Citizen Today

November 2016 Issue 24

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As cities get bigger, how can we make them better?
Welcome to the latest edition of Citizen Today, an EY magazine for government and the public sector.

By the mid-point of this century, 70% of the world’s population will live in cities. How can all these urbanites gain access to well-paid jobs? Where will they live? Will they be able to get around their city quickly and comfortably? Will they have reliable supplies of water and power? In short, the challenge for policymakers is to help cities become better places in which to live at the same time as they grow bigger.

In our collection of articles on cities, we look at the issue from three different points of view: the citizen, the city leader and an organization that seeks to harness the power of public and private spheres.

On page 6, we meet Michael Berkowitz, President of 100 Resilient Cities. We hear how Michael and his team are helping a network of cities around the world to work together and develop links with public and private organizations to build resilience against the risks that come with urban development.

On page 11, we hear from the mayor of Bottrop, a city built on the coal mining industry in Germany’s Ruhr Valley. The mines are closed, but citizens’ minds are open. Mayor Bernd Tischler explains that by forging a new identity, based on green energy and regeneration, the city is setting itself up for success in a post-industrial age.

The voice of the citizen must be heard if cities are to thrive in the future. That’s the conclusion of a recent EY report introduced by Lucille Halloran on page 14. Empowered and connected by technology, citizens are becoming more assertive. The task for city leaders is to respond by developing a truly collaborative approach to urban development.

Citizens’ voices are coming across loud and clear elsewhere. The people of the UK defied the political and business establishment by voting in June to leave the European Union. With the official process of Brexit set to start early in 2017, we explore pre-negotiation developments and assess what the UK’s exit might mean for governments in Europe and around the world. (See page 18.)

Despite advances in medicine, infant mortality levels remain high in many parts of the world. On page 24, we find out how better supply chains are getting vaccinations to millions more mothers and babies in India.

Good news rarely hits the headlines. Big public sector projects tend to get publicity only when they take longer and cost more than planned. However, we’re glad to tell the story of how the Insurance Corporation of British Columbia’s seven-year transformation project has come in on time and within budget. On page 26, we talk to its CEO, Mark Blucher.

Italy’s transport infrastructure needs updating. We hear from Professor Ennio Cascetta (page 30) on how the Italian Government is changing its approach to infrastructure planning in an attempt to join up the country and generate economic development.

As governments around the world invest in infrastructure, they need the new roads and power lines to withstand extreme weather conditions. On page 33, we find out from Amal-Lee Amin how the Inter-American Development Bank is helping Latin American countries plan for climate risk when developing infrastructure projects.

As always, if you have any comments or ideas for future features, don’t hesitate to get in touch.

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Michael Berkowitz tells Bill Banks about an organization that is spreading resilience to cities around the world.

We meet in New York. The home of the Rockefeller Foundation and a city that, from its first yellow fever outbreak in 1688 to the terror attacks of 2001, has displayed resilience throughout its history.

I'm here to talk about resilience. Not just how cities respond to shocks such as epidemics, terror outrages, fires and floods; but also the day-to-day stresses of urban life such as poor transport systems, unaffordable housing and the lack of well-paid jobs. How can cities overcome shocks and stresses, and best produce a robust, sustainable platform on which citizens can build secure, productive lives?

The Rockefeller Foundation spun off an organization called 100 Resilient Cities (100RC), which involves creating a network of cities around the world that are working together to build resilience. 100RC is developing some answers and translating ideas into action in urban areas across the world. I'm here to talk with Michael Berkowitz, President of 100RC. He previously worked on risk management, among other issues, for Deutsche Bank. Before that, he worked for New York City as Deputy Commissioner at the Office of Emergency Management. He joined the Rockefeller Foundation in August 2013 to shape and oversee the 100RC initiative.
Later that year, 100RC began working with the first group of 30 cities. The following year, 33 more cities were selected to join the network. The final 37 cities were chosen in May 2016. In all, the 100RC team and a panel of expert judges reviewed more than 1,000 applications from cities. When assessing applications, evidence of progressive leadership was a key selection criterion. 100RC was looking for city leaders who saw the interconnection of challenges in areas such as the environment, infrastructure and society. They wanted to work with progressive thinkers who had meaningful challenges, and were in a position to address them.

Once selected to become part of the network, Member Cities receive financial and logistical support to establish the role of chief resilience officer (CRO); expert support for the development of a robust resilience strategy; connections with other members, so that cities can support each other and share their experiences; and access to solutions, service providers, and associates from the private, public and NGO sectors. Earlier this year, EY entered a five-year commitment to support the 100RC initiative by becoming one of these associates.

Centennial spur

Once we settle down in 100RC’s suite of offices on Fifth Avenue, I begin by asking why the Rockefeller Foundation set up the initiative. “The Foundation was celebrating its 100th anniversary and it looked around the world and saw three major trends,” says Michael.

“First, urbanization. By 2050, 70% of the world’s population is projected to live in cities. In Africa, Asia and Latin America, people are moving at a pace that infrastructure can’t keep up with. The second trend is globalization. What happens in one city now more and more affects what goes on in another. And the third is climate change. Cities sit at some of the most vulnerable parts of the world, in river deltas, on coastlines, in high plains.”

So, to celebrate its centennial and to address some of the key issues of the 21st century, Rockefeller announced the creation of 100 Resilient Cities, a US$164 million commitment to build urban resilience worldwide. Michael acknowledges that philanthropy can’t solve the world’s problems on its own. Which is why 100RC brings together civil society, the general public, the private sector as well as philanthropy and academia. “This is a very conscious effort to try to create partnerships that we can leverage to fix some of the world’s really wicked problems.”

Quick wins

It has only been three years since 100RC was established. Changes such as infrastructure improvements usually take far longer to come to fruition. But Michael can already point to examples of early success. “We’ve seen cities win big competitive awards on the back of their strategies and the strength of their CROs. In Norfolk, Virginia, for example, the CRO came home with the single largest grant ever awarded to the city, of US$120 million.”

Michael is also seeing partners collaborate in different, meaningful ways. “Swiss Re, the reinsurer, and Veolia, the French infrastructure giant, are working to fund improvements in the New Orleans water system. That partnership came directly out of this engagement. Those are the kind of innovative solutions we’re hoping to be able to bring to cities.”

And the 100RC approach to risk and resilience is already spreading. “Other cities that aren’t in the network are copying the model,” says Michael. “We’ve seen cities naming their own chief resilience officers and adopting this idea of holistic resilience. So the fact that it’s spreading even without us having to do that is amazing. The goal is not to change 100 cities, the goal is to change every city around the world.”

Risk and resilience take root

Michael’s approach to the subject is conditioned by his experience in both city government and the private sector. “You wouldn’t run a big financial services company or a big private sector company without a chief risk officer,” he says. “Someone at the very senior level who is thinking about how each decision affects the risk profile of the company. And yet, we don’t have the similar kind of position until now in cities.” He wants all cities to believe that “you wouldn’t run a city without a chief resilience officer any more than you would without a chief of police.”

So what should a CRO do? What’s the skill set required? “What we’re talking about is better health, more cohesive communities, good infrastructure, a good built and natural environment, strong and integrated leadership – all those things that help cities recover from disasters and grow,” says Michael. “A CRO has to play a little bit in all of those spaces, but they are areas owned by other people. Some in government, some in the private sector, others in civil society. “So the CRO has to be a political person to help connect the efforts of those who are doing roads, with those who are doing drainage. That’s the chief resilience officer’s job.”

Of course, each city is different in so many ways, with unique circumstances, cultures and challenges. Some mayors have more power than others. There are big cities and small cities in
the 100RC Network. But for results to be achieved, some common success factors need to be identified and then shared. How else is progress made? Forging common approaches across a global network of cities is one of 100RC’s biggest challenges. How are they tackling it?

“At times it’s painful, because cities want to do things their own way,” says Michael. “But one of the ways that we’ve been able to get this collaboration going is to make them go through a similar process. That allows them to have experiences to compare. So where you get, say, 12 CROs together who have all gone through a similar process, all using the same terminology, all framing resilience in basically the same way, it’s really powerful and that’s when the network really starts to pop.”

Common approaches prepare the pitch for the partners to apply their solutions across different cities. “If cities are all bespoke, it’s much harder to enter that ecosystem. If they start to organize in similar ways, we can scale solutions and really start to move the needle and fix cities in powerful ways,” says Michael.

Engaging citizens

We’ve heard a lot about how city authorities and the private sector can work together to build resilience. But, what about the people who live in the cities? How are their voices heard? “I think just the act of engaging with citizens is resilience-building in and of itself,” says Michael. “Take the most brittle cities, the Arab Spring cities. You had one fruit vendor in Tunis set himself on fire and the whole region went up in smoke. And partly that was because many of those cities felt like two cities. You had the haves and the have-nots, and there wasn’t a lot of engagement with the have-nots.”

