



National Round Table on the
Environment and the Economy

Table ronde nationale sur
l'environnement et l'économie

NRTEE Sustainable Cities Initiative Final Report and Recommendations

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National Round Table
on the Environment
and the Economy

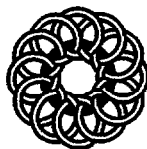


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MANDATE

The National Round Table on the Environment and the Economy (NRTEE) was created to “play the role of catalyst in identifying, explaining and promoting, in all sectors of Canadian society and in all regions of Canada, principles and practices of sustainable development.” Specifically, the agency identifies issues that have both environmental and economic implications, explores these implications, and attempts to identify actions that will balance economic prosperity with environmental preservation.

At the heart of the NRTEE’s work is a commitment to improve the quality of economic and environmental policy development by providing decision makers with the information they need to make reasoned choices on a sustainable future for Canada. The agency seeks to carry out its mandate by:

- advising decision makers and opinion leaders on the best way to integrate environmental and economic considerations into decision making;
- actively seeking input from stakeholders with a vested interest in any particular issue and providing a neutral meeting ground where they can work to resolve issues and overcome barriers to sustainable development;
- analyzing environmental and economic facts to identify changes that will enhance sustainability in Canada; and
- using the products of research, analysis and national consultation to come to a conclusion on the state of the debate on the environment and the economy.

The NRTEE has established a process whereby stakeholders themselves define the environment/economy interface within issues, determine areas of consensus and identify the reasons for disagreement in other areas. The multistakholder approach, combined with impartiality and neutrality, are the hallmarks of the NRTEE’s activities. NRTEE publications address pressing issues that have both environmental and economic implications and which have the potential for advancing sustainable development.

Members of the National Round Table on the Environment and the Economy

The NRTEE is composed of a Chair and up to 24 distinguished Canadians. These individuals are appointed by the Prime Minister as opinion leaders representing a variety of regions and sectors of Canadian society including business, labour, academia, environmental organizations, and First Nations. Members of the NRTEE meet as a round table four times a year to review and discuss the ongoing work of the agency, set priorities, and initiate new activities.

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Table of Contents

| | |
|--|------------|
| FOREWORD | vii |
| EXECUTIVE SUMMARY | 1 |
| PART ONE – BACKGROUND | 5 |
| Sustainable Cities Solutions Workshop, January 1998 | 5 |
| Post-workshop Consultations/Outreach | 6 |
| PART TWO – MAKING THE CASE FOR A SUSTAINABLE CITIES INITIATIVE | 9 |
| The Environmental/Developmental Case for a Cities-focused Strategy | 9 |
| The Commercial Case for a Cities-focused Approach | 10 |
| The Political Case for a Cities-focused Strategy | 11 |
| Why Business as Usual is Not an Option | 12 |
| PART THREE – THE SUSTAINABLE CITIES INITIATIVE: LINKING THE COMMERCIAL AND THE ENVIRONMENTAL/DEVELOPMENTAL | 13 |
| The Core Elements of the NRTEE SCI Strategy | 13 |
| The SCI as a Core Complement to the PPI Initiative | 17 |
| PART FOUR – PUTTING THE SUSTAINABLE CITIES INITIATIVE INTO EFFECT | 19 |
| Section One | 19 |
| <i>Announcements by the Prime Minister and Other Ministers</i> | 19 |
| <i>Institutional Arrangements</i> | 20 |
| <i>Assembling and Sustaining “City Teams”</i> | 21 |
| <i>Strengthening Partnerships with International Financial Institutions</i> | 22 |
| Section Two | |
| <i>Making Policy, Program and Operational Changes to Facilitate All Canadian Efforts in International Environment and Development Projects</i> | 22 |
| ENDNOTES | 24 |

FOREWORD

Experts predict that over two billion more people will be living in cities by the year 2025, and that the cities of the developing world will be most profoundly affected. This report makes the point that it would be better if that urbanization occurred in a way that minimizes environmental and social dislocation. Canadians can help and can benefit by better coordinating their efforts in working toward that goal.

We have government departments that focus on transportation, on energy, on environmental industries, and on foreign policy and trade; we have companies that specialize in water treatment, in light-rail transit and in telecommunications; we have scores of projects to alleviate poverty and spur development. But in general, we have done more urban consulting and less urban business than other countries. This report indicates how Canada can have maximum positive environmental impact in cities around the world, in a way that will benefit our economy.

While scores of people have contributed to this final report and to the work of the NRTEE Committee that produced it, special thanks are due to Michael Harcourt, whose vision and determination are the reason for the report's existence. Thanks as well to David Morgan, the NRTEE Policy Advisor who, among other crucial contributions, wrote this final report.



Stuart Smith, M.D.
Chair, NRTEE

EXECUTIVE SUMMARY

Within one generation, well over two billion more people are expected to live in the cities of the developing world. This report lays out the case for a systematic harnessing of a broad range of Canadian urban capacities to: a) help address what is clearly a sustainable development issue of the first order; and b) significantly enhance Canadian commercial opportunities. It demonstrates that business as usual will:

- lead to a further deterioration of Canada's competitive position in a market estimated in the trillions of dollars;
- do an important disservice to the many whose lives could be significantly improved by more strategic use of scarce development dollars; and
- represent a significant missed opportunity to bring about important environmental improvement, at the global as well as the local level.

The report describes the elements of an effective Canadian response, and the impediments that must be removed for us to move forward.

Recommendations presented here are the result of more than 18 months of intensive effort by the National Round Table on the Environment and the Economy, the Department of Foreign Affairs and International Trade, Environment Canada, and a range of private sector actors. These proposals are based on systematic research, widespread consultation, and a process involving five intensive expert workshops. More than 670 different Canadian companies and organizations have been engaged in one way or another, and information about Canadian efforts in 172 cities around the globe has been assembled and mapped according to a common format. Hundreds of millions of dollars of low-risk financing opportunities now escaping Canadian interests have been identified, and improved means of tapping these resources designed.

A Guide to This Report

Part One of this report describes the genesis of the Sustainable Cities Initiative (SCI), and its progressive refinement over the months following a January 1998 NRTEE workshop on the subject. Workshop participants strongly supported the central thesis of the workshop background paper, which was that more systematic and strategic application of a broad spectrum of Canadian urban expertise in cities in the developing world would yield significant economic and political benefits to Canada while measurably improving the urban — and indeed global — environment.

Participants argued that success depends on:

- building on extant government programs, while making them more urban focused;
- better linking business solutions to policy initiatives;
- knowing “who is doing what where” in cities around the world;
- being able to offer demand-tailored and integrated “suites” of goods and services; and
- focusing on Canadian strengths in specific foreign markets.

Much of the effort of the NRTEE Foreign Policy and Sustainability Committee and its partners over the months since the workshop has been dedicated to work on the above-identified priorities.

Part Two presents the environmental, economic and political case for an urban-focused strategy and for the Sustainable Cities Initiative in particular.

The environmental and developmental rationale is distilled to the following points:

- Demographics: in one generation, over two billion more people are expected to be living in the cities of the developing world. Such agglomerations will place important strains on the natural environment, regardless of whether the urban form is more conducive to resource efficiency than are rural or suburban settlement patterns.
- Already, some cities have economic losses in the order of 5-8% of gross regional product (GRP) directly attributable to environmental degradation and its adverse health impacts, and to inadequate urban infrastructure. This is blurring, if not erasing altogether, the line formerly drawn between “environmental luxuries” and “economic necessities.” It also underscores how much more successful will be attempts to address climate change and other international environmental issues “in the language of cities” — through policies that bring direct benefits to urban residents — than by moral suasion or by purely environmental arguments.
- Urban population density and economies of scale multiply the positive environmental and developmental impact of a given dollar spent.

