

# **AFRICAN DEVELOPMENT BANK GROUP**



## **THE BANK GROUP'S URBAN DEVELOPMENT STRATEGY**

**Transforming Africa's Cities and Towns into  
Engines of Economic Growth and Social Development**

**OPERATIONAL RESOURCES AND POLICIES DEPARTMENT**



## THE BANK GROUP'S URBAN DEVELOPMENT STRATEGY

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## ACRONYMS

ADB	Asian Development Bank
ADF	African Development Fund
AfDB	African Development Bank
AFD	<i>Agence Française de développement</i> (French Development Agency)
AMCHUD	African Ministers' Conference on Housing and Urban Development
ANUMI	The African Network of Urban Management Institution
ARRU	<i>Agence de rénovation urbaine</i> (Tunisian Urban Upgrading Agency)
CA	Cities Alliance
CDIA	Cities Development Initiative for Asia
CSP	Country Strategy Papers
DFID	Department for International Development
ESW	Economic and Sector Work
FEC	<i>Fonds d'Équipement Communal</i> (Moroccan Municipal Infrastructure Fund)
GDP	Gross Domestic Product
GNI	Gross National Income
GTZ	<i>Deutsche Gesellschaft für Technische Zusammenarbeit GmbH</i> (German Technical Cooperation Agency)
IADB	Inter-American Development Bank
ICT	Information and Communications Technologies
LIC	Low-Income Country
MDF	Municipal Development Fund
MDG	Millennium Development Goal
MIC	Middle-Income Country
NGO	Non-Governmental Organization
NTF	Nigeria Trust Fund
PPP	Public Private Partnership
PRSP	Poverty Reduction Strategy Paper
R&D	Research and Development
RISP	Regional Integration Strategy Paper
RMC	Regional Member Country
SDI	Slum Dwellers International
Sida	Swedish International Development Cooperation Agency
SSA	Sub-Saharan Africa
UCLG	United Cities and Local Governments
UCLGA	United Cities and Local Governments of Africa
UDU	Urban Development Unit
UMP	Urban Management Programme
UNDP	United Nation Development Program
UN-HABITAT	United Nations Human Settlements Programme
USAID	US Agency for International Development
WB	World Bank
WBI	World Bank Institute
WDI	World Development Indicators
WHO	World Health Organization

## EXECUTIVE SUMMARY

1. The Bank Group is developing a new Urban Strategy to enhance the effectiveness of its interventions in the urban sectors of its regional member countries (RMCs). This Strategy will seek to boost the viability and competitiveness of African cities to ensure that they perform their role as real engines of economic growth and social development. The proposed Urban Development Strategy will be anchored on **three pillars** aligned with the Bank Group's strategic orientations and core areas of intervention, including:
  - **Infrastructure Delivery:** In line with its operational priorities, the Bank Group will use infrastructure development as a major strategic vehicle for supporting urban development. Emphasis will be on delivery and expansion of basic infrastructure services; and building capacity for maintenance of public infrastructure assets.
  - **Governance:** The Bank's strategy will aim to strengthen the corporate governance and the managerial capacity of municipal authorities to promote a culture of transparency; strengthen anti-corruption safeguards; and build the capacity for urban planning. It will support reforms targeted at fiscal decentralization by assisting municipalities to improve financial and administrative management systems.
  - **Private Sector Development:** The Bank will strive to support private enterprises across the full business spectrum from small enterprises to mega enterprises. Assistance will be focused on creating conducive environments for private sector investment, including the promotion and strengthening of local financial markets. Other priority areas will include: promoting viable public private partnerships (PPPs); developing legal and regulatory frameworks aimed at reducing transaction costs for business development; and providing long-term financing to governments, municipal authorities, and private investors in support of investment programs for cities.
2. Activities under each pillar will be implemented within the broader national development agenda of RMCs and will be aligned with CSPs and other key Bank Group policies and strategies. The Strategy also covers **cross-cutting themes** including knowledge generation, regional integration, environmental protection and adaptation and resilience to climate change, gender equality, and the empowerment of vulnerable segments of the population, as well as the strengthening of the urban-rural linkages.
3. Bank Group's support to urban development will mainly utilize existing financing instruments. Urban development will require a vast amount of resources which the Bank will not be able to finance alone, even if limited to its priority areas. The Bank will need to build strong partnerships with others, including governments, the private sector and donor agencies, to meet these needs.
4. To ensure success of the strategy, it will be important to rethink the institutional approach to urban interventions. Internal and external collaboration, particularly with the RMCs will be required during implementation to ensure coordination, coherence and consistency. In this context, the OIVP will take the lead role and serve as the focal point and coordinator during the implementation phase.
5. The Strategy is intended to enhance the Bank's role in Africa's urban development. Cities are a source of many opportunities for countries' economic growth, but require well targeted support in a range of areas.

## **I. INTRODUCTION**

### **1.1 Background and Rationale**

1.1.1 The Urban Development Strategy builds on the achievements and lessons of experience of past Bank Group efforts in urban development and emphasizes the need for coordinated and purposeful action. A key argument of the Strategy is that successful urban development requires coherent programmes and efficient organization both within the Bank Group and in Regional Member Countries to ensure that urban sectors play the role of engine to the economies. Through this Strategy, the Bank will ensure that key policy themes and cross-cutting issues including private sector development, governance, gender, empowerment of vulnerable groups, regional integration, environment and now increasingly climate change are taken into account during project design and implementation of urban projects. Moreover, the approach will ensure that the Bank's policy and operational focus ultimately is on the building of viable, accountable and service-centered institutions at the sub-national levels, notably municipalities.

1.1.2 In the past fifty years, Africa's centers of economic activity have shifted markedly from the agrarian countryside to urban areas. Today urban areas account for the bulk of domestic economic activity and close to half of the population dwells in cities or towns. While African countries see functioning urban sectors as important for national economic and social welfare, as they account on average for not less than 55% of the GDP, the growth of the urban sector has been haphazard in many cases, spanned by rural economic decline and poverty, civil conflict and/or outright civil war. Urban development will continue to pose an immense challenge for policymakers, including in the areas of planning, infrastructure, employment, social services, security and the environment. At the same time, however, the expanding cities and towns offer unique opportunities for governments to mobilize populations on a massive scale, to attract investment, and to introduce new technologies and policy approaches that would lift the populations out of poverty and place economies on sustained growth trajectories. Thus, African cities can become an important driver of domestic demand-led growth, regional integration, and technological innovation.

1.1.3 The Bank Group has since the 1960s allocated some 15-20% of its total cumulative operations financing directly or indirectly to urban development. There have been a number of outstanding urban-based projects in the Bank's areas of comparative advantage—infrastructure being most prominent. In view of this relatively high proportion and considering the multi-dimensional nature of urban poverty, in the early 1990's it became apparent that a coherent policy is needed to serve as reference for Bank Group operations in the urban sector. The Bank's current urban development policy and guidelines were in this connection approved in 1992 and 1994, respectively.

1.1.4 After operating under this Urban Policy for ten years, the Bank acknowledged in 2002 that a strategy for urban development was required if its urban based operations were to achieve intended results. It was acknowledged that the Bank Group had made important contributions to financing of urban projects, but that the results obtained could have been even better if a coordinated approach was adopted. Further to that, the Bank's Strategic Plan (2003-2007) argued that an urban development strategy would bring a fresh impetus to the financing of urban development and to strategies to address urban poverty. The Second Update of the Strategic Plan

(June 2005) emphasised the Bank's ambition to target urban areas by acknowledging the need for urban investment strategies. Looking ahead, the Bank and its development partners have an important role to play in promoting urban development, and ensuring virtuous linkages between cities, the hinterland and the rest of the economy. This strategy is the response to these stated needs.

## **1.2 Main Objectives**

1.2.1 The main objective of this Urban Development Strategy is to boost the Bank Group's engagement in Africa's urban sector by promoting country-specific urban development initiatives. This Strategy will specifically aim at: improving urban infrastructure; enhancing the effectiveness and efficiency of urban governance systems and processes; enhance revenue generation and financing modalities for municipalities and local governments; and support greater private sector participation in financing urban development.

## **1.3 Preparation Process**

1.3.1 In initiating the preparation of this Strategy, the Bank undertook consultation missions to a number of African countries (Tunisia, Kenya, South Africa and Senegal) with the intention of having as varied a view of African urbanization experiences as possible. The mission team had discussions with policymakers at the central and sub-national government levels. These country experiences were not exhaustive, however, and were complemented by surveys of the views of international agencies, development banks, donor agencies, government departments, civil society organisations, NGOs, associations of local authorities and individuals from various countries. As part of the information gathering process, various Bank staff including those active in the area of urban development were also consulted. The outcome was a useful analysis of the current urban development challenges and opportunities in Africa, providing important points of departure for this new Strategy.

1.3.2 Further to these analytical aspects of the work, a consultation workshop was held for key players in Africa's urban sector in Tunis, including local governments, UN agencies, MDBs, and bilateral donors. The recommendations made by participants at the workshop contributed to shaping the thrust and main messages of the Strategy.