Michael believes that cities that engage their people make themselves resilient. But demonstrating their responsiveness remains a stubborn challenge. “We push cities to do bottom-up citizen engagement in different ways,” he says. “But what’s really hard is to close the loop — for a city to go back to its citizens and say: you said, we heard, we did. I’ve run lots of different workshops, and we’ve sent out surveys and engaged online in all kinds of different ways. Thessaloniki, in Greece, actually put a resilience booth in the middle of its central square and citizens could come up and say, oh, this is where the city is strong, this is where it’s weak, this is what I want to see more of. That’s great. But how do we close the loop? That’s the thing that cities continue to struggle with.”

Funding formula

There is currently a huge shortage of infrastructure around the world. Indeed, it is estimated that developing all the necessary infrastructure will cost up to US$50 trillion over the next 14 years. Much of the shortfall is in urban areas. So cities must find ways of financing the infrastructure that is required to make them attractive, resilient places in which to build lives and businesses. At the same time, there is no shortage of private capital available to invest in infrastructure. Investors are looking for robust and rigorous projects that make sense. What is 100RC’s approach to the financing challenge?

Michael advises cities to take a balanced approach between projects that are straightforward and paid for, and those that are aspirational and not necessarily funded. “We want mayors to put in some big, important projects for which they don’t know exactly where they’re going to get the funding. But these projects
are signals to the market that say to national governments and to international structures like the International Finance Corporation and the World Bank ‘this is the direction we’re going, this is what we want to do, help us come fund this’. We want the strategies to be catalysts for investment.”

A strength of 100RC is that proposed projects coming out of the cities in the network may be ambitious, but investors know that they have been rigorously tested. The projects make sense and institutions may feel that they are deserving of funding. This could encourage private sector investors and crowd funders in a kind of contagion effect, where one of these projects may actually make another project alongside it, that wasn’t robust before, become achievable.

For Michael, those connections and synergies are an important part of the project. He is encouraging cities to create plans that bind initiatives together so that the connection is clear. Even in a developed city like New York, there are benefits to be had. Mayor Bill de Blasio has tied up three seemingly disparate initiatives – on housing, transportation and economic development – into one unified strategy.

“The OneNYC plan has a goal that every New Yorker should live within 100,000 well-paying jobs. This gets a multitude of different agencies thinking about how to solve that problem. The transportation people think about it as a transportation problem, the housing people think about housing, and economic development starts thinking about pushing development out of Midtown and Downtown and into some of the outer boroughs.”

All this builds resilience. A middle class jobs base is brought to different parts of the city, people get out of their cars and the really long commutes are reduced. “That only happens when you publish broad strategies that connect goals and initiatives,” says Michael.

The long haul

Now that all 100 cities are signed up, where next for 100RC? Is it just a question of continuing the good work? For Michael, one of the things that was not clear when the initiative started but has now moved into focus is the value that 100RC can add not just in the planning process, but over the life cycle of implementation.

“When you think about a project, first you have to scope it, then you have to do cost benefit and environmental assessments, and then you put a deal together and try to fund it and ultimately build it. Cities get stuck in different places along that way. When we have the right partners, like EY, who we can crowd in to help cities get over those different hurdles, and if we can stay connected with our cities throughout the implementation life span of 10 or 20 years, then we can really help cities move the needle.”

And that gets to the heart of the legacy that 100RC aspires to leave. Lasting change that improves people’s lives. “We want the urban resilience movement to flourish and to be something that we talk about in the same way we talk about sustainability, or community policing or any of the big urban innovations of the last 20 years. We don’t want this to be just the latest buzzword and then for things to move on.”

Ours is a seemingly more unstable world than before, prone to the shocks of climate change and the stresses of increasing inequality. It’s not too difficult to imagine the cities of tomorrow – bigger, faster, more crowded – resembling the dystopian visions of our nightmares. But if the risks are troubling, the rewards of effective planning for resilience are clear. Cities and communities set up for success and prepared for the shocks and stresses that come their way. The urban resilience movement is one that must be joined. As Michael concludes: “Given the multitude of challenges that the world’s cities are facing, they’re going to need it.”

Michael Berkowitz being interviewed by Bill Banks
How can post-industrial cities thrive in the age of globalization? The Mayor of Bottrop, a city in Germany’s Ruhr region, is overseeing a transformation project powered by green technology and modernization of infrastructure. He talks to Bernhard Lorentz.

In much of the developed world, there is fierce debate about the effects of globalization — and specifically how its rewards are distributed. The issue was prominent in this year’s presidential election in the United States and the United Kingdom’s referendum on membership of the European Union. Here, and elsewhere, concerns are highlighted that, among others, workers in traditional manufacturing industries have had to endure stagnant wages and reduced living standards as the global economy takes jobs to parts of the world where products can be made more cheaply.

So, how can countries in the developed world meet the challenge of globalization? How can economies that have previously been dominated by heavy industry evolve, so that they create the better-skilled, better-paid jobs that will raise living standards across the population, and provide urban environments in which people want to live?

Some answers lie deep in the heart of the Ruhr Valley, the industrial powerhouse of West Germany’s economic progress in the 1950s and 1960s, and still an important driver of Europe’s economy. It is one of the largest metropolitan areas in Western Europe, home to a cluster of towns and cities that share a proud industrial heritage, dominated by the coal and steel industries. But since the 1970s, manufacturing has declined as it has become cheaper to produce coal and steel in other parts of the world.

One of the cities in the region is Bottrop, which lies near the Rhine-Herne Canal, north of the Ruhr River and east of the Rhine. In the region’s industrial heyday, it was a thriving mining town. Today, Bottrop’s 120,000 inhabitants are represented by the city’s mayor, Bernd Tischler, who was first elected to the office in 2009. Since then, in response to the decline of the mining industry over recent decades, he has overseen an ongoing regeneration project that is renewing housing infrastructure, diversifying the city’s economy, attracting jobs and transforming the urban environment.

**Brown field to blue sky**

“Industry has strongly influenced the townscape, the economic structure of Bottrop and even the self-perception of the people,” says the mayor. In 2007,
Bottrop was a coal mining town in Germany, and it was Bernd Stöger's goal to transform it into a modern city with a diversified economy. His vision includes reducing CO2 emissions by half and creating a sustainable model for other cities facing similar challenges.

His plans received a major boost in 2010 when Bottrop was selected as the Innovation City of Ruhr. This initiative aimed to transform an industrial city into a model of sustainability and economic development.

Bernd Stöger, a trained engineer and urban planner, implemented a strategy that integrated environmental, economic, and social ideas. He worked to redevelop land previously used for mining into new business areas and living spaces.

A progress report was released last year, marking the halfway point of the project. The German government had already decided to phase out subsidies for the mining sector by 2018, so the closure of one of Germany's last mines in Bottrop had a significant impact on the city.

Bernd was responsible for overseeing the transition from a mining town to a modern, sustainable city. His approach involved joining up environmental, economic, and social ideas to create a coherent plan for redevelopment.

From a mining town to a modern, sustainable city, Bottrop is setting an example for other cities facing the challenges of deindustrialization.
It found that CO2 emissions had reduced by 38%. Bernd is confident that the 50% target will be reached by the end of the decade. The report also found that 3% of the city’s houses and apartments had been modernized – three times the national average.

Developing a blueprint

The mayor cites close cooperation between public and private actors as a key factor behind this progress. The private sector needs to be shown the broader opportunity. “The interest of German industry, for example, to take an active part in the project, is that they say, if it works in Bottrop, it works everywhere, and we have a new chance to gain new markets all over the world for our energy efficiency.”

Citizens are also at the heart of the project. “While we were applying for the title of innovation city, it was important for us to win the backing of the population,” says the mayor. “We managed to get 20,000 signatures of support for the project, from people here in Bottrop. They said, yes, we want to follow the mayor, we want to follow the city in this new future after coalmining.”

Getting buy-in from local residents at the start was crucial. With a stake in the project from the outset, they are more likely to stick with it through the implementation phase. “We have managed to take the people with us, and the people are convinced that there is a good chance to develop the city in a new way for the future. And we are very successful. You can see it, for example, in our unemployment rate, which is below the state level.”

The federal government in Berlin and the state government in Düsseldorf support Bottrop with money and know-how. So Bottrop’s progress is not going unnoticed. “They are wondering in Berlin why our modernization rate is three times higher than the state level. And in Düsseldorf they are looking for good examples of structural change in the Ruhr Valley. It’s a good chance to show not only Germany, but cities in other countries, what we can do and how we can give a former industrial city an energy-efficient future.”

Toward 2020

Enthuse citizens by painting a picture of a better future, and take them with you. Organize effective cooperation between public and private sectors. Build alliances across the tiers of government, linking national with local. What other advice does Bernd offer city leaders who are embarking on transformation projects?

“Don’t fear to make mistakes. Sometimes you go two steps forward and one step backward, but mainly you go forward.”

