

I. INTRODUCTION

A. Major Themes

1. This paper reviews the causes and effects of urbanization¹ in the Asian and Pacific Region, highlights the resulting demands for improved management and servicing of urban growth, and proposes a strategy for Bank action in the sector. Because of the enormous variety of urban conditions and stages of economic growth in developing member countries (DMCs), the development of an urban strategy for the region is complex and needs to recognize the importance and diversity of country-specific policies and programs. However, a number of common themes underlie the strategy.

2. At the macro level, urbanization is strongly linked to economic growth and has contributed positively to the gains made in many countries throughout the Region. Measures to improve the extent, management, and operation of urban services benefit both local and national economies. At the same time, urban areas are exposed to external forces over which they have little control, such as the progressive globalization of decision-making and the economic crisis currently affecting the Region. The Bank's urban strategy, therefore, must be both robust and flexible to respond to such forces and their impacts.

3. The phenomenal rate at which urbanization is occurring has overwhelmed those tasked with managing urban areas, particularly in the poorer countries of the Region. Exacerbated by a flood of rural-urban migrants, cities have witnessed tremendous growth of unserviced slum and squatter areas where millions of urban poor residents lack adequate access to potable water and sanitation services. A key theme is the way in which the problems of environmental degradation of urban poor communities, and urban poverty in particular, can be addressed. Related to these challenges are issues concerning improvement in the status of women and other vulnerable groups.

4. Potential improvements in the provision and maintenance of urban infrastructure and services are constrained by poor urban governance, management, and finance. Outdated legal, institutional, and governance traditions, as well as inadequate reform measures have constrained the pace of development. Thus a major theme is to address urban governance and the improvement of urban management through innovative approaches in the design and implementation of development activities; participatory processes at the local level; and the building of partnerships between corporate, community, and public sectors. The more efficient use of existing financial tools, the introduction of market-based approaches to local government operations, and the use of innovative financing mechanisms will also be required.

5. Achieving sustainable urban development is a final crosscutting theme, defined here as meeting the growing needs of the present without compromising the ability of future generations to meet their own needs. This is in accordance with the recommendations of the United Nations Conference on Environment and Development (1992), known as the "Earth Summit," and the Second United Nations Conference on Human Settlements (1996), Habitat II. The comprehensive Global Plan of Action adopted at Habitat II incorporates policies for the sustainable development of settlements and the increased role of local governments in urban development and management. The urban strategy is designed to achieve significant increases

¹ The official definition of the term "urban" varies by country, and often includes additional distinctions between large cities, small cities, and towns. An urban area, in general terms, is a continuous built-up area of high population density and having certain facilities.

in sustainability within the framework defined by the long-term goal of full urban sustainability in DMCs in environmental, financial, and socioeconomic terms.

B. Development of the Urban Strategy

6. Responding to the growth of increasingly complex urban areas requires a review of Bank approaches to urban program and project formulation, prioritization, and implementation within and among DMCs, taking into account lessons learned from the Bank's 30-year experience in the sector. While DMCs can be broadly grouped by stage of economic growth in terms of the priority needs of their urban areas, urban strategies must respond to competitive and comparative advantages, local urban economic circumstance, and other location-specific concerns. Therefore, this paper proposes a broad regional strategy for the urban sector that can provide both a framework for specific DMC urban strategies and a guide for Bank action in the sector.

7. The strategy was prepared by staff of the Water Supply, Urban Development and Housing (East) Division, with the support of interdepartmental working groups² guided by an interdepartmental steering committee.³

II. THE URBAN SECTOR

A. The Challenge of Rapid Urbanization

1. Urbanization and the Growth of Large Urban Centers

8. Urban population growth in the Region has been rapid. While total population of the DMCs grew from 1.7 billion in 1965 to 3.1 billion in 1995, urban population grew from 0.32 billion to 0.93 billion over the same period (Asian Development Bank [ADB] 1996a and United Nations Development Programme [UNDP] 1995). These figures represent 58 percent of overall world population increase and 45 percent of world urban population increase over this period. However, the 1995 urbanization level of 30 percent for the DMCs is low in comparison with the Organization for Economic Cooperation and Development member countries and Latin American countries, where urbanization levels averaged 70-75 percent. While some DMCs such as the Republic of Korea are in the final stages of the transition to fully urbanized societies, the urban populations of South Asia currently average only 25 percent of the total. Continued massive increases in urbanization in the Region are expected: the United Nations (UN) forecasts 53 percent urbanization in Asia by 2025, with the majority of urban growth in Bangladesh, People's Republic of China (PRC), India, Indonesia, and Pakistan (Figure 1). These projections equate to an average of more than 40 million new urban residents per year (Appendix 1).

² Covering governance, poverty reduction, environmental services, transportation, land and housing, urban economy, urban-rural linkages, and Bank operations.

³ Together, the working groups and steering committee comprised staff of the Agriculture and Social Departments (East) and (West), Office of the Environment and Social Development, Strategy and Policy Office, Operations Evaluation Office, and Programs Departments (East) and (West).

