

# Metropolitan Governance

## Principles and Practice

Prepared for the Fiscal Management  
Division by:

Enid Slack

**Institutions for  
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### **Abstract\***

This paper identifies a range of governance mechanisms to support the efficient and equitable provision of public services and improve policy coordination in metropolitan areas. It provides examples from cities in the Global North and Global South, and takes a closer look at metropolitan governance in Brazil, where the constitution makes it challenging to create formal metropolitan structures. The paper suggests that the choice of metropolitan governance structure depends upon how one weighs conflicting considerations—prioritizing efficiency, access, and accountability points to smaller local government units whereas economies of scale, externalities, and equity suggest larger governments. The review of metropolitan governance models does not point to one model that could work everywhere because national and local context matter. Nevertheless, the paper suggests that countries should develop more effective systems of governance for metropolitan areas if they want to improve service delivery, cost sharing, and decision-making. A regional structure that encompasses the entire economic region would ensure that services are delivered in a coordinated fashion across municipal boundaries and improve the process as a whole by reaping the benefits of economies of scale and internalizing externalities.

**JEL Codes:** H11, H70

**Keywords:** consolidated governments, fragmented governments, metropolitan governance, public consortia, two-tier structures, voluntary cooperation

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## Introduction

More than half of the world's population lives in urban areas, a number that is expected to grow to more than two thirds by 2050.<sup>1</sup> Rapid urbanization has greatly increased the number of people living in urban areas around the world. In 1950, 751 million people lived in urban areas; in 2018, that number was 4.2 billion. Although almost half of the urban population still lives in relatively small settlements of less than 500,000 people, 10 percent live in cities of between 500,000 and 1 million people (e.g., Austin and Buffalo in the United States, Monrovia, and Ulaanbaatar), 22 percent live in cities of 1 to 5 million people (e.g., Addis Ababa, Montevideo, and Sydney), 8 percent live in cities of 5 to 10 million people (e.g., Madrid, Santiago, and Singapore), and 12 percent live in megacities of over 10 million people (e.g., Delhi, Mexico City, São Paulo, Shanghai, and Tokyo).<sup>2</sup>

Large cities are major contributors to the economic success of their countries. In the new knowledge-based economy, innovation is the key to prosperity, and most innovation occurs in large cities. The concentration of people and firms increases social and economic interaction and results in greater exchange of ideas among people working in different fields in the same location (these are known as agglomeration economies). Large cities can achieve the critical mass required to attract and support high degrees of specialization in labor, knowledge, businesses, services, infrastructure, institutions, and media. Moreover, cities generally enjoy higher levels of literacy and education, better health outcomes, greater access to services, and more opportunities for cultural activities (United Nations, 2014).

Although rapid urbanization has created economic opportunities for many cities, it has also resulted in serious challenges for local governments: increased air and water pollution, transportation gridlock, deteriorating infrastructure, increased violence and crime, rising poverty and urban slums, and widening income disparities. Local governments face pressure from residents to expand and maintain “hard services,” such as water, sewers, transit, and roads, as well as “soft services,” such as social services, education, and health. Demands are also coming from businesses to improve transportation and information technology infrastructure to help them compete internationally.<sup>3</sup>

Metropolitan areas or regions are also on the rise. A metropolitan area is a densely populated urban core surrounded by several less populated jurisdictions, including cities, towns, villages, and suburbs. Within a metropolitan area, there is often a single economy, labor market, and an overall community of interest (Andersson, 2014). The geographic boundary is often determined by population size and commuting patterns, but the key to the definition of a metropolitan area is

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<sup>1</sup> Latin America and the Caribbean is one of the most urbanized regions in the world, with the urban population now standing at 81 percent of the total population. The sources of the estimates in this paragraph are United Nations (2018a) and United Nations (2018b).

<sup>2</sup> The number of megacities is expected to rise. In 1990, there were 10 megacities; by 2030, the number of megacities is expected to be 43, most of them in less-developed countries.

<sup>3</sup> Businesses are also looking for services that will attract knowledge workers—services that enhance the quality of life in the city such as parks, recreation, and cultural facilities.

the strong and complex interdependencies—social, economic, environmental, and political/administrative—among the local jurisdictions (Klink, 2008).

Improvements in transportation over the last 20 years have meant that people are coming from further and further away for work opportunities and to access services, recreation, culture, and more. The resulting spatial connections and interdependencies between the urban core and the peripheral areas are not often reflected in how these metropolitan areas are governed, however (Ahrend, Lembke, and Schumann, 2016). In particular, the administrative structures in place are, in many cases, out of date and unable to address the economic, social, and infrastructure challenges of the entire economic region. The large number of municipalities within the metropolitan area makes it difficult to coordinate services such as transportation and land use planning, and it complicates policy coordination across the region. Addressing the challenges of metropolitan areas requires adequate resources, but it also entails good metropolitan governance.

This paper identifies a range of governance mechanisms to support the efficient and equitable provision of public services in metropolitan areas and to improve policy coordination. The first part defines metropolitan governance and explains why it matters. The second part sets out several standard criteria for evaluating different governance models. Using these criteria, the third part describes and evaluates various models used in cities around the world. The fourth part takes a closer look at metropolitan governance in Brazil where, for example, the constitution makes it challenging to create formal metropolitan structures. The final part summarizes the lessons from the experiences with metropolitan governance around the world. It concludes that, even though we can point to some innovative governance mechanisms in different cities, there is no one model that stands out above the rest that can be applied everywhere. The national and local context is critical to understanding where different models and mechanisms will be successful. Nevertheless, most countries would benefit from some form of metropolitan structure for their metropolitan areas that addresses regional issues and, at the same time, responds to local concerns.

## **1. Metropolitan Governance Matters**

Metropolitan governance is the process by which government bodies (at all levels) and non-governmental actors (such as civil society, business associations, unions, etc.) collaborate to deliver services and formulate public policy for the entire metropolitan area. It is about the capacity of metropolitan areas to “establish tools, mechanisms, instruments, and arrangements to make these territories governable” (Lefèvre, 2008: 137). In short, metropolitan governance plays a critical role in how well metropolitan areas function. It determines how services are delivered and coordinated across local government boundaries and how costs are shared throughout the metropolitan area. Metropolitan governance also determines where and how decisions are made for the entire metropolitan area. Ultimately, by determining how well the metropolitan area functions, metropolitan governance will have an impact on productivity and economic growth.

### *Coordinating Service Delivery*

Both the quantity and quality of local public services and the efficiency with which they are delivered in a metropolitan area depend, to a considerable extent, on how its governance institutions—especially its formal governmental structures but also civil society, business associations, and nonprofit organizations—function (Slack and Côté, 2014).<sup>4</sup> For example, in the absence of a metropolitan structure, transportation will likely be delivered by several different local governments rather than being coordinated across the metropolitan area. The result will be poorer services (transit that is not seamless across local boundaries, a fare system that is not integrated across local jurisdictions, and other problems) and possibly higher costs for each of the constituent local governments.

Coordination across municipal boundaries is critical for other services as well. For example, inadequate maintenance of storm drains in one municipality, which can result in flooding in other municipalities, will not easily be addressed if there is no decision-making body that covers all the municipalities involved. Crime certainly does not stop at municipal borders and thus needs to be coordinated on a region-wide basis. Governance also matters for economic development because the quality of the business environment affects investment and economic growth. Coordination of economic development activities reduces harmful competition within the metropolitan area where each local government is trying to attract the same businesses. Without a coordinated land use policy throughout the metropolitan area, people may locate in environmentally protected areas that fall under multiple jurisdictions (such as watersheds and flood-prone areas) with the result that the water supply for the region may be threatened.

### *Sharing Costs Fairly*

As suggested earlier, the geographic boundaries of many cities rarely coincide with the boundaries of the entire economic region. One consequence is that workers who live in smaller communities outside the central city commute to the central city for work every day and use local services while there (roads, police, hospitals, and so forth) but do not pay taxes in the central city. Central cities not only have to pay for these services, but they must deal with the traffic congestion, air pollution, and other problems that result from the higher daytime population. Without a metropolitan governance structure, there is no mechanism for sharing the costs. As a result, central cities often do not want to provide these services to the standards that people want.

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<sup>4</sup> In one of the few empirical studies of governance and urban performance, Kaufmann, Leautier, and Mastruzzi (2004) construct a worldwide database of cities containing some key determinants of city performance. They find that good governance at both the country and the city level matter for city-level performance in terms of the quality of delivery of infrastructure services and access to services.

### *Effective Planning and Decision Making*

Metropolitan-wide consensus on goals related to the delivery of effective public services, economic development strategies, land use planning, and other issues is difficult to achieve when there is large number of local governments and no metropolitan decision-making body. This situation is particularly acute in many Brazilian metropolitan regions where there is a mismatch between land use planning and service delivery. For example, new housing is often located in areas with poor infrastructure because service delivery and land use planning are not coordinated on a metropolitan basis. A metropolitan body tasked with both land use planning and service delivery could help to alleviate these problems.

### *Enhancing Productivity and Economic Growth*

The ultimate impact of not having an adequate metropolitan governance structure is lower productivity and reduced economic growth. A recent study of metropolitan areas in five OECD countries—Germany, Mexico, Spain, the United Kingdom, and the United States—found that cities with fragmented governance structures (measured by the number of municipalities in the metropolitan area) tend to have lower productivity (measured by wage premiums) (Ahrend et al., 2014). The authors explain this finding by suggesting that fragmentation can negatively impact transportation investment and land use planning with the result that congestion is increased, and a city's overall attractiveness is reduced. Moreover, fragmented governance structures can impede growth because they discourage firms that must face the additional bureaucracy associated with overlapping business and environmental regulations across a number of local governments in the metropolitan area.

Evidence from OECD countries also suggests that where there is a metropolitan organization, metropolitan areas perform better than fragmented local governments. A metropolitan area with twice the number of municipalities was associated with approximately 6 percent lower productivity. That impact is cut in half if there is some form of governance body at the metropolitan level. Another study found that metropolitan structures have denser developments and higher per capita GDP, attract more people, have a higher level of satisfaction with public transportation, and are subject to less pollution (Ahrend, Lembke, and Schumann, 2016).