The man who was the city’s technical director is now its mayor. He has been re-elected and his mandate now runs to 2020, the same year that the Innovation City project comes to a close. By then, Mayor Tischler and Bottrop will be completing their blueprint of how to transform a post-industrial city. He hopes others will be inspired by Bottrop’s story. “I’m convinced that it’s a worldwide theme for cities to become more energy efficient, more livable, and to create more jobs.”

Globalization poses existential challenges to those cities in the developed world that were built on heavy industry. If they are to thrive in the future, they may have to diversify in ways that make them unrecognizable from the places that housed mines, furnaces and factories in the 19th and 20th centuries. Carving out a new identity without losing the spirit that put the city on the map and binds the people together is no easy task. But, as Bottrop and its mayor show, it’s not impossible.
“What is the city but the people?”

In William Shakespeare’s Coriolanus, the eponymous anti-hero fails to adapt to the new power structures of Rome’s fledgling republic. Unable to court the people and consider popular will over elite opinion, he seals his fate of exile and downfall.

More than 2500 years after the time that Shakespeare was examining, the question is still relevant. Do today’s housing policies serve the interests of citizens or international investors? Can our cities allow small, creative, local businesses to thrive alongside the big corporations? Are urban transport systems really set up with citizens in mind?

As urbanization gathers pace across the world, many countries are rethinking the way in which their cities are planned, built and managed. Australia is one place in which this debate is well and truly under way. More than 80% of Australia’s people live in cities. They are the hubs of the country’s economic and social activity. In the coming years, as the country’s population grows, its cities must overcome numerous challenges to accommodate the millions of expected new residents.

Engaging with citizens is a crucial part of addressing these challenges. Why? Because cities are more than a combination of buildings and infrastructure assets. They are places where people live and work – where they connect to and engage with each other.

A new EY report explores opinion among Australia’s citizens. What do they want in their cities, what do they expect of city leaders, how strong is their appetite to be involved in shaping their cities, and how can city leaders harness the views, talents and energy of citizens as they develop policy for the future?

Why listen to citizens?

If quality of life is our objective, future cities must have citizens’ needs front and center during all planning, development and operational activities. Because a truly smart city allows citizens to forge meaningful connections inward and outward – with each other and with the city’s experiences, culture, environment and opportunity.

This means that, as a matter of urgency, city decision-makers must seek to understand what connects people emotionally to a city – what makes them happy, what defines the city they
love. By engaging with citizens, decision-makers can gain access to new, rich and diverse thinking that will help them grow a city while retaining the essence of what makes it great.

Citizens take a whole-of-life view of their priorities and expectations. They consider a city through a kaleidoscope of needs and desires: the necessity to work, the desire for leisure, the demands of everyday living, their future aspirations. Citizens care about their cities and the outcomes of decision making. As much as they embrace progress, it is not with blind faith. They do not want their quality of life diminished or compromised. They want to ensure that their city will retain its values and qualities as it evolves. When citizens are highly engaged they will advocate for their cities, reinforcing positive sentiment and inspiring others.

Informed by open data and analytics, city challenges become a matter of public domain, with connected citizens who are able to make their preferences known, share real-time information and bring their ideas to the table. This opens up new opportunities for innovative solutions based on people’s needs and priorities.

What citizens want

New Australian research by EY Sweeney has found that citizens are inspired by the built environment, a city’s atmosphere and its status. They value the stimulation of an active and evolving city. Citizens who are most positive about their city have a strong emotional connection to it. They don’t just speak of the physical environment, but rather the qualities that make them feel part of the city.

But they also talk about their mounting frustrations with issues such as the affordability of housing and public transport. They fear that some new developments aren’t adding the infrastructure needed to keep their cities livable. If these problems are not addressed, the strength of citizen loyalty and pride, which currently give city leaders a cache of goodwill, will be undermined.

Our research identified six qualities that establish a sense of belonging, community and genuine connection with a city.

First, affordability. Citizens express considerable frustration and fear about the current and future affordability of their cities and, in particular, the affordability of housing. Citizens take issue with housing that does not consider the broader
community context. Ill-conceived development that erodes community experience is not seen as a long-term solution. More than half of respondents say they are frustrated by the high cost of living. People are particularly concerned about the high cost of transport, especially parking.

Second, agility. Citizens want to go about their lives with ease and efficiency, maintain social connections, access services and readily explore the city. This means services, systems and information must work seamlessly and to the benefit of citizens. Digital engagement is no longer best practice, but a base expectation of any city institution and service. Citizens want a comprehensive network of connected (public and private) transport options. Predictability and real-time knowledge is all important. The digitization of life means that dated or static information is no longer considered true delivery.

Third, amenity. Core services such as health and education are considered essential, as is access to services for people facing barriers to social and economic participation. Well-being also derives from healthy environments and activities that encourage learning, social inclusion and community tolerance. People want well maintained and accessible parks, gardens, public spaces, gym equipment, play areas and sports facilities to forge community spirit and support healthy behavior.

Fourth, safety. People expect their cities to provide the freedom to go about their activities without concern or compromise. Safety is largely defined by their everyday experiences and encounters rather than the larger political or environmental context. Although conscious of global threats, it is the local experiences of interactions with others, the sense of walking unafraid in local areas, at transport hubs and in parks that people most readily attribute to feeling safe. And they want a safe, 24-hour city experience, night and day.

Fifth, spaces. Having ready access to a range of spaces – natural, built, multipurpose, creative and sustainable – demonstrates the abundance of experience a city can provide. Citizens know that space has the power to change a mood, shift behaviors, inspire and reinvigorate community. People love open spaces, but are equally inspired by clever design that showcases human ingenuity. They revel in creative spaces that encourage interaction and reflect the community context.

And sixth, opportunity. Economic opportunity – the prospect for employment and basic financial security – is a core expectation. A city has to have a vibrant economy to support the needs of the people and build optimism. This means diversity in the business community, with a mix of sectors and size, and employment opportunities across the city, not just clustered in the center. But citizens also value social and cultural opportunities. A city that provides employment but denies a chance to enjoy life with their family is too great a compromise. A city that is affordable but dull and boring diminishes quality of life.

Looking for leadership

The report shows that citizens are equally clear about what they expect from the people who run their cities. They are concerned that, as the city grows and adapts to changing demands, it may lose the qualities they hold dear. They want city leaders who understand that and make decisions that uphold city values and qualities – and they want to be part of the decision-making process. People want leaders with the capacity to make bold decisions. Leaders who will inspire and drive progress, who are accountable for investment decisions – and whose actions are not dictated by the short-term political agenda.

Citizens can support change, while being passionate about preserving what is best about their city now. They
will support large-expenditure projects and are more likely to be tolerant of change and disruption, if they understand the benefits. However, people are equally conscious of the competing demands on funds. They have a low tolerance for wasted funds through ill-conceived or badly managed projects.

**Citizen engagement**

Increasingly, citizens want to engage directly in community decision-making. Citizens want to be part of the solution. But, they need a forum and the offer has to be sincere. Small, practical measures, such as creating forums at times people can attend or providing online participation options demonstrate that decision-makers are genuinely interested in people's opinions.

Just as consumers are willing to share their preferences for books and music with online shops, citizens want to share their preferences for city services with policy makers, planners, developers and providers.

Traditionally, citizen participation methods were time consuming, costly and only appealed to a narrow section of the community. The people decision-makers wanted to engage in discussing the city's future are not necessarily available for the 6pm town hall meeting.

But now, huge numbers of people can make their preferences known at any given moment via mobile apps and online interactive tools. This ability for thousands of people to make their preferences known at any given moment – whether expressing demand for a particular service or offering an opinion on a vital issue – could be revolutionary.

**Civic action**

So, what does all this mean for today's city leaders? We believe that all city stakeholders – government, business, citizens, NGOs – must collaborate in new ways to make sure our future cities meet people's needs. Here are some questions for decision-makers to consider as they begin exploring what these new ways could be.

First, what do you want your city to be? Defining and articulating its purpose engages a city’s people. Decision-makers need to understand how citizens see their city, identify their aspirations and what it is that makes the city different from others. They can then build the right balance of qualities into their plans.

Second, what will you do differently to engage people? People want to be connected to other people, to experiences, to culture, opportunities and to the people who make decisions about their city. The smartest cities in the future will understand and facilitate this broad sense of connection as it builds momentum. This is more than having the most digitally connected cities. That in itself is not unique. It's about using those connections to engage citizens in shaping the cities they inhabit.

Third, how do we improve the way citizens are part of the governance process? Cities need a governance structure that will allow the strengths of different parties to come to the fore. One that enables collaboration and cooperation and that cuts through politics and vested interests, whether it be around investment decisions or responding to city shocks and stresses. Citizens must become more involved in governance and participate so decision-makers don’t have to second guess what people want.

**Keys to the city**

In our digitally connected world, we have new opportunities to find out about the needs, priorities and preferences of all citizens. Our research shows that citizens have strong emotional connections with their cities. They are proud of the city they live in and passionate about taking care that its growth goes hand-in-hand with fairness and inclusion.