1.3.3 The recommendations of the Strategy will need to be financed. A commissioned study identified ways to finance the key pillars of the strategy, particularly in the context of the current financing instruments of the Bank. On the basis of this, a recommendation on how the Bank can best support urban infrastructure and related regulatory, administrative and fiscal reforms is provided.

1.3.4 During a High-level Symposium held at the 2008 Annual Meetings in Maputo, the Bank Group reiterated its interest in urban development under the theme "*Fostering Shared Growth: Urbanization, Inequality and Poverty in Africa*". Moreover, key elements of the planned strategy were presented at a Senior Policy Seminar on "*Economic Policies for Growth in the Aftermath of the Global Downturn*", held in Accra Ghana in October, 2009. In both cases, participants provided valuable comments on what was expected of such a strategy. These have been incorporated in the Strategy.

## **1.4 Outline of the Report**

1.4.1 The rest of the document proceeds as follows:

- Section II presents the trends, challenges and opportunities in urbanization in Africa;
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- Section III discusses the Bank's experience as well as that of other development partners and the lessons learnt;
- Section IV proposes new strategic orientations for Bank Group support to urban development; and
- Section V discusses implementation issues.

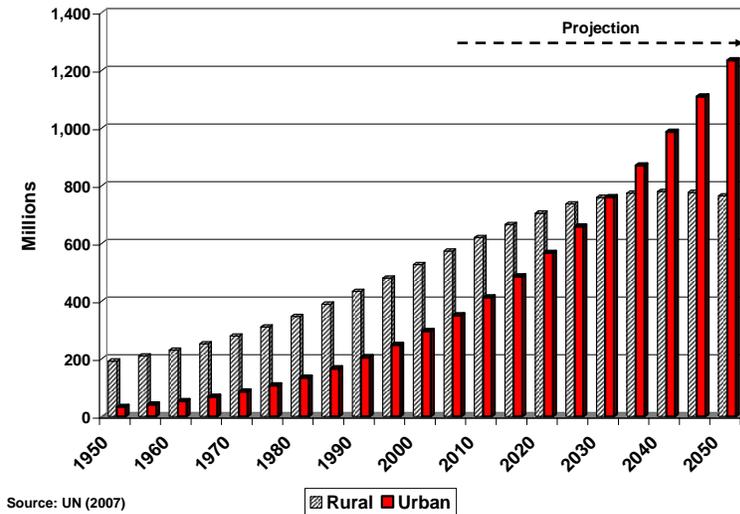
## **II. THE CURRENT SITUATION -URBANIZATION IN AFRICA**

### **2.1 Trends in the Urbanization Process**

2.1.1 According to the UN-HABITAT's, "*State of the World's Cities Report 2008/9: Harmonious Cities*", the rate of change of the urban population in Africa is the highest in the world (3.3 per cent per year) and the continent currently has 17 of the world's 100 fastest growing cities. If current trends continue, by 2050 more than half of Africa's population will be urban (see figure 1) and African cities and towns will host nearly a quarter of the world's urban population - 1.2 billion people.

2.1.2 As already noted, Africa faces enormous development challenges in the urban areas, characterized by a proliferation of unplanned habitat, poor access to essential services and growing insecurity and poverty. Despite these challenges, cities have played a pivotal role in sustaining economic growth in recent years, generating about 55% of the continent's total GDP. If managed properly, African towns and cities can contribute as much to boosting economic output as in the other regions of the world (about 90% of the GDP in the developed countries).

2.1.3 Over the last half century, Africa - and especially Sub-Saharan Africa - has experienced an unprecedented rate of urban growth, outpacing other regions. This process is expected to continue and in about two decades the urban population will exceed its rural counterpart. The potential for further urbanization is huge as the region is still in the early stages of its urban transition, with only an estimated 38 per cent of its population classified as urban. The continent is expected to sustain the highest rate of urban growth in the world.

**Figure 1: Urban and Rural Population Levels in Africa 1950-2050<sup>1</sup>**

2.1.4 There are great variations between countries. Burkina Faso, Burundi, Ethiopia, Malawi, Rwanda and Uganda have between 10-20% of the total populations living in urban areas, while figures for Algeria, Botswana, Congo, Cameroon, Morocco, South Africa, and Tunisia range between 50% and 65%. Libya and the coastal states of Gabon and Djibouti have 75-85% of their population in urban areas. There is also a general pattern: the richer countries are more urbanized than the poorer ones, while landlocked countries are less urbanized than coastal ones at the same income level (see Table 1).

**Table 1: Income and Urbanization in Africa**

Income Level	Urban Growth		Urbanization Rate		
	All Africa	All Africa	Coastal	Landlocked	
Low Income	4.1%	33.8%	} 40.1%	20.6%	
Lower Middle Income	2.4%	53.1%		} 55.7%	38.9%
Upper Middle Income	1.5%	62.9%			

Source: UN (2007)

2.1.5 The process of urbanization depends on a number of inter-related sub-processes. The migration of people from rural areas has often been identified as the main force in this respect. Natural population growth, particularly in the peri-urban areas, and the consequent expansion of urban areas are equally important. However, urbanisation also occurs through changes in the economic characteristics of settlements and a vast proportion of urban growth is due to the urbanisation of rural or peri-urban areas. Rural settlements are urbanised through the introduction of industrial development and physical restructuring of towns and cities, both planned and unplanned.

<sup>1</sup> UN World Urbanization Prospects: The 2007 Revision of the Population Database.

2.1.6 In terms of settlement structure, urban centres in Africa have been influenced by a number of factors. In many countries, the urban structure was not built for productive purposes, but for colonial administrative control and extraction of economic surplus. Therefore, it has been difficult to develop urban economic bases conducive for optimal growth and socio-economic development. Furthermore, the countries' agriculture had limited capacity to absorb the rapid population increase, thus leading to a rise in rural-urban migration.

## 2.2 Key Challenges Facing Urban Development in Africa

- Low Rates of Economic Growth and Increasing Urban Poverty - Over the last half century, Africa has experienced rapid urban growth, even as long-term economic growth stagnated and declined in some decades. With low economic growth and employment opportunities, African governments have found it difficult to cope with the unprecedented surge in urbanisation.
- Inadequate Infrastructure - The inadequacy of infrastructure for meeting basic human needs and growth is undermining the economic performance of almost every African town or city. It is estimated that the demand for investment in basic urban infrastructure on the continent is in the range of USD 15-20 billion per year, while demand for urban housing investment is in the range of USD 20-25 billion. The total of around USD 40 billion annually is far in excess of what African Governments can provide.
- Growth in Slums - Slum communities have become the new face of urban areas in many developing countries. It is estimated that in SSA some 63% of the urban population live in what is charitably called "informal settlements" characterized by overcrowding, poor access to water supply and sanitation, lack of personal security, high social fragmentation, and lack of basic social, educational and health facilities. While urban poverty certainly is one factor contributing to the growth of slums, they are also the product of failed policies.
- Weak Urban-Rural Linkages - For cities to serve as engines of growth there must be strong economic linkages between urban and rural areas. In the case of Africa, it will be a challenge to extract the most benefits from the urbanisation process. When compared with other regions such as Asia, urban based economic activities in Africa (i.e. industry and services) have performed poorly and the link between urban incomes and the performance of the rural economy has remained weak. Three areas of economic policy stand out as constraints to the growth of urban economies: macro-economic instability, a poor investment climate and inadequate infrastructure<sup>2</sup>.
- Marginal Role of Local Governments - Although local governments are well developed in North Africa, in SSA (with the exception of South Africa), municipalities are marginalized. The role of African local governments in urban development is highly constrained. Many countries have sought to decentralize service delivery to local governments, but without a commensurate increase in revenue sources/financing.
- Weak Capacities of Municipal Authorities - Most towns and cities in Africa have limited professional capacity for managing urban development. Municipalities lack legal and

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<sup>2</sup> Some other factors influencing urban and rural development are political instability, conflicts and wars as well as HIV/AIDS.

administrative frameworks for efficient service delivery and management of urban planning, land tenure and finance.

- *Environmental Challenges* - The most immediate and pressing challenge is to improve the environmental conditions of the urban poor. Informal and unregulated urban settlements and haphazard disposal of waste and industrial bi-products contribute to the degradation of the environment. The urban poor live in life-threatening conditions with limited access to clean water, adequate drainage and sanitation. They are also affected by high levels of pollution due to toxic material, traffic and industrial emissions, residential congestion and absence of green spaces. The result is environmental degradation, increased natural and man-made disasters, scarcity of drinking water and increased risks to public health.
- *Climate Change* - A long-term trend of global warming appears to have set in motion climate change that cannot be stopped in the foreseeable future. The adverse impact of climate change can only accelerate rural-to-urban migration, while at the same time putting urban infrastructure at greater risk due to extreme weather events. In addition, urban areas account for about 60% of the continent's population that live in low elevation coastal zones that could be severely affected by rising sea levels, as well as, frequent floods. Cities are also among the top producers of greenhouse gases, which are believed to accelerate the global warming.