## **2. Evaluating Governance Models**

Several criteria to evaluate governance structures in a metropolitan area have been set out in the literature.<sup>5</sup> Some of them point to the need for large consolidated metropolitan governments; others suggest a more fragmented system of small local governments. The choice of governance structure thus comes down to determining which criteria are most important in the context of each metropolitan area.

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<sup>5</sup> See, for example, Slack (2015c), Bahl (2010), and Fox (2015).



## *Economic Efficiency*

According to the decentralization theorem, the efficient provision of public services requires decision making to be carried out by the level of government closest to the individual citizen, so that resources will be allocated with the greatest efficiency (Oates, 1972).<sup>6</sup> When there are local differences in tastes and costs, there are clear efficiency gains from delivering services in as decentralized a fashion as possible. This criterion thus points toward smaller, fragmented general-purpose local governments. Smaller government units may also stimulate competition between local jurisdictions for mobile residents and tax bases that will induce them to offer the best possible mix of taxes and services (Klink, 2008).

The decentralization theorem assumes that local services are not characterized by economies of scale or externalities, which is not necessarily the case in metropolitan areas. The theorem also does not consider non-economics criteria for designing government structure such as access and accountability or equity across the metropolitan area. These other criteria are described below.

## *Economies of Scale*

Economies of scale occur where the per-unit cost of producing a service falls as the quantity of the service provided increases. Although this criterion calls for larger government units to be able to capture economies of scale, there is some controversy in the literature over the usefulness of this criterion.<sup>7</sup> Some of the problems are set out in Box 1.

### **Box 1: Are there economies of scale in local public services?**

The existence of economies of scale depends on the type of service, and for some services, economies of scale are achieved at relatively small population sizes.<sup>8</sup> Moreover, because each urban service will likely realize the lowest per-unit cost at a different scale of production, it might be appropriate to draw boundaries for specific services (delivered by special purpose agencies, for example) but it would be difficult to design general-purpose local governments based on this criterion. There is evidence that larger units of government result in higher costs for some services because of problems delivering services to remote areas within the region or because governments can become so large that there are diseconomies of scale in the provision of some services. As output increases, managerial costs tend to increase (Tavares, 2018). The evidence shows that, although specialized and capital-intensive services tend to benefit from economies

<sup>6</sup> Some studies refer to this principle as the “subsidiarity principle,” which was included in the Treaty of the European Union in 1992 in the context of the division of powers and responsibilities between European governmental bodies and their member countries. This principle has been applied to the role and structure of government at all levels.

<sup>7</sup> See Blom-Hansen et al. (2016), Fox and Gurley (2006), and Byrnes and Dollery (2002) for a review of studies on economies of scale.

<sup>9</sup> In terms of achieving economies of scale, Bel (2011) found that inter-municipal cooperation for solid waste services in 186 municipalities in Spain resulted in lower costs in 2000. For municipalities with fewer than 20,000 residents, the average cost was 20 percent lower where there was cooperation. For municipalities with fewer than 10,000 residents, the costs were 22 percent lower (Bel, 2011). The average cost differences were not significant in cities with more than 20,000 residents, however, since they already operate at an optimal scale. See Moisio and Oulasvirta (2010) for estimates for health care and education in Finnish municipalities and Found (2012) for estimates for fire and police services in Ontario, Canada.

of scale, managerial control and excess administrative burdens result in inefficiencies in larger municipalities (Holzer et al., 2009). It is not always the case that municipal governments deliver the services (Blom-Hansen et al., 2016). For example, children are educated in schools, so the most relevant cost effects relate to the size of the schools and not the municipality or the school district. The same argument would apply to other services such as libraries, child care centers, homes for seniors, and others. Enlarging the municipality will not necessarily affect the size of individual schools or libraries. Moreover, the jurisdiction that provides the service does not necessarily have to be the one that consumes it. Economies of scale can be achieved by the jurisdiction producing the service (which may be different than the jurisdiction consuming the service) or by contracting out the service to the private sector. In this context, the design of the government structure may be less important. The impact of weak infrastructure may negate the advantages of economies of scale. For example, economies of scale may be achieved by having one large school rather than several smaller schools scattered throughout the metropolitan area but, if the transportation system is inadequate, students may not be able to get to that school.<sup>9</sup>

### *Externalities*

The provision of some services results in externalities (also known as spillovers) whereby the benefits (or costs) of a specific service in one local government jurisdiction spill over to residents of another jurisdiction. For example, a road in one municipality can provide benefits to residents of neighboring municipalities who also drive on it. In this case of an external benefit, the local government of the municipality in which the road is located has no incentive to provide services to residents of other jurisdictions (because they do not generally pay for them) and is thus unlikely to take account of the external benefits when deciding how much to invest in the road. The result is an under-supply of the service that generates an external benefit.<sup>10</sup>

One way to remove the resulting inefficiency from an externality is to design government jurisdictions large enough that all the benefits from a particular public service are enjoyed within the boundaries of that jurisdiction. Such boundary readjustments would “internalize” the externalities (ensuring that those who benefit from the service also pay for it).<sup>11</sup> Environmental protection, economic development, and social cohesion, for example, would be more practical and cost efficient if organized on a larger scale to internalize the costs and benefits (European Commission and UN Habitat, 2016). As with economies of scale, however, not only will the optimal sized jurisdiction be different for different services, but the appropriate size to achieve economies of scale may differ from the size that is appropriate to internalize externalities.<sup>12</sup>

<sup>9</sup> For more discussion of economies of scale in the context of urban governance structures, see Fox (2015).

<sup>10</sup> In addition to the payment issue, electoral incentives also point in the same direction. Those in neighboring municipalities who enjoy the external benefits do not vote for the local authorities that deliver them. Those in the municipality delivering the service may not be keen to extend the service beyond their boundaries if they have to pay for them and might vote against candidates who support it.

<sup>11</sup> It would also mean that the beneficiaries from the service would vote for the local authorities in charge of overseeing public service provision. See Box 2 below for more on the electoral issues.

<sup>12</sup> Another way to address externalities is through intergovernmental transfers. The transfers would have to be conditional to ensure the funds are spent on the service that generates the externality. They would also have to be matching (that, is with some portion of the contribution coming from the local government and some from the donor government) to reflect the extent of the externality. For more information on intergovernmental transfers, see Slack (2015b).

## *Equity*

Equity refers to the ability to share costs and benefits of services fairly across the metropolitan area. When there are many local government jurisdictions in a metropolitan area, there are likely to be some rich communities and some poor communities. The rich communities have a more adequate tax base with which to provide services and may not have very great demands for some services (such as education or social services). The poor communities, on the other hand, may require more services but have only a small tax base on which to levy taxes. The greater the number of municipalities within a metropolitan area, the greater will be this problem.

One way to address the equity problem would be to consolidate the rich and poor areas, in effect taxing the rich municipalities and using some of the proceeds to subsidize the poor municipalities.<sup>13</sup> An alternative approach is to shift the redistributive function to a senior level of government or for the senior level of government to provide transfers to municipalities based on expenditure need and fiscal capacity.

## *Access and Accountability*

Access and accountability depend on the extent to which citizens can communicate with their local government through public meetings, hearings, elections, and direct contacts with officials. Some of the questions that can be asked around accountability include: Do people know what services the local government is delivering and how taxes are being used? Do they have the information they need to evaluate the performance of their local government? Is there a place to complain about service delivery and are their issues being addressed? (Smoke, 2015).

Access and accountability are easier to achieve when local government units are smaller and more fragmented (Smoke, 2015). Smaller government units can provide citizens with greater access to local decisions because the ability of the public to monitor the behavior of decision makers falls as the size of the government increases (Boyne, 1992). The larger the local government jurisdiction, the more likely it is that special-interest groups will dominate citizen participation (Bish, 2001).

## *Balancing Regional and Local Interests*

The choice of an appropriate governance structure for a metropolitan area depends upon how one weighs these conflicting considerations—efficiency, access, and accountability point to smaller local government units whereas economies of scale, externalities, and equity suggest larger governments. Metropolitan areas everywhere face the challenge of how to balance regional and local interests: “The architecture of regional governance systems must somehow enable regional interests to be heard amid the cacophony of locally oriented demands and ambitions” (Walisser, Paget, and Dann, 2013). As the world becomes more urbanized and metropolitan economies evolve, there is a need for a regional vision and for many services

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<sup>13</sup> If tax rates in the richer municipalities increase, there could be potential taxpayer relocation. See, for example, Agrawal and Foremny (forthcoming).

(such as transportation, land use planning, and economic development) to be delivered on a regional basis. At the same time, some services are very local (such as parks and recreation) and benefit from more local provision and local responsiveness. As will be highlighted below, different countries have used different governance models to balance regional and local interests, reflecting the different weights attached to each of the criteria set out above.

### 3. Five Models of Metropolitan Governance

Models of metropolitan governance can be categorized in a number of ways. For the purpose of this paper, the following five categories are used: one-tier fragmented model, one-tier consolidated model, two-tier model, city-states, and voluntary cooperation (including special purpose districts).<sup>14</sup> Table 1 summarizes the types of models, how they stack up against the evaluation criteria, and examples of cities where they can be found. Although these categories are useful to understand the different types of government structures, it is possible for a city to appear in more than one category—a city that is characterized as a fragmented one-tier government, for example, may also engage in voluntary cooperation to deliver services using inter-municipal agreements or special purpose districts.

**Table 1: Five Metropolitan Governance Models**

<b>Model</b>	<b>One-tier fragmented</b>	<b>One-tier consolidated</b>	<b>Two-tier</b>	<b>City-states</b>	<b>Voluntary cooperation</b>
<b>Evaluation criteria satisfied</b>	Economic efficiency, access and accountability	Economies of scale, externalities, equity	Lower tiers: economic efficiency, access and accountability  Upper tier: economies of scale, externalities, equity	Economies of scale, externalities, equity	Cooperation entity: economies of scale, externalities, equity  Each municipality: economic efficiency, access and accountability
<b>City examples</b>	Los Angeles, Zurich, Geneva, Buenos Aires, Manila, Mumbai	Cape Town, Toronto, Shanghai, Abidjan	London, Barcelona, Stuttgart, Paris, Tokyo, Quito, Victoria (Canada), Dar es Salaam	Berlin, Hamburg, Bremen, Mexico City, Singapore, Shanghai, Ulaanbaatar	Finnish municipalities, U.S. municipalities, Belo Horizonte, São Paulo, Bogotá, Buenos Aires, Mumbai, Manila

<sup>14</sup> For other ways to categorize governance models, see, for example, Bahl (2010), Klink (2008), and Lefèvre (2008).