City decision-makers talk of the economic benefits of specific initiatives. But their efforts to achieve economic prosperity cannot be at the expense of livability, social inclusion and sustainability. We believe decision-makers need a new way of engaging with citizens.

Economic benefits will follow if a city’s population feels proud of its clearly defined purpose and values, happy with the quality of life and connected – to other people, experiences, culture and the environment.

Cities are living organisms whose success is ultimately measured not only by economic output, but also by the well-being of the residents who live there. If we want our cities to be competitive, we need the people who live in them to be happy and productive.

“What’s the matter, you dissentious rogues, That rubbing the poor itch of your opinion, Make yourselves scabs?” Thankfully, today’s city leaders treat their people’s grievances and protestations with less scorn than Coriolanus. But by listening more, and involving people more in decision-making, they might find that citizens themselves hold the keys to the city's future.

**Lucille Halloran** is EY Oceania Government & Public Sector Leader.

Read the full report *How can you build a strong city pulse, without taking the human pulse?* at futurecities.ey.com.\n
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[Image: Lucille Halloran is EY Oceania Government & Public Sector Leader.]

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When the UK voted in June to leave the European Union, many people across the world were shocked. Since the referendum, a new Prime Minister has taken office and the top team of ministers has been reshaped. With the formal process for the UK’s exit to be triggered before the end of March next year, Matt Ross explores how the UK and EU are shaping up for negotiations, and what Brexit could mean for governments in Europe and beyond.
Three prominent Brexit campaigners have been handed the task of negotiating the UK’s exit from the European Union. Foreign secretary Boris Johnson, international trade secretary Liam Fox and Brexit secretary David Davis were handed key posts when new Prime Minister Theresa May appointed her cabinet. May herself backed the Remain side and the top team of senior ministers is further balanced by the appointment of fellow Remainer Philip Hammond to the post of chancellor.

Davis’s new Department for Exiting the European Union (DEXEU) is currently working across Whitehall and the UK’s devolved governments to forge a common UK position for Article 50 talks — named after the mechanism that triggers exit. Gathering the views and priorities of other departments, it’s operating “more like a program than a traditional department,” comments Bjorn Conway, EY Government & Public Sector leader in the UK. Boiling down the many conflicting arguments made for Brexit into a coherent negotiating strategy is a huge challenge for the department’s Permanent Secretary, Oliver Robbins. DEXEU has “got to deal with huge complexity and scale, establishing a clear, consistent path for its analysis and policy work, while being really agile in responding to day-to-day events,” Conway adds.

Fox’s new Department for International Trade will lean just as heavily on the expertise and input of policy departments. “People always talk about trade negotiators, but that’s just the tip of the spear,” says Conway. “The real work comes in supporting them with detailed analysis, business cases and the implications for economic strategy.”

May has said she’ll trigger Article 50 by the end of March, starting the clock on a two-year period of negotiations culminating in Britain’s exit from the union. Commentators agree that hatching a new trade deal will take more than two years: these talks are likely to focus on dividing the EU’s budgets and assets, deciding the rights of citizens to work abroad, reshaping arrangements on briefs such as fisheries, and agreeing an interim trade deal.

“Talks are likely to focus on dividing the EU’s budgets and assets, deciding the rights of citizens to work abroad, reshaping arrangements on briefs such as fisheries, and agreeing an interim trade deal.”
Implications for EU governments

Mirroring the tensions visible within the UK Government, the EU is already dividing on how to handle Article 50 talks. Its members’ economic interests are diverse, with Eastern European nations most interested in UK labor markets, while big manufacturers focus on goods tariffs – so we’re entering a potentially divisive period of hard bargaining.

There’s also a political split between the European Commission’s federalist hawks – who want to make life uncomfortable for Britain, pour encourager les autres – and the more pragmatic political leaders such as Germany’s Angela Merkel.

This message that leaving is painful is aimed particularly at the French, who hold presidential elections next May – and could elect the Front National’s Marine Le Pen, who’s vowed to follow the UK’s lead. Germany’s autumn election looks safer; and if moderates win both elections, the two countries’ leaders will have the time, the mandate and the influence to shepherd other EU members towards an agreement. “The UK’s going to have to engage with all 27 members, but there will be a more in-depth, testing process with two or three core countries,” says Conway. “France and Germany will get a rough deal hewn out, then other countries will have the option to block it. Otherwise it’s an almost impossible task.”

Over time, the UK’s exit will shift the forces shaping the EU’s development. There will be no rush to follow Britain out of the door – but Iain Rennie, New Zealand’s former state services commissioner, notes that “in the longer term, some EU countries will look at how the UK fares outside the EU, and that may influence the debate about the EU’s future form or about other countries leaving.”

What’s more, Britain’s absence will allow other voices to come to the fore. The UK has always pushed for the EU to develop as a loose, free trade-based union rather than a centralized political power – so its departure may permit renewed progress toward integration. Indeed, in September, European Commission President Jean-Claude Juncker called for members to pool their capabilities in security and defense “in the form of a permanent, structured cooperation.”

“The former Soviet Bloc nations are miserable about us leaving because they saw us as opposed to ever closer union, which they don’t want,” comments Sir Paul Jenkins, the former head of the UK’s Government Legal Service who’s now a member at Matrix Chambers. “But the core six or eight remain wedded to ever closer union and the single European state; and they’ve lost an enemy.” Iain Rennie notes that “the UK has been one of the voices pushing for more liberal trade regimes, better quality regulatory systems”; so the UK’s exit may strengthen the EU’s leanings toward protectionism and regulation.

As Article 50 talks proceed, they’ll hit issues which could widen the divide between the UK and EU. Fishing rights is an obvious one – though Leslie Evans, the Scottish Government’s Permanent Secretary, worries that the UK won’t fight hard enough to protect Scotland’s fishing industry. “That’s a huge interest of ours, and our interests are not directly represented at the table in Europe because we’re part of the UK administration,” she says. Scotland’s nationalistic government, she adds, is pushing for a “differentiated” agreement giving it an
EU status distinct from that of the UK's. Scotland voted to remain in the EU. This issue also has the potential to divide EU nations, some of which wrestle with their own regional independence movements. 

Alongside these centrifugal forces, however, there are centripetal ones. Sir David Bell, the vice chancellor of Reading University and a former UK Department for Education Permanent Secretary, sounds confident that UK and EU universities will continue to build partnerships. “Academic activity has always been international, and even when government to government relationships are very poor, academics still work together very closely,” he says. “I've already received letters from EU universities saying they still want to collaborate with us.”

Professor John Louth, Director for Defence, Industries and Society at UK security think tank RUSI, says security professionals on both sides of the English Channel will keep on working together. “Practitioners are absolutely clear that they have to share intelligence, share services, keep communications open,” he says, adding that politicians have hard political reasons for safeguarding the current arrangements: “There aren’t many people who’d want their name associated with a worsening security situation.”

Nonetheless, Louth does worry that souring political relationships could weaken security cooperation. “Long term, those practitioner relationships are dependent on political will,” he says. “If the political discourse becomes torturous, it will impact on what people feel permitted to do.”

Amid all these risks and threats, EU nations may see opportunities in the UK's departure. For Britain has long sucked in European skills and global investment – and if it introduces immigration controls, loses access to EU structural funds and leaves the Single Market, both people and capital may head for the Continent instead. “British universities campaigned on the Remain side, because freedom of movement of labor has been incredibly important to them,” comments Bell. “One of the biggest threats to the UK is that the great scientists we've attracted decide to go somewhere else.” And Dr Hannah White, a program director at think tank the Institute for Government, highlights concerns about inward investment: “For businesses that want to invest in an EU-wide market, the UK is a less attractive option than it was prior to the referendum,” she says, adding that decisions over UK investment “mega-deals are on hold right now.”

France and Germany will get a rough deal hewn out, then other countries will have the option to block it:

“The obvious threat is destabilizing economic certainty for investors, exporters,” says Michael Wernick, Canada’s Secretary to the Cabinet and clerk of the Privy Council. “Private sector people, especially those working with large sums and big investment location decisions, probably were very uncertain and upset in June... Until the timing and the nature [of the Brexit settlement] is a lot clearer, I think that anxiety is going to be there.”

These calculations will feed into the EU’s negotiation strategy, points out Jenkins: If EU states “want to lure Nissan from Sunderland to France, or HSBC from London to Frankfurt,” they may prefer to impose tariffs and end Britain’s ‘passporting’ rights – which permit finance businesses to sell services in Europe – than to make concessions on freedom of movement. Trade with the UK would take a hit, he adds, but the Germans “can afford two years of disruption; they’ve got the rest of the EU to sell to, and the German economy is doing fine. Why would the Germans want to give us passporting rights? I can’t see it!”

