup>2</sup> United Nations, 2011 and 2014.

- 2.3 The metropolitan areas in the region have common characteristics that need to be taken into account when looking into the management challenges: (i) the region has a strong centralist state history and behavior; (ii) the decentralization process has been ongoing in almost all countries; (iii) the civil society is not highly involved; (iv) corruption is a cross cutting issue; (v) local governments need to strengthen their administrative and technical capacities; and (vi) a high proportion of the population lives outside of formal sectors and established legality.<sup>3</sup> These common characteristics are not only specific to the region and can be found in other countries and continents, such as in Europe and Asia.
- 2.4 In Europe, the first intents at metropolitan governance date of the 1960s, with the English metropolitan counties in the United Kingdom and the *communautés urbaines* in Bordeaux, Lille, Lyon, and Strasbourg in France. In both cases the local governments opposed their creation and did everything to obstruct their operational functioning. In the 1970s the experience of the *comprensori* in Italy showed that without stakeholders supports metropolitan governance could not flourish. The success of the Greater London Area, the metropolitan governance in Bologna, and the communauté urbaine Marseilles Provence Metropole are partly due to the increased role of all actors and the diminished role of the central state.<sup>4</sup>
- 2.5 In Asia, metropolitan governance has been used to avoid the negative consequences of geographical fragmentation, as it has been the case in India and the Philippines. They are characterized by a significant lack of voice of local actors and managed at the federal and state levels.
- 2.6 According to the OECD definition, metropolitan areas are urban areas with more than 500,000 inhabitants.<sup>5</sup> Metropolitan areas in Europe contain 59% of the population, hold 62% of jobs and represent 67% of GDP.<sup>6</sup> Common principles for strategic planning include the need to: (i) foster stronger links between economic growth, employment and social progress; (ii) improve access to services; (iii) limit urban sprawl; and (iv) increase environmental protection.
- 2.7 By 2020, metropolitan areas on the Zhujiang triangle, the Changjiang triangle, and the Jung-jin-ji region will account for 18% of China's total population and 65% of the economic output. The policy implications include the need to: (i) encourage and facilitate private participation in the management of metropolitan areas; (ii) clarify the administrative jurisdictions between each level of government; (iii) rethink the delivery of social services and strategic planning; and (iv) revisit the sources of revenue and introduce more efficient financing mechanisms.<sup>7</sup>
- 2.8 **Lessons learned.** This technical cooperation builds upon two partnerships the Bank has been promoting. First, it gives continuity to a cooperation initiated with China through the Guangzhou Award Technical Committee and Jury in 2014, followed by the first Latin America-China Policy and Knowledge Summit, the same year. The

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<sup>3</sup> Governing the Metropolis, Principles and Cases. IDB. 2008. Page 183.

<sup>4</sup> Idem. Pages 94-98.

<sup>5</sup> OECD, 2012.

<sup>6</sup> European Commission, 2014.

<sup>7</sup> Jianming Cai, Institute of Geography and Natural Resources of the Chinese Academy of Science, 2006.

partnership with China has been recently strengthened through an agreement between the Chinese Academy of Social Sciences (CASS) and the Bank. Established in 1977, CASS is the premier and the most comprehensive academic research institute in the People's Republic of China. CASS has extended experience in international academic collaboration and exchange. Since 2013 the Bank and CASS have developed a partnership oriented toward the strengthening of capacity building, and instrumented by the Institutional Capacity Strengthening Fund (ICSF). The lessons learned from this collaboration are: (i) the high value placed on the fostering of innovation; and (ii) the focus on coordination between governments officials, civil society, and the private sector. The following lessons learned from the past collaboration experience with CASS will be taken into account in the implementation of the TC program: (i) having a well-connected coordination unit at CASS as a counterpart, who is able to mobilize the network and resources within the institution will significantly improve the efficiency of communication, as well as leverage the participation of other relevant institutions in China; (ii) being flexible is helpful for achieving the expected outcome, as it is important to understand that the way of doing business may sometimes be different in China; (iii) a clear distribution of responsibility both technically and financially at the beginning of the collaboration will mitigate potential execution risks; (iv) considering that the wide coverage of topics in social science of CASS and its extended network of experts in many areas, it is possible to identify collaborators from China for future engagement through the planned activities.