### 3.1 One-Tier Fragmented Government Model

Perhaps the most popular model around the world is the one-tier fragmented government model (also referred to in the literature as the public choice model (Heinelt and Kubler, 2005) or jurisdictional fragmentation (Bahl, 2013). This model is characterized by a large number of autonomous local government units in a metropolitan area with each unit having some degree of independence in making decisions within its own jurisdiction about what services to deliver and how to pay for them.<sup>15</sup> The main advantage of this model is that local governments have the potential to be more accessible, accountable, and responsive to local citizens than larger government units. From the local government perspective, they retain autonomy to make decisions.

Opportunities to address service spillovers across municipal boundaries, achieve economies of scale in production, or coordinate service delivery across the metropolitan area, however, are limited. In a fragmented system, metropolitan-wide consensus is difficult to achieve in areas such as economic development, environmental quality, social and spatial disparities, equitable funding of services, and quality of public services throughout the region (OECD, 2006). From an equity perspective, fragmentation can lead to large fiscal disparities among local government units with the metropolitan area because each local government has different expenditure needs and differing abilities to raise revenues. Many small local governments may also lead to tax competition, which may be beneficial if it encourages efficiency but could potentially lead to a race to the bottom where taxes are too low to finance the services and infrastructure that people want (Fox, 2015).

#### *Examples of One-Tier Fragmented Government Structures*

Fragmented one-tier models proliferate in both developed and developing countries. In the United States, most metropolitan areas are characterized by fragmentation. A typical example is Los Angeles, a metropolis with almost 13 million people, which is divided into more than 200 cities and five county governments with no metropolitan government (Vogel, 2013). Except for a few regional agencies, there is no regional collaboration on services or infrastructure. Fragmentation of local governments in the US reflects a strong tradition of home rule and local autonomy, acceptance of competition among local governments, and a higher tolerance for fiscal disparities than might be found in other countries (Bahl, 2010).

Metropolitan areas in Switzerland are also characterized by a high degree of institutional fragmentation of local governments. Geneva, with a population of about a half a million people, has as many as 74 municipalities, not including those that are located across the border in France. In both Zurich and Geneva, the amalgamation of communes (local governments) is highly unpopular and there has been no effort to create regional institutions (Kübler and Rochat, 2013). As with metropolitan areas in the United States, fragmented local governments in Switzerland reflect a long tradition of local autonomy.

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<sup>15</sup> Fragmentation can refer to local governments and special purpose bodies at the local level (horizontal fragmentation) as well as to local governments and upper level governments (vertical fragmentation) (Bahl, 2013).

Until very recently, Mexico City was governed by the Federal District with 16 municipal sub-units plus the states of Mexico and Hidalgo that include 59 municipalities, plus the federal government.<sup>16</sup> An amendment to the constitution officially changed its status from a federal district to Mexico City, however, and it is now more like a city-state. The Metropolitan Region of Buenos Aires, which includes the Autonomous City of Buenos Aires (similar to a province with a directly elected mayor) plus 32 surrounding municipalities, does not have a metropolitan government.

Metropolitan Manila has been described as “city of villages” with autonomous local units resisting higher level controls over their activities (Laquian, 2002: 74). The Philippines has a history of local autonomy that has made cooperation at the metropolitan level in Manila extremely difficult. Moreover, the affiliation of metropolitan structures in the mind of the public with the Marcos regime has further limited the ability to introduce a metropolitan-wide structure. As will be discussed below, however, there is a regional administrative body that tries to coordinate planning and service delivery on a metro-wide basis, but it has to operate in a way that does not impinge on local autonomy.

Greater Mumbai, with a population of 12.5 million, is situated within the Mumbai Metropolitan Region (MMR) that has a population of 22 million. The MMR comprises seven municipal corporations, 13 municipal councils, a part of two districts, and over 900 villages. Many parastatals (public companies) deliver services but the overall management of MMR rests with four main ones that were established by the state government of Maharashtra—the Mumbai Metropolitan Region Development Authority (MMRDA), which is a planning agency for the metropolitan region, the Maharashtra Housing and Area Development Authority, the Slum Rehabilitation Authority, and the Maharashtra State Road Development Corporation (Mathur, 2013). Seven parastatals have also been established by the national government. One example is the Airport Authority of India, which operates in Mumbai (Pethe, 2013).

Governance in Mumbai is complex and confusing, with overlap and fragmentation between the Municipal Corporation of Greater Mumbai and the parastatal agencies (Mathur, 2013). Sometimes referred to as the “governance conundrum,” governance is multi-level (central, state, local) and multi-organizational (parastatals) and involves the sharing of fiscal and functional powers among all these actors (Pethe, 2013).

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<sup>16</sup> A federal district is a governing structure for capital cities in some federal countries. It is either the creation of the national government or the constitutionally established seat of government (as in Mexico City). A federal district lies outside of the territory (and the jurisdiction) of any state or province. The local government of the federal district performs many of the same functions as other cities in the country as well as state or provincial functions. Other federal districts are Abuja, Addis Ababa, Canberra, Delhi, and Washington, DC. For more details on the governance and finance of capital cities, see Slack and Chattopadhyay (2009).

### 3.2 One-Tier Consolidated Government Model

A one-tier consolidated government model, also referred to as the metropolitan reform tradition (Heinelt and Kübler, 2005) or the metropolitan model (Bahl and Linn, 2013), is a single local government with a geographic boundary that covers the entire metropolitan area. It is responsible for providing the full range of local services. Large single-tier governments have generally been formed by amalgamation (the merger of two or more lower-tier municipalities within an existing region) or by annexation (appropriation of a portion of a municipality by an adjacent municipality).

The advantage of the consolidated model is that it can provide better service coordination, clearer accountability, more streamlined decision making, and greater efficiency than many small, fragmented government units (Bahl and Linn, 1992).<sup>17</sup> It has also been suggested that large metropolitan governments can be more competitive in the global economy (Meloche and Vaillancourt, 2013). The larger taxable capacity of a consolidated one-tier government increases its ability to raise revenues, charge user fees, and borrow funds. As a result, it can be more financially self-sufficient than smaller government units. Metropolitan governments can be given access to more broad-based taxes because capital and labor are less likely to cross metropolitan boundaries compared to local boundaries. Larger, consolidated governments may also have an inherent advantage in tax administration because of their size (Bahl, 2010). There is a wider tax base for sharing the costs of services that benefit taxpayers across the region so that the quality of service is not tied to the wealth of each local jurisdiction. Large one-tier governments can also take advantage of economies of scale in service provision and internalize externalities.

At the same time, amalgamation reduces competition among municipalities, weakening incentives for them to deliver services efficiently.<sup>18</sup> Reduced competition may also lead to higher tax rates.<sup>19</sup> On the other hand, if some localities could not previously afford to provide an adequate level of service at a reasonable tax rate because they did not have adequate resources, amalgamation may allow them to provide a level of service comparable to richer localities in the region.

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<sup>17</sup> A review of empirical studies in eight countries, however, concluded that, with the exception of highly fragmented systems, amalgamated municipalities do not reap significant economies of scale (Tavares, 2018). Service quality may improve, but at a price (Allers and Geertsema, 2016).

<sup>18</sup> The consolidation of the upper-tier government and six lower-tier municipalities in Toronto in 1998, for example, was designed to save costs but the evidence suggests that it is unlikely that cost savings were actually achieved (Slack and Bird, 2013). The Toronto amalgamation did result, however, in some redistribution within the metropolitan area, increasing equity among residents in service levels and tax burden.

<sup>19</sup> Charlot, Paty, and Piguet (2012), for example, estimated a model of tax setting for the local business tax in French urban municipalities from 1993 to 2003 and concluded that a reduction in the number of municipalities limits tax competition and increases local business tax rates.

## **Box 2: Direct Election of Metropolitan Councils and Mayors**

A directly elected, consolidated one-tier government means that voters elect decision makers who are held accountable for decisions that affect the metropolitan area. Direct election of the mayor of a consolidated one-tier metropolitan government strengthens the political status of the metropolitan government and makes it more visible to the public and other local and external actors (European Commission and UN Habitat, 2016). Directly elected mayors “provide a coherent city vision, mobilise coalitions of stakeholders and offer greater accountability to citizens.” (Avis, 2016: 8). Direct election gives the mayor potential to provide leadership and be a champion for regional initiatives that would be difficult to do as a municipal mayor who is indirectly elected to the metropolitan council but still represents a local constituency. In France, the Metropolitan Act of 2014 prescribes the direct election of metropolitan assemblies in 2020. In Italy, the Local Government Act of 2014 set up metropolitan authorities in the ten largest urban regions and enables the direct election of metropolitan mayors in Milan, Naples, and Rome. In the United Kingdom, direct election of local mayors is part of the devolution deals with cities.

Large metropolitan governments, especially those with directly elected mayors, are often not popular with state or national governments. The primary reason is that these governments, and their mayors, can become very powerful. Senior governments may feel threatened. Moreover, to the extent that these metropolitan governments are largely financially sustainable, the resources available to the state or national government for the remaining municipalities in their jurisdiction may be constrained.

A large-scale one-tier government may reduce access and accountability because the jurisdiction becomes too large and bureaucratic and citizens do not feel that they can easily access their government.<sup>20</sup> To overcome this problem, some metropolitan governments have established community committees or community councils to address local issues, or satellite offices have been set up across the municipality where people can pay tax bills, apply for building permits, or perform other municipal functions. Such devices may increase accessibility, but they may also reduce the potential cost savings that might otherwise result from having one large government unit.

Mergers may decrease turnout in local elections because voters have less access to politicians and feel less able to influence political decisions in a larger jurisdiction. Empirical studies of the impact of municipal amalgamation on voter turnout in European countries are mixed, however (see, for example, Koch and Rochat, 2017; Lapointe, Saarimaa, and Tukiainen, 2018; Heinisch et al., 2018). In Toronto, voter turnout increased following the 1998 amalgamation, however (Hicks, 2006).