New Prime Minister Theresa May will start the process for the UK's exit from the EU in early 2017.
Implications for non-EU governments

Both inside and outside the EU, political leaders are drawing lessons from the UK’s Brexit vote — not least on the use of direct democracy. “Referendums need to be on simple questions, and this was a really complex one,” says Hannah White. Former Prime Minister David Cameron “was quite confident that he’d get his outcome, and he turned out to be wrong. That’s got to affect the willingness with which politicians use a referendum as a political tool to solve a short-term domestic issue.”

Observers will also note the political salience of immigration. “There clearly is a concern about the movement of people across borders,” says Iain Rennie, adding that public disquiet “highlights the importance of helping countries that are struggling with governance, economic development” and internal conflict — thus addressing the causes of migration.

What’s more, says Rennie, the referendum revealed “concerns that many people don’t feel they’re getting ahead; that their educational and job opportunities are more constrained.” In Scotland, Leslie Evans says her biggest challenge is to foster “equality and opportunity across the piece, so everybody enjoys the benefits of a vibrant economy.” And former UK cabinet secretary Lord O’Donnell has also warned of the dangers of inequitable economic growth, telling the Global Government Forum that “our recovery from the [financial] crisis hasn’t got through to many people”, and noting that “those areas that have high inequality in wellbeing were much more likely to vote Leave.”

At September’s G20 meeting in China, the Japanese Government warned that its banks and manufacturers may leave the UK if May fails to secure tariff-free trade and easy movement of labor between the UK and the EU. And President Obama warned that the UK’s trading relationship with the US is at risk of unraveling.

Beyond the EU, the UK’s traditional allies will want to forge stronger links among the remaining 27 EU nations. “The UK and New Zealand are good friends, and that’s been helpful in helping
to influence EU issues of concern to New Zealand,” says Rennie; the new challenge for countries like his is to “maintain a strong relationship with the UK, and also to build and extend our friendships with countries in the EU.”

Some non-EU nations, though, may see opportunities to forge closer links with the UK – particularly in defense. “I suspect we’ll see Japan, Australia, maybe the Canadians thinking more about what they could do with the UK,” says RUSI’s Louth. “We’re spending £180b on our 10-year equipment program, and I think people will want to see what the UK – no longer tied to a larger trading bloc – can offer in a bilateral world.”

This will be particularly important given the message that Brexit sends to Russia. “Anything that suggests worsening relationships within the western powers, Moscow thinks is a good thing,” says Louth. “They’ll celebrate anything that undermines western cohesion.”

Like EU members, however, non-EU countries may also find a silver lining in Brexit. During the referendum campaign, Brexiteers argued that big trading nations would be eager to sign low-tariff deals with the UK – and now they’re under pressure to prove they were right. That, White explains, means that countries “could probably get some quite good deals, because the priority will be to show that we’ve got some free trade agreements and done it quickly. So our negotiating position will be pretty weak.”

What’s more, she notes, Britain is only now scrambling to assemble a trade negotiation team – rebuilding a capability lost when the UK joined the then-European Community in 1973. “We’re keen to get deals and we’re not very good at negotiating,” says White. “That’s probably an opportunity.”

Paul Jenkins is blunter still. “We’re going to be desperate for trade deals,” he says. “Every trading power in the world can see that they’ve got us over a barrel.”

If the UK does sign disadvantageous trade deals, of course, there will eventually be a political as well as an economic cost – and despite May’s decision to put Brexit campaigners in the frontline, ultimate responsibility always lands at the Prime Minister’s door. So far, beyond setting a March 31 deadline for the triggering of Article 50 and hinting that she sees the UK’s future outside the Single Market, May has revealed little about her hand. As the UK begins exit negotiations next year, we’ll find out what her game is.
Cold logic to a burning problem

Babies receive treatment as part of an immunization program in India. The Universal Immunization Program has given vaccines to 27 million newborn Indians.

Health Organization, more than half of the 5.9 million deaths last year among children under the age of five were caused by conditions that could have been prevented or treated with access to interventions that were simple and affordable.

More research is required to devise new treatments and more money to help widen access. But if a vaccine or medicine exists and is affordable, then why are 3 million children around the world dying unnecessarily each year? And what can be done to remove the barriers to access?

A project in India highlights some of the supply chain problems that prevent the delivery of vaccines and demonstrates how they can be overcome.

Immunization in India

India's Universal Immunization Program (UIP) is a key element of the country's national child survival strategy. The UIP is one of the largest programs of its type in the world. The quantity of vaccines, the number of beneficiaries, the number of immunization sessions, and the

T. Koshy explains why end-to-end supply chain management is crucial to the task of getting vaccines to those who need them.

It is a sad truth that not every newborn baby can enjoy a childhood free from ill health. Some are afflicted by diseases for which there is not yet a cure. For others, their parents cannot afford expensive and complex medicines or vaccines. But, according to the World

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geographical spread and diversity of areas covered are all vast. Indeed, 30 million pregnant women, 27 million newborns and 100 million children aged 1-5 have all been helped, free of charge, under the program.

But despite all these efforts, one-third of children are left out. This is due to issues such as inadequate supply chains, gaps in cold chain management, inadequate stock, the absence of standard procedures and a lack of training.

The Global Alliance for Vaccines and Immunization (GAVI), a public-private global health partnership committed to increasing access to immunization; the United Nations Development Programme (UNDP) and India’s Ministry of Health and Family Welfare are working together trying to close these gaps.

To ensure the delivery of potent and safe vaccines, the Government of India has established a network of 27,000 cold chain points. When transporting vaccines, it is critical that they remain at the correct temperature. This is maintained by transportation in cold boxes with ice packs and insulated vaccine bags, enabling the delivery of vaccines in adequate quantities and quality conditions to the most remote health facilities.

EY was selected to support UNDP, which was rolling out a comprehensive solution to tackle the logistical and management challenges in India’s three largest states, covering about one third of the country’s population. The scope has since been extended to another eight states.

To deliver a replicable and scalable model, EY brought in as associates Logistimo, the developer of the eVIN (Electronic Vaccine Intelligence Network) software and Strategic Alliance Management Service (SAMS) to support recruitment and training of field staff. eVIN allows store managers to enter data using mobile technology to a centralized system with inbuilt intelligent analysis that tracks and alerts possible stock-outs and breaches of temperature. It provides information as dashboards and spots problem areas, taking appropriate decisions.

To manage this large rollout, training and support, EY established a complex organizational structure, with around 400 people deployed across 11 states. In these states, EY will train around 15,000 people who are critical to vaccine cold chain. Many of them may never have seen a smart phone. But after their training, they will use these devices for real-time data management.

This system will help to reduce the instances of stock-outs and over-stocking, leading to improved management of vaccines and cold chains. As a result, more mothers, babies and young children will receive the vaccines that can save their lives.

Target 3.8 in the United Nations Sustainable Development Goals calls for “access to quality essential health-care services and safe, effective, quality and affordable essential medicines and vaccines for all.” This project is an example of how strong co-operation between public sector, private sector and non-governmental organizations can deliver tangible progress toward this goal.

T. Koshy is an Advisory Partner at EY LLP (India).
In today’s fast-moving world, all organizations are having to raise their game. Integrating new technologies, empowering people, encouraging entrepreneurship and becoming more responsive to customers and citizens are common demands. For organizations steeped in a public service ethos, making these changes can prove particularly challenging. But public bodies also contain inherent strengths that, under the right leadership, can be harnessed to help reforms take hold.

An example of successful transformation in Canada shows that big public sector projects don’t have to be defined by headlines about missed deadlines and ballooning budgets. They can instead bring value for taxpayers’ money, improve the services provided to citizens and equip the organization for sustainable success in the future.

All vehicle owners in the province are required to have basic insurance coverage provided by the Insurance Corporation of British Columbia, an organization that is just completing a seven-year transformation project.
The Insurance Corporation of British Columbia is coming to the end of a seven-year transformation project. It arrives at its destination on time and within budget. Fiona Macfarlane finds out whether it has been a smooth ride.

The story takes us to Canada's Pacific coast and the Insurance Corporation of British Columbia (ICBC) – a crown corporation that provides affordable auto insurance for the province's citizens. The corporation has a dual role. First, it's a mandatory insurer for injury coverage. Every person who owns or drives a vehicle in British Columbia is required to have basic insurance coverage provided by ICBC. And second, it competes in the market against other insurers for optional coverage, such as comprehensive, collision and extended liability insurance.

It has 4,500 staff, more than 3 million customers and annual revenues of around CAD5 billion. However, the organization has suffered from low investment and a lack of commercial focus. Recognizing these problems, the corporation instigated a transformation program in 2009. But three years later, the transformation appeared stuck in neutral, with little progress being made.

That was when Mark Blucher took over, first as interim president and CEO in October 2012, before being confirmed permanently in those roles the following year. Under Mark's leadership, the transformation has accelerated. The reforms include changing all of the organization's portals, both for brokers and for customers, the information systems, the rating system, the claims system and the policy center. There are 42 projects in total. The transformation is now poised for completion ahead of the 2017 deadline and within the CAD400 million budget. So, how has he done it?