- 2.9 Second, this operation includes lessons learned from the Urban European and Latin American and Caribbean Cities (URBELAC) network created in 2010 between the Bank and the European Commission. The lessons learned from this partnership are: (i) face to face meetings with technical staff allow for deeper exchanges; (ii) regional policy and development strategies are useful to discuss issues that go beyond city boundaries; (iii) vertical dialogue between national level and local levels are key to foster the fiscal agenda; and (iv) territorial interventions are always multi sectorial.<sup>8</sup>
- 2.10 **Rationale.** Within this context this technical cooperation will connect subnational governments in Latin America and the Caribbean, China, and Europe to identify innovation when addressing common challenges in the management of metropolitan areas. The operation will look at how the metropolitan areas manage their public finance, how the public services are delivered, and how the goal to improve the quality of life of the inhabitants is taken into account as part of their governance strategy. The focus on management is a key issue when discussing the future of metropolitan areas and this operation will bring an analysis of the existing practice and produce concrete projects for potential investments
- 2.11 **Strategic alignment.** In the context of the updated Institutional Strategy 2010-2020 (GN-2788-5), under the Social Exclusion and Inequality topic, this operation's goal is to support the generation of resources and access to services of subnational governments. This goal is aligned with the Bank's Sector Strategy Institutions for Growth and Social Welfare (GN-2587-2), through efficient service delivery in subnational

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<sup>8</sup> [http://ec.europa.eu/regional\\_policy/sources/cooperate/international/pdf/idb\\_urbelac\\_es.pdf](http://ec.europa.eu/regional_policy/sources/cooperate/international/pdf/idb_urbelac_es.pdf)

governments, addressing the population's needs and demands. Furthermore, this operation is supporting the Subnational Governments and Decentralization Sector Framework (GN-2813-3) and the Urban Development and Housing Sector Framework (GN-2732-2), and is aligned with the priorities of the ICSF as it seeks to: (i) enhance LAC and Chinese linkages through the sharing of experiences; and (ii) promote coordination across levels of government, civil society, and private sector.

- 2.12 **Strategy.** Building partnerships for changes is part of the agenda for the Bank, the European Commission, and China. Policy dialogues and assisting human resources development are among their main areas of cooperation. The strategy for this operation is to: (i) identify specific topics or thematic issues around which to center knowledge sharing; (ii) optimize resources bringing to the discussion the analysis of policy and institutional framework and innovative practices; (iii) collaborate with existing platforms and knowledge hubs to bring the knowledge sharing to scale; and (iv) support exchange between local institutions.
- 2.13 To operationalize this strategy, the knowledge sharing will consist of exchanges of best practices, discussion of issues, and solutions for each pre-defined topic. The tools to be used include information exchange, through the organization of round tables, which will take place during the meetings financed by the different components, and direct visits for participants to experience the best practices in question. This operation will be implemented in close coordination with the Chinese Academy of Social Sciences (CASS).
- 2.14 The operation will benefit also from a partnership with the Directorate General Regional Policy (DevRegio) of the European Commission, which has a long experience of analyzing the performance of subnational governments in Europe.
- 2.15 The Bank will organize a call for proposals and select four metropolitan areas.<sup>9</sup> The call for proposals will be organized as follows. The team will send the call for proposals to list of metropolitan areas pre-defined in the region. The entities interested in participating will present a proposal that will include a description of their specific interest, best practices objectives, and commitment within the proposed topics. The team will evaluate the proposals and select the candidates based on inter alia (i) the specific problematic that the candidate wants to address; (ii) the analysis of ongoing activities and plans. Each entity will identify a small technical team composed of authorities and technical officials. Universities and research centers can get involved upon invitation by the local entity. The topics and work plan will be agreed upon during the launching of the operation.<sup>10</sup>
- 2.16 CASS and the European Commission are aware of this technical operation and have expressed their interest in partnering in its implementation.<sup>11</sup> The metropolitan areas selected by each entity – CASS in China, the European Commission in Europe, and the IDB in LAC will constitute a network, using the methodologies successfully tested in the past by both the European Commission and the Bank through the still active Urban European and Latin American and Caribbean cities (URBELAC) network, created in 2010.

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<sup>9</sup> The IDB is planning on sending the invitation to metropolitan entities in Argentina, Brazil, Uruguay, Mexico, Ecuador, and Peru.

<sup>10</sup> Once the local entities are selected and the topics agreed upon the IDB will obtain a non-objection letter from the IDB's liaison entity in each country.

<sup>11</sup> The European Commission is planning on sending the invitation to metropolitan entities in Italy, Spain, Portugal, Greece, France, Holland, and the UK.