### 2.3 Opportunities for Urban Development

- *Cities and Towns Are More Productive Places* - Economies of scale and agglomeration effects make enterprises—and people—in large cities more productive than those located in small towns or rural areas. The large and diversified pool of labour; the greater local market; easier access to suppliers and specialized services; lower information and transaction costs; more diversified contact networks; and an environment that encourages innovation are among factors that increase the potential productivity of cities. Due to these agglomeration economies, a city like Nairobi with a little over 5% of the national population produces over 20 % of Kenya's GDP. Similarly, other cities and towns in Africa are more productive than rural areas. Urban centres are in fact potential “engines of growth and development”.

## III. EXPERIENCE AND LESSONS IN URBAN DEVELOPMENT

### 3.1 The Bank Group's Experience

3.1.1 The Bank Group recognizes that the continent's cities and towns can be a major driving force for economic development. In 1992, the Board approved an Urban Development Policy to provide guidance for Bank Group operations in the urban sector, build a foundation for dialogue with counterparts and promote co-operation with other development partners. The policy targeted RMCs' capacity to plan and implement investment programs, promote private initiatives, support decentralization and upgrade human resources. Also important was improving the living conditions of the urban poor.

3.1.2 The Bank Group has over the years supported urban development through projects in public utilities, industry, transport, education, health and other social interventions. Between 1967 and 2007, roughly 15-20% of the cumulative financing provided by the Bank Group benefited urban dwellers and enterprises directly or indirectly. The experience acquired in urban projects and the scale of urbanization in Africa, and its many consequences, have highlighted the need for an Urban Development Strategy for the Bank. A Strategy that fosters a holistic engagement, strengthens greater coordination of the Bank's urban development activities, and which places emphasis on innovations in financing, municipal management, mobilization of local resources, development and maintenance of social and economic infrastructures, and that caters for cross-cutting issues particularly, environment and climate change adaptation. Looking ahead, the Bank's impact will depend principally on the cohesive nature of the projects and programmes which are executed and the efficiency of the underlying institutional framework.

3.1.3 In recent years, the Bank has supported urban decentralization (e.g. Mali Decentralization and Regional Economic Development Support Project) and projects that improve the lives and the livelihoods of the urban poor (e.g. Urban Poverty Reduction Project in Ghana in Box 1 below). However, the expertise required for these projects is still too scattered within the Bank. To create a critical mass and allow a holistic approach to urban development in Africa more needs to be done, including in partnership with others.

3.1.4 For a number of years, urban development has been absent in the Bank's research agenda. However, in 2008, the Bank selected the theme of "*Fostering Shared Growth: Urbanization, Inequality and Poverty in Africa*" for its High-level Symposium at the 2008 Annual Meetings in Maputo. Subsequently in 2009, the Bank embarked on a research program for developing the African Urban Sector in partnership with Sida. This initiative is expected to yield a number of knowledge products that will assist Bank staff and RMCs in addressing urban development issues.

3.1.5 Few African countries have given attention to the challenges and opportunities of sustainable urban development. Notably, urban development has not been given a high priority in national development plans and poverty reduction strategies. The Bank's Country Strategy Papers, 'the key policy drivers', have likewise not paid much attention to urban development.

### Box 1. Tackling Urban Poverty in Ghana

Ghana is a beneficiary of the Bank Group's **Urban Poverty Reduction Project** which is on a pilot basis. The project seeks to achieve the MDG that calls for halving the proportion of poor people living on less than a dollar a day through **urban poverty reduction strategies**. The project is to the tune of UA 28 million, with the Bank's support amounting to UA 25 million.

**Context and Rationale:** At the time of project inception, estimates indicated that at least 2 million urban dwellers in Ghana were classified as poor. Urbanization was increasing and urban poverty levels worsening, particularly in the Central and Northern regions and in a number of intra-urban locations. In Accra alone, 45% of the population lived in the two poorest neighborhoods, where sanitation, water and education facilities had deteriorated since the 1990s. Women remained vulnerable and HIV/AIDS rates of infection had increased.

Further challenges faced by the urban sector entailed: absence of specific strategies to tackling comprehensive urban poverty in previous poverty reduction strategy papers, lack of policy coherence on urban development issues in Government Departments; Medium Term Development Strategies, which did not address poverty at local levels; lack of overall capacity in management and resource mobilization at the local level, etc.

**Project Objectives:** Against this background, the project aims to: (i) Develop urban settlements through participatory management, job creation and strengthened public/private partnerships and local governance and management capacity; (ii) Improve livelihoods in urban and peri-urban zones through increased access to basic quality services and socioeconomic infrastructure; and (iii) Facilitate access to income generating activities through capacity building and a strengthened urban small-scale enterprise sector.

The project has four components: (i) capacity building for pro-poor urban development and management, (ii) social capital investment support, (iii) urban small-scale enterprise development, and (iv) project management and coordination.

**Coverage:** The project covers 12 Metropolitan, Municipal and secondary towns: Accra, Kumasi, Tema, Koforidua, Akim Oda, Swedru, Apam, Kasoa, Wenchi, Agogo, Sekondi- Takoradi and Ho with a total population of 4.45 million.

**Outcomes:** The project is expected to generate 350 and 50 urban/peri-urban socio-economic and environmental sub-projects, respectively. The benefits will include among others: (i) strengthened and well-functioning public-private partnerships involving the poor in the planning and management of the development process in cities and towns; (ii) increase in the local government's investment budget due to effective mechanisms for local level revenue mobilization and accounting; (iii) better monitoring and evaluation of poverty reduction interventions at the local level; (iv) improved livelihoods in poor urban communities due to better access to quality socio-economic infrastructure and employment (v) 6,000 jobs to the unemployed youth through labor-intensive infrastructure works and 3000 jobs for the SSEs sector as a result of better access to credit; (vi) decrease in the proportion of children in poor urban areas that are underweight from 35% to 25%, and increase in the use of medical services from 19% to 28%; and (vii) skills development training to at least 4,000 women.

**Conclusion:** The holistic approach that this project has taken towards urban development planning, where local government, the private sector and civil society are drawn together to work towards a common urban development goal is innovative, and recognizes the complexities of urban areas. The project has adopted **an approach** with three main focus areas: (i) infrastructure delivery and maintenance using a pro-poor approach; (ii) Support to decentralization and urban governance at all levels of government; and, (iii) Private sector development including support to the vulnerable, particularly women and the youth. This project is expected to contribute to economically efficient towns, environmentally functional entities, and equitable and inclusive neighborhoods.

Source: (AfDB)

**3.1.6 Key Emerging Issues**-The review of Bank Group's experience in urban sector operations highlighted the following key issues:

*Institutional Arrangements* at the Bank level - There is need for better coordination within the Bank of what currently are disparate activities undertaken by the Bank Group using a fragmented approach. To enhance coordination and collaboration, it will be important to rethink the institutional approach to urban interventions. External collaboration, particularly with the RMCs will be required to ensure the success of the Bank's engagement in the urban sector. Also important, the scale and scope of the challenges of urban development in Africa will necessitate a sizeable scaling up and diversification of the skills mix among Bank staff.

*Long-Term Planning* - RMCs that have been most successful in urban development are those that have a track record of effective long-term and medium-term planning and implementation. Urban development needs to be incorporated in national development plans, poverty reduction strategies (PRS), Country Strategy Papers (CSPs) and Regional Integration Strategy Papers (RISPs).

*Leveraging Private Sector Involvement* - There is as much potential in Africa, as in other parts of the world, for private-sector-led and public-private partnership in urban development. What is lacking are vehicles for leveraging private sector engagement. The Bank's non-sovereign window has been a key means of crowding-in large numbers of experienced sponsors across Africa, especially in energy and finance. The Bank could take the additional role of transmitting experiences among countries on urban sector policy and institutional reforms, encouraging public-private partnerships (PPPs) at the local level and the development of small and medium sized enterprises (SMEs).

*Knowledge Development* - Urban development requires a multi-sector approach touching on a variety of interlocking, technical, economic, social, and environmental issues. A good understanding of the impact of Bank interventions on these dimensions will require dedicated analytical work. It will therefore be important to undertake studies to inform Bank interventions as well as those of other partners.

## **3.2 Experiences of Other Development Partners**

3.2.1 Over the past two decades, multilateral and bilateral development partners have supported many initiatives aimed at developing the African urban sector and facilitating decentralization, primarily devolution of power to urban municipalities. In the context of urban development in Africa, key institutions have included: World Bank, UN-HABITAT, Cities Alliance, the Swedish International Development Cooperation Agency, Agence Française de développement (AFD), Municipal Development Partnerships (MDPs), and Shelter-Afrique.

3.2.2 *The World Bank* – The World Bank is the only organization so far that provides urban development finance on a large scale across the continent. It has a broad based program covering virtually all types of urban investments. Over the last decade, the thrust has been on secondary cities and institutional reforms. More recently, the World Bank adopted a new urban and local government assistance strategy with seven strategic areas of focus: (i) cities and economic growth; (ii) city management and governance; (iii) urban poverty and slum upgrading; (iv) urban planning; (v) land and housing; (vi) intergovernmental fiscal relations and municipal finance; and (vii) urban environment and climate change.