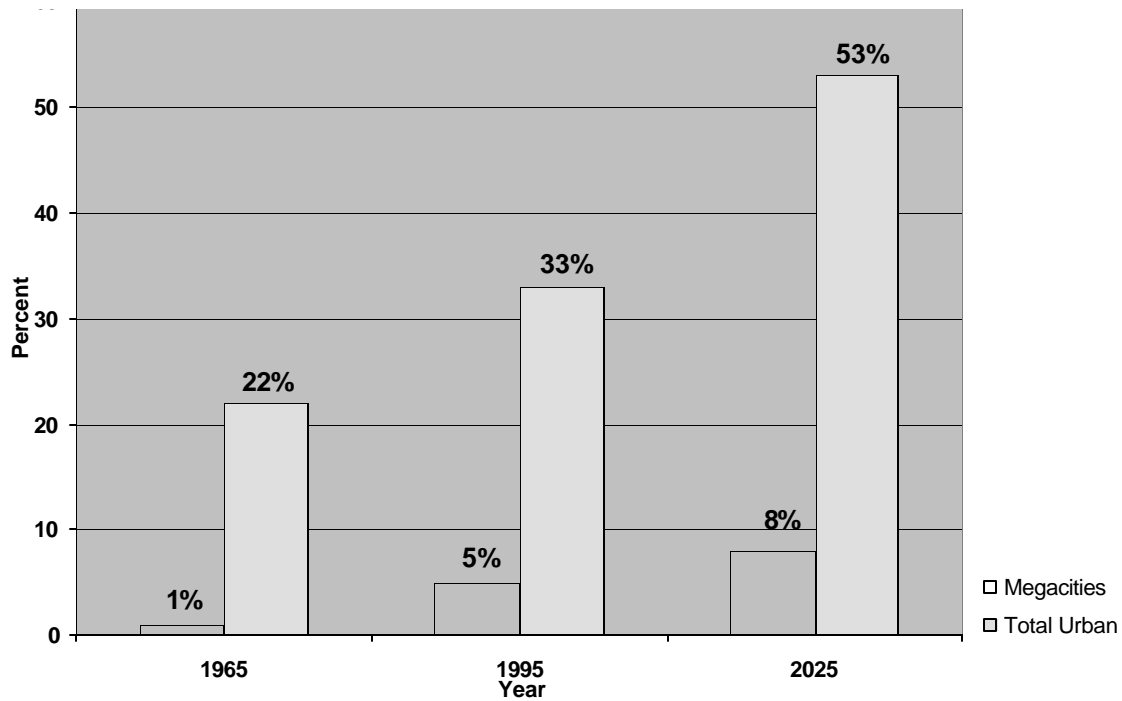


Figure 1: Asian Urban Population

9. The proportion of urban population living in large cities in the DMCs will also continue to increase. In 1995, the DMCs contained six of the world's megacities⁴ (Beijing, Calcutta, Jakarta, Mumbai [formerly Bombay], Shanghai, and Tianjin) and are forecast to have 11 more by 2025 (Bangalore, Bangkok, Chennai [formerly Madras], Dhaka, Hyderabad, Karachi, Lahore, Manila, New Delhi, Shenyeng, and Yangon). Increasingly, megacity growth is taking the form of extended metropolitan regions (EMRs), covering 50-100 kilometers from the city center, with polycentric structures acting as focal points in the movement of people, goods, and services. Metropolitan regional growth has typically sprawled along major highways, expressways, and railroad lines radiating out of urban areas, superimposing new towns, industrial estates, housing projects, and other urban forms onto areas that were previously predominantly agricultural and rural. Without strategic interventions in land-use management and transportation planning, environmental and economic constraints will increasingly affect EMRs; particularly those on low-lying plains subject to flooding, subsidence, and ground and surface water contamination. While not resembling planned cities, at their periphery EMRs provide a cost-effective way for low-income families, developers, and others to gain access to affordable land for shelter and employment. Furthermore, minimum levels of services and infrastructure can be upgraded over time if rights-of-way are secured early enough.

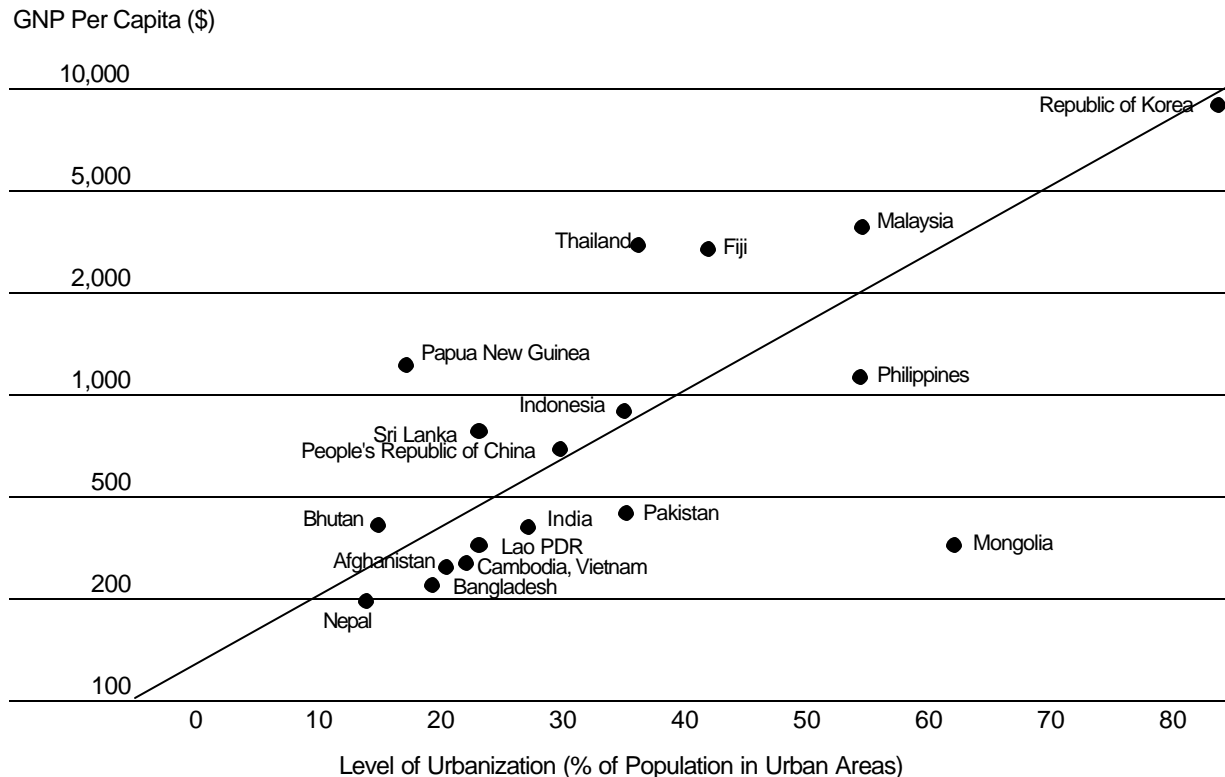
10. While many DMCs have one or several very large urban areas or megacities, problems related to urbanization are best addressed at the level of secondary cities and smaller urban areas, before they become megacities. Interventions should begin at this stage to (i) prevent problems worsening as cities grow; and (ii) support the programs and policies that many DMCs have instituted for the dispersal of industries; development of regional growth centers, corridors, or zones; and promotion of an equitable and balanced hierarchy of urban settlements. Most national urban strategies have adopted some variant of this approach, incorporating explicit and implicit policies that guide urban growth and development to designated urban growth centers.

⁴ Defined as continuous urban areas with over 10 million population.

2. Urban Trajectories

11. Three broad groups of countries can be identified at different points on the urbanization trajectory. The first group, comprising the Republic of Korea, Singapore, and Taipei, China, have per capita gross domestic products (GDP) of \$9,000 per year or more and are highly urbanized. The second group, including PRC, Fiji Islands, Indonesia, Kazakhstan, Malaysia, Papua New Guinea, Philippines, and Thailand, have annual per capita incomes of \$1,000 to \$9,000 and levels of urbanization between 20 percent and 60 percent. The third group, including Afghanistan, Bangladesh, Bhutan, Cambodia, India, Lao People's Democratic Republic (Lao PDR), Myanmar, Nepal, Pakistan, Sri Lanka, and Viet Nam, have per capita GDPs below \$1,000 and levels of urbanization between 6 percent and 35 percent. Figure 2 presents data on the relationship between level of urbanization and GNP per capita for selected DMCs in the Region.

Figure 2: Level of Urbanization and GNP per Capita of Selected DMCs (1995)



Note: GNP = gross national product; Lao PDR = Lao People's Democratic Republic
Source: ADB 1996a.

3. Rationale for Investing in the Urban Sector

12. A strong case can be made for the importance of investment in the sector on the basis of the central role played by urban centers in national economic growth. Urban areas are dynamic engines of growth, centers for innovation and entrepreneurship, and sources of highly

developed social services. This view is in stark contrast to earlier development theory, particularly expounded in the 1970s, which focused on rural development and viewed cities as parasitical, resource-draining concentrations of people, often poor, that generated little productive return. Opposition to urban development as a national economic strategy was based on the belief that cities already benefited from an urban bias, were too expensive to develop, and increased unemployment as urban labor supply outpaced urban labor demand.