In outlining the commercial case for an urban-focused strategy, attention is focused first on the size of the current market for urban infrastructure, estimated at approximately US \$300 billion/yr. “Business as usual” has led to Canadians being significant underperformers in both the portion of this market supported by international financial institutions (IFIs), and in the larger portion being developed by the private sector through public-private infrastructure (PPI) projects. The Sustainable Cities Initiative is put forward as an important complement to the government’s own PPI initiative as a means to arrest, if not turn around completely, this erosion of Canadian international competitiveness.

The second element of the commercial case rests on the huge gap between “effective demand” and the actual need for urban environmental infrastructure. While the former is estimated at US \$300 billion/yr, the amount required to satisfy even basic needs in the developing world may be twice that. By integrating institutional and governance capacity building, and by ensuring commercial efforts are truly demand-responsive, the SCI would help bring into being a market that is presently not being serviced and that we are well positioned to satisfy.

Part Three describes the core elements of the Sustainable Cities Initiative. The Initiative builds on the Prime Minister’s record of infrastructure development and trade promotion by putting these in the context of sustainable urban development on a global scale. It calls for more effective deployment of existing resources and of instruments already on the books, channelling a variety of Canadian efforts and energy that have been scattered in the past. It rests on four pillars:

- Having high-level public commitment to facilitating more strategic urban initiatives abroad. This would also involve “branding” Canada as a sustainable urban solutions provider (as is being done in relation to information technologies), and expressing the political will to overcome past isolation of stakeholder efforts and of government programs.
- Having current, accurate knowledge of which urban centres and regions around the globe are most ready to translate their needs into tangible, soundly based capital projects to serve their inhabitants on an equitable basis; and of Canadian capabilities to respond to those needs. This will permit focusing of attention and effort on the specific locations in which rapid action can be taken and mutual benefits maximized.
- Forming active partnerships with the World Bank and with other development agencies to ensure that Canadian and other bilateral efforts in given cities and regions are effectively coordinated, and scarce development dollars effectively leveraged.
- Facilitating and supporting “city teams” composed of those Canadian companies and organizations prepared, willing and able to deploy appropriate solutions to pressing global needs for clean water, rapid transit, clean energy, bottleneck-free urban communication and transport, and sound buildings in select cities around the globe.

Part Three also describes the steps the NRTEE and its partners have taken on these points.

Part Four, the final section of this report, lays out the NRTEE’s recommendations to the government. The NRTEE recommends specific changes in the Department of Foreign Affairs and International Trade, Industry Canada, the Canadian International Development Agency and the Export Development Corporation that would make a strategic urban focus possible, and Canadian developmental, environmental and commercial efforts more effective. It also recommends the creation of a “governmental unit” tasked with coordinating departmental efforts and acting as a liaison with a private sector “Sustainable Cities Council.”

The Sustainable Cities Initiative falls four-square within the Government of Canada’s foreign policy objectives of:

- the promotion of prosperity and employment;
- the protection of our security, within a stable global framework; and
- the projection of Canadian values and culture.¹

Importantly, it is a means to forward these objectives in the profoundly urban context of human civilization in the 21st century.

PART ONE

BACKGROUND

The Sustainable Cities Initiative (SCI) has been developed by the Foreign Policy and Sustainability Committee of Canada's National Round Table on the Environment and the Economy (the "NRTEE" or "Round Table") in concert with a great number of organizations and individuals from various sectors of Canadian society. Its genesis is Round Table work on sustainable cities in the context of APEC — work carried out alongside that of the Department of Foreign Affairs and International Trade (DFAIT) and Environment Canada in advance of the 1997 APEC Environment Ministers' Meeting, where action on Sustainable Cities was to be a central element of the APEC dialogue.

The Round Table's own work, together with that of Environment Canada on "green" infrastructure procurement in APEC cities, convinced us, first, that the scale and complexity of the urban challenge in the Asia Pacific region merited attention at the highest levels of APEC leadership, and, over time, that the urban challenge extended far beyond both the regional and the political reach of the APEC forum. We came to regard "getting cities right" — however lofty the goal — as one of the globe's pre-eminent developmental, economic and environmental issues of the coming decades.

The Round Table's activities from June of 1997 track that emerging awareness. After the June Environment Ministerial, we worked to put cities at the centre of the high-level APEC policy discussion known as FEEEP — the institutional expression of APEC Leaders' desire to address the interlinking issues of food security, environmental protection, economic growth, energy usage and population growth.² We argued that those issues are predominantly urban issues, and that addressing them as such would tighten the important, but also dissipatingly broad, focus of the FEEEP mandate and discussions.

The November 1997 APEC Summit marked the high-water point of Canada's ability to shape APEC outcomes. By that time, the NRTEE had already come to believe that real movement on sustainable cities would come only from making it a central plank of Canada's domestic and international policy, to be forwarded not only through APEC but also through other forums, and from Canada having a coherent strategy of its own to meet the challenges and opportunities that unprecedented urbanization portends.

Sustainable Cities Solutions Workshop, January 1998

In January 1998, the NRTEE convened many of Canada's major suppliers of urban infrastructure and integrated engineering services, directors of the major not-for-profit organizations, World Bank officials, academics, national and international municipal organizations, representatives from local authorities, capital financing experts from some of Canada's major private lending institutions, government and the Export Development Corporation, and senior officials from all of the relevant government departments and agencies. Participants debated and refined arguments presented in a commissioned background paper — "Canada Offers Sustainable Cities Solutions for the World" — and created the blueprint for what has become a year-long iterative process of further defining and sharpening the Sustainable Cities Initiative.

The main messages from workshop participants were:

1. *We need to link business solutions to policy initiatives already under way.*
2. *We need to know which Canadian companies and organizations are active and in what sector in the various cities around the world.*

Canadian businesses, public sector and not-for-profit organizations are active in hundreds of cities and regions around the world. However, these organizations are often not aware of the others' activities, even within the same city. This creates confusion among local decision makers. Canadians are missing out on important opportunities to secure comprehensive projects. They would gain synergies and many other benefits from greater cooperation. A comprehensive description of "who is doing what where" is crucial.

3. *Leaders of urban municipalities around the world increasingly want integrated solutions to their problems, not to be offered individual "widgets."*

Canadian firms would benefit from convenient access to information about the capabilities and experience of Canadian companies across the whole spectrum of urban applications, so that, for example, energy, water, housing and solid waste solutions can be offered as a "package deal."

Financing is a vital component of any package: Canadian companies need to be better aware of what present financing sources are; how to arrange long-term project financing; and how to tap into creative financing options using local assets and revenue streams.

4. *We need to be realistic about our capabilities and strategic in our choices of where and in what sectors we target.*

It will be easiest to offer an integrated approach in regions where Canada already has an established presence. These include cities in which Canada has been engaged in capacity building work with the support of the Canadian International Development Agency (CIDA) and other agencies. There are also cities and regions that IFIs are targeting for concentrated future investment. Major Canadian firms have already established beachheads, and have

gained a good reputation in a number of localities. Intelligence from Canadian missions abroad may also turn up cities where municipal officials are keen and have the capacity and financial authority to undertake integrated infrastructure development in the future.