3.2.3 *UN-HABITAT* - It has a broad agenda in shelter and urban development. It is a strong advocate of slum upgrading and tenure security for the urban poor. Through its Slum Upgrading Facility, it is spearheading a number of innovative solutions for mobilization of local financing for upgrading, low-income housing and municipal infrastructure. The UN-HABITAT has contributed to initiatives for leveraging urban development, the campaign for good urban governance, with special emphasis on sound legal and political frameworks for decentralized local governments, being an example.

3.2.4 *The Cities Alliance* - It focuses on the formulation of urban development strategies and the upgrading of slums. Its slum facility promotes projects in Africa, through financial support to design, feasibility studies and technical assistance. Lack of financial resources for implementing slum upgrading schemes has, however, limited its impact.

3.2.5 *Other Partners* - Over the last two decades, a number of new organizations have emerged that could be partners for the Bank. Amongst them is the Urban Management Programme (UMP), established by UN-Habitat and UNDP, which is evolving into a regionally-based network of institutions; The African Network of Urban Management Institutions (ANUMI), created in Abidjan and with membership in Côte d'Ivoire, Nigeria, Senegal, Zimbabwe and South Africa; The United Cities and Local Governments of Africa (UCLGA), which is an association of municipalities and regional/local governments in Africa with an objective to represent local governments; build local government capacity; and mobilize resources and facilitate development of local communities; The African Ministers' Conference on Housing and Urban Development (AMCHUD),<sup>3</sup> which is an important forum/network for discussing urban development continent wide, is supported by UN-Habitat<sup>4</sup>, and has an ambitious programme of law and policy reform; and the Millennium Challenge Corporation (MCC) which is an innovative and independent U.S. foreign aid agency that plays an integral role in the U.S. Government's pledge to assist countries in their efforts to achieve the MDGs and improve the lives of their people. The MCC has formed partnerships with some of the African poorest countries who are committed to good governance, economic freedom, and investment in their citizens. The MCC programme in Africa has supported investments in the urban and rural sectors in key areas such as agriculture, roads, water and sanitation, energy, ports, airports, health clinics, and schools.

### 3.3 Lessons Learnt

An analysis of the broader experience of partners, notably the World Bank, Un-habitat, and Cities Alliance reveals some of the following important lessons which today shape urban development strategies and interventions:

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<sup>3</sup> For more information see [www.unhabitat.org/amchud](http://www.unhabitat.org/amchud)

<sup>4</sup> UN-HABITAT also organizes every 2 years the World Urban Forum (WUF), which a major event, where all aspects of urban development are discussed and emerging solutions and best practices are presented. Participants come from all over the world.

- Successful cities adapt their strategies, improve their finances, attract private investors, and take care of the poor<sup>5</sup>. The World Bank in particular, designed the business lines of its new urban and local development strategy on the basis of this lesson.
- The key ingredient to realizing the “Inclusive City” is neither money nor technology, nor even expertise (although these are important), but good urban governance.<sup>6</sup> Urban development strategies should therefore address urban challenges in a holistic manner.
- Cities, even if very productive, are not automatically inclusive. The redistribution of the benefits of economic growth requires a clear policy and strategy because the invisible hand of the market does not favor spontaneously social inclusion and equity<sup>7</sup>.
- It is not sufficient to promote equity and social integration, there is also a need to develop and implement urban development strategies aiming at increasing urban productivity in the formal and informal sectors, in the private and public sectors, in the entire urban economy.
- Cities possess enormous potential as places to advance women’s rights, for the benefit of whole communities and societies. And yet this potential is often underused. It is therefore imperative to adopt strategies that support the empowerment of women and promote gender equality in the development of towns and cities worldwide.
- RMCs and Development Partners are increasingly embracing a new paradigm for development - the “Green Economy”, in the context of urban development. Urban development should entail strategies for higher, more equitable growth at lower carbon, energy and resource intensity.

The Bank Group’s Urban Development Strategy will draw from the above lessons, to assist governments of RMCs make cities engines of economic growth and social development, while maintaining a strategic focus.

## **IV. URBAN DEVELOPMENT STRATEGY**

### **4.1 Vision**

4.1.1 The Bank’s vision for urban development in Africa is to make African cities and towns (i) healthy environments for citizens to live and work; (ii) competitive and bankable with a strong development base; and (iii) well governed. The Bank Group’s assistance will boost the viability and competitiveness of cities to enable them foster sustainable economic and social development and to serve as engines of growth. This will be done within frameworks of national development, characterized by strong urban-rural linkages, and with emphasis on achieving the MDGs.

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<sup>5</sup> World Bank, 2009.

<sup>6</sup> The Global Campaign on Urban Governance, UN-HABITAT, 2002

<sup>7</sup> Country lessons from the UN –HABITAT, Urban Management Programme (UMP).

## 4.2 Strategic Alignment

4.2.1 Urbanization is an integral part of the development process and well-functioning cities and towns have potential to contribute directly to growth and poverty reduction through provision of employment opportunities to migrants from rural areas, remittances and generally through urban demonstration effects including higher productivity. Access to safe drinking water, basic sanitation and infrastructure, as well as the improvement of the lives of slum dwellers, etc., are closely related to countries' capacity to attain the MDGs.

4.2.2 The Strategy is guided by the priorities as elaborated in the Bank's Medium Term Strategy 2008-2012, and the 2009 ADF Mid-term review. Accordingly, greater emphasis is on infrastructure development, urban governance, and private sector development. It will also help mainstream into all urban operations key crosscutting issues, namely regional integration, knowledge generation and management, environment, climate change, gender and empowerment of vulnerable groups. It is fully aligned with other Bank Group's policies and strategies.

## 4.3 Key Guiding Principles

4.3.1 The following principles will guide the Bank Group's interventions to ensure sustainable development of African cities and towns within a framework of mutually reinforcing urban-rural linkages:

- Ownership - Ownership and commitment to policies at country and local levels will be essential for sustainable results.
- Selectivity and Complementarity - The Bank Group will deploy its financing selectively, concentrating efforts and resources on its core strategic areas of focus, while promoting complementarities through partnerships with others.
- Catalytic Role - The Bank Group will seek to play a catalytic role as well as that of "honest broker" to help leverage resources for urban development. Similarly it will seek to enhance knowledge work and partnerships for sustainable urban development in Africa.
- Local Adaptation - Given the economic and social diversity of the continent's cities and towns, the Bank's interventions will need to be carefully tailored to local conditions and related country demand.
- Results Focus - The Bank Group's operations in urban development will be results-oriented with main focus on country and city outcomes. Measurable indicators and targets will be identified and developed for operations in the sector. Monitoring and evaluation of performance and development outcomes will also be key components of the Bank Group's urban development assistance.

## 4.4 Areas of Focus

Building on the vision and guiding principles outlined above, the proposed Urban Development Strategy will be based on the following three major strategic areas of focus aligned with the Bank Group's strategic orientations: (i) infrastructure delivery and maintenance; (ii) urban governance; and (iii) private sector development. This will ensure a selective approach, but which is entrenched in the broader national development agendas of RMCs.

#### 4.4.1 Focus Area 1: Infrastructure Delivery

Basic infrastructure is an important enabling factor for sustained growth of investment and business activities. It is crucial to improving the welfare and inclusion of vulnerable groups in Africa's townships and cities and strengthening the competitiveness of urban areas. Under this area of focus, the Bank will primarily deliver on the following:

- **Support to basic urban infrastructure development:** The Bank Group will assist RMCs and urban areas in their efforts to: (i) upgrade water supply, sanitation, drainage and solid waste management services; (ii) improve urban mobility including through the development of mass transit systems; (iii) support energy projects and in particular, public lighting projects; (iv) promote broadband connectivity within and between African cities and between them and rural areas, and harness ICT to broaden socio-economic activity and enhance competitiveness; and (v) support the development of the urban social infrastructure, particularly in the health and education sectors.
- **Capacity building for infrastructure development and management:** Special emphasis will be placed on promoting professionalism in the management of cities, in general and building capacity for (i) effective maintenance of municipal physical infrastructure assets and for managing their optimal utilization; (ii) mobilization and management of financial resources including tapping financial markets; (iii) effective management of concessions for urban infrastructure services (transport, water, sanitation, power, ICT, etc.); (iv) facilitating public-private partnerships in financing urban development projects; and (v) creation of appropriate regulatory institutions at the national or municipal levels to assure private sector participation, quality of services; and environmental and social protection.

#### 4.4.2 Focus Area 2: Urban Governance

Support to municipal and local authorities in their efforts to build and strengthen good governance systems and practices will be one of the most important areas of Bank Group operations in the promotion of sustainable urban development in Africa. This can be achieved by strengthening fiduciary controls, enhancing financial transparency and accountability, and increasing fiscal self-sufficiency and sustainability of public investment in urban development. Under this area of focus, the Bank will concentrate its resources and efforts on key priorities, including the following:

- Support to fiscal decentralization and related reform processes to ensure fair distribution of resources to all levels of government and access to resources commensurate to their newly transferred responsibilities;
- Provide assistance to municipalities to improve their systems of revenue collection. Such assistance may include, among other things, the assessment and improvement of the tax base and tax administration;
- Promote a culture of transparency and supporting central and local authorities in their efforts to establish anti-corruption strategies and systems;

- Strengthen the capacity of municipalities to undertake their own urban planning and secure control and management of urban resources;
- Help municipalities with significant assets build/strengthen their creditworthiness, including through assistance for financial risk rating by external rating agencies; and
- Strengthen the existing municipality networks and brokering new networks, as appropriate, to foster synergy/solidarity and exchange of experiences and best practices among authorities facing similar development challenges.