13. A chief complaint against urban development and urbanization was that the process accelerated rural-to-urban migration, characterized by rural workers being lured to the city with false hopes of a high-paying job, only to end up unemployed or marginally employed in the informal sector. However, during the 1970s and 1980s urban areas played a crucial role in absorbing excess rural labor through rural-urban migration, accounting for some 40 percent of urban population growth over the period. Research in Bangladesh and India illustrates that migrants are much better informed about job opportunities than previously thought, and make migration choices in a rational fashion. Unable to be satisfactorily absorbed in an increasingly developed agriculture sector, better-educated workers tend to look to the industrial and service sectors in urban areas for employment. Often employed in the informal sector, migrants' urban incomes frequently surpass those of midlevel formal sector employees, which subsequently boosts rural household incomes through remittances to their families in the provinces. Urban migrants make rational decisions about their own future, and almost never return to the provinces—deciding that life is better and opportunities are greater in urban areas. The informal sector is actually a competitive center of economic activity, and migration has increased net productivity of the economy by directing labor to locations with higher wages and where a greater contribution to economic production can be made.

14. Recent experience and analysis demonstrates the efficiency of cities as generators of economic growth (United States Agency for International Development [USAID] 1991). The Bank has estimated that some 80 percent of the Region's new growth is generated in its urban economies (ADB 1996a). Many DMCs are expecting their cities to provide most of the employment required by their rapidly growing populations. In large cities in particular, urban areas benefit from a large and skilled labor force, economies of urban scale, and economies of agglomeration (i.e., efficiency resulting from the clustering of firms in a given industry or related industries), as well as the resulting demand for intermediate and consumer goods (Appendix 2). There is ample evidence that labor productivity increases with city size. For example, the ratio of GDP per capita to national GDP per capita is 1.9 for Manila, 2.5 for Calcutta, 3.5 for Bangkok, and 3.7 for Shanghai. These ratios could be even higher if cities were made more efficient.

15. At the same time, the importance of secondary cities and towns and rural-urban linkages at a regional level must not be overlooked. In many East Asian newly industrializing countries, agriculture has been developed with the rest of the national economy, which in turn has played a critical role in the development of domestic markets and integration into the international economy. Secondary towns and cities provide markets for rural products, service centers for rural activities, and jobs to absorb surplus labor. Strengthening linkages between urban centers and rural areas is necessary to ensure that the two remain mutually reinforcing.

16. While initial capital requirements may be greater in urban than in other areas, the payoff from such investment can also be high. Urbanization brings health and social benefits that could only be achieved in rural areas at far greater costs. Residential infrastructure costs may be higher in cities, but households are also better serviced with piped water, solid waste collection, and electricity—all of which contribute to better health and welfare. Additionally, economic returns to industrial and commercial investments also tend to be higher in cities than in small towns and rural regions. More productive jobs can be created in cities, due in part to the fact that workers have more complementary capital inputs to increase productivity.

17. Throughout the Region, urban areas are, and will continue to be, at the center of economic growth. Economic efficiency of cities is based on the fact that urban growth follows the market. Cities will continue to grow as positive externalities outweigh negative ones. Urban areas with large productivity advantages, stemming from locational features or from the agglomeration of industries, will continue to expand in population and area, and will command the highest wages and land and housing prices. Less productive cities will grow at a slower pace and to a smaller size, where wages, land prices, and worker productivity will be lower. Nevertheless, market forces generally fail to fully incorporate the harmful effects of urban growth, as many of the consequences of environmental deterioration go unrecognized and no market mechanisms are in place to correct them. This may account for the fact that in India, medium-sized cities are growing more quickly than the larger urban areas. Further, the World Bank estimates that the growth of intermediate-sized cities in the PRC and Indonesia account for 24 percent of incremental global urbanization. The dynamics of urban growth is complex, varies between countries, and is not well understood.

18. Other forces are at work in the Region. Globalization and technological change will strongly affect the fortunes of different DMCs depending on their perceived locational advantages, potential profitability, available skills, and adaptability. These external factors are influencing cities in the Region in two ways. First, there is increasing competition among cities as multinational firms compare labor and other input costs and assess economic incentives available, the regulatory climate, the existence of market-based laws and institutions, flexibility of the labor force, and political stability: cities that can meet these requirements will progress economically at much faster rates than those that cannot. Second, the emergence of information-based service industries including financial and producer services, research and development, and media is benefiting larger cities that can offer the most efficient conditions for information dissemination.

19. The process of globalization through the international trade of goods, capital flows, and labor mobility has created an increasingly integrated world economy and growing competition between urban centers for foreign and domestic investment. Interdependencies are being created between urban centers across national boundaries, often creating links that are stronger than those between an urban center and its own hinterland. Trade liberalization, while often painful in terms of the required restructuring across sectors, is creating new opportunities and synergy within and between regional growth zones. Ultimately, competition between urban centers will not only be related to locational and production advantages, but to less tangible but equally or more important factors such as good governance, quality of public service provision, and support for entrepreneurial enterprise. This process will result in both winners and losers.

4. Impact of the Asian Crisis

20. Asia's current financial crisis has led to a sobering reassessment of the "Asian Miracle" and the previous assumption of continued rapid rates of economic growth in the Region's DMCs. The contagion, triggered by a combination of weak banking institutions, a lack of transparency in the financial sector, the vagaries of speculative global capital, and corruption, leaves in its wake a number of challenges for some urban areas: high unemployment, a large population of out-of-school youth, a growing level of urban crime, and a nearly bankrupt private sector. The situation is all the more painful for families that achieved middle-class status, only to find themselves once again plunged into poverty. Furthermore, in Indonesia and Thailand, there is already evidence of a trickle of workers returning to the rural sector as work opportunities decline in badly affected cities (Pernia and Knowles 1998).

21. In this environment, the immediate challenge is to maintain and increase the efficiency of cities so that they can continue to offer formal and informal job opportunities to inward migrants

as well as to the majority of existing residents. Given the sheer volume of new entrants to the economically active population in the Region, the task may be impossible to address immediately and is likely to require longer term strategies. Additional challenges arise concerning the financing of social safety net policies to assist the worst affected families.⁵ Governments must prepare for the longer term social impacts of the crisis, which will be felt more acutely in urban areas that are the centers for manufacturing and service industries, by fostering job retraining programs and employment services, and by ensuring that social safety nets target vulnerable groups. Local governments must face the challenge of maintaining infrastructure spending as tax revenues fail to materialize, and of retaining the quality of social services as clients shift from private to public providers.

B. The Challenge of Sustainable Urban Development

22. Urban development is sustainable if it permanently enhances the capacity of urban society to maintain or improve the quality of life without exhausting nonreplaceable resources or damaging the economic, cultural, or natural environment. At the same time, sustainable urban development should serve to reduce poverty while strengthening the ability of local institutions to involve and empower citizens and ensuring that financial resources are sufficient to allow replacement of assets and new investments.

1. Quality of Life

23. The quality of life in urban areas includes concepts that can be measured to some degree: freedom from hunger; capacity to live a healthy life; access to education, shelter, and basic services; and a secure and livable environment at home and at the workplace. Equally important but less quantifiable are concepts such as family stability, freedom from crime, and full involvement in the community. Rapid urbanization often disrupts the social, cultural, and religious pattern of people's lives. For example, the tensions caused by the integration of migrants from more traditional lifestyles, and the conflicts between traditional close family relationships and the more individualistic relationships characteristic of large cities. Where whole communities become the vehicle for social, economic, political, or religious discontent cities may become flash points for unrest, as at times in Jakarta, Karachi, and Manila.