Innovative ways have been tried to encourage citizen access and participation in an otherwise inaccessible system. For example, local budgets and financial accounts are freely accessible on the internet for many local governments. The Open Government movement around the world is

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<sup>20</sup> As Dafflon (2012) notes, amalgamation is usually justified for economic reasons—administrative economies, economies of scale, improved efficiency, internalization of spillovers, and more robust tax bases—but opponents justify their position based on democratic arguments—less voice and democratic choice at the grassroots level.



motivated by a desire to create more transparent and participatory forms of government, enabled by transformative technological innovation. Online access to government information and data allows citizens to work with government on policies and services and to hold them to account for their decisions. In some instances, residents are actively encouraged to participate in developing the expenditure plans for their areas. Participatory budgeting is the practice of including citizens in decisions on how the budget is formulated.<sup>21</sup> Participatory budgeting was introduced, in part, address severe inequalities in services (especially water and sanitation) and to improve the quality of life of local communities. The extent to which online access to information and participatory budgeting can substitute for smaller local governments remains an open question, however.<sup>22</sup>

A major challenge with a one-tier consolidated structure is determining the appropriate geographic boundary for the metropolitan government. Looking around the world, we find that geographic boundaries of metropolitan governments rarely coincide with the boundaries of the economic region. Even where the geographic boundary does cover the economic region at the time of the consolidation, it will not necessarily continue to do so as economic boundaries expand over time—economically dynamic regions, by their nature, eventually outgrow their local political boundaries. Yet, government boundaries are difficult to alter, and boundary expansions are rarely attempted by state or national governments simply because they are politically unpopular, involve substantial adjustments, and are difficult to get right (Clark and Clark, 2014). Even a consolidated city is thus often faced with the need to coordinate services such as transportation and planning with neighboring municipalities.

#### *Examples of a One-Tier Consolidated Model*

Consolidation of municipalities through amalgamation, merger, or annexation to one tier is probably the least common governance structure for metropolitan areas around the world. Nevertheless, there are some noteworthy examples of amalgamations. In all cases, the consolidation was imposed from the top and, in some, amalgamations went ahead even in the face of local opposition. The City of Cape Town was established as a one-tier municipality in 2000 by amalgamating the two-tier structure that was created following apartheid. The main aim behind the amalgamation was to reduce the gross inequities in services between the rich and poor local authorities by creating “one city, one tax base” (Steytler, 2013). There was also recognition of the need for regional coordination of services. The boundaries of Cape Town, drawn by the Municipal Demarcation Board, have resulted in a metropolitan city that is “truly bounded” in the sense that the entire metropolitan area falls within the political boundaries with little or no spillovers in service delivery (Steytler, 2013).<sup>23</sup>

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<sup>21</sup> Porto Alegre, Brazil introduced the practice in 1989 and it is now used by 180 municipalities in Brazil and many countries in Latin America and elsewhere.

<sup>22</sup> Other local accountability mechanisms include participatory planning, recalls, and referenda. These mechanisms are intended to increase civic engagement and improve service delivery and, in this way, enhance trust in government, develop social capital, and improve acceptance of revenue-raising powers at the local level (Smoke, 2015).

<sup>23</sup> The Municipal Demarcation Board is an independent authority responsible for determining the categories of municipalities, their outer boundaries, and the boundaries of wards in South Africa. Members of the board are

To improve local responsiveness in the one-tier consolidated structure, Cape Town established 23 sub-councils, which exercise only those powers delegated by the municipal council. Sub-councils can spend some small ward allocations (there are 105 wards) and award business licenses. They are not elected but they do allow the metropolitan city to devolve some decision making to a level closer to the people without giving up any power (Bahl, 2013). The metropolitan government has also adopted a system of ward forums with 20 members from community organizations. The effectiveness of these forums and ward committees has been questioned, however (Steytler 2013).

The history of municipal amalgamation in Toronto spans more than 50 years beginning in the 1950s with a system of fragmented one-tier municipalities. In 1954, a two-tier metropolitan government (a metropolitan tier and 13 lower-tier municipalities) was created.<sup>24</sup> In 1998, the metropolitan and lower tiers were merged into a single-tier City of Toronto. Although referenda held in each of the lower-tier jurisdictions indicated that the population did not support amalgamation, the provincial government passed legislation to create the amalgamated City of Toronto. It has been argued that the amalgamation created a city that is both too big and too small. It is too big to be responsive to residents and too small to address the issues that plague the region (mainly transportation and land use planning). Moreover, the evidence shows that the amalgamation, which was intended to achieve cost savings, did not manage to do so (Slack and Bird, 2012). The merger ensured a more equitable sharing of costs among municipalities within the metropolitan area.

Shanghai is a one-tier city which is divided into administrative units—urban districts and street offices. Since 1990, the urban districts of Shanghai have gained new administrative authority such as planning, public works maintenance, approval of local foreign trade deals, and commercial administration.<sup>25</sup> Although technically a one-tier consolidated city, devolution to the urban district level has had more of an impact on land use than devolution to the municipal government because districts are responsible for development funds and land use decisions and have been actively involved in construction projects (Zhang, 2007). District governments can collect revenue from district-owned enterprises and share tax revenues with the municipal government. At the same time, because they are smaller than the municipal government, district governments can make decisions that more closely reflect local interests. Street offices, which act as a representative or agency of the district government, manage the delivery of 14 different services in the community (Wu, 2002).<sup>26</sup> Residents' committees are management bodies and not government institutions, but they are elected by residents to undertake many tasks assigned by the government, such as maintenance of public order and basic welfare provision. More recently, Shanghai has also seen the emergence of business and property owners' associations (Zhang, 2007).

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appointed by the president on the recommendations of an independent panel presided over by a justice of the Constitutional Court (Steytler, 2013).

<sup>24</sup> In 1985, Metropolitan Toronto moved from a system of indirectly elected councilors to directly elected councilors. The Chair of the metropolitan council was still indirectly elected by the metropolitan councilors, however.

<sup>25</sup> Urban districts vary in size with the largest being the Pudong district with 1.65 million people.

<sup>26</sup> These services include local justice, community security, traffic control, fire protection, sanitation, streetscaping, open space maintenance, environmental protection, family planning, employment and labor force administration, day care services, disaster protection, collective-owned businesses, community services, and farmers' markets.

Abidjan is a one-tier consolidated city that was established in 2001 by the national government of Côte d'Ivoire after disbanding what was considered to be a reasonably successful two-tier system that had been in place since the late 1970s (Stren, 2007). The newly created district of Abidjan comprises the original 10 communes (that were the second tier in the two-tier system) plus three additional large prefectures on the outskirts of the city. The amalgamated city increased significantly in size to include some rural areas.

### 3.3 Two-Tier Government Model

In a two-tier government model, there is an upper-tier governing body (usually a region, district, or metropolitan authority) that encompasses a fairly large geographic area and two or more lower-tier or area municipalities (such as cities, towns, or villages). In principle, the upper tier is responsible for services that provide region-wide benefits, generate externalities, involve some redistribution, and display economies of scale. Services that provide local benefits are the responsibility of the lower tiers.

Redistribution is achieved at the upper-tier level through a combination of tax and spending policies. Taxes are generally levied at uniform rates across the region, with the contribution of each lower-tier municipality to the upper-tier municipality depending upon the size of its tax base. The upper-tier government makes expenditures on services that benefit the entire city-region and are not necessarily distributed among the lower-tier municipalities in the same way as revenues are collected. A uniform tax at the upper-tier level combined with region-wide expenditures thus serves to redistribute resources from municipalities with larger tax bases to those with smaller tax bases. Nevertheless, there may still be differentiation in service levels and tax rates with respect to services provided by lower-tier municipalities.

Two-tier structures potentially have important advantages over the one-tier model in terms of accountability, efficiency, and local responsiveness. Critics of the two-tier model, however, commonly argue that costs will be higher because of waste and duplication in service provision. There is, however, little evidence to support this argument. The provision of many public services can easily be divided among the tiers. In health and education, for example, more specialized (and costly) services can be provided regionally, with primary services being provided locally. With respect to infrastructure (roads, water, etc.), major capital projects can be planned, financed, and managed at the regional level, while local connections are dealt with at the local level. Dividing responsibility in such ways can also make service provision more accountable and responsive to local preferences.

On the downside, two-tier structures are definitely less transparent and more confusing to taxpayers, who can seldom determine precisely who is responsible for which services. Moreover, the existence of two levels of municipal council has been said to lead to considerable “wrangling, inefficient decision-making, and delays in implementing policies” (Kitchen, 2002: 312), although the extent to which this is a problem depends largely upon the precise governance structure not to mention the commitment and goodwill of the individuals involved.

Where upper-tier councillors are directly elected (as opposed to being indirectly elected to the metropolitan tier by local councillors), there is a greater chance that they will have a vision for the metropolitan area rather than representing their local constituencies.

### *Examples of a Two-Tier Government Model*

The two-tier governance model in London is generally regarded as a success. Greater London, with a population of 8.7 million, comprises 32 boroughs and the Corporation of London. The Greater London Authority (GLA) with a directly elected Mayor came into being in 2002. The GLA is responsible for region-wide services. Transport for London is responsible for roads, buses, trains, subways, traffic lights, and regulation of taxis. The London Legacy Development Corporation and Old Oak and Park Royal Development Corporation (formerly the Development Agency) coordinates economic development. The Mayor's Office for Policing and Crime and the London Fire Commissioner are also included under the GLA umbrella. The boroughs retain primary planning responsibility as the local planning authority and are responsible for housing, education, social, and health services.

Barcelona provides a more recent example of a two-tier structure. The regional Parliament passed legislation in 2010 to create an upper-tier metropolitan government (Barcelona Metropolitan Area) with 36 lower-tier jurisdictions. The combined population exceeds 3.2 million and the Municipality of Barcelona accounts for approximately half of the population of the metropolitan area of Barcelona. The Metropolitan Council includes all of the mayors of the municipalities plus 90 councillors, the Governing Committee, and the President. The President is elected by the Council from among the mayors. The Barcelona Metropolitan Area employs 500 people and has a budget of over EUR 660 million. Its revenues include a metropolitan tax, other local taxes, transfers from the member municipalities, and other sources (European Commission and UN Habitat, 2016).