#### 4.4.3 Focus Area 3: Private Sector Development

The private sector is poised to become a major force in the development of Africa's urban areas. In line with the Bank's overall strategy for the private sector, the Bank will strive to support private enterprises across the full business spectrum from small enterprises to mega enterprises. Private sector support will entail improvement of the business climate and targeted support for the development of SMEs. Through this strategy the Bank will:

- Improve the investment climate by providing technical assistance to municipalities and other sub-national governments for reform of their legal and regulatory frameworks, strengthening economic and corporate governance, promoting fiscal responsibility, transparency and accountability to provide incentives and reduce transaction costs for private business development; promotion of public-private partnership frameworks for effective local service delivery will be accorded high priority;
- Strengthen local financial markets through effective partnerships with other financial institutions and development partners active in the area of urban development. The Bank will also seek to provide longer-term financing through investment loans and grants, lines of credit, guarantees, equity, and technical assistance;
- Build competitive private enterprise and infrastructure through interventions under the infrastructure pillar and by participating in major investment programs aimed at creating strong development bases in cities having a significant economic potential for private investment and industrial development; and
- Support the development of SMEs by increasingly promoting an enabling environment for domestic private sector development and building capacity with special focus on home-grown SMEs. Assistance in terms of business premises, training, credit facilities, marketing and financial services will be important. Also, in line with the private sector strategy, the Bank will identify those "world-class" corporations that can become strong development partners and through which the Bank can derive significant economies of scale for development of SMEs.

#### 4.4.4 Cross-Cutting Themes

Sustainable urban development requires that interventions adequately mainstream critical cross-cutting issues. These include:

- **Environmental challenges and adaptation to climate change:** Within this area of focus, the Bank’s intervention will address environmental threats emanating from unplanned urbanization growth and unregulated development processes. The Bank will do the following:
  - (i) Support “climate proofing” of investments, appropriate reforms of the legal and regulatory frameworks, particularly for disposal of waste and industrial bi-products, as well as, knowledge generation and capacity building;
  - (ii) Assist the cities to tap the large potential offered by the Clean Development Mechanism (CDM) in the area of landfill management;
  - (iii) Promote the development of pollution observatories and early-warning systems as well as the design of action plans aimed at reducing pollution, promoting sustainable technologies and enhanced access to clean and renewable energy sources;
  - (iv) Support projects and programs that aim to reduce the intensity of energy consumption and air pollution including emissions of greenhouse gases; and promote access for all households and economic operators to reliable and efficiently priced energy supplies, with a growing share of energy consumption based on renewable and other low-emission sources;
  - (v) Provide support to “greening” initiatives aimed at increasing the vegetation cover at city level; and
  - (vi) Promote at municipal level regular inclusion of dedicated budget (known as “eco-budgeting”) for environmental protection.
  
- **Regional Integration:** the Bank recognizes that African cities must become more dynamic engines of economic growth within their national and regional economic settings. Some cities, particularly the large economic centres, are naturally playing the role of transport and industrial hubs. In addition, most coastal cities play a critical role in trade facilitation, particularly by connecting the landlocked capitals to the seaports. In line with its Regional Integration Strategy, the Bank will support the following:
  - (i) Regional Planning - preparation of Regional Infrastructure Development Plans and Programmes including regional energy generation and transmission schemes, regional transportation corridors, regional ICT backbones and networks that would cater for the needs of growing regional urban centres, related secondary centres and surrounding rural areas; and related institutional development including at the regional levels;
  - (ii) Identification, prioritization and financing of bankable urban-related regional infrastructures, including Airport hubs, regional port gateways, and road/rail

corridors that will provide synergies and foster trade amongst major urban centers of regional significance; and

- (iii) Trade facilitation, including support to regulation of transport services, simplification of trade procedures and customs modernization.
- **Gender equality:** In line with the Bank's gender policy, the strategy emphasises the empowerment of vulnerable groups, particularly women and the youth in the context of institutional capacity building, community participation, employment creation, access to finance, and specific needs in relation to service provision and local economic development. The Bank will support urban development activities which promote women's economic empowerment; and support RMC's governance and policy reform for strengthened gender mainstreaming in the national development processes.
  - **Urban-Rural Linkages:** The inter-linkages of urban and rural economies are critical for cities to serve as real engines of economic growth and social development. The strategy will therefore promote the spin-off effects of these inter-linkages by:
    - (i) Supporting inter-municipal cooperation and regional development planning. The areas of involvement will include preparation of Regional Development Strategies and Regional Development Plans that would cover urban centres, related secondary centres and surrounding rural areas;
    - (ii) Supporting urban planning, taking into account peripheral agricultural land and protection of areas suitable for agriculture; and
    - (iii) Improving marketing and storage facilities within urban areas for produce from the rural sector; and
    - (iv) Supporting investments in agro-based industries located in urban areas which will provide employment for both urban and rural residents.

## V. IMPLEMENTATION ISSUES

### 5.1 Financing and Programming Instruments

5.1.1 The Bank examined a range of financing instruments that could support the interventions outlined above. The Strategy proposes that the Bank's *existing financing instruments* will comprise the main delivery modalities, mainly through central governments. These will include loans and guarantees from the ADB window, mainly to middle-income countries (MICs), and private sector loans to MICs and low income countries (LICs); loans and/or grants from the ADF window to LICs and fragile states; Trust Funds and other facilities.

5.1.2 While sub-sovereign financing in the case of credit-worthy municipalities constitutes a potential area of interest for the Bank and there is potential demand, the Bank for the time being will not consider this financing option but will invest in knowledge generation and lessons from other institutions which have embarked on this type of financing.

The financing modalities for the Strategy are as follows:

**5.1.3 Pillar I: Infrastructure Delivery:** Most of the Bank's support for urban development—especially transport, power supply and public lighting, water supply and sanitation project in major cities—would mostly be in the form of *traditional project loans or grants* (in eligible countries).

5.1.4 The Bank will continue to use all its *private sector instruments (loans, guarantees and equity)* to support private investments in toll roads, power supply, water supply, sanitation and other urban services. In water and sanitation schemes, where the ability to pay might be too low to ensure that a purely private scheme is financially viable, the Bank will explore the use of *modified build-own-transfer (BOT) models*. The Bank can help provide concessional financing to a water/wastewater treatment project and use its guarantee instrument to facilitate the mobilization of commercial debt.

5.1.5 The Bank will continue to finance public investments that enable or encourage private participation. The Bank realizes the growing importance of scale private service providers in urban water supply, sanitation and other urban services such as solid waste collection. The Bank will provide financial support to such providers through *credit lines* and through the creation of special *credit support/guarantee facilities* that enable these firms to access local financial markets.

**5.1.6 Pillar II: Decentralization and Municipal Governance:** *Policy-based lending* including budget support will generally be the main vehicle for support of fiscal, administrative and political decentralization undertaken as part of public sector reform. Loans and grants will be structured in such a way that they support the development of transparent transfer systems and provide incentives to local governments to improve their performance. Since decentralization typically is a time consuming gradual process, *adjustable program loans* (APLs) will be suitable instruments for Bank support. Capacity building for local governments would generally be provided as a part of the investment loans/grants but could also be provided through standalone technical assistance operations.

**5.1.7 Pillar III: Private Sector Development.** The Bank will support private sector participation in the provision of urban infrastructure and other services as outlined above, in line with approved procedures. The Bank will also provide *technical assistance* to municipalities and other sub-national governments for reform of their legal and regulatory framework with the aim of improving the business climate. Furthermore, the Bank will participate in major infrastructure investment programs required for industrial development, using appropriate private or public finance instruments. These interventions can be delivered using the operational modalities and financing instruments already in use by the Bank that is equity, loans and guarantees.

5.1.8 Given the diversity and huge numbers of SMEs across Africa, the Bank will largely channel its support to these businesses through financial intermediaries; and using lines of credit or guarantee facilities combined with grant resources for technical assistance and capacity building.

5.1.9 In addition to financial support, the Bank Group will support urban development initiatives through non-financing instruments such as advocacy and policy dialogue, knowledge development and management through research and economic and sector work, advisory services and capacity building.

## **5.2 Institutional Arrangements**

5.2.1 Urban development is a cross-cutting issue and requires a well-coordinated approach across complexes. The three Operations Vice-Presidencies will in effect jointly cooperate under the Bank's urban development agenda, for the processing and financing of projects originating in these complexes. While all operations complexes will play important roles in the implementation of this Strategy, the OIVP will take the lead role and serve as the focal point and coordinator during the implementation phase. In order to ensure stable conditions for the Bank's engagement in the African urban sector and a strategic coherence and coordination, both internally within the Bank and externally with RMCs and the development partners, the OIVP will recruit an urban development specialist/coordinator that will be positioned in the Transport and Communications Department (OITC). The main role of the Coordinator will be to coordinate and ensure the delivery of the urban development programme in close collaboration with the complexes, departments and units implementing urban development projects (Annex 3 provides detailed Terms of Reference for the Urban Development Coordinator within OIVP).