24. Urban quality of life presents a highly varied picture across the Region. In the middle-income countries of East and Southeast Asia, many cities have provided for some of their residents, at least until recently, living conditions similar to those in developed countries. In such cases, a significant middle class emerges, has increased mobility and resources, and seeks greater participation in government and action on community concerns such as the environment. Such cities are in transition from traditional quality of life risks, such as waterborne diseases and lack of medical services, to more modern risks, such as air and industrial pollution and stress-related illnesses (Figure 3). In contrast, many urban centers in South Asia are dominated by areas of poor housing, inadequate infrastructure and social services, poor transport, and high rates of illness and morbidity. Poor living conditions can also be found in urban areas in middle-income DMCs such as Thailand and the Philippines, where 20 to 40 percent of urban residents live in slum or marginal settlements. In large cities in particular, the problem of high land values is one of the biggest constraints on a poor family's ability to acquire shelter. Quality of life indicators in selected present and future megacities are presented in Table 1.

⁵ The Bank has begun to address such issues: for example sector development program loans and technical assistance to Indonesia and Thailand.

Figure 3: Quality of Life Risks in Asia's Cities

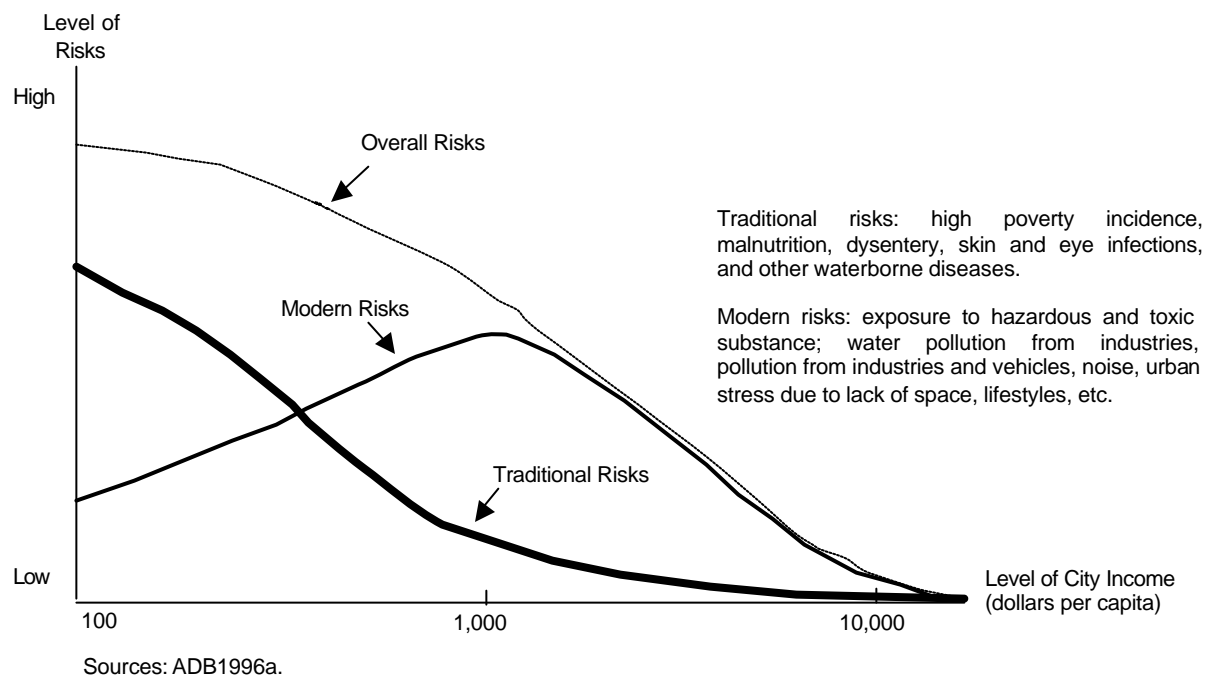


Table 1: Quality of Life Indicators in Selected Present and Future Asian Megacities

Indicator	Bangkok	Calcutta	Dhaka	Jakarta	Karachi	Manila	Seoul	Shanghai
Poverty								
1. Poverty incidence ^a (percentage of population)	15	33	50	34	30	15	...	...
2. Percentage of income spent on food	36	60	63	43	43	38	12	14
Environment								
3. Floor space/person (m ²) ^u	16	...	3.7	10	7	12	13	...
4. House price to income ratio ^v	4.1	...	6.3	3.5	1.9	2.6	9.3	...
5. Air pollution; average number of days over acceptable level ^u								
a) Suspended particulates	97	268	...	173	...	...	...	133
b) Sulfur dioxide	...	25	...	...	...	24	87	16
6. Percentage of water service coverage ^u	75	64	65	40	83	75	100	100
7. Hours of water supply/day ^u	24	10	6	19	4	16	24	24
8. Percentage of solid wastes collected ^u	95	60	50	70	36	82	90	65
Social								
9. Infant deaths per 1,000 live births ^v	27	46	108	45	65	36	12	14
10. Percentage of children in secondary school	71	49	37	77	65	67	90	94
11. Public safety (murders/1,000 population) ^v	7.6	1.1	2.4	5.3	5.7	30.5	2.5	1.2
12. Ambient noise level (scale 1-10) ^z	7	4	4	6	9	4	7	4
13. Telephones/1,000 population ^v	12	2	2	3	2	9	22	4
14. Average traffic speed at rush hour (km/h) ^v	21	21	34	26	28	12	22	25

... Data not available

Sources:

^a ADB 1997a.

^b United Nations Centre for Human Settlements 1990.

^c Population Crisis Committee 1990.

^d ADB 1996c.

2. Urban Poverty

25. Urban poverty—often more harsh and extreme than rural poverty—is widespread in the Region, particularly in South Asia. Poverty is not only related to low income, it involves poor health and education, deprivation in knowledge and communications, inability to exercise human and political rights, and low self-esteem; in short, a poor quality of life. Urban poverty is not precisely defined. However, based on the crude measure of a poverty line of \$1 per day per person and purchasing power at 1985 levels, about 960 million of the 1.3 billion people worldwide classified as poor in 1993 lived in Asia (UNDP 1996). Experts have stated that “urban poverty will become the most significant and politically explosive problem of the next century” (World Bank 1990). In the absence of political options, urban dwellers respond to poverty by working harder, taking on multiple jobs, working longer hours, and increasing household participation (particularly women and youth) in the labor force.

26. The complexities of defining urban poverty mean that data must be used with great care. For example, the income level needed to avoid poverty will vary by urban area; local costs of living; the availability of free or subsidized education, health, and other services; access to water supply and other infrastructure; and the number and age of dependents in the household. As a result, two families in two neighborhoods of the same city, classified as having the same income, may in fact require very different income levels to avoid poverty. Simplistic definitions of poverty also ignore the deprivations in quality of life when families respond to falling incomes and rising prices by, for example, taking children out of school to earn money for the family or having one parent move to where job possibilities are better. Quality of life decreases when a family must move in search of cheaper housing. These effects are being highlighted in the current economic crises in some DMCs. Poverty reduction programs have to be widened to accommodate such diversity.

27. Households headed by women, more common in cities, are particularly vulnerable to poverty. Women generally have more limited access to education, and suffer disparities in employment opportunities and wage levels compared to their male counterparts. Women have the additional burdens of culture and tradition that can manifest in legal and social obstacles to access to land. Faced with limited opportunities and the necessity to meet basic needs, many poor women are forced into highly vulnerable and dangerous jobs in the commercial sex industry and other degrading means of employment. Additionally, domestic violence poses a serious, and largely unacknowledged, threat to women.