This new metropolitan body, which came into being in 2011, replaced three previous metropolitan bodies: The Metropolitan Entity of Hydraulic Services and Waste Management, which covered 33 municipalities, the Metropolitan Transport Entity, which covered 18 municipalities, and the Association of Municipalities of the Metropolitan Area of Barcelona, a voluntary body comprised of 31 municipalities. Not only was the metropolitan area greater than that covered by these metropolitan bodies, but it replaced three different entities in the same metropolitan area (each made up of a different number of municipalities). The Metropolitan Council is also responsible for strategic planning, economic development, social housing, solid and liquid waste management, sewerage, public spaces, and social cohesion (European Commission and UN Habitat, 2016). The new structure reduces the substantial (and unproductive) complexity of the previous system (Bosch, Espasa, and Solé-Vilanova, 2013). The example of Barcelona is particularly interesting because it shows how it is possible to move from a series of special-purpose districts dealing with specific services (discussed further below) to a more broadly based two-tier government structure.

Stuttgart, with a population of 2.7 million and 179 municipalities and five districts (Kreise), provides another example of a two-tier structure. The main city is Stuttgart, with a population of 600,000. This two-tier model is different than Barcelona in that the metropolitan council is directly elected. The Verband Regio Stuttgart was established by the Land (state government) law of Baden Wurttemberg in part to address the issue that the central city was paying for services (such as transportation and hospitals) that were being provided to the outlying areas. The Verband is a metropolitan tier government run by a 91-member parliament. The members of parliament are directly elected for a five-year term, and the president (an honorary function) is indirectly elected by parliament. The legal representative of the Verband is the regional director who is appointed for a six-year term.

The responsibilities of the Verband include public transportation, metropolitan planning, business development, and some aspects of waste management. It also is active in sports and culture but on a voluntary basis. Eighty-five percent of its budget is devoted to transport. Revenues are derived from taxes and grants provided by the member municipalities, the Kreise, the Land, and the federal government (European Commission and UN Habitat, 2016). Some authors have argued that it is a weak structure, in large part because the constituent municipalities did not support its creation and, as a result, it has had limited success in raising funds from member municipalities (Slack, 2007; Jouve, 2005).

The Greater Paris Metropolitan Area (Metropole du Grand Paris, or MGP) was established by the Metropolitan Act in 2014 and came into effect in January 2016. The MGP covers the core of the Ile de France region comprising seven million people and combines the wealthy inner-city arrondissements and the suburbs (banlieues) where many immigrants live and where poverty and despair have resulted in alienation and violence (Barber, 2016). The government is run by a directly elected metropolitan council and a president who is indirectly elected from among the council members. The MGP is responsible for strategic and spatial planning, economic development, social housing, and environmental protection.

Tokyo, a city of over 13 million people, has a metropolitan government that encompasses several lower tiers: 23 special wards, 26 cities, 5 towns, and 8 villages. The Tokyo Metropolitan Government (TMG) has administrative responsibility for services such as water supply, sewerage, and fire protection to ensure uniform and efficient region-wide coverage. The Metropolitan-Ward Council is a consultative body for communication and coordination between the metropolitan government and the wards. The wards are responsible for services such as welfare, education, and housing. Cities, towns, and villages also provide services such as waste disposal and incineration, public hospitals, and profit-making projects, often establishing their own shared-delivery cooperatives and regional associations.

The Metropolitan District of Quito (MDQ), with a population of 2.5 million, is another example of a two-tier structure with a metropolitan government and 61 zones and parishes. The Metropolitan District was created by law in 1993. MDQ has a directly elected council of 15 members and a directly elected mayor. It is responsible for economic development, land use, environmental planning, and transportation, and it oversees metropolitan companies for water

supply, solid waste, health, and education (Andersson, 2015). Its revenues come from national transfers as well as taxes and special contributions.

In Canada, the regional district model in the province of British Columbia is a voluntary two-tier model in which the regional district can take on any function that its constituent municipalities are permitted to undertake.<sup>27</sup> The regional district is not considered to be a level of government because municipal councillors decide which activities they want their lower-tier municipalities to engage in at the district level; the district cannot implement decisions that are opposed by local authorities.<sup>28</sup> It also has no taxing authority.

In Greater Victoria, for example, there are 13 municipalities, five major regional or sub-regional service-providing entities (the Capital Region District, BC Transit, Greater Victoria Public Library, Vancouver Island Regional Library, and the West Shore Parks and Recreation Society), and two smaller entities. Each of these entities is governed by a committee, board, or commission which comprises councillors from participating municipalities. There are 91 elected mayors and councillors who are responsible for the governance of all local services in Greater Victoria. In other words, individual services are managed by a common board. Services can be provided for any or all of the municipalities in the regional district (as well as municipalities outside of the district). One of the main advantages of this model is the flexibility it offers to provide different activities to different combinations of municipalities and only the participating municipalities pay for the services they receive through user fees or property taxes (Bish and Filipowicz, 2016).<sup>29</sup> One of the disadvantages, however, is that councils can easily opt out of an agreement, putting its fiscal viability into question.

The regional district model has been most successful with respect to service delivery. It has been challenged, however, when the benefits and costs of decisions are not equally distributed among municipalities across the region with the result that there are winners and losers (Walisser, Paget, and Dann, 2013). Examples where problems have been encountered include decisions around regional growth strategies, regional transportation planning, affordable housing, and economic development.

Dar es Salaam has been a two-tier structure since 2000. It originally had three municipal councils—Kinondoni, Ilala, and Temeke—plus an overarching Dar City Council (DCC). In 2016, two additional municipal councils were carved out of the existing councils—Ubungu came out of Kinondoni and Kigamboni from Temeke.<sup>30</sup> Legislation sets out the roles and responsibilities of

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<sup>27</sup> Prior to the creation of regional districts in the 1960s, municipalities requested that the provincial government create regional organizations to help them to cooperate to provide services with economies of scale such as water and sewerage districts. The provincial government also permitted municipalities to enter into agreements to provide services jointly and municipalities did so for services such as culture. Both the provincial and municipal governments appreciated the benefits of shared services. Agreements for shared services now occur within the context of regional districts.

<sup>28</sup> When regional districts were first established in the 1970s, they were supposed to provide a forum to reduce the transactions costs of inter-municipal cooperation on service delivery (Walisser, Paget, and Dann, 2013).

<sup>29</sup> Not every participating municipality will benefit from every decision. The risk of entering in agreements has been reduced, however, with dispute resolution, service reviews, and the opportunity to exit.

<sup>30</sup> A parallel structure for Dar es Salaam exists at the national level. The five municipal councils and the DCC report directly to the Prime Minister's Office through Regional Administration and Local Government. The regional

each tier. Each of the five municipal councils is headed by a mayor and an executive director. Councils are administered by one councilor from each ward, any of the members of Parliament elected from the municipal area, and a number of nominated women members equal to at least 30 percent of all ward councilors. The mayor of each municipality is elected by the sitting councilors to a five-year term.

DCC councilors are indirectly elected from the five municipal councils. In other words, each council elects members to serve on the DCC as well as sit on the municipal council. The DCC mayor is also indirectly elected for a five-year term by all of the Dar city councilors. The DCC has responsibility for general coordination across the five municipal councils plus a few specific functions (such as emergency services, management of the city's landfill, its main market, and the bus terminal) but has no land and few own-source revenue sources. Because the DCC is at the same level as the municipal councils from a legislative perspective, it has no authority over them. The five municipal councils also have more responsibilities and collectively have more revenues than the DCC (Slack, 2015a).

### 3.4 City-states

City-states are cities that are also a state or a province (or, in the case of Singapore, a nation). The city-state administration is like a state (province) but with a smaller geographic boundary and no local governments with which to contend. The advantages of being a city-state stem from its ability to internalize externalities, its significant autonomy in budgetary decisions, its ability to levy region-wide taxation and use broad-based taxes, and its enhanced borrowing powers (Bahl and Linn, 2013).

Nevertheless, city-states do encounter problems. Because they tend to be smaller than state governments, the expansion of the urban population over time beyond its boundaries and into other states can result in inter-jurisdictional conflict. This problem can be particularly acute for capital cities that are city-states where a large proportion of government employees (as well as private-sector companies, lobby groups universities, etc.) work in the capital city but live outside its boundaries and use city services for which they do not pay (Slack and Chattopadhyay, 2013). Problems also occur when city-states are created and leave behind the hinterland. How does the state government manage to pay for services without the resources of its largest city? Moreover, there are often tensions between the mayor (or governor) of the city-state government and the central government because the city-state is politically strong and the central government may consider the mayor to be a rival (Bahl and Linn, 2013). This conflict may result in discrimination against the city-state by the central government with respect to funding and the granting of authority.

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administration effectively co-exists with the Dar es Salaam metropolitan government—both are responsible for regional coordination but the division of responsibilities between them is unclear.

### *Examples of City-States*

There are a few examples of city-states around the world.<sup>31</sup> In Germany, for example, Berlin, Bremen, and Hamburg are all city-states with spending and taxing authority of both a city and a state government. As noted earlier, there is no guarantee that city-states have the right geographic boundaries. Berlin, for example, tried unsuccessfully to expand its boundaries to include the suburban municipalities in the neighboring state (Land) of Brandenburg (Zummermann, 2009).

Singapore is a city-state nation with a dominant single political party. Recognized for its orderliness, cleanliness, and traffic efficiency, other cities look to Singapore to replicate the policies that have led to its success. It is not clear that its governance model can be applied in other contexts, however, because of its unique circumstances. In particular, the absence of political opposition since the 1970s has made it easier for politicians and bureaucrats to implement policies without facing public resistance (Huat, 2011). Another major difference is that for many of the policies that Singapore has introduced (e.g., with respect to employment and immigration), it has acted as a national government rather than as a municipality (or even a state government) and one that has been insulated from the usual conflicts of an intergovernmental system. In other words, Singapore's success does not necessarily result from its achievements as a city but rather as a nation (Huat, 2011). There are examples, however, of specific local policies that other cities have tried to emulate—a version of its electronic road pricing system has been introduced in London and proposed, but defeated, in New York City.

Shanghai is a city-state that has provincial and local authority and responsibilities and reports directly to the national government. Because the municipality is under the direct control of the national government, the local government has considerable power. The mayor is appointed by the central government and exercises authority delegated to him but is also permitted to make some autonomous decisions.

Ulaanbaatar, with a population over one million, is the largest city in Mongolia. It has the status of a city and aimag (province). The capital city is divided into nine düüregs (districts) and the districts are divided into 144 khorooos. The capital city governor is also the mayor of Ulaanbaatar. The governor, who is nominated by City Council but appointed by the Prime Minister, serves a dual function—implementing central government policies and implementing the decisions of the local assembly. This dual subordination of the governor/mayor to the national government and the local council brings into question the autonomy and independence of Ulaanbaatar and also creates tension between its role as the national capital and its role as a city (Slack, 2013).