5.2.2 In addition to the coordination role, OIVP will promote urban investments, in particular urban infrastructure, support interventions on urban environment and climate change adaptation, and mobilize private sector financing for Africa's urban sector. ORVP will continue to be responsible for country programming and dialogue with RMCs. Country and regional offices within ORVP will play a critical role of advocacy for inclusion of urban development in country development plans, CSPs and RISPs. Meanwhile, OSVP will continue to address social sector concerns and poverty in cities and towns and provide targeted support to decentralization and urban governance. Knowledge generation will be important and ECON and the Operations Complexes will be expected to undertake studies that will inform Bank's policy and engagement in urban development. The Finance complex, the Legal Department and other departments and units, as appropriate, would provide expert guidance on issues relating to resource mobilization and partnership building. The Results and Quality Assurance Department will continue to be responsible for compliance with environmental and social safeguards as well as for support in the mainstreaming of results-based management. To enhance coordination within the complexes at implementation stage, Sector Departments will assign representatives who will closely work with the Coordinator within OIVP.

## **5.3 Capacity Enhancement**

5.3.1 For the Strategy to yield the expected results, it will be necessary for the Bank to enhance capacities within the departments and units that will implement the Strategy. Successful implementation will require a strengthened staff and skills complement. As part of its coordination role, OIVP will conduct a detailed review of the roles and interactions of organizational units whose work programs have a strong bearing on urban development, to enable the Bank to determine additional recruitment, training, redeployment and technical assistance needs. But even more important for the implementation of the Strategy, RMCs will require improved planning, managerial and analytical capacity, especially at the level of local government. These will not just happen. The Bank will assist countries, in partnership with others, to achieve them.

## **5.4 Knowledge Development**

5.4.1 The rural-urban dynamics of African development have tended to deflect focus on urban development in its own right. Although a number of micro-level studies of rural-urban linkages have been carried out (often as part of research on rural livelihoods and migration), there is less

concrete knowledge about macro-level linkages between urbanization, economic growth and rural poverty alleviation. For example, while slums in major African cities are among the largest in the world and are clearly a menace to economic development and social stability, the research dedicated to understanding their growth is fairly limited. In contrast, the social and economic dynamics of urban slums are fairly well documented in Latin America and Asia. Studies of municipalities, including their financing modalities—fiscal federalism—and ability to provide social services, are very rare in Africa. On these topics, there will be need for considerable knowledge generation by the ECON and the Operations Complexes. Knowledge will be further enhanced through collaboration, strategic alliances, and sharing of information with other donor agencies as well as knowledge institutions and networks. Recently, the Bank initiated research on urbanization and is also in the process of setting up a database on issues of urban development.

## **5.5 Partnerships and Networks**

5.5.1 Partnerships and networks will be important for the implementation of this Urban Development Strategy, particularly co-financing of projects and programs, development of city strategies, knowledge development and capacity building. Key institutions for partnership with the Bank will include the World Bank, UN-HABITAT, Cities Alliance, bilateral agencies such as Sida, AFD, and African organizations such as the Municipal Development Partnerships, Shelter-Afrique, and the United Cities and Local Governments of Africa (UCLGA). Annex 2 provides more details on potential partnerships.

## **5.6 Results-Based Monitoring and Evaluation**

5.6.1 In line with The Bank Group’s commitment to the Managing for Results agenda, this urban development strategy and the Bank’s future interventions in support of African cities will strongly focus on results. The Bank will utilize a results-based management approach for monitoring the implementation of each urban development operation and the Strategy as a whole. The framework in Annex 1 highlights relevant indicators of progress including the main outputs and outcomes to be achieved, the inputs required and the overall impacts expected. A mid-term review of the strategy will be undertaken to inform Management on implementation aspects, particularly institutional arrangements necessary for the Bank’s medium to long term engagement in the urban sector.

## **5.7 Implementation Risks and Mitigation**

5.7.1 The key risk facing the Bank in the implementation of this Strategy relates to the capacity of the Bank to deliver urban development support to RMCs. The demand for urban assistance under the Strategy could well exceed the Bank’s ability to deliver. For example, growth in demand for financing might expand faster than the Bank’s planned support/engagement. Good planning and resources allocation will, therefore, be required to start delivering support to RMCs. Careful synchronization of the implementation of the strategy, regular monitoring of the urban development project and programme pipeline, and requisite skills and needs at country level will be important mitigation measures to ensure that projects are well prepared and that they can be delivered on time.

5.7.2 The second risk relates to perceptions. The Bank and its staff are dedicated to poverty reduction. However, although poverty is usually seen as a predominantly rural problem, there are pockets of poverty in Africa’s cities that far exceed anything comparable in the countryside. There is a risk that the new strategy will be seen as a shift of priorities away from the “rural poor” and in favor of the “urban rich.” This perception could have a negative impact on project

preparation and implementation and also weaken ownership at the government level. It is important, therefore, for the Bank to stress the importance of the Strategy in broader terms, including the rural sector.

5.7.3 The third risk relates to the RMCs. While urban development is generally accepted as one of the major challenges in Africa, member countries may be slow in affording it a high priority in the national development plans, and there may be reluctance too to transfer financial resources to decentralized entities/municipal governments. Risk mitigation measures will include: enhanced dialogue with RMCs to ensure inclusion of urban development in country development plans, CSPs, RISPs and other key programming instruments.

## **5.8 Resource Implications**

5.8.1 Resource implications for the Urban Development Strategy in the short-term will be related to the creation of a new Coordinator position within OIVP; development of the human capacity; the expansion of the Bank's research agenda in support of urban development and the mid-term review of the Strategy.

5.8.2 In terms of human resource needs, the Bank will immediately recruit a new staff member at the level of PL3 in the Transport and Communications Department within OIVP to play the roles of focal point and coordinator to better support urban development initiatives across the Bank and ensure a strategic coherence and coordination, both internally within the Bank and externally with RMCs and the development partners. Any additional staffing requirements and the appropriate skills mix will be assessed during the midterm review of the urban strategy. The provisional budget for the Coordinator is estimated at the total of UA 400,000 in the 5 years of strategy implementation.

5.8.3 For a number of years, urban development has been absent in the Bank's research agenda. There is less concrete knowledge about macro-level linkages between urbanization, economic growth and rural poverty reduction. Therefore, there will be need for considerable knowledge generation by the ECON and the Operations Complexes. Bilateral Trust Funds will be used to finance research and economic sector work. In 2009, the Bank embarked on its first research program for developing the African Urban Sector in partnership with Sida. This initiative is expected to yield a number of knowledge products that will assist Bank staff and RMCs in addressing urban development issues; the same financing approach will be adopted for further knowledge development projects during strategy implementation. The provisional budget for research and economic sector work (ESW) is estimated at UA 500,000, based on the assumption of 2 studies per year during the next 5 years.

5.8.4 The medium term review of the Strategy will be undertaken after a period of two and a half years to assess results/performance achieved and to make recommendations on the way forward. This review is expected to cost about UA 50,000.

## **5.9 Recommendation**

5.9.1 The Boards are requested to consider and approve the proposed Bank Group's Urban Development Strategy.

## **ANNEX 1: RESULTS MEASUREMENT FRAMEWORK**

Objectives	Responsible (Bank Lead and Support Depts)	Expected Results	Reach	Performance indicators (means of verification)	Indicative Target & Timeframe	Assumptions
Strategic Goal	Partner Institutions	Long-term Impact	Beneficiaries	Indicators	By 2020	Assumptions
To make African cities and towns engines of sustainable economic growth and social development.	World Bank, IFC, UN-HABITAT, Cities Alliance  Bilateral agencies such as AFD, Sida  African organizations such the Municipal Development Partnerships and Shelter-Afrique.  Islamic Development Bank  UCLGA	1. Overall economic growth increased  2. Broad-based progress towards relevant MDGs in Africa  3. Urban poverty reduced  4. Living conditions for the urban poor improved  5. The productivity of cities enhanced  6. Increased creditworthiness of municipalities	Urban population  Urban based enterprises  Local and central governments	1. Annual GDP growth (National accounts)  2. Relevant MDG Targets (Africa MDGs Reports )  3. Urban poverty rates (National Poverty Assessments)  4. Urban population living in slums (UN-HABITAT) 5. Value added in industry & services (National accounts)  5. Valued Added Growth as compared to population growth  6. Number of RMCs where municipalities/ MDF access capital markets (Bank assessment)	1. Annual GDP growth average at least 5% in RMCs  2. Exceed relevant MDGs in RMCs.  3. Urban poverty rates decline by 1/3.. (Baseline: 40% below US\$1 per day in 2002)  4. Percentage of slum population down by 1/5 (Baseline: In SSA: 63% of urban population in 2008).  5. VA growth exceeds urban population growth by 2.5 percentage points ( Baseline: 1.0 percentage point per annum between 2000 and 2005)  6. Eight RMCs (Baseline: Three countries in 2008)	RMCs maintain sound macroeconomic policies and continue to improve investment climate  Policies to strengthen rural-urban linkages improved  RMCs continue to improve basic infrastructure and infrastructure networks  Improved policies and methodologies for mitigation and adaptation to climate change in Africa
Purpose of the Strategy	Partners Institutions	Medium-Term Country Outcomes	Beneficiaries	Indicators	Indicative Targets 2010-2015	Assumptions, Risks and Mitigation
Improve access to infrastructure services, governance and private	World Bank, IFC, UN-HABITAT, Cities Alliance	1. Improved access to urban infrastructure	Urban population  Local and central	1.1 Urban population with access to safe drinking water (WHO-UNICEF)	1.1 Progress consistent with MDG Target 10 (93% in 2015 ; baseline 85% in	The Bank promotes integrated urban development and