28. Urban poverty has many causes. Some of these are the willingness of new migrants to take low paid jobs in the city, increases in the cost of land, long journeys to work, less support from an extended family network, exposure to greater environmental risk, and greater vulnerability to changes in market conditions in urban areas. Conditions of urban poverty are worsened by the scale and speed of urbanization in many DMCs, forces with which municipal governments cannot keep pace. In a situation of scarce resource allocation, the urban poor are badly placed to compete for essential services and shelter. Biases in investments, standards, pricing policies, and institutional structures often skew services in favor of the better-off in cities. For example, access to water is generally provided unevenly among income groups, with formal supply systems being denied to poor communities who are forced to turn to water vendors and often pay much more per liter than higher income households. This is often due to unavailability of reticulated supplies to these communities or the high one-time connection fee that most urban poor cannot afford.

29. The challenge is to reduce urban poverty through a combination of approaches, a mandate given particular urgency in light of major increases in the urban poor in many DMCs affected by the current Asian financial crisis. A range of measures is being explored, including employment creation, credit for informal businesses, education and literacy training, provision of

legal tenure to squatters, improved social and infrastructure services and access to shelter, and support for better human rights. This includes the right to vote in electing representative government and to organize at the community level.

3. The Urban Environment

30. Urban environmental conditions in the Region are threatened by rapid and often uncontrolled growth, inadequate and poorly maintained infrastructure, industrialization, and increasing vehicle densities. Urban areas in the region are found at all stages of the transition between traditional public health problems (e.g., poor air quality, water-related diseases, malnutrition, and lack of medical resources), and more modern health risks (e.g., exposure to toxic/hazardous substances, industrial and vehicle-generated air pollution, noise, vibration, and stress-related illnesses). In terms of air quality, the World Health Organization calculated that in the early 1990s, 12 of the 15 cities in the world with the highest levels of particulates, and 6 with the highest levels of sulfur dioxide in the atmosphere were in Asia. While the focus of environmental concerns has previously been on large cities, increasing attention is being given to secondary cities, as in Malaysia and Thailand. The environmental problems of Asian cities are well documented, such as the depletion and contamination of water resources (e.g., saline intrusion in groundwater in coastal cities such as Dhaka, Jakarta, Karachi, and Manila), rapid run-off leading to soil erosion and flooding, land contamination, air pollution, and the loss of irreplaceable natural resources such as forest reserves. Low levels of investment in wastewater management and solid waste collection and disposal result in direct discharge of wastes to surface drains and open land, leading to increasing risk of health epidemics. The economic impacts of pollution in urban areas, in terms of loss of productivity and health costs, have been estimated to range from 1-5 percent of their GDP (World Bank 1992).

31. Urban environmental improvements require institutional coordination between government departments, agencies concerned with sustainable environmental management, and private sector interests. In practice, this has proved to be difficult to achieve in DMCs. Lack of political commitment and environmental awareness and poor enforcement are also cited as major causes of low levels of investment in environmental management facilities. The institutional framework for better environmental management is further complicated in instances where interventions must address multiple administrative boundaries, such as in the case of a polluted river that flows through several municipalities. In recent years, however, there has been growing pressure on DMC governments and industries by environmental and other concerned groups to improve conditions in urban areas. Unfortunately, because of worsening macroeconomic conditions in many DMCs, environmental concerns are likely to be accorded lower priority than job creation, especially for low-income DMCs grappling with basic issues of urban poverty and public health needs.

32. To date, most urban environmental management in the Region has consisted of remedial action through infrastructure investment to clean up pollution. Often, as in the case of wastewater collection and treatment, poorer urban households can not afford such actions, and the remedial actions may not be able to keep up with demand. While the Bank has undertaken a variety of projects within a broad definition of environment, it has implemented only a few projects focusing specifically on urban environmental improvement. The difficult, but ultimately worthwhile, task is to develop preventative policies that can forestall future environmental degradation without imposing impossible financial burdens on governments. Preventative action need not be capital intensive; for example, the following can all be implemented at low costs: (i) policies to guide growth away from environmentally sensitive areas, (ii) market-based economic instruments limiting levels of discharge that force reevaluation or upgrading of production processes, (iii) development policies aimed at reducing vehicle usage, and (iv) the greater use of economic resource pricing in cost recovery mechanisms. However, given that the benefits of

sustainable environmental programs and policies are often only evident over the long term, communities (and local-level policy- and decision-makers in particular) need to be convinced of the value of these approaches through awareness initiatives.

C. Dimensions of the Urban Sector

1. Urban Governance

33. Most Asian cities have grown and diversified economically well ahead of their capacity to manage development. Better governance is required if cities are to function as engines of growth, avoid further environmental deterioration, and provide residents with at least a reasonable quality of life. Because the management of cities is complex, involving many stakeholders in the public and private sector whose cooperation must be obtained, the requisite institutional structures are of necessity diverse, complicated, and imperfect.

34. Urban governance encompasses institutional strengthening and capability building, decentralization, community participation, and involvement of the private sector. Infused within these components are four principles that form the foundation of good governance as part of improved urban management: (i) accountability of public sector staff and organizations; (ii) greater participation of community and interest groups in decision making on the delivery of services and demand management; (iii) predictability of markets, regulations, and legal frameworks; and (iv) transparency in dealings between the private sector and government.

35. Implicit within urban governance is the necessity of a holistic, comprehensive view of urban economic development, and a clear understanding of its linkages to investment promotion, competitive advantage, urban management capacity, and responsiveness to the requirements of the private sector. Urban economic development is an interrelated, complex process that requires the creation of an enabling environment that supports productive firms and individuals; promotes conditions for efficient urban markets for land, labor, and credit; and capitalizes on an urban center's competitive and comparative advantages. Cities and other urban centers must be able to develop such a vision and an associated enabling environment through intensive consultation, participatory community processes, and innovative partnerships. Importantly, urban centers must be able to articulate this vision to the world at large, while at the same time strengthen urban governance through a continuing process of self-monitoring and evaluation.

a. Decentralization

36. Decentralization represents a profound shift in the manner and system of urban governance and empowerment of elected local officials. Political, fiscal, and administrative decentralization has been occurring to varying degrees in most DMCs over the past decade. By decreasing the role of central government and augmenting the authority of responsive local institutions, accountability between the providers and users of local services can be greatly increased. Examples can be found in the enactment of the Local Government Code (1991) in the Philippines, where new devolution of authority, responsibilities, and resources for urban service delivery to local government units has met with some success. However, implementation has been uneven within and among DMCs and failure to build local capacities in line with devolved responsibilities has frequently resulted in insufficient local revenue generation and inadequate local management capability that have compromised the developmental benefits of decentralization.

b. Community Participation

37. Community participation has increased in urban development in many DMCs through the involvement of nongovernment organizations (NGOs), business associations, religious associations, environmental pressure groups, associations of slum dwellers, and other community-based organizations (CBOs) in many aspects of urban development. Such groups may become involved in local planning initiatives, taking responsibility for infrastructure improvement and maintenance, obtaining innovative means of credit such as the Community Mortgage Program in the Philippines, or participating in the provision of basic services, as in India and elsewhere. Clearly the local community is a major resource that can be used in partnership with the public sector in development planning and management. Community commitment to development initiatives is vital for their success, and many local governments are moving away from a dependence culture to a demand culture, taking on greater responsibilities for promoting investment in urban development and prioritizing the provision of urban services.

c. The Private Sector

38. Many local governments are increasingly adopting an indirect enabling role, i.e., focusing on policy making, planning, regulation, and protection, while private sector companies take full or part responsibility for the delivery of one or more city services. New relationships have been created, while public sector facilities and services (such as water supply and sanitation) have been corporatized (restructured as corporations) or privatized. For example, Metro Manila's water supply is now managed by two private sector concessionaires. Special purpose authorities, such as the Metropolitan Waterworks Authority in Bangkok, are learning to adapt to this new environment. Given the massive investment required in urban infrastructure, greater focus is needed on the creation of cost-effective and efficient public-private partnerships that include mechanisms for attracting private capital urban infrastructure provision. Involvement of the private sector must not be viewed solely as an activity, but rather as a process that changes mind-sets and institutionalizes the enabling role of government.