Being strategic means being careful not to oversell Canadian capabilities and financial strength. There are regions of the world where Canadian firms may not be competitive. Canadians also need to focus on strengths in different fields such as engineering design, telecommunications, information technology, energy efficiency, mass transit, and wastewater treatment, rather than seeking all types of construction projects.

5. *We need to build on the range of government programs already in place that support urban projects, business teaming, and other elements important to a Sustainable Cities Initiative.*

These include the IFINet service, the Capital Projects Action Team, Canadian Environmental Solutions, Industry Canada's public-private infrastructure initiative, Canada's International Business Strategy, interdepartmental contributions to UNCHS (or "Habitat"), work carried out on sustainable cities under the aegis of APEC, etc. In one sense, government programs can also be understood to include the whole range of not-for-profit organizations whose work in the cities of the developing world is funded by government in whole or in part. A means to link these various projects to create synergy and coherence is called for.

Post-workshop Consultations/ Outreach

As mentioned above, the present report is the product of a year-long iterative process. The following is a partial list of the consultations the NRTEE has undertaken on the SCI in 1998:

TABLE 1: NRTEE CONSULTATION AND OUTREACH

CONSULTATIONS AND OUTREACH ON SCI IN 1998

- Workshop in January 1998, with 50 expert participants Steering Committee composed of subgroup of workshop participants
- Creation of Finance Advisory Group — consisting of senior member of the financial community, including EDC and others with project finance expertise — to help us with issues of project finance, the nature of Canadian lending institutions (public and private), etc. and to help formulate related recommendations. Number of meetings held.
- Liaison with Interdepartmental Committee (chaired by International Trade, and including representatives from Industry Canada, CIDA, EDC, Environment Canada, Natural Resources Canada, CMHC, etc.)
- Outreach through creation of an inventory or “map” of Canadian competencies and presence in over 170 cities around the world
- Participation in Industry Canada organized conference, “Winning in Global Infrastructure Market: Solutions Through Partnership”
- Numerous bilateral meetings with key officials in EDC, Industry Canada, International Trade bilateral meetings with Ministers’ staff
- Continuous liaison with World Bank Urban Management Program officials, country officers and the Canadian Executive Director
- Meetings with the Canadian Executive Director of the Asian Development Bank and key sectoral officials
- Interviews with business people involved in projects in select cities overseas

PART TWO

MAKING THE CASE FOR A SUSTAINABLE CITIES INITIATIVE

This part describes the powerful environmental/developmental, commercial and political case for a Canadian cities-focused strategy. It concludes by demonstrating that continuing with business as usual would represent a missed opportunity of extraordinary proportion, and consign Canada to second-tier status both in the market for public-private infrastructure (PPI) and in the larger market for sustainable cities solutions.

The Environmental/Developmental Case for a Cities-focused Strategy

The environmental and developmental case for a Sustainable Cities Initiative is straightforward:

- In just a few years' time, and for the first time in human history, the majority of the world's population will live in cities. In one generation, the already strained cities of the developing world will need to cope with approximately 2.4 billion more people: the rough equivalent of "two more Chinas-worth" of population — and this is without accounting for continued rural-to-urban migration.³
 - In cities, the line formerly drawn between "environmental luxuries" and "economic necessities" is being blurred, if not erased altogether. The availability of clean water is a political and health issue of first order. Suspended particulate matter and urban smog have made lung disease the leading killer and health care expense in China and other countries.⁴ In an era of porous borders and commercial strategizing on a global basis, cities in one country are now competing with cities in other countries as the location for foreign direct investment (FDI) and other forms of investment: the Asian Development Bank reports that paralyzing traffic jams and poor physical environments have already made some Asian cities unattractive destination points for FDI and needed
- trained personnel. World Bank experts have found that urban dysfunctionality is already costing some of these cities 5-8% of regional GDP.⁵ In short, viable cities are essential to wealth creation and are coming to be recognized as such.
- Cities are where a given dollar spent has maximum positive environmental and human impact. Despite years of effort, and billions of dollars being spent in rural areas, and despite the squalor of many cities, people continue to believe their chances of a better life are greater in cities. Regardless of whether this belief is justified — and many studies suggest that it is — the development challenge is becoming an urban challenge. Fortunately, urban population density and economies of scale multiply the positive environmental and developmental impact of a given dollar spent.⁶
 - In the developing countries, climate change is not going to be stopped by climate change policies. It is much more likely going to be stopped by air pollution policies — and air pollution is first and foremost an urban issue. Climate change is just not on the radar screens of any but a tiny cadre in the developing world. Kyoto showed that the language of climate change is the language of North-South; of diplomacy and hard bargaining; of historical justice and injustice: in short, it is the language of the UN.⁷ However, methane, CFCs and especially carbon dioxide emissions all contribute to climate change, and all can be significantly reduced by measures taken at the city level; by measures that make cities more pleasant places to live, improve health and decrease the drain on the public purse. It is through addressing these needs "in the language of cities" that developing countries will contribute to overcoming the challenge of global climate change.⁸

Cities will become ever more critical agents in the quest for sustainable development over the next quarter century. Decisions made today about urban transport, energy, water and waste infrastructure, buildings and even products and services will have an ongoing environmental impact — positive or negative — for decades. If Canada hopes to make a positive contribution to global sustainable development, perhaps nothing is so important as “getting cities right.”

The Commercial Case for a Cities-focused Approach

The commercial case for a cities-focused approach reduces to this: the market is already enormous, and could be significantly larger should appropriate attention be paid to unleashing developing countries’ (and their cities’) institutional and financial capacity. As it is, there is a shortfall in the range of 50% between what the World Bank and International Finance Corporation (IFC) project for actual infrastructure spending over the next decade and the amount that needs to be spent to satisfy even the most basic needs.

i. The market for urban infrastructure

Estimates of the world’s infrastructure requirements vary widely, but are uniformly massive. The World Bank currently estimates that the Asia region alone will spend US \$150-200 billion per annum over the next 10 years on infrastructure. The world market for infrastructure projects is thought to be approximately US \$3 trillion over the next 10 years, of which some 2,300 projects worth US \$1.3 trillion are expected to be implemented with private sector participation.⁹ Such investments present an enormous opportunity for Canadian developers, builders, operators and suppliers.

Firms are currently participating in this market through IFI-funded infrastructure projects and public-private infrastructure (PPI) projects. These latter are increasingly in the form of build-own-transfer (BOT), build-own-operate (BOO), build-own-manage (BOM) and other such arrangements. While still important, the market for IFI-funded projects is now significantly smaller than that for PPI projects. Between 1990 and 1995, IFI funding remained more or less constant, while PPI financing in developing countries increased 13-fold. Publicly financed projects now account for only approximately 15% of the

dollar value of total infrastructure spending.¹⁰ Governments’ penury, coupled with market disciplines and tax savings, suggests that an ever-larger proportion of projects will be financed and operated by the private sector.

ii. The potential market for urban infrastructure

The above figures are estimates and projections of spending on urban infrastructure. But spending does not necessarily reflect “need”; and “need” is not the same as “potential market.” Recall that the World Bank and IFC estimate of US \$150-200 billion is for actual yearly spending on infrastructure in Asia. It does not speak to whether this is adequate to solve even current shortfalls, let alone prepare for the massive expected increase in population these centres will be forced to cope with in the years ahead. Indeed, the IFC has estimated that, *merely to maintain the current low levels of basic needs for water, electricity, telephones and other such services*, the Asia region needs to spend US \$420 billion annually. Thus, however significant the spending is expected to be, there is a huge shortfall between what citizens need and what they are being provided; and the current global crisis is likely to exacerbate rather than close that gap. Moreover, the people of the developing world may legitimately aspire to more than the satisfaction of their most basic needs. Both points underscore how much larger the potential market for urban infrastructure can be relative to its already enormous size, and how important it is for Canadians to act now to prepare ourselves to meet this need.