<p>sector participation in African cities through enhanced effectiveness of Bank Operations in RMCs urban sector.</p>	<p>Bilateral agencies such as AFD, Sida</p> <p>African organizations such the Municipal Development Partnerships and Shelter-Afrique.</p> <p>Islamic Development Bank</p> <p>UCLGA</p>	<p>2. Conditions in slums improved</p>	<p>governments</p> <p>RMCs</p>	<p>1.2 Urban population with access to adequate sanitation (WHO-UNICEF)</p> <p>1.3 Percentage of population in urban areas provided with access to all-season roads.</p> <p>1.4 Percentage of population with access to environmentally friendly mass transit systems</p> <p>1.5 Number of urban people with access to electricity</p> <p>1.6 Number of people with access to broadband connectivity</p> <p>1.7 CO2 emissions per US\$ of GDP.</p> <p>2.1 Number of Major slum upgrading schemes/urban poverty programs in progress (Cities Alliance, UN-HABITAT)</p> <p>2.2 Number of RMC reform of legal &amp; regulatory frameworks for pro-poor housing delivery (Bank assessment)</p> <p>2.3 Increase in the percentage of women and youth employed in urban infrastructure works and SMEs</p> <p>3. RMCs with PPP in urban service delivery (PPI database)</p>	<p>2006).</p> <p>1.2. Progress consistent with MDG Target 10 (76% in 2015; baseline 53% in 2006)</p> <p>1.3 10% increase by 2015</p> <p>1.4 10% increase by 2015</p> <p>1.5 10% increase by 2015</p> <p>1.6 20% increase by 2015</p> <p>1.7 CO2 emissions decline to 1.4 kg per 2000 US\$ of GDP. (Baseline 1.67 kg per 2000 US\$ of GDP in 2004)</p> <p>2.1 Programs/ schemes initiated in 4 RMCs</p> <p>2.2 Reforms in 4 RMCs by 2015</p> <p>2.3 10% increase by 2015</p> <p>3. The number increased to 18 in 2015 (from 13 in 2008)</p> <p>4.1 20% increase by 2015</p>	<p>strengthens internal institutional capacity.</p> <p>The Bank coordinates projects across sectors and between the relevant levels of government</p> <p>The Bank provides assistance with legal and regulatory frameworks to the governments</p> <p>RMC governments adopt sound urban development strategies and allocate sufficient funds for basic infrastructure in cities and towns</p> <p>Continued financial sector deepening in RMCs</p>
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		<p>3. Public-Private Partnerships enhance service delivery</p> <p>4. Local government finances are strengthened</p>		<p>4.1 Increase in the percent of local government's contribution to the total expenditure (UCLG, IMF, Bank, WB)</p> <p>4.2 Number of Transparent systems for transfers to municipalities (Bank &amp; WB assessment)</p> <p>4.3 Local government revenues (UCLG, IMF, Bank, WB)</p>	<p>4.2 Transfer system reformed in 4 RMCs</p> <p>4.3 LG revenues as % of GDP increased in Bank's projects</p>	
<b>Inputs and activities</b>	<b>Responsible Units</b>	<b>Outputs</b>	<b>Beneficiaries</b>	<b>Indicators</b>	<b>Bank's Indicative Target 2010-2015</b>	<b>Assumptions Risks and Mitigation Measures</b>
<b>Programming</b>						
Bank CSPs and RISPs cover integrated urban development issues	The three Operations Complex Vice-Presidents (ORVP, OIVP & OSVP)	Bank CSPs and RISPs address urban poverty and urbanization issues	<p>Urban population</p> <p>Rural population</p> <p>Local and central governments</p>	Number of CSPs and RISPs adequately reflecting Urban poverty and urbanization	At least half of the CSPs and RISPs prepared 2010-2015	<p>RMCs give appropriate weight to urban development issues in PRSPs and other development plans</p> <p>Bank CSPs and RISPs reflect country and regional priorities in addressing urban problems</p>

Inputs and activities	Responsible Units	Outputs	Beneficiaries	Indicators	Bank's Indicative Target 2010-2015	Assumptions Risks and Mitigation Measures
<b>Pillar I: Infrastructure delivery</b>						
Operations include analysis and investment in urban infrastructure	The three Operations Complex Vice-Presidents (ORVP, OIVP & OSVP)	<p>1. Increased Bank operations in support of urban infrastructure networks</p> <p>2. Increased support to private investments in urban infrastructure</p>	<p>Urban population</p> <p>Rural population</p> <p>Local and central governments</p>	<p>1.1 The share of approved infrastructure operations going to urban areas (Bank Annual Report)</p> <p>1.2. Number of approved operations with major focus on maintenance of urban infrastructure. (Bank Annual Report)</p> <p>2. Number of approved operations supporting PPPs in urban service delivery (Bank Annual Report)</p>	<p>1.1. One-half of water and sanitation lending for urban systems and one-third of road and highway lending for urban areas; two thirds of ICT lending for urban areas; one half of electricity lending to urban connections.</p> <p>1.2 One annually to 2012, two annually thereafter</p> <p>2. At least three every two years</p>	<p><b>Assumptions</b></p> <p>Private sector interest in investing in Africa's urban and other infrastructure remains</p> <p><b>Risks</b></p> <p>Unexpected economic crises and other external events might divert RMC governments' attention from urban development issues and, thus, reduce the demand for urban development projects.</p> <p>RMC governments might pursue counter-productive policies and programs in addressing urbanization problems.</p>

Inputs and activities	Responsible Units	Outputs	Beneficiaries	Indicators	Bank's Indicative Target 2010-2015	Assumptions Risks and Mitigation Measures
<b>Pillar II: Urban decentralization and governance</b>						
<p>Bank operations support fiscal and administrative decentralization and build local government capabilities in resources management and service delivery.</p>	<p>The three Operations Complex Vice-Presidents ( OSVP, OIVP &amp; ORVP,)</p>	<p>1. Increased support to fiscal decentralization</p> <p>2. Increased support to Municipal revenue collection mechanisms</p> <p>3. Municipal capabilities are strengthened in: - urban planning - financial management - good governance</p> <p>4. Enhanced support to networks of municipalities to promote synergies and peer-to-peer learning</p>	<p>Urban population</p> <p>Local and central governance</p> <p>Municipalities</p> <p>Continental institutions</p> <p>RMCs</p>	<p>1. Number of approved Bank operations supporting decentralization (Bank Annual Report)</p> <p>2. Number of approved Bank operations supporting local resource mobilization (Bank Annual Report)</p> <p>3. Number of approved Bank operations strengthening municipal capacities (Bank assessment)</p> <p>4. Number of Municipal networks supported by the Bank (Bank assessment)</p>	<p>1. Two per year until 2012, three annually 2013-15</p> <p>2. One per year until 2012, two annually 2013-15</p> <p>3. Target: One per year before 2011, two annually in 2012 and 2013, three per year from 2014</p> <p>4. Target: One international network and three domestic networks by 2015</p>	<p><b>Assumptions</b></p> <p>The present momentum in favour of decentralization continues in most RMCs</p> <p><b>Risks</b></p> <p>Unexpected economic crises and other external events might divert RMC governments' attention from urban development issues and, thus, reduce the demand for urban development projects.</p> <p>RMC governments might pursue counter-productive policies and programs in addressing urbanization problems</p>

Inputs and activities	Responsible Units	Outputs	Beneficiaries	Indicators	Bank's Indicative Target 2010-2015	Assumptions Risks and Mitigation Measures
<b>Pillar III: Private sector development</b>						
Bank operations help create conditions for dynamic growth of the private sector in urban areas	The three Operations Complex Vice-Presidents (OIVP, OSVP & ORVP,)	1. Increased support to reforms of Legal and regulatory frameworks in municipalities and other sub-national governments  2. Increased Bank's engagement in promotion of PPPs in the urban sector	Urban and rural population  Private enterprises in urban areas  Local governments	1. Number of approved operations supporting improvements of the business environment at both national and local levels (Bank assessment)  2. Number of approved operations supporting PPPs in urban sector development (Bank Annual Report)	1. One prior to 2012 and two annually between 2013 and 2015  2. One prior to 2012 and at least three between 2013 and 2015	<p><b>Assumptions</b></p> <p>Private sector interest in investing in Africa's urban and other infrastructure remains</p> <p><b>Risks</b></p> <p>Unexpected economic crises and other external events might divert RMC governments' attention from urban development issues and, thus, reduce the demand for urban development projects.</p> <p>RMC governments might pursue counter-productive policies and programs in addressing urbanization problems</p>