2. Urban Finance

39. Asia's cities continue to impose staggering demands on fiscal resources. The Bank has estimated that annual municipal infrastructure requirements alone in DMCs will rise from about \$38 billion in 1998 to \$292 billion in 2020, to provide sufficient services to sustain urban productivity and achieve some improvement in the quality of life. (These amounts compare with a total flow of official development assistance and private resource flows to all developing countries of some \$239 billion in 1995.) The investment estimates include the cost of renewing existing infrastructure and providing new infrastructure as urban population increases. Transport and communications, energy, water supply, and sanitation will consume the largest shares. In addition, there will be corresponding costs for operation and maintenance (O&M) and for delivery of related services. Without these sustained high levels of expenditure, cities will become increasingly inefficient and unpleasant places to live and work in as pollution, overcrowding, social friction, and deteriorating environmental conditions reduce the quality of life.

40. Enhanced sources of funding for urban development are urgently required in most DMC cities as part of the need to overhaul their financial management systems. Local governments are being given greater responsibility for the provision and operation of urban services without the authority to raise extra revenues or enjoy fiscal independence. The typical current mix of local land- and property-based and other taxes is inadequate. User charges may sustain or partly sustain the operations of city services in sectors such as water supply, sanitation, and power but other services such as roads, drainage, and health depend heavily on frequently

erratic transfers from central, state, or provincial governments. Such problems have hastened various initiatives under way in the Region to attract private capital. For example, many cities have contracted out part of their solid waste management services (as in Bangkok) privatized water supply and sewerage (as in Manila) and are in the process of deregulating transport services.

41. The potential for using municipal bonds as a cost-effective means to finance urban infrastructure is increasingly evident for DMCs, i.e., using domestic private capital rather than sovereign borrowing by national governments. In India, the Ahmedabad Municipal Corporation recently raised \$30 million to finance medium-term investment plans. In the Philippines, the Local Government Code authorizes local governments to sell bonds to finance “self-liquidating, income-producing development or livelihood projects,” while the Water Crisis Act of 1994 authorizes water districts to sell revenue bonds. However, to date, few initiatives have succeeded. The bond markets in many DMCs are largely unexplored and require significant assistance if they are to be developed. For many poorer cities, the options in the short term at least are limited to (still very worthwhile) improvements in financial management.

3. Urban Infrastructure and Services

a. Institutional Strengthening and Capability Building

42. Many local governments desperately lack the required skills to manage growth, provide urban services, and maintain infrastructure. Often training and capability building initiatives are undertaken in an uncoordinated, unfocused fashion, replicating previous programs and failing to enhance skills of urban managers and their staff. In addition, there is an urgent need to promote and strengthen existing and new institutional structures that are responsible for, or can facilitate, urban development, such as the League of City Mayors in the Philippines. Technology and automation, (e.g., computerization, geographical information systems, and other tools) can greatly enhance urban management systems if properly designed, implemented, and staffed. Local governments are also increasingly adopting tools from the private sector such as demand management in the areas of service tariff reform, improved use of limited road space, and regulation of groundwater use.

43. In addition to the urgent need for enhanced human resource skills at all levels of the urban development process, the institutional structures and the relationships between these structures need to be improved. Better horizontal coordination is critically needed in cities, particularly as urban areas spread across several local administrations. Policy dialogue with and assistance to metropolitan authorities are required to redesign institutional frameworks, revise regulations, and restructure decision-making mechanisms. Better vertical coordination between central (state and provincial) and local governments is increasingly essential as decentralization policies become more common and are progressively implemented.

b. Water Supply, Sanitation, and Solid Waste

44. In most of the poorer DMCs, the quality and quantity of water supply in urban areas fall far short of demand. Faced with an unreliable or intermittent supply and variable quality, a high proportion of residents buy potable water from vendors and/or are obliged to boil, disinfect, or filter it to protect their health. The Bank estimates that some 93 million people in DMC urban areas have no access to safe drinking water (ADB 1997d and 1998). Such shortages contribute to high levels of waterborne disease in many cities, with particular impacts on the vulnerable under-five age group. There are many reasons for such inadequate supplies. At the water resource level, management problems are caused by overextraction of groundwater, salination, unrecorded extraction by industry using deep wells, and pollution of raw water supplies. At the water delivery level, many water utilities provide deficient service through inadequate metering,

high rates of unaccounted-for water⁶ (55-60 percent in Jakarta and Manila), damage and contamination of the pipe network, arbitrary decisions on water tariffs, low collection efficiencies, and exclusion of supplies to informal settlement areas. In the last few years, one response to these failures has been experiments in contracting out or privatizing all or part of city water services, as in Malaysia, Philippines, and Thailand.

45. The five main challenges in the urban water supply subsector are (i) meeting rapidly increasing demand for household and industrial water within agreed limits, (ii) increasing investments in new water delivery systems that will meet 24-hour demand, (iii) upgrading and managing existing systems to run more efficiently, (iv) safeguarding social equity by provision of potable water to poor households, and (v) achieving full cost recovery.⁷

46. While investments in water supply have enjoyed a fairly high priority in most cities, the provision of adequate sanitation is a more widespread problem, with some 300 million urban residents in DMCs estimated to be without adequate facilities. In many cities, most wastewater is discharged without treatment. Where sewerage is provided, the network frequently functions as a combined wastewater and stormwater system. While septic tanks can provide an intermediate level of treatment, the resulting discharge in built-up areas often enters the street drainage system where it poses a potential health hazard, made worse in many DMC cities that are subject to flooding. Even where substantial investments in sewerage have been made, as in South Asia, institutional weaknesses and poor cost recovery have held back further investment.

47. The Bank has financed 14 stand-alone sewage treatment projects through 1998, in the PRC; Hong Kong, China; Republic of Korea; Pakistan; and Philippines. In addition, small sewage treatment components have been included in integrated urban development projects (IUDPs) in India, Indonesia, Mongolia, Pakistan, and Sri Lanka. Until recently the emphasis of sanitation programs was on the collection, treatment, and disposal of human wastes. Now industrial wastes are also being targeted, as in the Bank's ongoing support for industrial wastewater treatment in Karachi. Levels of dissolved solids, suspended solids, and organic loadings in wastewater discharges may increase by factors of 16-18 in high growth areas over the 1995-2025 period (ADB 1998b). The negative impacts of untreated liquid wastes are widespread and pernicious and include risks to public health and adverse environmental impacts on surface, ground, and coastal waters. To compound the problem, the high capital, operational, and maintenance costs of conventional sewerage and sewage treatment systems generally restricts affordability to low-income households.