It is important to realize that the relative under-investment in urban infrastructure is not the result of lack of funds in relation to the large capital requirements. And it is also not principally the result of a lack of operating capabilities, the potential difficulties in controlling the monopolies that may arise from privatization, or high exchange or country risks, however important those issues are. The problem lies with peculiar characteristics of infrastructure sectors, which require policies, laws and governmental institutions to safeguard the viability and profitability of private local and foreign investments. Safeguards against opportunistic behaviour by the government must be in place.¹¹

The current approach to private sector participation in infrastructure (BOTs, etc.) puts the focus on pricing, financing and risk insurance rather than on the more fundamental issues of “basic regulatory engineering” — the institutional and governance issues that confer long-

term credibility to the host country and/or city, and which provide enduring safeguards to private investors. In these circumstances, it is not surprising that few projects have actually been undertaken.

However important the PPI model is and is likely to become, it remains in essence a stop-gap response, and one that is highly cyclical in nature. Consider, for example, that such projects:

- *Are an exception to the general institutional environment.* They “carve out” a concession from the hitherto public sphere, and are made viable through the award by the government of a monopoly or quasi-monopoly over the given service.
- *Are a significant extension of the corporate law principle of limited liability.* Project sponsors will only undertake these projects if recourse is limited to the project assets rather than to the equity base of the companies involved.
- *Entail greater than “ordinary” levels of risk.* This is because: 1) the government has created an exception in an area it may feel to be, at its core, an essential service; 2) the expenses are largely “sunk,” which means that, should the government wish to behave opportunistically, there is considerable room to do so; and 3) lenders do not have access to the capital resources of the sponsor firms in the event of default — whether occasioned by the government or otherwise.
- *Fluctuate in number and size on the basis of risk appetite, international capital liquidity and other factors largely exogenous to the question of need and even long-term demand.*

This is not to belittle the importance of the PPI market. It is, however, to recognize it as a vital means to a larger end, and to argue that efforts to expand PPI in a manner dissociated from a more comprehensive initiative will lead to less than optimal results. Finally, it is to bring home the point that the scale of the commercial opportunity in urban infrastructure markets is huge, and could be considerably larger.

Commercial success for Canadian firms will turn on both becoming players in the PPI market and in inhabiting some of the space between the territory occupied by large and integrated infrastructure firms from Japan, Germany,

Korea, the United States and elsewhere (including Canada), and the huge demand that is largely unmet because of basic engineering issues, governments’ reluctance to hand over strategic sectors of their economy to outsiders with little stake in the country, and other similar issues.

The Sustainable Cities Initiative is designed to complement the government’s efforts to expand PPI, while positioning Canada to effectively tap into the gap between need and effective demand through true public-private partnerships. This point is developed in Part Three of the report, which describes and explains the core elements of the SCI.

The Political Case for a Cities-focused Strategy

In light of the developmental, environmental and commercial case outlined above, the political argument for a cities-focused strategy need hardly be made.

The next quarter century is expected to be witness to 2.5 billion more people finding their way to the cities of the developing world. These people will need access to potable water at reasonable rates; clean air for their children to breathe, and safe communities in which to bring them up; they will need urban infrastructure that facilitates rather than frustrates their working lives. Many of these cities are already straining from the gap between what residents need and what governments — alone, and with the considerable resources of the private sector — can provide. The opportunity is of like scale, and is measured in the trillions of dollars over the next decade alone.

Superimposed on this are the stark lessons we are being forced to confront by the present global maelstrom. While it is perhaps too early to draw definitive lessons from the past, the global crisis brings home that neither untrammelled market forces, nor overweening statism, is a panacea. We have learned that well-functioning public institutions with sound private sector financing and competency are the preconditions to enduring prosperity. Countries now know that there are no assurances that urgent capital projects to meet basic urban needs will receive attention from the private sector. Nor is it clear that public authorities in great financial difficulty will persist in vital public sector works.

Canada has an opportunity to declare itself more than a fair-weather friend to countries in need. A strategic focus on cities could go a long way to stemming the misery the global collapse is creating and to building the foundations for an enduring recovery. Consider that:

- In the midst of global overcapacity in a whole range of industries and consumer goods, urban infrastructure is woefully undercapitalized.
- Poor urban infrastructure and environmental degradation is a bottleneck to sustained and sustainable growth. World Bank experts have found that urban dysfunctionality is already costing some of these cities 5-8% of their regional GDP.¹²
- Well-conceived and concerted efforts to rejuvenate and/or prepare cities for the needs of today and the coming generation could be instrumental in creating employment for many of those who have been displaced and embittered by the collapse.

World leaders are actively searching for new and lasting solutions to restart stalled economies and to stimulate sustained growth. The Canadian Sustainable Cities Initiative meshes short-term stimulus on a global scale with multiple long-term economic, social and environmental benefits, and provides for commercial gain for Canada.

Why Business as Usual is Not an Option

The existence of strong environmental, commercial and political reasons for an urban strategy does not — of itself — make the argument for a new initiative. It remains to demonstrate that “business as usual” will not take us where we want to go as a country.

The major infrastructure firms regard the IFI-funded and privately funded infrastructure projects as distinct sub-markets. It is instructive to note how Canadian firms are faring in each of these two sub-markets:

i. IFI-financed projects

One indicator of our underperformance is our record in winning World Bank contracts. Historically, Canada has done well in winning consulting contracts from the World Bank (over twice the average disbursement on a per capita basis). However, we obtain less than the average disbursement for equipment, and a meagre one-quarter of

the average disbursement for civil works projects (World Bank, 1997 figures). This breakdown will vary from one regional IFI to the next, but the overall picture is clear enough.

ii. Privately funded projects

In September 1998, Industry Canada hosted a high-profile conference, “Winning in Global Infrastructure Markets: Solutions Through Partnership,” to examine the other side of the equation: Canadian firms competitive position as it relates to PPI project implementation.

Extensive consultations confirmed the importance of this meeting: only a small number of Canadian firms are successfully playing a reasonably complete project developer/sponsor/owner/operator role in global PPI projects. Indeed, Canadian firms are now losing out to foreign PPI firms even in our domestic market. Explanations formed a potentially discouraging list, including:

- the relatively small size of Canadian firms;
- their lack of capitalization;
- their lack of experience and track record on domestic and overseas PPI projects; and
- lack of experienced Canadian financial institutions in respect of global project financing expertise.

In short, Canadians are underperforming in both of these sub-markets, and are not currently positioned to reverse this.

In a world where the private sector has an approximately 85% share of global infrastructure spending, where we are winning significantly less than our proportion of hard contracts from IFIs and government sponsors, and where the need for urban infrastructure is estimated in the hundreds of billions of dollars annually, it is clear that business as usual in Canada is not an option. The commercial opportunity is too great. The environmental, developmental and political stakes are too high.