### 3.5 Voluntary Cooperation and Special Purpose Districts

Voluntary cooperation takes different forms in different countries, ranging from informal arrangements between municipalities to more formal inter-municipal agreements to the creation

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<sup>31</sup> As noted earlier, Mexico City also recently became a city-state through an amendment to the national constitution which made it a federal entity. The city has been divided into boroughs and, as of 2018, those boroughs began directly electing their own mayors and councilors.



of special-purpose districts. Informal arrangements rely on trust among municipalities and involve a lot of flexibility but lack the legal protections that come with more formal contractual arrangements (Spicer and Found, 2016). Generally, voluntary cooperation implies some degree of administrative integration as well as some political linkage because member local governments each have some form of representation in decision making. Although the voluntary model does not include an elected, area-wide government, it is an alternative method of recognizing the interrelationship of localities within a region through some form of area-wide arrangement. Voluntary cooperation is popular at least in part because cooperation agreements are easy to create politically and can just as easily be disbanded.

With voluntary cooperation, municipalities retain their autonomy with respect to expenditure and tax decisions, but at the same time have the ability to reap economies of scale in service delivery and address externalities associated with service provision for specific services. The extent to which inter-municipal cooperation actually achieves economies of scale is not clear, however. The limited empirical evidence on the impact of municipal cooperation on spending and service levels provides mixed results (Allers and de Greef, 2018). Problems of accountability may arise, however, when services are provided by another jurisdiction. Citizens are often unable to get the information about services from their locally elected officials because they do not have direct access to these functions. There can be a “democratic deficit” as a result (Dafflon, 2012).

When policymakers in the various local governments have the same objectives, the voluntary model can work well but it does not work as well when different governments have divergent objectives (Bird and Slack, 2008). Cooperation usually involves bargaining, and some municipalities in a region may not have much with which to bargain. Some degree of redistribution may or may not be accepted by the municipalities involved. Moreover, the problems faced by many metropolitan areas—global competition, fiscal disparities, and sprawl, for example—are so great that any real solution likely requires a governance structure that has a more permanent institutional status.

### *Special-purpose Districts*

Single-purpose districts may provide specific municipal services for several municipalities or manage regional services with significant externalities or economies of scale. One advantage of special purpose districts is that each service spillover can be addressed on an individual basis. Since the spillover boundaries are seldom the same for each service, as noted earlier, different-sized special districts could be established, such as a region-wide transit district or a hospital district. Other advantages may include the delivery of services by professionals whose decision making is somewhat removed from political influence, making management easier and possibly more professional (Bahl, 2013). Special-purpose districts may also have the ability to use dedicated revenues from user fees or earmarked taxes to finance capital expenditures.<sup>32</sup>

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<sup>32</sup> It has also been argued that where the salary schedule is outside the normal civil service, higher salaries can be offered to attract greater talent (Bahl, 2010).

Special-purpose bodies also have disadvantages, however. In particular, voters have less control over these bodies than they do with a municipally elected council.<sup>33</sup> Another problem is that, since each body has responsibility for a single service, it is not required to make tradeoffs between, for example, expenditures on transit and expenditures on water and sewers. When there are many independent special-purpose bodies in a metropolitan area, it is difficult to coordinate all the interrelated activities. Although special purpose bodies can be structured to be the most efficient size for a specific service, they fail to achieve economies of scope that can arise from cross-service delivery (Fox, 2015). The proliferation of decision-making bodies has “created a diffuseness of government organizations that is difficult for citizens to understand” (Kitchen, 1993: 14). Such bodies weaken general purpose local governments both through competition for resources and by reducing political accountability (Bird, 1995).

Special-purpose bodies with an appointed board should charge directly for services with some regulation of monopoly powers (Bahl, 2010). When they are not funded entirely by user charges, there is no direct link between the expenditure decisions made by the special-purpose agencies and the local councils responsible for collecting the taxes to fund them. The absence of what Breton (1996) calls the “Wicksellian connection” between expenditures and revenues results in reduced accountability (Bird and Slack, 2014). Without accountability, there is no incentive for economic efficiency.<sup>34</sup> Services may be better delivered, but they are not necessarily delivered to the right people in the right quantities and qualities. Moreover, such special purpose districts are more likely to be captured by special interest groups—including public employees—whose decisions tend to increase costs and alter service provision in ways that do not necessarily reflect the interests of those the jurisdiction it is supposed to serve.<sup>35</sup>

### *Examples of Voluntary Cooperation and Special Districts*

In Finland, the smallest municipalities have formed partnerships and cooperative arrangements with other municipalities and the private sector with the goal of finding economies of scale and improving service delivery (Moisio, 2011). The most common form of cooperation is the joint authority in which membership is voluntary. The exception is hospital services and regional councils. These services in each municipality are required by law to belong to the joint authority. Authorities are run by boards that are indirectly elected by member municipalities.

Special districts that deliver select services in a particular geographic area are common throughout the United States, where there were more than 33,000 non-education districts and 13,000 education districts in 2012 (Fox, 2015). Non-education services range from fire protection, water, libraries, sewers, and transportation to urban renewal (Vogel, 2013).

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<sup>33</sup> Of course, the extent of this problem depends on how the board of the special-purpose body is selected. Is there municipal representation on the board? Is the board an appointed independent board? Is it an arm of the state or national government (Bahl, 2013)?

<sup>34</sup> A higher level of technical efficiency through more professional management is not the same thing as economic efficiency.

<sup>35</sup> Berry (2009) finds that “concurrent taxation” with territorially overlapping local special-purpose fiscal jurisdictions taxing the same base raises both tax and spending levels with no noticeable increase in service levels or quality. For example, he found that special-district libraries spent more but provided fewer books compared to municipally operated libraries.

Boundaries of a special district may be within a city or cross municipal boundaries so they can be very local or more regional in scope. In some cases, regional special-purpose bodies are required in order to receive federal aid. For example, federal transfers for transportation in the United States require that local governments be part of a metropolitan planning organization (MPO). This national government incentive has been successful at creating MPOs across the country.

Brazil provides several examples of successful inter-municipal cooperation. In 2005, the national government passed legislation to promote the creation of municipal consortia.<sup>36</sup> The legislation grants legal status to consortia, which enables them to secure loans and offer guarantees on their own. Municipal consortia are also entitled to exercise supervisory, regulatory, and planning roles. The state government may also take part in municipal consortia. In Belo Horizonte, for example, state-level incentives, in the form of transfers, were behind a successful inter-municipal health initiative (Arretche, 2013).

Although São Paulo is an example of a one-tier fragmented government system with no institution of metropolitan governance for the region, sub-groups of municipalities have come together to find solutions to specific regional issues. For example, the Greater ABC Chamber was formed in 1997 to bring together the mayor, private sector groups, and civil society in seven municipalities to address two issues: the decline of the auto industry and the need for watershed protection (Wetzel, 2013). The shared nature of the problems helped to forge a new regional identity and led community leaders and politicians to tackle the problem of economic decline through a number of initiatives.

The ABC cooperative scheme does not represent a formal structure of governance nor does it include all services or even the entire metropolitan region, but some authors have noted that it has been successful because it takes a flexible and pragmatic approach to problem solving. It has operated on the basis of pilot projects that have incrementally built up trust among the main actors (Klink, 2008). Other structures have been created in the past to support coordination but, with limited funding and decision-making authority, they have mainly served only in an advisory capacity (Wetzel, 2013). The ABC consortium has worked because it was able to bring together different stakeholder to solve specific issues. Indeed, the Greater ABC is considered a “showcase of successful cooperation” (Arretche, 2013: 60).

In metropolitan Bogota, a public company has implemented a comprehensive transportation plan for the metropolitan area that includes the regulation of private bus operators. Transit is fully funded from user fees and a surcharge on the gasoline tax (Bahl, 2013). In Buenos Aires, several regional arrangements exist for services such as waste disposal and environmental policies, public works and sanitation, and watershed management (Klink, 2008). In India, parastatals (public companies) are responsible for delivering a range of services. In Mumbai, for example, there are 21 parastatals, which account for the bulk of infrastructure spending (Bahl, 2013).

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<sup>36</sup> Public consortia are discussed further in Section 3.

Metropolitan Manila, as noted earlier, is an example of a very fragmented system. However, some regional coordination for planning and service delivery is undertaken by the Metropolitan Manila Development Authority (MMDA), which was created by the Philippine government for the 16 municipalities in the Manila metropolitan region (Smoke, 2013). The MMDA is responsible for services that have a metropolitan-wide impact or that require a level of expenditures that is beyond the capacity of the individual local government units. Its responsibilities include development and investment planning, land use planning, urban renewal, housing, solid waste disposal and management, transportation and traffic management, flood control and sewage management, pollution control, and public safety. It derives resources from the central government, as well as a five percent contribution from the local government units and fees and fine revenues.

The MMDA is not a corporate unit of government but rather a special development and administrative unit under the direct supervision of the president of the country. It performs planning, monitoring, and coordinating functions but can only perform these functions if they do not diminish the autonomy of local governments on local matters (Laquian, 2002). Some have argued that the MMDA is not very effective, however, because it is a national corporation (rather than a local institution) with limited powers and budget (Montgomery et al., 2003). For example, the MMDA is in charge of transport and traffic management but the central government controls the financing, construction, and maintenance of roads and bridges (Laquian, 2002). Furthermore, there are no incentives for city mayors to take on a metropolitan focus (Smoke, 2013).

### 3.6 Observations on the Foundations of Strong Metropolitan Governance

The discussion and examples on metropolitan governance highlight that different models have worked in different places at different times. Even in the same place, models have changed over time with changing circumstances. It is thus very difficult to suggest one model to be applied in the Latin American or any other context. The appropriate governance structure for any metropolitan area depends on the legal context, the roles and responsibilities of local governments, sources of revenue, the intergovernmental context, the political strength of local leaders, the capacity of the civil service, and other factors. Nevertheless, there are some basic ingredients for any metropolitan governance model to work.