Inputs and activities	Responsible Units	Outputs	Beneficiaries	Indicators	Bank's Indicative Target 2010-2015	Assumptions Risks and Mitigation Measures
<b>Strengthening Bank capacity for urban development</b>						
To build the Bank's expertise and knowledge in the field of urban development	<p>The three Operations Complex Vice-Presidents (OIVP, OSVP, ORVP &amp; ECON.) Development Partners</p> <p>CHRM, OIVP, OSVP&amp; ORVP,</p> <p>OIVP, OSVP, ORVP &amp; ECON</p> <p>OIVP, ORVO,OSVP</p>	<p>1. Skills and capacity enhanced in operational VP complexes</p> <p>2. Knowledge generated and managed in the area of urban development</p> <p>3. Building and maintaining partnerships and networks</p>	AfDB	<p>1.1 Urban Coordinator at post</p> <p>1.2 Number of Training sessions/workshops for Operations Task Managers on Urban development Issues</p> <p>2.1 Effective completion and launching of first studies reports</p> <p>2.2 Effectiveness of information sharing with UN-HABITAT</p> <p>2.3 Number of studies (ESW) per year</p> <p>3.1 Percentage of co-financed urban operations</p> <p>3.2 Number of international and domestic networks of municipalities targeted for partnership</p> <p>3.3 Partnerships with NGOs</p>	<p>1.1 Coordinator recruited and at post before end-2011</p> <p>1.2 At least two training sessions/workshops is organized per year for Task managers starting from 2012</p> <p>2.1a First 4 Studies completed in June 2011</p> <p>2.1b Launch of First 4 Studies reports in November 2011</p> <p>2.2 Information sharing with UN-HABITAT etc. by 2011</p> <p>2.3 At least 2studies per year from 2011 onwards</p> <p>3.1 At least 50% of urban operations are co-financed</p> <p>3.2 Target: One international network and</p>	<p><b>Risks</b></p> <p>The Bank is slow in building up its capacity to deliver support.</p> <p>Resource constraints might lead to a "business-as-usual" approach in the Bank</p> <p><b>Mitigation Measures</b></p> <p>The Bank will enhance its knowledge base through research and ESW and deepen its policy dialogue on urban development issues.</p> <p>To avoid that demand for urban assistance outstrips the Bank's ability to deliver, the Bank will be realistic in presenting its capacity and it will regularly monitor and assess the skills and staffing requirements, etc.</p> <p>In implementing the integrated urban development strategy, the Bank will leverage its human and financial resources through</p>

	FNVP, OIVP, ORVO,OSVP				three domestic networks by 2015	partnerships with other donors, international and African
	OIVP, ORVO,OSVP				3.3 Partnership with NGOs In all urban poverty operations by 2015	organizations, NGOs and civil society.
	FNVP, OIVP, ORVO,OSVP					

## **ANNEX 2: PARTNERSHIPS AND NETWORKS**

In terms of partnering and networking, the Bank Group will establish firm partnerships, improve and harmonize cooperation with key stakeholder banks, donor agencies and development institutions to promote coordination of common activities, programs and projects.

*The World Bank* has worked on urban development issues in Africa for almost four decades. It is the donor with the largest urban lending program. Its water supply and urban development department for the Sub-Saharan Africa region has a staff complement of around 30 persons (to which should be added the staff working on urbanization issues in North Africa as well as those working on urban transport and urban water supply). This long experience has enabled the WB to develop appropriate financing approaches. Consequently, in order to avoid duplication it is imperative for the Bank to strengthen its working relationship with the World Bank in the area, and in its Municipal Development Program for African countries.

In terms of capacity building, the Bank would also work closely with the World Bank Institute (WBI). The Institute is in the process of developing a training program for urban and local government officials in the areas of: (i) city management, finance, and planning; (ii) service delivery to the urban poor; and (iii) disaster risk management and urban water services.

*The Cities Alliance* is a global program created by UN-HABITAT and the World Bank. The Alliance provides grants for technical assistance and, on an exceptional basis, implementation funding in areas that are closely linked with the Bank's proposed urban development strategy as follows: (i) Sustainable financing strategies for cities to attract long-term capital investments; and (ii) Preparation of city development strategies (CDSs).

*UN-HABITAT* has an extensive technical cooperation program in Africa and is also the global clearinghouse for "best practices" in urban development. The Global Urban Observatory, managed by UN-HABITAT, is the most comprehensive source of data on urban conditions on the African continent. The Bank is already partnering with the UN-HABITAT in the Water for African Cities program. This partnership in urban development can be extended to other areas.

The Bank already cooperates with several bilateral donors in urban development, and most prominently with the AFD. The Bank will deepen existing working relations (e.g. with AFD, GTZ, DFID and Sida) and reach out to other bilaterals.

*THE MILLENNIUM CHALLENGE CORPORATION (MCC)* is an innovative and independent U.S. foreign aid agency that plays an integral role in the U.S. Government's pledge to assist countries in their efforts to achieve the MDGs and improve the lives of their people. The MCC programme in Africa has supported investments in the urban and rural sectors in key areas such as agriculture, roads, water and sanitation, energy, ports,

airports, health clinics, and schools. The Bank can partner with the MCC and RMCs in investments consistent with the Bank's strategic areas of focus for the urban sector.

The Bank will further forge strong links with major Research and Development (R&D) Institutions and NGOs dedicated to urban development. Another strong link would be created with the Conference on Housing and Urban Development (AMCHUD). This is a permanent structure created by the Ministers from African countries responsible for housing and urban development and supported by UN-Habitat, with an ambitious program of law and policy reform. It provides a useful network of RMC Ministers who are focusing on urban development and the Bank will work to strengthen its ties with AMCHUD. In addition, the United Cities and Local Governments of Africa (UCLGA), an association of municipalities and regional/local governments in Africa, has expressed a strong interest in working with the Bank. The Bank will also work closely with private sector sponsors, commercial and regional development banks, such as the Development Bank of Southern Africa.

## **ANNEX 3: TOR FOR THE URBAN DEVELOPMENT STRATEGY COORDINATOR**

### **1.0 Background**

The African Development Bank Group recognizes that urbanization is an integral part of the development process and that well-functioning cities and towns contribute directly to economic growth and poverty reduction. The Bank Group's Urban Development Strategy seeks to boost the viability and competitiveness of African cities to enable them foster sustainable economic and social development and to serve as real engines of economic growth and social development.

This strategy is driven by a more comprehensive understanding of the potential for economic development in the urban sectors through better coordination in the planning and implementation of urban projects and programs; strategic engagement of partnerships and greater concentration on areas of comparative advantage; consensus building among the key stakeholders at technical levels; mainstreaming of the urban strategy into CSPs, RISPs and PRSPs etc.; and enhancement of capacities both internally and in RMCs.

### **2.0 Context and Objectives**

In order to ensure stable conditions for the Bank's engagement in the African urban sector and strategic coherence and coordination, both internally within the Bank and externally with RMCs and the development partners in urban projects and programmes, the OIVP will take the lead role and serve as the focal point and coordinator during the implementation phase of the urban strategy. It will also be necessary for the Bank to implement a number of strategic activities aimed at building for the Bank an enabling environment and capacity for effective delivery of its future urban development assistance. In this context, the OIVP will recruit an urban development specialist/coordinator that will be positioned in the Transport and Communications Department (OITC) to coordinate the following:

- Implementation and monitoring of the Bank's urban development programme;
- Development of the Bank's internal capacities;
- Strengthening of partnerships and networks;
- Generation of knowledge products on financing options for urban development in Africa;
- Undertaking Marketing and dissemination activities;
- Mid-term review of strategy implementation and
- Gradual scaling-up of the Bank Group's engagement in urban development, as its internal capacity is strengthened.

### **3.0 Duties and Responsibilities**

The main role of the Coordinator will be to coordinate the delivery of the urban development programme in close collaboration with the complexes, departments and units having a role in the implementation of urban development projects.

Specifically, the Coordinator's duties and responsibilities will include, but not be limited to the following tasks:

- Prepare an action plan for the strategy, coordinate its implementation and monitor the results;
- Undertake a review of the Bank's staffing requirements to ensure stable conditions for the Bank's engagement in the African urban sector;
- Arrange for a rapid development of internal capacity within the Bank to take a leading role in urban development initiatives in Africa and so realize the Bank's vision of becoming the continent's premier development finance institution;
- Develop a system of criteria for the selection of viable, sustainable urban development projects and programmes;
- Ensure the development of an urban research programme as well as establishment of an urban development knowledge database which would be integrated into existing structures of the Bank, in liaison with the Chief Economist Complex;
- Ensure collaboration and establishment of partnerships with organizations which have relevant experience and qualified staff in urban development related subjects, with support from the Bank's Partnerships Unit;
- Initiate work in the area of sub-sovereign financing, with other departments of the Bank particularly the Chief Economist Complex, the Finance Complex, the Operations Policies and the Private Sector Departments; and
- Undertake a mid-term review of the strategy to advise Management on strategic orientations and implementation aspects, particularly institutional arrangements for the medium to long term urban sector engagement.