### III. DESCRIPTION OF ACTIVITIES/COMPONENTS AND BUDGET

- 3.1 **Component 1. How do Subnational Governments of Metropolitan Areas manage their Finance (US\$70,000).** The objective of this component is to better understand how metropolitan areas finance their infrastructures and services. The activities include: (i) the selection of the metropolitan areas through a call for proposals led by the Bank for the LAC region; (ii) a review of the fiscal capacity of the LAC metropolitan areas selected, compared to other metropolitan areas, worldwide; (iii) a review of the special financial arrangements (such as special taxing powers and special intergovernmental transfers); and (iv) meeting on how metropolitan governments can improve their financial autonomy, based on an analysis of the funding options for the selected governments. The output of this component will be the creation of a network of metropolitan areas between China, Europe and LAC; and a report on the financing of metropolitan areas to be discussed at the meeting financed by this component.
- 3.2 **Component 2. How do Subnational Governments in Metropolitan Areas Deliver Public Services (US\$20,000).** The objective of this component is to generate diagnostics on the delivery of a sample of services in the LAC metropolitan areas selected. The selected governments will share their experience and innovative products and tools used to deliver services. The activities include: (i) selection of a sample of services and methodology for the diagnostics; (ii) field work; (iii) presentation of the preliminary diagnostics to the network; and (iv) meeting within the network on the innovative practices and lessons learned. The output of this component will be a report on innovation in services delivery to be discussed at the meeting financed by this component.
- 3.3 **Component 3. How to Improve Quality of Life in Metropolitan Areas (US\$210,000).**<sup>12</sup> The objective of this component is to identify key actions that have been implemented by local governments, aiming at improving the quality of life of the users of metropolitan areas. This component will be organized through a series of face to face meetings between the local politicians and technicians of the selected metropolitan governments<sup>13</sup>. The activities will benefit from the products of components 1 and 2, which will serve as inputs for: (i) the identification of topics of interest and creation of thematic groups; (ii) knowledge transfer through the exchange of best practices and discussion of issues; (iii) identification by each participant of specific projects to implement in the short term; and (iv) closing event with potential donors, accompanied by blogs, one-minute stories, and info-graphics. The output of this component will be a pipeline of projects (key projects that provide solutions to the challenges identified by each city) to be presented to donors during an event financed by this TC.

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<sup>12</sup> The selected entities will define what is expected under the concept of improved quality of life during the launching of the operation. This will be further clarified through the identification of topics of interest and benefit from the outputs of component 1 and 2.

<sup>13</sup> The events will be 2-3 day workshops gathering all the cities participating in the TC (representatives from LAC, European and Chinese cities) and hosted by LAC or European cities participating in the TC program. Special guests will also be invited to the face-to-face meetings in order to contribute to the identification of solutions. Private sector representatives can be invited at no cost for the TC. The presence of a team member from CSD/HUD will guarantee coordination with ICES when relevant.

### Results Matrix

Outcome Indicator	Unit of measure	Baseline 2016	Goal 2017	Goal 2018 (end of the project)	Means of verification
Improved planning documents including metropolitan aspects	Planning document	0	0	4 (1 for each selected subnational government in LAC)	Closing report of the TC
Output indicators		Baseline 2016		Target	Means of verification
<b>Component I</b>					
Report on the financing of metropolitan areas produced	Report	0	1 (first half of 2017)		Final report validated by IDB
<b>Component II</b>					
Report on innovation in services delivery produced	Report	0	1 (first half of 2017)		Final report validated by IDB
<b>Component III</b>					
Network of metropolitan areas between China, Europe and LAC created. Milestones are:		0	1 (fourth quarter of 2016)		Selection of cities carried out and launching of the network done at the first meeting – List of participants to the first meeting
(i) Work plan adopted by all participants	Work plan	0	1 (fourth quarter of 2016)		Work plan agreed upon by all participants during launching meeting
(ii) Meetings carried out	# of meetings	0	2	1	Monitoring reports produced by coordinator
(iii) Reports prepared by participants at the end of the Program	# of reports	0		8 (2018)	Final monitoring report produced by coordinator
Pipeline of projects for each selected subnational government in LAC produced	List of projects	0		4 (second half of 2018)	Monitoring reports produced by coordinator
Closing event with potential donors and other stakeholders (private sector, etc.) carried out	# of meeting	0		1 (2018)	Monitoring reports produced by coordinator

3.4 **Evaluation.** The evaluation will use quantitative and qualitative methods to both assess the operation's outcomes and support the planning and assessing efforts of the participants. The main result of this operation is for metropolitan areas in LAC to include for the first time or better include issues of metropolitan management to its planning efforts. Research on metropolitan management in the region shows that metropolitan areas lack the efficient managerial, financial, and institutional structures to take on the challenges of building competitive and livable metropolitan regions.<sup>14</sup> The international experience of Europe and Asia demonstrate the diversity of metropolitan government models and the need to further investigate the financial viability of metropolitan regions and to seek local legitimacy. Taking this context into account, the main products of this operation will be: (i) a report on the financing of the selected metropolitan areas; and (ii) a diagnostics of the delivery of a sample of services in the selected metropolitan areas. Additionally, as part of the

<sup>14</sup> Governing the Metropolis, Principles and Cases. IADB. 2008.

knowledge sharing process, a network will be created and fostered during the execution of the operation. Specific outputs are: (i) a work plan, (ii) a series of meetings; (iii) the reports of each participant at each meeting; and (iv) a closing event. The final result of the operation is expected for the end of 2018.