#### *Political and Institutional legitimacy*

- Metropolitan structures require political legitimacy. Indeed, the lack of political legitimacy of metropolitan bodies has been said to be the biggest obstacle to metropolitan governance (Lefèvre, 2008). Without it, decision making happens outside of the metropolitan structure (at the local and state or national level) because metropolitan areas lack an identity of their own. Direct election of councilors and mayors is probably the best way to provide political legitimacy and make elected officials directly accountable to their constituents, but few examples of direct election exist around the world.

- The national or state government has to play a key role in giving legitimacy to metropolitan authorities. Legislation is needed to establish the roles and responsibilities (including regulatory powers) of each level of government and their revenue sources. Legislation is also needed to ensure that metropolitan authorities have the legal capacity to implement their own policies, such as the ability to raise revenues and borrow.
- The process of reforming the government structure needs to include all of the relevant stakeholders in the early stages of restructuring for the reform to be accepted. Metropolitan governance arrangements have to be acceptable to the local governments involved as well as to state or provincial governments and civil society. If they are not, it will be difficult to take on expenditure responsibilities at the metropolitan level and even more difficult to collect revenues from the constituent municipalities. Cooperation will also be difficult.

### *Clearly Defined Authority*

- There needs to be a clear assignment of expenditure responsibilities and revenue sources between federal, state, and local governments and also between the metropolitan tier and local tiers in a two-tier system. In short, it has to be clear to all parties who is responsible for what and how they pay for it.
- As much as possible, geographic boundaries need to match the boundaries of the economic region. If they do not, there will still be a need to coordinate service delivery and policies with neighboring jurisdictions. Moreover, the metropolitan governance structure has to be large enough to allow it to levy taxes and user fees on a metropolitan-wide basis.

### **Box 3: Fiscal Management**

Clarity in expenditure and revenue assignment is important, but it is not enough to achieve good results. Each government needs to have sufficient resources to meet their expenditure responsibilities—user fees, taxes, intergovernmental transfers, and other revenues. Moreover, metropolitan governments require the authority to manage their expenditures and determine revenues. Metropolitan governments also need adequate staffing with capabilities in planning, budgeting, financial management, and auditing (Smoke, 2017). Accountability requires municipal budgeting, financial reporting, and auditing to be comprehensive, comparable, and verifiable as well as transparent to the public (Bird and Slack, 2013). In some countries, such as Brazil, for example, budgets and financial accounts are on the internet and citizens are encouraged to participate in the budgetary process. Improved information is key to accountability, which, in turn, improves public sector performance. Information on revenues and expenditures leads to informed public participation in the political process and gives central agencies the ability to monitor local activities that they supervise and possibly finance.

### *Adequate Capacity and Resources*

- Adequate staffing and training are required to provide the local institutional capacity needed to deliver services and formulate policy for the metropolitan area. It is one thing to create structures to make policy decisions and deliver services; it is another to be able to implement these decisions.
- Revenues need to match expenditure responsibilities at the metropolitan level. For example, user fees are appropriate to pay for services that have private good characteristics where it is possible to identify the beneficiaries and exclude those who do not pay (e.g., water, garbage collection, transit); property taxes are appropriate for services that have collective benefits but where it is difficult to identify individual beneficiaries (e.g., parks, street lighting, policing); income taxes are called for where services are redistributive in nature (e.g., social assistance, social housing). Intergovernmental transfers are appropriate where services spill over the boundaries of the metropolitan area (e.g., cultural facilities, roads).
- Metropolitan areas need fiscal autonomy (responsibility and ability to manage local services and to levy taxes and other revenues). The ability to self-finance is a critical factor in determining which metropolitan institutions succeed and which end up bickering between contending financial supporters. Fiscal autonomy for a metropolitan area means that it will be able to raise revenues on its own, as much as possible, and rely less on intergovernmental transfers. Only with fiscal autonomy will the metropolitan structure be able to control its own destiny and not have to rely on transfers from other levels of government, which are generally not stable and predictable, and which often come with strings attached.

## **4. Metropolitan Governance in Brazil**

Much of the urbanization in Brazil has occurred in metropolitan regions, which now represent 60 percent of the country's population (World Bank Group, 2015). These regions are often characterized by an urban core with peripheral areas that have less access to basic services and infrastructure. People move to peripheral areas for more affordable housing, but these areas have poor infrastructure, especially in terms of access to the sewage network and transportation (World Bank Group, 2015). The need for metropolitan governance to coordinate and improve service delivery, share the costs fairly across the metropolitan region, and improve planning and decision making is paramount to improving productivity and economic growth. This section reviews some of the legislation that has an impact on the ability to introduce more formal metropolitan governance models in Brazil.

## *Constitution*

In 1988, the Brazilian Constitution granted full federal status to municipalities. The Constitution enshrined in the Brazilian legal system the autonomy of municipalities relative to the states and the federal government. Any change to the legal and institutional integrity of municipalities (their creation, amalgamation, incorporation by another municipality, or dissolution) requires prior consultation through a plebiscite.<sup>37</sup> At the same time, the Constitution transferred the authority to create metropolitan regions, which was formerly held by the national government, to state governments.<sup>38</sup>

The states do not need to consult municipalities to create “metropolitan regions,” however. Brazilian states can create metropolitan regions and other types of municipal agglomerations (“urban agglomerations” and “micro-regions”) to “facilitate the shared organization, planning and implementation of public functions that are in the common interest” (CF Article 25, paragraph 3). Since 1988, state laws creating metropolitan regions have proliferated, sometimes even when there was no clear functional or economic justification for their creation. The existing metropolitan regions vary in terms of institutional design, but most tend to rely on an advisory or consultative board, a deliberation council, and a metropolitan fund to pay for expenditures (Arretche, 2013). Once a metropolitan region is created, participation by all affected municipalities is mandatory.<sup>39</sup>

## *Metropolitan Regions Act*

The Metropolitan Regions Act of 2015 (MRA) provides general guidelines for the creation of metropolitan regions but leaves most of the details to state-level legislation. Metropolitan regions are not political entities (or, for that matter, a part of the Brazilian federation) and do not have political, fiscal, or decision-making autonomy from a constitutional point of view. As one of the Supreme Court Justices argued in a 2013 decision, although the metropolitan region has the administrative authority to act in the common or regional interest, the decision-making or political powers are reserved to the state and the municipalities.

Under the MRA, state laws have to define which municipalities are part of the region, specify which public functions should be provided at the metropolitan level, and specify the “inter-federative” governance structure of the region. Metropolitan regions must have at least four permanent institutions or bodies: an implementation or executive body with representatives from

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<sup>37</sup> See CF Article 18, paragraph 4.

<sup>38</sup> Metropolitan regions gained legal status in the 1970s when the central government created nine metropolitan regions.

<sup>39</sup> The current constitutional text is very vague on this point but, since 1988, and before Congress passed the Metropolitan Regions Act, the Brazilian Supreme Court analyzed and decided on a number of challenges to state laws creating metropolitan regions. Three decisions in particular are important in this context. The first two, from 1999 and 2002, established that once a metropolitan region is created, participation is mandatory for the affected municipalities. The existence of regions is compatible with the constitutional principle of municipal autonomy. The third decision (in 2013) reaffirmed the compulsory character of the metropolitan regions and established that the principle of inter-federative governance presupposes shared responsibilities and that all the municipalities in a region, along with the state government, should participate in its governance. Provided that these principles are respected, the states have the flexibility to design the governance structures of its metropolitan regions in ways that better reflect local characteristics and needs.

the executive powers of the different actors involved, a policy-making or legislative body including representatives of civil society, a technical-advisory body, and an integrated system for cost-sharing and resource allocation. As of 2011, 24 of the 26 states had constitutional articles on the creation of metropolitan bodies (World Bank Group, 2015). Although state governments could use these metropolitan bodies for collaboration, innovation, and policy changes for the metropolitan regions, few appear to have done so (World Bank Group, 2015).

### *Public Consortia Act*

Although it may be difficult to form a formal metropolitan government in Brazil, there are ways that local authorities can and do cooperate to deliver services across jurisdictions. In particular, states, municipalities, and the federal government can enter into “cooperation agreements” to provide common services and share costs. These agreements are a way for different entities to cooperate in areas such as planning and service provision without creating a new entity. Local authorities can also form a public consortium, which is more formal than a cooperation agreement.<sup>40</sup> Under the Public Consortia Act (Law 11,107/05) passed in 2005, consortia have a legal personality and can be created either as public or private associations (both nonprofit).<sup>41</sup>

Unlike metropolitan regions, participation in a consortium is voluntary. Moreover, members can pick and choose among the main goals or objectives of the consortium that they are willing to accept. For example, a municipality could sign a memorandum of understanding for a consortium that would help members plan and implement transit projects in a specific geographic area, but through “reservations” opt out of the implementation part, only accepting the planning powers of the consortium. Members may also withdraw voluntarily from a consortium.

Consortia are governed by a General Assembly in which all members may vote (although they may have different voting power or number of votes). The president/representative/chief executive of the consortium has to be elected from among the heads of government of the entities that constitute the consortium. Consortia may have their own public employees (in the form of a secretariat, for example). In addition to the General Assembly, consortia may have other governance structures or institutions. Members of civil society may have a seat in different bodies of the consortium, and the consortium may also create decision-making bodies with specific powers, for specific purposes, and with different membership.

In terms of funding, members are required to negotiate a cost-sharing agreement each year, which prescribes the size and type of the contributions they are willing to make.<sup>42</sup> Members that

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<sup>40</sup> Decree 6,017/07, which provides detailed regulations for the provisions in the Public Consortia Act, confirms that there is a difference between consortia and cooperation agreements, referring to the latter as “pacts” that are signed exclusively between members of the federation.

<sup>41</sup> The distinction between the two forms is significant. Public entities are subject to a number of specific rules regarding the hiring of personnel, procurement processes, tax immunities, and so on. Private entities, on the other hand, tend to have more flexibility in how they conduct their business. Nevertheless, public consortia still need to follow many of the legal rules regulating public associations even if they are created as private associations.