PART THREE

THE SUSTAINABLE CITIES INITIATIVE: LINKING THE COMMERCIAL AND THE ENVIRONMENTAL / DEVELOPMENTAL

At its root, the National Round Table's Sustainable Cities Initiative is about recognizing cities as a distinct and first-order developmental, economic and environmental opportunity and, secondly, charting a course by which the economic, environmental, developmental and (by no means least) *political* benefits can be reaped simultaneously and synergistically.

Our consultations have convinced us that focusing on the second point will:

- make the urban market greater;
- increase the opportunities for Canadian PPI participation;
- help Canada attain its climate change commitments and developing countries address their air quality and broader health concerns; and
- make our development work more effective.

The essence of the Initiative is to take a page from the Prime Minister's record of innovation in infrastructure development and trade promotion, and put it explicitly in a global sustainable development context. The Initiative calls for more effective deployment of existing resources and of instruments already on the books, channelling a variety of Canadian efforts and energy that have been scattered in the past.

This part outlines the core elements of the NRTEE Sustainable Cities Initiative and the steps taken since the January 1998 workshop to make it concrete. Part Three also describes how the SCI complements and strengthens the government's attempts to increase Canadian PPI capacity.

The Core Elements of the NRTEE SCI Strategy

The elements of the SCI are:

1. Branding Canada as a sustainable solutions provider

The Canadian government needs to make a clear, high-level and public commitment to making us one of the world's premier providers of sustainable cities solutions. In effect, we would be "branding Canada," in a way that builds on Canada's excellent reputation as a straight-dealer and good Samaritan and that is complementary to our emerging identification with state-of-the-art information technology.

Canada has managed massive post-war urbanization remarkably smoothly, and can boast of several significant achievements. Whatever their shortcomings, our cities are among the best administered in the world. Canada's development firms and implementing agencies have a first-rate reputation abroad. The Sustainable Cities Initiative should build on these strengths. Among other selling points, the Canadian Sustainable Cities Initiative should emphasize that Canadian players are prepared to make a long-term commitment; that they are seeking to apply leading-edge solutions; and that they would work cooperatively with local authorities to find the best fit. They are not simply "pushing technologies."

As a consequence of the work of the IFIs, national development agencies, and their own experience, municipal leaders are increasingly asking for cross-sectoral suites of products and services that address underlying needs, rather than unsynchronized products and services of limited application. For its part, the Canadian government has publicly stated its desire to find new ways to showcase the capabilities of Canadian project developers and vendors in foreign countries.¹³ This can be

done by marketing key firms in the telecommunications, transportation, energy, building and environmental sectors as providers of sustainable cities solutions.

Other countries, and some of the world's largest infrastructure companies, are already positioning themselves in this way. Switzerland and Holland, for example, are marketing their companies as providers of integrated sustainable cities solutions, and are providing the governmental and institutional support that makes them well positioned to deliver on these promises. The giant companies United Technologies and Compagnie Générale des Eaux (Vivendi) are aggressively promoting their cross-sectoral urban expertise. In both cases, the rationale would appear to be the enormous scope for both environmental and economic benefits and the associated goodwill such activities generate.

2. Creating networks to relay demand-side information to Canadian "sustainable urban infrastructure" suppliers

We need to have the mechanisms in place by which those that are in a position to learn about and shape local demand can do so, and those firms that have the requisite skill sets and services can be marketed and respond as integrated solutions providers, rather than as hawkers of individual niche products and services.

Canada has already become a presence in over 170 cities around the world, and a significant presence in over 20 cities.¹⁴ The priority is to transform what are currently disparate actors and programs into a network that is:

- a source of information about demand conditions, permitting demand-tailored responses;
- a means of mitigating companies'/consortia's performance risk through use of this network's knowledge of local conditions, reliable partners, etc.;
- an important means of unleashing domestic financial capacity for sustainable city projects in these countries.

At present, this resource is largely untapped.

The NRTEE has taken the first important step in creating such a network. In conjunction with the Department of Foreign Affairs and International Trade, the NRTEE commissioned the Bayswater Consulting Group to compile information on the location and nature of:

- World Bank and regional development bank involvement in urban development (over 100 projects);
- long-term relationships established by Canadian and international municipal organizations such as the Federation of Canadian Municipalities (FCM), the Institute of Public Administrators of Canada (IPAC), and the International Council for Local Environmental Initiatives (ICLEI) (over 80 cities);
- the geographic and sectoral focus of activities of the numerous Canadian centres of urban expertise (over 170 cities and regions);
- federal government programs focusing on cities abroad (17 departments and agencies); and
- Canada's business presence in urban centres around the globe (over 700 companies).

With this resource, it is for the first time possible to reference a given city and determine the great majority of Canadian organizations involved there and the nature of their operations. This "Map of Canadian Capabilities to Provide Sustainable Cities Solutions" is designed to help public and private organizations to determine and reassess opportunities and priorities, and facilitate networking among the existing and interested parties.¹⁵

3. Choosing cities where we have a critical mass of both development and commercial activity

Clearly it is not enough to know where and through whom we are active. If we are to forge strategic and long-term relationships with city and national officials in a way that will lead to simultaneous and mutually reinforcing commercial and environmental successes, and if our efforts are not to be dissipated, we must concentrate on cities where such opportunities are particularly ripe. In strategically chosen cities — i.e., those where Canada has a significant presence; where there is a close match between their needs and our capacity to respond; where we have close ties to important decision makers and confidence in their institutional and governance capacity, etc. — we need to publicly avow our intention to work with them for the long term in a demand-responsive manner. This process effectively "draws a circle" around select cities so that the full panoply of programs and initiatives can be brought to bear in a way that concentrates their efficacy.

The NRTEE therefore worked to determine the most appropriate starting cities and regions from amongst the shorter list of 22 urban regions where Canadian engagements seemed to be significant, and comprised both development projects and commercial ventures.

Five main variables were considered:

- The presence of a current or planned major public-private partnership or similar multi-faceted project to act as an “anchor” for integrated development agency and company interest.¹⁶
- The presence of reasonably stable, reform-oriented government leadership and government structures in the prospective urban region and more generally in the country concerned.¹⁷
- A substantial, documented degree of urban environmental need, coupled with some signs of recognition on the part of municipal leaders that this need exists.¹⁸
- Demonstrated Canadian public, non-profit and private sector capabilities that match those needs.¹⁹
- The final variable that was considered — one that is in certain respects indistinguishable from that of local institutional and governance capacity — was financing. Here, our approach was to consider the presence or expected presence of IFI/government (Canadian or “untied” foreign) sponsor money in addition to the institutional/risk conditions that would make feasible the assembling of a viable financing package.

Six cities that “made the cut” were profiled extensively.²⁰

These cities are:

- in Asia: Tianjin (China) and Hanoi (Vietnam);
- in Latin America: Santiago (Chile) and Buenos Aires (Argentina);
- in Central Europe: Katowice (Poland); and
- in Africa: Accra (Ghana).

The table below describes the features of this initial portfolio of coordinated city initiatives. The full text on each city is available separately.²¹ Note that however confident we can be of the long-term potential for focused Canadian efforts in these cities, the purpose of identifying “starting cities” was as much to demonstrate the type of criteria and the depth of research that is required for us to be successful as it was to argue for these specific cities as starting points.