**Culture challenge**

Mark started the task by looking under the bonnet of the organization and of the transformation program. “A lot of things had been started, but not much had been delivered,” he says. So the challenge was one of implementation rather than design. The starting point was simplifying the task of adopting new technology.

Previously, the implementation was overly complex and sophisticated, with continual changes and user requirements.

“These were classic things that I’d seen in other major shifts in technology and integrations,” says Mark. “We had to refocus the organization to say, let’s stop building very sophisticated future systems that we really don’t have the capacity to use yet. Let’s get the basic systems in and then build on them over time.”

He quickly identified culture as a key roadblock to progress. “Because it is a monopoly for about 55%-60% of its business, the culture inside the organization was to think that we don’t have to be that good because customers have no choice,” says Mark. “I approached it
a different way, saying we have to earn the right to be the mandatory auto insurer, every day, by being better at what we do.” This would require a big mindset change in the organization.

“There’s no single intervention around shift in culture. You have to move the strategy of the organization, to be clear and simple for people to have them understand what you’re focusing on,” says Mark. He emphasizes the importance of recruiting the right people, training, getting the management layers right and measuring progress of individuals and the organization as a whole.

Leadership is also key to culture change. Mark has overseen the introduction of character tests for leaders. “Before we look at leadership candidates’ technical capabilities, they have to pass certain character tests. You start that at the top and then slowly drive it through the organization. You need continued communication about what’s important and what’s not – visible signs of leadership,” he says.

Public sector organizations that don’t have to compete in a market risk focusing too much on the interests of those who produce a public service rather than those who use the service. With more than half of ICBC’s business deriving from its position as a monopoly provider, it’s no surprise that Mark saw addressing this issue as a key part of the transformation. He reoriented conversations so that they were around customers.

“It’s a strange kind of thing, right? If you want to change the culture of the employees, you talk about things other than the employees. A lot of the conversations had been about this organization being built for the benefit of employees. So we changed that conversation, showing that it was created to provide customers with access to affordable auto insurance, and that the employees are one of the resources used to do that.”

Of course, this didn’t please everyone. “We addressed performance in employees and moved out those who weren’t performing well. That had never really happened in the organization before.”

Cultural change is something you have to work on every day. “Walking around the office, dropping into meetings, repeating key messages, asking all the leaders to do the same thing, producing lean methodology, having huddles, introducing visual boards showing the performance of every individual work site, giving people control of their work site to improve things for customers – all of these things together start to move the culture,” he says.

Mark has a saying that he uses with his people: “Changing culture is like a drop of water on a stone. If you keep working at it 24/7, you’ll see a small indentation start to appear on that stone and it will grow over time.”

Looking outward

Mark had never worked in a public sector organization before joining ICBC. Whereas the private sector is often keen to learn from other organizations and work with partners, he saw a reluctance at ICBC to look outward. “There’s a belief inside public sector organizations that they really know their stuff and they can do it alone.” That, he thinks, is a false perspective. “Success in major transformations is to determine what you are capable of in your organization and where you need external assistance to come and help you.”

This conviction led Mark to bring in EY to assist ICBC with the implementation of parts of the transformation, such as an IT installation program. This decision marked a decisive break with the Corporation’s past. “Previously, we would have thought that we could do that ourselves by bringing in experts, by managing and leading ourselves, rather than bringing in a proven company that has done multiple installations.”

He thinks that both public and private sector organizations labor under the misapprehension that they are unique, that programs and solutions, especially around technology, have to be designed specifically for them, and that they need to do it by themselves. “As I see it, that approach has led to multiple failures in major system installations, cost overruns and time overruns.”

The trick is to understand where you can bring in talent to the payroll in order to fill competency gaps, and where to seek outside advice.

For the best part of 35 years, ICBC hadn’t done regeneration projects or significant transformation of its business model. Mark was able to bring his expertise to the task of business modeling and bring in executives with this skill set. “What we didn’t have experience in was changing major technologies,” he says. “We could have gone and hired a whole bunch of people into this
On time, on budget

Today, ICBC is a few weeks from the program’s final implementation, ahead of the deadline next year. “We’re actually going to finish in 2016 and we’ll be under our budget allocation. On a project that’s going to run about seven years, that’s no mean feat.”

What does this success mean for ICBC? What can it now look forward to in the future? “With the changes we’ve made in technology, the implementation of lean and operational excellence, our opportunity now is to improve services for customers,” says Mark. “Our systems are now way more flexible and less expensive to change.” Therefore, the Corporation can be more agile as the needs of customers change.

Having spent his career in the private sector, what has Mark learned about working in a different kind of organization? “When you commit to a project in the public sector, typically you see it through. There are not many examples where there’s been a commitment to do a major technological change and, part way through that process, they’ve decided not to proceed because it’s getting a bit off track.”

Mark admires the resilience in public sector organizations and their ability to see the job through. And what has he learned about leadership? “You’re so reliant on having people around you who have the energy, commitment and experience to lead transformations. Because as a CEO, you don’t spend much time doing this. You spend most of your time navigating the continued commitment of the Board, the shareholders and external stakeholders. So having people in your team at a senior level who are prepared for the challenge is crucial.”

Neither the insurance industry nor the public sector have a particularly strong record of getting major projects completed on time and on budget. The story of Mark Blucher and ICBC shows that it can be done. What is his parting advice to others faced with a similar challenge? “Plan multiple deliveries, to give confidence that you’re making progress. Don’t try and do everything yourself. Get experts to help you. And make everything simple, because complexity really does make it difficult to deliver.”

Success in major transformations is to determine what you are capable of and where you need assistance.

Mark Blucher, President and CEO of the Insurance Corporation of British Columbia

Fiona J. Macfarlane is Managing Partner, British Columbia, Ernst & Young LLP.
As an academic and an administrator, Ennio Cascetta is well versed in thinking up ideas and seeing them turned into action. So, how is he bringing his experience to bear on Italy’s outdated transport infrastructure?

Ennio Cascetta is Professor of Transportation Systems Planning at Federico II University in Naples. When he was Regional Minister for Transport in the Campania Region, he promoted the planning and construction of the underground network in Naples, known worldwide as the Art Underground.

Professor Cascetta is currently Coordinator of the Technical Unit for Infrastructure Strategic Planning at the Italian Ministry of Infrastructure and Transport. Minister Graziano Delrio chose him as the key person in charge of launching a new approach to the planning of public spending on infrastructure.

Here, he talks to Citizen Today about why Italy’s ambitious infrastructure reforms are necessary and how he plans to bring them to fruition.
What is changing in Italian infrastructure policy?

Ennio Cascetta (EC): The Italian Government is trying to transform the process of infrastructure planning, financing and construction. This transformation is mainly a cultural challenge. It is our strong belief that infrastructure projects can only be approved if they are truly useful to the country: this idea must prevail.

To do so, works must undergo a strict ex-ante evaluation, as happens in most advanced countries. This also requires changes in the law, and the Government has started some very significant reforms during recent months. We changed the Public Procurement Code, we decided to give Italy a General Plan for Transport and Logistics and we set rules for resource allocation decisions in the field of infrastructure. Simplification, transparency, quality and fighting corruption are key priorities of our reform.

Our aim is to improve accessibility to Italy’s territories, Europe and the Mediterranean area; to improve the quality of life and the competitiveness of urban areas; to support sustainable and safe mobility; and to promote policies for the industrial sector.

Did Italy really need such radical reforms?

E.C.: Yes. Before starting, we made an effort to understand what did not work out well in Italy during the last 15 years. One of the most problematic issues in the Italian infrastructure system lies in the very long periods between project approval and completion of the work. This creates an environment where higher costs and corruption become more likely, and where people tend to perceive infrastructure as an intolerable cost. Works that appeared to be useful 15 years ago are not anymore: this happens, too.

Today, with a worsening lack of resources and increasing mobility needs, we cannot afford any waste. We have to be sure that the works needed to relaunch the Italian economy are completed quickly, and that the money invested is properly spent. Furthermore, we have to persuade private investors about our system’s trustworthiness. Italy only becomes a topic in the international press when corruption gets discovered or tragedies happen, like the earthquake that hit Central Italy in August. We have to communicate our excellence and innovation.

What part did the Technical Unit play in the reform process and what is its current activity?

E.C.: As a Unit supporting the minister for strategic planning and high-level supervision on infrastructure, we immediately started a detailed mapping of ongoing works and infrastructure projects in Italy. Due to the fragmentation that currently characterizes both infrastructure planning and resource allocation, this is a very complex task. We have been working on it for months and it still continues.