<sup>42</sup> There are two exceptions to this rule. The first is that cost-sharing agreements that fund projects and programs specified in multi-year investment plans are created by the members and, for this reason, may also be multi-year. The second are the cost-sharing agreements for services that are funded by user fees, which are not dependent on the resources provided by the members.



fail to provide the funds agreed to in the cost-sharing agreement may be suspended from the consortium and eventually expelled. The federal government must privilege states and municipalities that create consortia in its voluntary transfers. On the other hand, states and municipalities may create consortia to provide services and thus benefit from fiscal transfers from the federal government. The federal government may also delegate to consortia the implementation of federal programs that have a more restricted and local impact. Although the Public Consortia Act does not mention debt financing, it is reasonable to assume that if a consortium has a legal personality and is an autonomous part of the bureaucratic structure of its members (as an agency would be), it should also be able to borrow to finance its own activities, provided that it has the proper authorization from its members.<sup>43</sup>

Since 2005, more than 19,000 voluntary agreements were signed in Brazil, most of which are in health and education (World Bank Group, 2015). In terms of consortia, São Paulo provides several examples, only two of which are mentioned here. The Inter-municipal Consortium of the Billings and the Tamanduatehy Basins, for example, was formed by the seven mayors of the ABC region to manage shared water resources through improvements to waste collection and disposal (World Bank Group, 2015). The Consórcio Intermunicipal do Região Sudoeste da Grande São Paulo was created to address the problem of slum urbanization and to prepare five-year development plans.

### *Implications of Legislative Context*

The national and local context (including the legislative framework) makes some of the governance options set out in Section 3 above virtually impossible to implement in Brazil. In particular, the amalgamation of municipalities into a consolidated, one-tier, directly elected metropolitan government would not be possible without the consent of all of the municipalities involved. Such an event is unlikely to occur because individual municipalities would feel that they would lose authority and resources to the newly established government. To the extent that services are delivered at the metropolitan level in Brazil, they tend to be provided through inter-municipal cooperation (including public consortia) or federal or state policy decisions. Inter-municipal consortia are a vehicle used to deliver a wide range of municipal services in cities such as Belo Horizonte, Recife, and São Paulo.<sup>44</sup> Although inter-municipal cooperation can be successful at delivering some services across a region, they may not succeed for all regional services and they do not necessarily result in a regional vision.

Public consortia may eventually play a role in the Brazilian context similar to that of inter-municipal cooperation agreements for service delivery within the regional district model in British Columbia described earlier. Regional districts are multi-purpose authorities with locally-elected councillors deciding which services to participate in; municipalities are permitted to opt out of specific services. Special-purpose bodies (like the voluntary agreements or public consortia in

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<sup>43</sup> That possibility is indirectly mentioned in Decree 6,017/07 (Article 10): “Any debt-financing operation entered into by consortia is subject to the limitations and conditions established by the Federal Senate, under the terms of Article 52, Number VII, of the Constitution.”

<sup>44</sup> For more information on municipal consortia in these three cities, see World Bank Group (2015).

Brazil) are managed by a common board of directors at the regional level (the regional district) as a way to minimize political fragmentation and try to work toward a model of regional governance (Walisser, Paget, and Dann, 2013).

The Brazilian system for regional governance may have some advantages over that of British Columbia's regional districts, which have only recently started to think about moving beyond their coordination and service provision roles toward adopting a more institutionalized mechanism for regional governance. In Brazil, the institutional framework to create multi-purpose authorities is provided under the Metropolitan Regions Act. If properly designed, the governance mechanisms and institutions of metropolitan regions could provide a regional vision for service delivery and, more generally, cooperation among municipalities within the same geographic, political, or economic area. In this way, metropolitan regions, which have been designed from the start to be regional in scope, could provide a useful institutional umbrella for a system of cooperation agreements and public consortia.

## **5. Summary and Final Observations**

This paper has explained why metropolitan governance is important, set out the principles for evaluating governance models, described and evaluated different models used in cities around the world, and provided some context for metropolitan governance in Brazil. This final section summarizes the main findings and makes some final observations.

*No one governance model stands above the rest.*

The review of metropolitan governance models around the world shows that a variety of models have been tried in different cities. Different models have also been implemented in the same cities at different times (e.g., Toronto went from a fragmented one-tier model to a two-tier model to a consolidated one-tier model over the course of 50 years) suggesting that governance models can evolve over time. The review does not point to one model that works best and that can be applied everywhere, however.

Nevertheless, there are some examples of initiatives that have worked well in specific contexts: the two-tier government structures in cities such as London and Barcelona have been successful at balancing regional and local interests; the geographic boundary of the one-tier consolidated City of Cape Town has been able to capture the economic region; the ABC Chamber in São Paulo has been a successful "bottom up" approach to bringing together various stakeholders to tackle economic problems on a voluntary basis; national government financial incentives in the US have resulted in the formation of metropolitan planning bodies; and participatory budgeting in Porto Alegre has encouraged citizen participation and greater accountability in local government. There is no guarantee, however, that any of these innovative mechanisms can be applied in a different context.

*Local and national context matters.*

As is often the case with institutional design, while the questions to be dealt with seem universal, the answers are invariably context-specific, and policy choices are rarely straightforward (Stren and Cameron, 2005). The types of governance structures and initiatives that have emerged in the various metropolitan areas reflect the local and national context—differences in constitutional provisions and other legislation, whether the country is federal or unitary, the division of responsibilities among levels of government, the assignment of revenue sources, the history and politics of the country, and a host of other factors. A metropolitan area in a country with a history of local autonomy (e.g., home rule in the United States, local autonomy in Switzerland and the Philippines, and constitutional provisions in Brazil which grant local authorities federal status), for example, is unlikely to create metropolitan governments by amalgamating smaller, local governments, but it may be able to form a regional authority on a voluntary basis or implement other cooperative mechanisms.

*More effective metropolitan governance is needed.*

Most countries would be well advised to move toward developing more effective systems of governance for the whole metropolitan area than now exist if they want to improve service delivery, cost sharing, and decision making. A regional structure that encompasses the entire economic region is essential to ensure that services are delivered in a coordinated fashion across municipal boundaries and to be able to improve service delivery by reaping the benefits of economies of scale and internalizing externalities. Lefèvre emphasizes five characteristics of an effective regional structure: political legitimacy through direct election; geographic boundaries that match the functional territory of the metropolitan region; independent financial resources; relevant powers and responsibilities; and adequate staffing (Lefèvre 2008). All these characteristics, which were summarized earlier, point to a consolidated one-tier or a two-tier government structure.

*Voluntary cooperation is popular but unlikely to provide a strong metropolitan foundation.*

Voluntary cooperation and special-purpose districts have very few of the characteristics described by Lefèvre but are popular around the world, while amalgamation tends to be avoided. Moreover, in countries such as Brazil, where all municipalities would have to agree to amalgamate, it is highly unlikely that a consolidated metropolitan government could be created. Where objectives are shared by policymakers in various local governments, however, voluntary cooperation can work to some extent and can be a first step toward a more formal governance collaborative framework (OECD, 2006).

Where special-purpose districts (or public consortia) are created to deliver specific services, the regional vision is diluted because they are only addressing one service at a time, but also, since the boards of special districts are generally appointed or indirectly elected from members of the local councils, accountability to local citizens is compromised. A shift from inter-municipal cooperative governance structures to a more broadly-based multi-purpose metropolitan

government structure would improve political legitimacy, but almost inevitably at the expense of local autonomy and responsiveness.

*A two-tier metropolitan structure might be a good place to start.*

A two-tier structure would be able to realize desirable economies of scale and scope at the upper-tier level, while the continued existence and vitality of the lower tiers permits responsiveness to local variations in preferences. Any desired degree of regional redistribution can be achieved within a two-tier structure at the upper tier level. A two-tier model with voluntary participation at the upper tier, along the lines of models in British Columbia (Canada), may have merit as a way to increase cooperation for a number of metropolitan services. Although perhaps not ideal in terms of creating a vision for the entire metropolitan area, it does facilitate the delivery of a range of services that cross municipal boundaries and would benefit from joint delivery.

*Effective metropolitan governance requires a process that involves all stakeholders.*

The process for implementing a metropolitan structure is critical to its success. Generally, metropolitan governments are established through a top-down process, and local actors must deal with a structure that they did not ask for and do not want (Lefèvre 2008). In many cases, local actors are not consulted; in others, they are consulted but their views are not followed (such as the forced amalgamation in Toronto). As Klink (2008) notes, the political economy of changing institutional and financial structures requires bringing together stakeholders at the initial stages. Incremental, bottom-up changes will be more successful than top-down proposals.

Who are the actors? The state government needs to be involved because it can give legitimacy to the process and the outcomes (Lefèvre, 2008). Rarely have metropolitan governance reforms derived from purely local initiatives (OECD, 2006). Stakeholders (such as civil society and business associations) are needed because the support of economic and social interests is important. Local governments in the metropolitan area need to be on board, especially the core city, which delivers a disproportionate amount of services in the metropolitan area. The population needs to be involved because, in a democratic system, public support is needed for the metropolitan arrangements to last.

Support is also needed from the national government because even a bottom-up process is unlikely to be successful without it (OECD, 2015). Legislation should promote, not discourage, the creation of a metropolitan governance model. Moreover, financial incentives such as those used in the United States to create metropolitan planning organizations would encourage buy-in of local governments that might otherwise feel that they are giving away some of their authority (and resources) to another level of government. Incentives should be offered with caution, however, if they simply result in the creation of metropolitan governments with no real powers, no ability to improve service delivery and public policy, and no power or incentive to raise their own revenues. Financial incentives need to result in real coordination of service delivery and

policy formulation and not simply a new institutional structure that has inadequate human and financial authority and resources.

*Metropolitan structures need a clear delineation of functions and adequate fiscal resources.*

Finally, for a metropolitan structure to succeed, it needs to be clear to each tier of government and the public what functions it is responsible for. It is also essential to have adequate financial resources to perform those functions. The services that local governments in metropolitan areas provide and how they pay for them are inextricably linked to governance (Bird and Slack, 2013). Although this paper has not addressed municipal finance issues in any depth, viable solutions to the problems of metropolitan areas can be attained only when those who live there have to make the critical decisions about service delivery, how to pay for the services, and then live with the consequences (Bird and Slack, 2007; Martinez-Vazquez, 2015). The fragmentation of the government structure of metropolitan areas means that it is often both technically and politically difficult to make appropriate decisions on expenditures when benefits and costs spill over municipal boundaries. How to share costs fairly within the metropolitan area is also always and everywhere a controversial issue. What is needed to improve service delivery is, thus, first to design some form of effective metropolitan governance, and second, to set out an appropriate fiscal structure.

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