TABLE 2: FEATURES OF AN INITIAL PORTFOLIO OF SUSTAINABLE CITIES FOR A CANADIAN TEAMING INITIATIVE

| CITY/REGION | ANCHORS | INITIATORS | INITIAL FOCUS |
|-------------------------|---|---|--|
| Accra, Ghana | World Bank Ghana Trade and Investment Gateway project | Consulting engineering company from Manitoba | Customs reform; infrastructure for port access; site services to nearby settlements |
| Buenos Aires, Argentina | Need for sewage treatment and water facilities; privatization of major public facilities with World Bank and IADB involvement | “Match-making” company in environmental technologies from Ontario | Supply of urban transit equipment; wastewater treatment ventures |
| Hanoi, Vietnam | Expansion of electric power generation facilities; development of new towns in Hanoi region by Daewoo and Bechtel; World Bank and AsDB support for urban infrastructure upgrading | Urban planning consultants from Quebec | Energy conservation; alternative energy supply; innovations in urban infrastructure for new cities |
| Katowice, Poland | Alternatives to coal-fired energy generation; East European market for environmental technologies, with EBRD involvement | Canadian non-governmental organization based in British Columbia with environmental engineering firm from Alberta | Getting off coal-fired energy; integrated solid waste management; urban transit upgrading |
| Santiago, Chile | Ventures to transfer and produce environmental technologies; market for light building technologies; institutional strengthening of municipal governments | International non-governmental organization based in Ontario | Turning pilot projects into full-scale operations; technology transfer and training |
| Tianjin, China | Investment in port-related urban renovation and infrastructure upgrading | Urban planning consulting firms based in Ontario and British Columbia | Linking infrastructure development to private sector financing; urban transport alternatives |

Virtually all of these cities and/or countries would be considered for commercial projects by the Export Development Corporation. For the purposes of the SCI, the degree to which projects would be linked to public monies varies. Team approaches to Hanoi and Accra, for example, would be more closely integrated to CIDA and IFI projects, financing and contacts than would approaches to Santiago and Buenos Aires.

There are a number of other cities that “made the grade” but were not profiled in detail. In part this is due to

narrowly pragmatic considerations. Because this is the first time that such city-specific profiles have been attempted, we felt that the helpfulness of a good sample of the profiles should be ascertained before undertaking the full range. Another factor was a subjective read of investor enthusiasm in the short term: Jakarta, for example, is an excellent prospect for long-term Canadian intervention and merits a detailed profiling, but was excluded because of perceived short-term investor disinclination to consider it.

4. Focusing on Canadian value-added

We should focus our infrastructure efforts on “urban-scale” infrastructure such as transit systems, water supply and wastewater treatment facilities, district heating and co-generation systems, and our equipment and services supply on pollution prevention technologies, energy service companies (ESCOs) and the like.

5. Linking to the IFIs

There are two main advantages to be had from closer collaboration with the IFIs:

1. A central element of the Sustainable Cities Initiative is to get better leverage (developmentally and commercially) from scarce Canadian urban development funds and initiatives. To the extent that we can know where and in what sectors the World Bank and its sister institutions intend to devote their resources, we will be better able to strategically deploy our own public monies. In effect, there could be a fortuitous blurring of the line between various sources of development money and a concomitant increase in the ability of Canadian firms to tailor their offerings.
2. While clearly the IFIs cannot favour one country over another, we will have developed a close working relationship and trust that could be of use to firms anxious to position themselves as suppliers before the given contract is publicly tendered. Instead of individual companies pacing the floors at the IFIs, one would find friendly faces and a solid regional and local context in which to do business, especially given the decentralization of decision making occurring in the World Bank and elsewhere.

The World Bank is currently engaged in a process similar to that of the National Round Table. Under the direction of their Urban Management Program, they are designing criteria for long-term engagement in select cities around the world and are at the beginning stages of their own city selection process.

The World Bank has asked the NRTEE to consider a formal partnership arrangement, and one is in the process of being negotiated. Clearly, should the Canadian government decide to pursue the SCI, such a partnership

would be of considerable advantage. Like agreements should be pursued with the European Bank for Reconstruction and Development, the Inter-American Development Bank and the Asian and African Development Banks.

The NRTEE has already initiated discussions with the Asian Development Bank, which is considering a similar urban-based initiative. The European Bank for Reconstruction and Development has an overall mandate to further environmental goals, and is active in “power and energy” and “municipal and environmental” sectors. The latter includes district heating, water supply and urban transport. Projects initiated by EBRD in the municipal/environmental sector in 1997 included limited recourse loans, municipal credit facilities, environment funds and private sector multi-project financing.

The SCI as a Core Complement to the PPI Initiative

There is important complementarity between the objectives of the government’s public-private infrastructure (PPI) initiative and those of the SCI, and of the prescriptions for success. Using the language of Industry Canada’s consultation paper “Winning in Global Infrastructure Markets: Solutions through Partnership,” the SCI:

- is a “proactive approach to creating partnership arrangements among capital project stakeholders”;
- provides a means by which industry associations and government can “promote networking and formation of coalitions and encourage consortia development”;
- is working towards the establishment of a support network that would “facilitate information sharing among Canadian capital project firms, financial institutions, governments, specialized advisors and other stakeholders”; and
- is an initiative that government could undertake to “showcase the capabilities of Canadian project developers and vendors in foreign countries.” Further,
- through public-private partnership in the creation of city teams for priority cities, we will have “new promotional activities that industry, financial institutions and government could jointly undertake to increase the profile of Canadian firms in those

developing countries that are the source of most PPI activity.”

The five core elements of the SCI will overcome some of the major impediments to more successful Canadian penetration of the PPI market identified by experts:

1. We will have defined a niche market.
2. We will be able to establish the sorts of relationships that only the largest global infrastructure firms (those with country offices and significant equity stakes) are presently able to make.
3. We will have a means by which small and medium-sized enterprises (SMEs) can participate in the global infrastructure market.
4. We will be able to bid on the myriad smaller projects (of approximately \$20 million or less) that:
 - a) are subject to less fierce competition;
 - b) carry fewer of the negative associations related to foreign companies’ “control” of strategic or historically public services (and which are thus less fraught with the possibility of opportunistic behaviour);
 - c) because of their relatively small size, do not require a consortium to put everything on the line on one megaproject; and
 - d) build goodwill and thus a platform for future successes.

The SCI envisages Canada capitalizing on our sectoral strengths, our international development work, and our reputation as good Samaritans in a way that will augment the chances of increased Canadian PPI activity, expand the market by helping with the “basic regulatory engineering” and position ourselves as the supplier of choice.

In effect, the new buzzword of “public-private partnerships” would be given some depth and multi-dimensionality. Such partnerships would stretch beyond the classic “their public — our private,” and include links between our public and private sectors and their public and private sectors, with the aim of marshalling our private enterprise to a truly public purpose.

PART FOUR

PUTTING THE SUSTAINABLE CITIES INITIATIVE INTO EFFECT

This section describes the core elements of what is needed to put the SCI into effect — a recommendation that issued from the government’s own “Winning in Global Infrastructure Markets” conference noted above.

The essence of the Sustainable Cities Initiative is to:

- facilitate the efforts of those most engaged in actual work on the ground in cities;
- provide a minimum infrastructure to give them solid intelligence and support to what they are doing; and
- link Canadian development, environment and commercial efforts in a way that both expands the market and supports wider Canadian foreign and trade policy objectives.

In this vein, the objective of all SCI efforts is to help bring into being, and then to sustain the efforts of, city-focused teams of Canadian organizations and companies, working on systemic issues in a coordinated fashion, so that they are effective.

Section One of this part contains recommendations specific to “putting the SCI into effect.”