48. The immediate challenge for sanitation services is how to (i) address the perceived high need but low demand for urgent remedial actions, (ii) develop alternatives to capital-intensive systems, and (iii) overcome the low levels of willingness to pay where households have alternative means of disposal. In the longer term, the challenge will be to move beyond the provision of sanitation systems and address wider issues of development-environmental interactions at the city and regional levels.

49. The sheer volume of solid waste generated in urban areas around the Region is staggering, and poses a continuing challenge to the health and quality of life in urban areas. In India for example, 60,000 tons of municipal solid waste is generated daily and this is expected

⁶ Unaccounted-for water equals treated water production minus authorized water consumption, expressed as a percentage of treated water production. Production and consumption rates should be accurately metered but are more often a combination of estimates and meter readings.

⁷ Full cost recovery means the recovery of all financial costs associated with the provision of water, including direct and indirect operations and maintenance costs, depreciation, taxes, interest on debt and a reasonable return on equity.

to rise to 100,000 tons by the year 2000. Shanghai's solid waste has grown in volume by 6 percent a year, reaching 7,500 tons daily in 1997. Metro Manila's solid waste was estimated at 6,100 tons daily in 1995, and is expected to double in the next two decades. In Metro Manila and many other DMC cities, only 40 percent or less of this waste reaches a sanitary landfill, with the greater proportion dumped in open sites, or left to rot in backyards, streets, drains, and waterways. Solid waste is intrinsically linked to water quality and water pollution, as it typically ends up in water systems in one way or another. Open dumpsites encourage disease vectors, generate foul odors, contaminate groundwater supplies, and generally contribute to health risks and a decline in the quality of life in urban areas. However, few cities in the Region have the technical know-how to develop integrated solid waste management systems and sanitary landfills. Moreover, many cities are experiencing an increasing shortage of sites available and suitable for landfill development within a reasonable distance of the city. A number of efforts, however, are under way to minimize waste through refuse recovery, as in the reuse of inorganic industrial solid wastes around Beijing; community solid waste management techniques in Jakarta; and vermiculture, composting, and biogas production in Mumbai.

c. Urban Transport

50. Urban transportation is critical to sustainable development in DMCs in terms of quality of life and economic success. As traffic congestion in the larger cities of the Region becomes chronic, the urban poor suffer because of inadequate public transport, and the general quality of life decreases through long commuting times, accidents, and pollution (much of which is vehicle-generated), and the urban economy must absorb significant economic costs related to lost productivity and inefficiency. The sheer scale of megacities in the Region puts great demands on transport systems capable of moving large quantities of passengers and freight at affordable prices. While motorization levels are low in many DMCs relative to levels in developed countries, major increases are forecast and virtually all governments support the trend, implicitly or explicitly. In India, for example, car ownership is expected to grow from 14 to 27 per 1,000 population over 1994-2001 and two-wheeler use from 112 to 250 per 1,000 population over the same period (ADB 1998c).

51. Few DMC cities have well-integrated systems of primary, secondary, and tertiary roads and many lack road space in their central areas with consequent impacts on traffic management and public transport efficiency. While some larger cities have developed mass transit systems, such investments have been costly, and characterized by long time-frames for planning, design, and construction. Such schemes often highlight the lack of coordination between land use and transport planning, and the roles of the public and private sectors in urban transport strategies. The challenge is to make investments in urban transportation sustainable through coordination, both in terms of physical provision and economic and financial policies, and by comprehensively addressing related issues such as a city's balance in the locations of employment and housing. Investments should incorporate concepts of demand management, and consider appropriate roles for the public and private sectors.

d. Urban Housing

52. Access to affordable urban housing is an increasing problem in the Region as population pressure increases and land prices rise. The negative impacts are demonstrated through (i) increased sharing of dwellings by two or more families, (ii) increased squatting on public and private land, (iii) occupation of infrastructure easements and hazardous or ecologically sensitive areas, and (iv) outright homelessness. There are about 2.17 people per room in urban Asia and this figure is 5.3 in greater Mumbai. The urban housing shortfall in India has been calculated at some 7.6 million units, of which approximately three quarters represent replacement and

upgrading needs, with sharing of a dwelling accounting for the balance. The low-income housing backlog in the Philippines is an estimated 4.2 million units.

53. The bulk of housing in DMCs has been and is being provided by individual households, CBOs, and private developers. Over the past 30 years, the Region's public sector has generally failed to provide affordable shelter for low-income households. Prime factors have included failure to meet target group affordability without significant subsidies and inadequate financial resources. Recent DMC policies based on urban upgrading have been more successful, but have often suffered from a lack of "ownership" in terms of the residents' involvement in planning and design, responsibilities for O&M, and contributions to desired services. A major challenge for DMC governments is to recognize in policy making that a greater or lesser share of housing in their urban areas is being provided by informal housing supply markets, and to develop policies that will help improve such housing markets.

54. The limited availability of formal credit is a major constraint on the supply of affordable housing in most DMCs, but there are a variety of informal or semiformal credit mechanisms. For example, some low-income families who can only afford minimum standard housing, usually in unsanitary environments and without secure tenure, will frequently fund improvements through help from family and friends in an incremental development process. Other families may join informal, community-based savings groups and obtain loans from those groups. Such self-help processes mean that over time a substandard shanty can be transformed into an adequate low-cost house. The conventional housing finance approach taken by most housing finance institutions in the Region is not usually available to such families. The challenge is to build on the experience of community-based housing finance mechanisms being used in some DMCs (such as the SEWA Bank in India, the Community Mortgage Program in the Philippines, and the Urban Community Development Office in Thailand) to create large-scale and effective provision of housing finance to low-income households. This entails, in part, strengthening links between the formal and informal finance sectors.

e. Urban Land Management

55. The critical role of land supply in supporting quality of life in urban areas demands a holistic approach. However, such an approach is far from being met in many DMCs where large numbers of poor and now middle class families, as well as small businesses, are prevented from gaining access to land for development. Many obtain land illegally and then face problems due to the lack of secure tenure, inability to use land as collateral, lack of services, or other setbacks. More efficiency, fairness, and transparency is needed in urban land markets.

56. Many bottlenecks in the land market slow land supply and increase prices. For example, land accounts for some 40 percent of site development costs in Metro Manila. Typical problems include (i) inappropriate or unaffordable land use, building standards and regulations, such as unrealistic ratios of required public land to total site areas; (ii) no allowance for mixed land uses; (iii) cumbersome and expensive procedures for land transfer (including cadastral mapping, titling, and registration); (iv) land held vacant for speculative purposes; (v) lack of information to the public on land market indicators; and (vi) failures in coordination among agencies concerned with servicing new urban land. All too often, these failures in the land market are compounded by irrelevant spatial planning processes that are unable to keep up with, let alone guide, new urban development.

III. THE BANK'S INVOLVEMENT IN THE URBAN SECTOR

A. Trends in Bank Lending

57. The Bank's activities in the urban sector have expanded rapidly since the beginning in 1968, with the provision of 183 loans to 26 DMCs, valued at \$8.08 billion.⁸ In addition, some 309 technical assistance (TA) projects have contributed to urban project preparation, planning studies, policy reforms, and institutional development. Some 95 percent of this assistance has been under the responsibility of the water supply, urban development, and housing divisions of the Bank's agriculture and social sector departments, and their predecessors. Other divisions contributing to urban sector development have included the transport and communications, financial sector, and industry and energy divisions of the infrastructure, energy, and financial sector departments.