We also helped the minister and his office to conduct constructive dialogue with stakeholders, paying attention to their requests. We strongly believe that fundamental transformation cannot be achieved without first being widely accepted. During these months, we have met with regional institutions, companies in charge of building and managing rail and road infrastructure projects, managing bodies of ports and airports, logistics operators, and stakeholders from the technology and digital sector. These meetings have been instrumental in the development of the strategies that will steer infrastructure policy for years to come. We wanted these strategies to be read, understood and discussed by the public. For that reason, we produced an accessible document clearly explaining our strategies and goals: we called it “Connecting Italy.”

You mentioned stakeholders from the technology and digital sector. How does digital innovation interact with infrastructure reform?

E.C.: Digital innovation certainly represents the future of infrastructure, but it already plays a major role today.
Simplification, transparency, quality and fighting corruption are key priorities of our reform.

Among the Ministry’s strategies, our aim is to rehabilitate existing infrastructure, and digital technologies can prove extremely helpful.

This topic is firmly on our agenda. For instance, earlier this year we launched an open process aimed at developing functional standards for smart roads. Smart infrastructure requires digital innovation in order to improve assessment of needs and evaluation of work; to make planning and programming of maintenance projects and investments in new infrastructure more effective; and to provide, at lower cost, works of a higher quality that are more enduring, more sustainable and safer for users.

Technology also provides us with better tools to develop transportation policies and manage traffic flows. Digital interaction with infrastructure improves end users’ experience, not only with regard to mobility, but also for integration with activities and services that represent the goal of mobility itself. To companies, digitization of infrastructure means safer transport and a smaller administrative burden. In order to succeed, however, all actors should share goals and standards. To this end, we launched a process of stakeholder engagement, including public debate at different stages of the initiative.

What are the reform’s next steps?

E.C.: We have put a very complex process into place, and the implementation phase will require our full attention. We will soon publish national guidelines for evaluating infrastructure projects. They will bring European and international best practices to Italy. We will have to explain to every affected party how to make evaluations: as I already said, an exchange of ideas with stakeholders is of fundamental importance to the success of the whole process.

Together with the companies managing the rail and road network, and with ports, airports, regions, municipalities and all potential actors, we will launch a new phase of infrastructure evaluation. This will, we hope, reaffirm Italy’s credibility, attract investment and boost our country’s competitiveness.

Meanwhile, we are ready to start working on the General Plan for Transport. This will be a very broad and inclusive process: we want it to generate a cultural debate on the role of infrastructure in the economic system and in the pursuit of a higher quality of life for everyone. There are already well-prepared specialists at work, but we expect a significant contribution coming from civil society, operators and companies.

What part can companies play in the evolution of infrastructure policy?

E.C.: They certainly do have a key part in it. Alongside people who travel every day for work, study or personal purposes, companies are the beneficiaries of infrastructure policy. We start from the idea that transport infrastructure projects do not end in themselves: they are helpful if they move people and goods around effectively. The Ministry’s strategies follow two directions. On one hand, we aim to promote infrastructure development that fosters excellence, favoring, for instance, technological innovation in transportation. On the other hand, we aim to develop connections that are helpful to companies in order to satisfy the increasing mobility needs of the labor market and to reduce the costs of logistics.

To this end, it is essential to hear the requests of those wanting to invest and grow their business in Italy, so we promote infrastructure in areas where true demand exists. Involving companies in the development of infrastructure policies is a great challenge, in order to create a better business environment and to foster Italy’s competitiveness.

EY has been providing Advisory services to the unit managed by Professor Cascetta.
What are the objectives of the Inter-American Development Bank, especially in the area of climate change and sustainability?

We’re the Regional Development Bank for Latin America and the Caribbean, the biggest public financier for the region. Climate change and sustainability has been a priority now for several years, but this year, following the Paris agreement (on limiting greenhouse gas emissions that was signed earlier this year), we’ve really raised the profile of the issue, recognizing countries’ needs in line with the implementation of their Paris commitments. Earlier this year we set a goal to double our investments in climate finance by 2020. We are now in the process of working to deliver on that and focusing on how we actually mainstream climate change across the Bank and the Inter-American Investment Corporation, our private sector arm.

What do you see as the main climate risks to cities?

Cities are very concentrated in terms of population, economic activity and jobs. So the physical impacts of climate change can bring very significant risks. In our region, many of the cities are located in particularly vulnerable areas.
Those by coasts can be at risk from rising sea levels. Other cities, particularly mountainous ones like La Paz in Bolivia, are reliant on water supplies from glaciers. Such cities are very likely to be vulnerable to challenges over the availability of water in the future. So we see this as an absolutely critical issue to address, for the social and economic development of the region.

Q. Can you give examples of how the Bank is helping cities to address some of these risks?

We have a major initiative on cities that has been operating over the last five years called the Emerging Sustainable Cities Initiative. We’ve helped 71 cities so far. The priority initially was not large cities, but those that were likely to undergo very significant growth. We help these cities look at their vulnerabilities to climate change and understand how they might be addressed. The initiative brings together city planners, mayors and others who are concerned about the future of these cities and their ability to sustain a rapidly growing population in light of the changing climate and the impact that will bring.

We also have a lot of investments and activities in specific cities. One of our first major climate resilience investments was in Bolivia, working with local communities in El Alto, the second biggest city in the country, to come to an arrangement to ensure that water resources could be allocated effectively. This required nearby communities in rural areas, local farmers, indigenous farmers, to allow for water supplies to be diverted toward the city, which meant working with them to improve their agricultural productivity. This demonstrates the importance of taking a holistic approach.

When we look at cities, it often means working with those in nearby rural areas.

In some cities, water shortages are likely in the coming decades, whereas in others we are seeing flooding. We’ve been working with El Salvador’s Ministry of Public Works to understand better how sustainability and climate resilience can be integrated into their infrastructure. When you look at the Paris agreement and the UN's sustainable development goals, and see where the needs are in terms of growth, jobs and other economic opportunities, infrastructure becomes really critical. We also know that there is a major gap in the level of investment in infrastructure in our region. So a key part of how we work with cities is through the lens of a sustainable infrastructure agenda, and that’s something that we’re increasing our attention toward.

It’s absolutely essential to start to understand the climate vulnerabilities and risks at as early a stage as possible when planning infrastructure projects. Over the past few years, we have been helping to strengthen the capacity of cities and national governments to understand where those vulnerabilities lie and how they can be integrated into their forward plans. That way, resilience to climate change is built in to infrastructure investments from the start.

Q. How do you help governments to work with the private sector to fund climate-resilient infrastructure projects?

We’ve got a study underway that is trying to understand better how institutional investors perceive the risks around sustainable infrastructure. Clearly, climate impact is one of the potential risks that might prevent those investors coming in. Our study seeks a deeper understanding of how investors perceive climate risks and how we as a Bank can better address them. For public-private partnership (PPP) arrangements, it is important to identify those risks very clearly. PPPs can be very complex to negotiate anyway. So addressing climate risks up front and ensuring that there are some contingency measures in place if the climate risks become a reality is crucial.

Another of the key issues is to ensure that we support governments and private investors to ensure that infrastructure projects are made climate resilient as a matter of routine — if not resilient to all possible impacts, then at least as resilient as is economically viable. By identifying the potential risks, projects can be developed in a way that makes it easy to retrofit them in the future if certain risks materialize. When
looking at climate impact, there’s always a best possible scenario and a worst possible scenario. It is unlikely that it would be affordable to make infrastructure resilient to the worst possible scenario. But, on the other hand, given that infrastructure is a very long-lived asset, it is important to ensure that it can be more affordably retrofitted in the future.

**Q.** What are the benefits of investing now in robust, climate-resilient infrastructure? How can this investment drive sustainable growth?

When we think about how we best make infrastructure more resilient, it’s really about developing much better quality infrastructure. So, when we think about cities and how to make them more resilient and compatible with a low-carbon economy, it often means making cities safer, more accessible, more mobile. Addressing the climate agenda benefits local citizens. As an example, to avoid congestion and all the air pollution that brings, you need to produce better transport systems, and that can have a positive impact on millions of urban dwellers.

**Q.** What are the main findings of your report on stranded assets?

Stranded assets resulting from environment-related risks, including the effects of physical climate change and societal and regulatory responses to climate change, have become increasingly prominent. This has been driven in large part by changes in the real economy, such as the falling cost of renewables, as well as by the attention generated by the Paris agreement.

Levels of awareness and interest differ across countries and regions. Much of the early work on stranded assets originated in the United Kingdom, rapidly spreading to the United States and from there to other countries. There is currently significantly more awareness of stranded assets among financial institutions in the United States, Europe, China and Australia than elsewhere.

While awareness of stranded assets among financial institutions has increased rapidly, developments in practice have not kept up. New products and tools have been launched to cater to new demand, but they are often based on questionable methodologies. There are growing calls for a new generation of data, analytical methods and tools to help financial institutions differentiate between assets and companies that are more or less exposed to environment-related risks. Developing this next generation of analytics is critically important if financial institutions are to take account of environment-related risks that can strand assets through their decision-making.