### Indicative Budget

Description	Bank Fund Funding
<b>Component 1. How do metropolitan governments manage their finance</b>	<b>70,000</b>
Consulting services for four diagnostics in LAC (including honorarium, travels, and per diems)	70,000
<b>Component 2. How do metropolitan governments deliver public services</b>	<b>20,000</b>
Consulting services for four diagnostics in LAC (including honorarium, travels, and per diems)	20,000
<b>Component 3. How to Improve Quality of Life through Metropolitan Management<sup>15</sup></b>	<b>210,000</b>
Consulting services for coordination purposes between governments in LAC, Europe, and China	33,000
Travel expenses for face-to-face meetings of LAC government officials and technical experts)	44,000
Travel expenses for face-to-face meetings of Chinese technical experts )	53,000
Translations for face-to-face meetings (to benefit Chinese technical experts)	30,000
Closing event	50,000
<b>Total</b>	<b>300,000</b>

- 3.5 For monitoring purposes a detailed work plan will be agreed upon during the launching of the operation.

#### IV. EXECUTING AGENCY AND EXECUTION STRUCTURE

- 4.1 The Bank will execute this operation through IFD/FMM. Since this TC is a regional project the Bank is in an ideal position to execute it given its presence in LAC and its ongoing cooperation with China and Europe. The Bank will act as a broker of good practices between LAC, China, and Europe and will be responsible for: (i) the organization and participation of LAC metropolitan areas in meetings and workshops; (ii) the selection and execution of consulting services; (iii) the preparation and negotiation of agreements with the LAC metropolitan authorities; and (iv) the coordination with CASS and the European Commission<sup>16</sup>.
- 4.2 The Bank will contract individual consultants, consulting firms and non-consulting services in accordance with Bank's current procurement policies and procedures<sup>17</sup>. The resources of this operation will finance the hiring of three consultants: one to support the analysis of the financial management of metropolitan governments, one to support the diagnostics of a sample of public services, and one to support the Bank in the overall coordination.

#### V. MAJOR ISSUES

<sup>15</sup> The TC resources will not cover the cost of travel for IDB staff nor routine expenses or customary activities of the Bank division in charge of the TC, in compliance with the OP-400 Technical Cooperation Policy.

<sup>16</sup> Prior to the initiation of any activities in each of the beneficiary countries, the Bank will obtain the corresponding non-objection letter from the Bank's liaison entity in each country.

<sup>17</sup> For Individual Consultants – Human Resources procedures (AM-650) and for Consulting Firms and non-consulting services - the Corporate Procurement Policy and procedures (GN-2303-20).



- 5.1 To mitigate this risk of lack of interest, the operation contemplates a call for proposals to select highly motivated participating entities. To mitigate the risk of coordination between entities across the world the Bank is taking the lead in executing this operation. As always with the creation of networks continuity is a risk to be considered. However previous experience within URBELAC shows that local governments do maintain links between themselves, especially when they share common topics of interest. In focusing on metropolitan areas' common issues and in offering technical knowledge and opportunities to identify funding to resolve them, this operation seeks to mitigate the continuity risk. The long term sustainability of the network lies on value creation. The creation of value, focused on stakeholders' needs implies a clear understanding of members' needs, the identification of innovative alternatives for solving problems, the leverage of synergies among stakeholders, and documentation of best practices. This operation includes those four principles as part of its implementation. First, the network is created based on a true demand of metropolitan entities who are facing new challenges and seek to find solutions through exchanges. Second, the focus on management has been recognized as an understudied/underinformed topic. Third, the core topic of the knowledge sharing process (local teams looking at services delivery and quality of life) will need to include as part of the exchanges local stakeholders. Fourth, meetings are prepared by each participant who will come with a report on the subject defined as part of the work plan. The network does not include financial aspects as it focuses on an exchange of practices and issues. To summarize the network is conceived as a knowledge sharing instrument, connecting people directly involved in the management of metropolitan areas.

## **VI. ENVIRONMENTAL AND SOCIAL STRATEGY**

- 6.1 This TC has been classified as C based on the Safeguard Screening and Classification Toolkit. The results of this TC will contribute to the management of metropolitan governments and no adverse environmental or social impact is expected.

### **Required Annexes:**

- Annex I: [Terms of Reference for components](#)
- Annex II: [Procurement Plan](#)