These recommendations relate to:

- announcements by the Prime Minister and other Ministers;
- necessary institutional arrangements;
- steps necessary to assemble and sustain “city teams”; and
- strengthening partnerships with international financial institutions.

Section Two of this part contains recommendations that are relevant to and supportive of the SCI, but which are also capable of standing alone.

SECTION ONE

The NRTEE recommends:

Announcements by the Prime Minister and Other Ministers

1. **The Prime Minister announce the Sustainable Cities Initiative as part of his government’s commitment to bring Canadian expertise to bear on one of the next century’s greatest challenges and opportunities.**

The Prime Minister may want to announce the SCI as the “external” element of the Millennium Program. As has been argued throughout this report, the SCI provides the government with an opportunity to be both forward-looking and practical in regards to one of the great commercial, environmental and developmental challenges of this generation. It supports the three fundamental objectives of Canadian foreign policy, and is a singularly positive projection of Canadian values abroad. Such an announcement would position Canada internationally as a leader in a time of crisis, would galvanize a domestic response proportionate to the issue, and would ensure that the Initiative achieves the stature within and without the governmental structures necessary to its ultimate success.

2. **The Prime Minister’s announcement be followed up by announcements by the Ministers of Finance, Foreign Affairs, International Trade, International Cooperation, Environment, and Industry, each in their respective spheres of responsibility.**

The content of the announcements is suggested by recommendations that follow.

Institutional Arrangements

It is recommended that:

- 3. As an integral part of the above announcements, the Prime Minister announce the establishment of a Team Canada Sustainable Cities “unit” under one lead minister but with ongoing input from other key departments.**

This unit would have both a policy and an implementation dimension.

- 4. Funds be provided, on a matching basis, to support a small Secretariat or Council serving the private sector service providers (both NGO and for-profit).**

This would be private sector (for-profit and not-for-profit) driven. While the operations of the Council would need start-up funds, it would move as quickly as possible to a “matching” system whereby funds are provided as a ratio of private sector contribution.

Explanation of Institutional Arrangements

A possible breakdown of responsibilities between the governmental and “private sector” units is sketched below. In both instances the goal is a “pulling together” of currently scattered urban-focused capabilities and resources. The allocation of responsibilities between the private sector and the governmental unit attempts to reflect the “subsidiarity” principle: responsibilities are assigned to each only where they cannot be effectively carried out by parties (private sector or government departments) acting on their own; and responsibilities are assigned to the government unit only where they cannot be effectively carried out by the private sector unit.

Functions of the private sector Sustainable Cities Council would include:

- Tracking and reporting to Canadians on the needs of and trends in urban centres around the globe in which there are current or potential vital Canadian interests. This entails:
 - identifying priority cities through data gathering and analysis (along the lines of those already developed by the NRTEE); and
 - mapping and linking Canadian capabilities to respond with global urban solutions.

- Developing case studies, best practices documents, courses and other training and orientation materials.
- Facilitating the formation of “consortia” or “city teams.”
- Spearheading the marketing of the SCI and — in conjunction with and with support from the Team Canada unit — coordinating the outreach to various urban officials and others abroad.
- Serving as the liaison with the Sustainable Cities Team Canada unit.

Functions of the Sustainable Cities Team Canada unit would include:

- Coordinating an interdepartment advisory committee at the Director General level, and ensuring on behalf of the responsible minister that an integrated strategy is being followed.
- Engaging federal program managers and project staff in shaping their own efforts to contribute to the city teaming process (described in part below, in the recommendations related to “Assembling and Sustaining City Teams”).
- Acting as the federal government’s “window” to foreign cities and to international financial institutions on urban issues.
- Together with the private sector Council, tracking the needs of and trends in urban centres around the globe in which there are current or potential vital Canadian interests.
- Together with the private sector Council, helping to market Canadian urban capabilities to officials and others abroad.
- Coordinating with and acting as a liaison to the private sector unit.

Funding Requirements

Clearly, there are cost implications associated with the above responsibilities.

A source of money needs to be identified to fund the government’s Team Canada unit and its associated responsibilities.

Seed money is required for the private sector Sustainable

Cities Council. After a start-up period, government money would be provided on a matching basis to private sector funds. Any such matching arrangement would need to account for the lesser ability of not-for-profit organizations to pay, and for the importance of encouraging participation by Canada's small and medium-sized companies.

Assembling and Sustaining "City Teams"

The key insight emerging from the NRTEE workshop held in January 1998, and confirmed over the course of subsequent outreach, is that Canadian efforts currently occurring in a scattered and ad hoc manner can be effectively linked and made more effective if city teams are established.

The process of initiating city teams needs to take place on two levels:

- Through engagement of federal program managers and project staff in shaping their own efforts to contribute to the city teaming process.
- Through engagement of the private sector companies and non-governmental organizations, research institutes, etc.

Accordingly, it is recommended that:

5. **Under the coordination of the Sustainable Cities Team Canada unit, each relevant department and agency be asked to effectively "draw a circle" around identified cities and determine what can be done internally to facilitate the SCI.**

And more specifically, it is recommended that:

- a) **The Ministers for Industry Canada, Foreign Affairs and International Trade**
 - **Call for the joint creation by their respective departmental officials of an up-to-date marketing package of Canadian strength in "sustainable urban solutions" geared initially to the six starting cities, but applicable more broadly.** This would promote our integrated and development-oriented expertise as a distinct feature of Canada, putting an explicit frame around our expertise in telecommunications, urban transit, information technology, solid waste, water and wastewater systems, community energy systems, buildings and facilities, etc., and in consulting, both

private and public. Much of this information is already in place, but is handled by different sector groups within each department.

- **Involve Canadian Embassy staff and trade commissioners in augmenting and/or refining city profiles and, more generally, contributing to the work of city teams and to the formulation of city development strategies as an integral part of mission planning and operations.**
- b) **The Minister for International Trade, in concert with the Minister of Finance, support and/or empower the Export Development Corporation (EDC) to use the Canada Account as a strategic means to forward sustainable urban development.**

More specifically, it is recommended that the Ministers:

- **Remove the current legislative bar to the EDC's taking of equity positions with Canada Account funds; and**

As regards the concessional element of the Canada Account, that the Ministers

- **Increase its size;**
- **Expand beyond China the number of countries eligible for this concessional financing; and, in concert with this and the above point**
- **Modify the criteria for project eligibility to reflect the importance Canada places on sustainable urban development in those countries.** This final point is critical to making the funds a strategic means to forward sustainable urban development and — it is argued — to increasing the "return" on Canadian monies.
- c) **The Minister responsible for International Cooperation**
 - **Calls for the creation of city strategies under the aegis of the CIDA's established country and regional programs.**

These city strategies would:

- determine how best to apply successful financing approaches — used on an ad hoc basis in a number of country program areas — to these cities;

- identify local, provincial and national officials and politicians who are the best “entry points” for a Canadian presentation of Canadian capabilities, etc.; and
- develop a strategy for the collaborative determination of urban priorities and partnerships with local organizations, including municipalities and NGOs.

In each case, the city strategies would be created in consultation with the managers of CIDA-funded projects being undertaken in those cities.

- **Calls for the modification of funding criteria to encourage further combined proposals by Canadian teams in specific urban regions, and also to promote effective due diligence in selecting partners locally.**
6. **Based on the extensive work already carried out by the NRTEE, the organizations and companies identified in each city profile for “starting cities” be invited to work together on appropriate approaches to the specific cities.**

There should be a workshop or workshops geared toward the development of city-specific strategies and leading to a formal teaming structure and agreement. This is similar to what is done right now by those responsible for assembling short-term missions, but with the difference that this would have a long-term perspective. This work should ideally take place in conjunction with the development of city strategies within the government, and the results of the two parallel efforts should be integrated.