Understanding the implications of stranded assets for successful low-carbon development is in an early phase. There has been some work on the need for a “just transition,” but this has been relatively high-level work that pre-dates much of the discourse on stranded assets. There is very little work looking at how to identify assets that could be stranded by decarbonization in order to develop policy responses that can preempt destabilizing opposition that might result. There are significant opportunities to create tools to help policymakers understand when and where assets may become stranded, in turn enabling them to develop adequate policy and regulatory responses.

Stranded assets could be a systemic risk to financial stability and should therefore be a topic of concern for central banks and financial regulators. Greater attention to framing and diffusing risks and opportunities, and to providing diverse but practical management tools, is needed to support the uptake of responses to stranded assets. This is particularly the case in Latin America, where other factors such as governance and development issues vie for primacy among investment priorities, and where there are more limited opportunities for sustainable options in the smaller financial markets.

To read the report on stranded assets, visit publications.iadb.org/handle/11319/7851
How can governments support the development of youth entrepreneurship? Here are 10 considerations for policymakers:

1. Capital without mentorship is lost capital: Create funding mechanisms, either government run or government backed, that make mentorship and financial education a condition of funding.

2. Access to alternative funding is critical: Create strong relationships and provide incentives with venture capitalists, incubators and business angels to develop or create initiatives that enable alternative sources of capital.

3. Public funding matters: Sponsor start-up growth with low-cost funding for targeted groups.

4. Entrepreneurs still need banks to keep credit moving: Create a new class of loan for small businesses and young entrepreneurial firms that offers targeted funding to meet expansion capital needs.

5. Targeted tax and business incentives are highly important to supporting young entrepreneurs in scaling their businesses: Encourage investment in start-ups by offering tax benefits. Enable young, high-growth entrepreneurial firms to scale up through amplified support for market access.

6. Supporting global mobility for young entrepreneurs is key: Encourage top international talent by changing visa rules and offering funding support.

7. Complex and burdensome rules in areas such as tax hold back young entrepreneurs: Simplify and streamline tax administration to ease administrative burdens on young entrepreneurs.

8. Positive mainstream views about entrepreneurship are needed to attract young people: The media play a huge role in crafting mainstream views, but governments can kick start the process through initiatives and their PR machines. They need to create a positive narrative around entrepreneurship to help engage young people from an early age.

9. A national, regional and local culture of entrepreneurship should be encouraged: Relevant talent can be brought together by encouraging and fostering hubs, incubators, accelerators and networks.

10. Regional ecosystems foster and attract a critical mass of talent, capital and entrepreneurial leaders: Creating the foundations for regional entrepreneurial ecosystems to flourish is critical.

The key to job creation is not simply to reskill — but to change our thinking. To develop new jobs inspired by emerging technologies will take entrepreneurial thinking — so encouraging entrepreneurship should be a top priority for governments concerned about the potential for jobs to be lost to automation.

Entrepreneurship is a major job creator, accounting for 6.7% of new jobs across the G20. It’s a powerful driver of future economic growth, and helps communities become more prosperous.
Ethiopia is in the grip of one of the worst droughts in its recent history. According to government and humanitarian agencies, some 10.2 million people need emergency food assistance.

The impact on health, education and the economy are devastating. The World Food Programme recently reported that two in five Ethiopian children suffer from stunted growth, while 28% of all childhood mortality is caused by under-nutrition.

As a consequence, Ethiopia loses around 16.5% of its GDP per year, holding back prospects for sustainable growth, prosperity and transformation that are so desperately needed.

Over the last decade, the country has done much to combat food scarcity. Progress has been made, but the problem persists. Where government and charity have been struggling to deliver a long-term solution to this ongoing challenge, could business provide alternative approaches?

Of particular importance is livestock production, specifically poultry, which is raised by some 60% of all Ethiopian smallholders and provides an excellent source of protein. The problem is that many local breeds take a year to reach market weight, produce a limited yield of eggs, and tend to be overly susceptible to disease.

Specializing in more resilient breeds, one of the country’s largest poultry producers is championing a franchise model in an effort to solve this problem – a model that directly addresses food security and healthy diet, while also supporting entrepreneurs and creating jobs.

Rather than raise the chickens themselves, EthioChicken supplies their agents with day-old chicks, which can then be matured and their eggs or meat sold. This can realize an annual profit of up to US$120 per agent – a significant contribution to household budgets in a country with an average per capita income of just US$470 a year.

This ability to generate revenue is essential, but the firm never loses sight of its social purpose, as Co-CEO, Joseph Shields, explains: “Our focus goes beyond profit growth – we’re also concerned about producing a source of protein to make a difference in our country. We want to continue to scale our business, so that we can help keep more children healthy.”

As Shields says, scale is crucial. Having distributed more than a million chicks via their network of 140 agents since 2010, the company’s ambition is to double the number of chicks it produces to two million a year within three years.

To achieve this, they’ve had to address a range of operational inefficiencies and administrative processes, which were hampering growth. As Shields explains: “We needed an accurate, real-time view of our entire organization – for example, we wanted our finance department to be able to ‘talk’ to HR, and the warehouse to be linked to sales. That way we could produce operational, sales and financial information including KPIs in real time, and better identify risks such as waste and theft.”

A team drawn from EY UK and Ethiopian member firms worked with the company to determine the most effective Enterprise Resource Planning system to put in place, and identify improvements for existing company processes, policies and data management.

The bigger these kinds of businesses grow, and the greater success they have, the more nutritious food and new opportunities for earning a living will be available to poor families, boosting their long-term health and economic potential. The bigger hope is that the more this socially conscious approach to encouraging entrepreneurship can be shown to succeed, the more it will be able to act as a model and inspiration for others in the poorest parts of the world.
Focus on Southeast Asia

Safeguarding Singapore’s homes

EY was tasked by the Government of Singapore with assessing the security implications and challenges to data protection arising from the deployment of proposed smart solutions into the country’s domestic homes. The Smart Homes program aims to introduce internet of things (IoT) concepts into Singapore’s homes, where everyday devices are connected to the internet, allowing them to collect and exchange data.

EY performed a technical security assessment, consisting of vulnerability assessments and penetration tests on the various components in each solution (gateways, web applications and mobile applications). EY also reviewed data protection on all service and solution providers, to test compliance with the Personal Data Protection Act 2012.

EY’s work enabled the Government to assess the risks introduced by deploying IoT solutions, identified a number of significant security vulnerabilities and highlighted the challenges that IoT solutions would pose to the protection of personal data.

A key finding of EY’s work is that due to the intimate nature of data collected and transmitted in IoT solutions, the industry must perform comprehensive and rigorous security testing to safeguard privacy, protect against the loss of sensitive data and prevent possible undesirable events arising from compromised IoT devices in people’s homes.

Improving Vietnam’s transport infrastructure through PPPs

The Government of Vietnam has started to use public-private partnerships (PPPs) as a way to help meet the country’s infrastructure and service needs. However, to get the hoped-for benefits of PPP projects, public sector officials and managers need to develop and maintain skills and capacities to identify, assess and procure PPPs – and, once the projects are up and running, to manage the contract and regulatory requirements.

EY is working with Vietnam’s Ministry of Transport (MoT) to realize these objectives as part of a World Bank-supported project to develop forward-looking, effective PPP frameworks and developing procedures and guidelines; producing bidding and contract templates; developing management information systems; organizing training to provide knowledge, skills and international experiences of managing and implementing PPP projects; providing ongoing support for a pilot PPP project; and developing a procurement plan.

One feature of EY’s work is to provide traffic forecasting, revenue modeling, financing assessments and economic analysis for the Dau Giay-Phan Thiet expressway project. EY has helped the MoT to overcome obstacles to delivery, as the country seeks to implement its first PPP projects.
Shariah-compliant pension options

In recent years, members of the largest provident fund provider in Malaysia have requested Shariah-compliant options. In 2010, a Shariah advisory committee was set up to provide oversight on Shariah investments by the fund, in addition to its ethical investments.

A nation-wide members’ consultation survey was conducted in 2015, in which 71% of members voted “Yes” to the introduction of a Shariah-compliant option. The fund provider viewed this as an opportunity to start diversifying its investment products. EY was engaged in 2013 to design and implement a Shariah-compliant pension option, in association with Shariah experts from a prominent legal firm.

A “leverage” business model proposed by EY was adopted by the fund, which approved of the minimal cost and time required to implement it. EY then proposed 48 initiatives across operations, finance, investment, Shariah, legal and change enablement workstreams to support implementation of the business model and enhancement of the existing system.

The product was launched to members in August 2016 and will be officially effective from January 2017 onwards. EY’s in-depth knowledge of the fund’s business and operations allied to the commitment and cooperation of the fund’s senior management and workstream teams contributed to the dynamic implementation. The product is one of the first of its kind in the world. 

For more information on EY’s work with government and the public sector in Southeast Asia, please contact:

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