7. **Based on the formation of teams, CIDA be provided funding from an SCI envelope, provided over and above its current base, to support “city team secretariats” over the life cycle of a comprehensive project.** Canadian companies benefiting from these services could contribute to its costs based upon success in PPI or similar ventures.

Strengthening Partnerships with International Financial Institutions

It is recommended that:

8. **The Minister of Finance in consultation with the Minister for International Cooperation**

- **Negotiate a formal agreement with the World Bank that would link their work on city strategies to Canadian work on the same subject.** The main advantages of closer links are being able to leverage domestic and international development monies; strategically deploy our own limited public funds; and create closer working relationships.
- **Initiate and negotiate similar agreements with the European Bank for Reconstruction and Development (EBRD), the Inter-American Development Bank (IADB), the Asian Development Bank (AsDB) and the African Development Bank (AfDB)**

Again, the benefits include the possibility of leveraging scarce public monies in a way that will:

- a) allow Canada to set priorities for spending; and
- b) help create the “basic regulatory engineering” that is both the precondition to sustainable growth and the means by which more of what is sustainable becomes profitable.

SECTION TWO

Making Policy, Program and Operational Changes to Facilitate All Canadian Efforts in International Environment and Development Projects

Departments and agencies most specifically concerned should make a variety of modifications to current programs and instruments needed both to implement a Sustainable Cities Initiative, and generally to position Canada better in relation to urban development projects around the globe. The following recommendations are strongly supportive of the SCI, but are also capable of “standing alone”:

It is recommended that:

9. **The Ministers of International Trade and Finance encourage the Export Development Corporation (EDC) to make use of its powers and mandate to establish “regional infrastructure investment funds.”**

These funds should:

- a) be targeted for infrastructure and building projects in selected urban regions around the world;
- b) represent value-added risk capacity for Canadian public-private infrastructure exporters and investors, by complementing existing/available financial services, filling infrastructure financing gaps and meeting unaddressed exporter/investor financing needs; and
- c) be structured so as to optimally lever EDC's risk capital and product and market expertise with private sector entities and capital markets.

10. The EDC mirror, as appropriate, the European Bank for Reconstruction and Development's focus on "environmental goals," and "municipal and environmental sectors" in particular. As one example, this focus could be articulated as part of, or in conjunction with, EDC's environmental framework.

11. The Department of Finance relax its restrictions on the ability of labour-sponsored venture capital funds and pension funds to invest in foreign ventures — provided those funds flow into approved urban environmental ventures and PPI projects.

12. The Climate Change Secretariat create an issues table or subcommittee to develop a global city-based strategy as an integral part of Canada's domestic and international response to meeting the Kyoto Protocol to the Climate Change Convention.

ENDNOTES

1. *Canada in the World* (publication of the Government of Canada). See also *An Urbanizing World: Statement on Sustainable Cities* (CIDA, Sept. 1998).
2. FEEEP is an acronym for the interlinkings issues of “food, energy, environment, economy, population.”
3. The mid-range estimate of the United Nations Population Division and World Resources Institute is that the global population will be 8.5 billion people by 2025 (from approximately 5.8 billion today). The vast bulk of this 2.7 billion person increase is expected to occur in developing countries, and fully 90% of it is expected to be born or to settle in cities. Richard Gilbert, *Reducing Urban Air Pollution in APEC Economies, Transportation and the Role of Local Governments* (A report prepared for the APEC Study Centre in Canada and NRTEE)
4. Chinese Academy of Sciences.
5. Richard Ackermann, World Bank. From presentation notes to NRTEE Workshop, January 1998.
6. Also, the compactness of the urban form relative to rural and suburban land-use patterns means that, for the same standard of living, per capita resource use is lower in cities. This is due to economies of scale for infrastructure and other factors.
7. “Kyoto” is shorthand for the Third Conference of the Parties (COP3) to the United Nations Framework Convention on Climate Change (UNFCCC) that took place in Kyoto, Japan in December 1997.
8. Further, it is expected that the Conference of the Parties process carried on under the auspices of the United Nations Framework Convention on Climate Change (UNFCCC) will eventually lead to an international regime whereby Canadian (and other countries’) firms can get credit for reducing greenhouse gases abroad. These firms will have an important market — and access to additional financing through the Clean Development Mechanism or otherwise. An important ancillary benefit of this is that it would circumvent a major stumbling block to energy-saving investments in developing countries: viz., ubiquitous state subsidization of energy costs.
9. Industry Canada, “Winning in Global Infrastructure Markets: Solutions Through Partnership” (Fall, 1998), citing World Bank/IFC figures.
10. Eric Siegel (Vice President of Canada’s Export Development Corporation) in remarks to an APEC Infrastructure Workshop, Los Cabos, Mexico, 1997.
11. Paper on FDI distributed at PPI conference.
12. Richard Ackermann, from presentation notes to the January 1998 NRTEE workshop.
13. See “Winning in Global Infrastructure Markets: Solutions Through Partnership.”
14. Following up on a recommendation of the NRTEE’s January workshop, and in conjunction with the Department of Foreign Affairs and International Trade, the NRTEE commissioned the Bayswater Consulting Group to secure the preliminary information necessary to consider opportunities for a more strategic Canadian approach to the growing market for sustainable cities solutions. A comprehensive inventory of Canadian centres of urban expertise, of global urban development projects, and of capabilities was completed, describing all known Canadian activities relevant to improving local infrastructure and environments in cities around the world. This is now available in hard copy from the NRTEE and is expected to be posted soon on the CIDA Website.
15. CIDA has agreed to post the “map” document or significant parts thereof on its own Website. Industry Canada, DFAIT and other departments may also post this information.
16. These were gleaned from a variety of sources including: current and relevant World Bank contracts posted on the IFInet Website; country profiles and market opportunities assembled by DFAIT; reports from the Asian Development Bank (AsDB) on Asia’s infrastructure market; and industry contacts.
17. Information on this issue was gained from, *inter alia*, Export Development Corporation (EDC) country profiles and risk assessment; other political and economic profiles; CIDA reports; and reports by urban experts.

18. Information on environmental need came from the World Resources Institute in conjunction with the World Bank and the United Nations; Industry Canada reports on urban opportunities (since opportunity is largely the flip side of need); Habitat/UN Development Program/The World Bank Urban Management Program environment profiles; and various NGO reports.
19. This information was first culled from the above-mentioned "Map of Canadian Capabilities." Canadian capabilities were then situated in light of competition from foreign companies and examined for the potential for partnerships. The aim in setting out the most appropriate Canadian capabilities was to focus on urban pollution prevention and other solutions that are attractive from a financial perspective; that show Canada as a centre of urban innovation; and avoid pure "technology push" solutions.
20. While only the six cities were subject to comprehensive profiling, the NRTEE did commission some research of potentialities in approximately 15 others.
21. See "Prospectuses for a Selection of Cities in Which to Start a Canadian Sustainable Cities Initiative" (NRTEE, September 1998); also available on the NRTEE Website <www.nrtee-trnee.ca>. Copies have also been sent to the Canadian Ambassadors of the relevant countries through the offices of the Chair of the intergovernmental process established to oversee the SCI.