58. Although project loans have been the most common form of Bank intervention in the urban sector, sector loans for integrated urban projects began in 1976. Sector projects have included secondary and small town development in Bangladesh, Indonesia, Philippines, and Sri Lanka, and water supply and sanitation to small towns and villages in those DMCs and Nepal. Eleven country urban sector profiles and/or strategies have been prepared and used to address policy issues and external assistance needs, and to outline a strategy for Bank involvement in the sector.

59. Recently, the sector development program loan modality, which provides a means to combine policy-based and sector investment loans, has also been used in the urban sector. Under the Community and Local Government Support Sector Development Program in Indonesia,⁹ a policy loan is supporting the government's decentralization reform program and an investment loan is providing funds for village and district-level subprojects. By combining mutually supportive policy and investment loans, the sector development program is able to pursue the policy objectives of decentralization, increased community participation, and improved governance while providing funds for poverty alleviation and improved basic services in poor areas. With the emphasis of the Bank on policy reforms, it is expected that there would be scope for increased use of sector development program modality in the future.

60. In addition to DMC loans and TA projects, the following Bank-sponsored regional seminars have contributed to the development of support to the urban sector in the Region: Financing of Low Cost Housing (1983), Major National Policy Issues (1987), Women and Water (1989), The Urban Poor (1991), Managing Water Resources to Meet Megacity Needs (1993), Megacity Management (1995), Urban Infrastructure Finance (1996), and the Development and Management of Cities: Establishing Networks and Cooperation (1998). The publications based on several of these seminars formed the Bank's substantive contribution to Habitat II in 1996.

61. Other Bank efforts have contributed to urban sector activities. Manuals have been prepared for the economic evaluation of urban development and water supply projects. The Strategy and Policy Office has carried out several TAs and regional TAs on governance and municipal service delivery. One general constraint has been a lack of comprehensive information on which to base the Bank's urban activities. However, the water supply sector has led the way in filling this gap by publishing the water utilities data books, and a similar approach is planned in 1999 for data collection on local government performance.

⁸ As of 30 June 1999.

⁹ Loans 1677/1678-INO: Community and Local Government Support Sector Development Program, for \$320 million, approved on 25 March 1999.

B. Performance of Lending to the Urban Sector

62. The Bank's lending for IUDPs began in 1976 with a loan for the Bandung Urban Development and Sanitation Project in Indonesia. Subsequently, some 60 percent of IUDPs have been implemented in Indonesia, with the remainder located in Bangladesh, Bhutan, India, Lao PDR, Nepal, Pakistan, the Philippines, Sri Lanka, and Vanuatu. In addition to investments in infrastructure and services, IUDPs have had a strong emphasis on policy development and institution building. These began as concerns for improving the access of the poor to basic services and the mobilization of resources, and have since been broadened to include capacity building in local governments, particularly in terms of improved urban management, development of public-private partnerships, and improved community participation.

63. The Bank's Operations Evaluation Office reports¹⁰ give mixed reviews of IUDP performance (ADB 1995b). The reports noted, for example, that while project design addressed a range of components simultaneously, the claimed benefits of synergy among components, which should result from the implementation of linked subprojects (e.g., roads, drainage, and solid waste management) were seldom borne out in practice. Many IUDPs have been carried out under a top-down approach whereby cities are selected for inclusion on the basis of national development plans or perceived infrastructure deficiencies, rather than on the basis of local government commitment to or preparation for development assistance. Other common problems included a mismatch between project target groups (generally low-income households) and the actual beneficiaries (who often included better-off households); poor cost recovery, lack of maintenance of project components, and a lack of specific criteria and indicators to measure success in achieving project benefits. Institutional development components were generally more successful when aimed at service agencies, such as improved billing collection rates and productivity increases in solid waste management, rather than when attempting to improve long-term institutional capacity in local government. Nevertheless, the economic and financial returns were found to be generally acceptable.

64. A recent impact evaluation study of Bank assistance to the urban development and housing sector (ADB 1997b), which conducted a detailed review and evaluation of 12 urban projects including 7 IUDPs, concluded that insufficient attention to institutional reform issues was largely responsible for compromising potential project benefits. While the IUDPs were generally found to be successful in improving living conditions and service efficiency, project sustainability was seriously compromised by failure of the projects to address institutional and urban management issues.

1. Water Supply, Sanitation, and Solid Waste

65. The Bank has had 30 years of experience in urban water supply and in 1976 made its first loan for integrated water supply and sewerage in Hyderabad, Pakistan. Most early projects were in large and medium-size cities in Hong Kong, China; Indonesia; the Republic of Korea; Lao PDR; Malaysia; Myanmar; Philippines; Singapore; and Thailand. The first loan for small towns was made in 1981 to the Republic of Korea. Capacity building and sector policy development have been key concerns throughout the period and the water sector's TA program has addressed a wide range of issues over the past decade. In the last five years there has been an increase in the scope and number of policy reform measures incorporated in water supply and sanitation projects, focusing on defining the policy agenda, designing holistic

¹⁰ TA 5662: *Impact Evaluation Study of Bank Assistance in the Urban Development and Housing Sector*, for \$400,000, approved on 18 December 1995.

systems, promoting autonomy in sector agencies and private sector participation, and increased community involvement.

66. Implementation experience of the water supply and sanitation sector has been mixed. A Bank report (ADB 1994b) noted the need to improve project preparation and design to achieve more satisfactory project performance (although recent water supply projects have had a higher success rating by adopting more integrated approaches). The report noted the need to match technologies, standards, and costs with community resources. It was also noted that institutional development had been poor, tariffs and cost recovery continued to be critical issues, and there was a need to improve the economic analysis of projects as a basis for design of investments and setting tariffs. Overall, sustainability continued to be an issue, requiring greater demand-responsiveness, an emphasis on water loss reduction, and a general focus on institutional reforms. More recently there has been increasing emphasis on introducing market-based mechanisms into water utilities as part of the capacity-building process.

67. The Bank has been involved in a number of solid waste management projects, primarily involving collection improvements and the construction of sanitary landfills in various DMCs, usually as a component of an IUDP. Bank assistance has also helped support commercialization and private sector participation in solid waste management. While collection services have generally improved significantly, problems have been experienced with location and construction of sanitary landfill facilities.

2. Urban Transport

68. The Bank's role in urban transportation in the Region has been limited relative to the investment needs of the sector. To some extent, this is because other agencies, particularly the Overseas Economic Cooperation Fund of Japan and the World Bank, have provided support for the sector. The Bank has made only four urban transport loans: three for urban bridges and one for a more integrated package, Bangkok Urban Transport. Several TAs have addressed urban transport issues but have resulted in few projects. Investment in major transport infrastructure faces a variety of problems (not all of which are endemic to the transport sector), including the long lead time for projects, difficulties and high costs of land acquisition, and the multiplicity of agencies involved. However, road improvement is a typical component of IUDPs.

3. Urban Housing and Housing Finance

69. Bank operations in the housing and housing finance subsectors began in parallel with its operations in IUDP. Early projects in Hong Kong, China and the Republic of Korea focused on multistory housing projects, followed by core housing schemes in the Fiji Islands and Thailand, a new town development outside Bangkok, and then by housing finance projects in India and Sri Lanka. This time line of projects reflects the various changes in thinking about assistance to shelter over the past two decades. Support was also given to slum improvement and sites and services housing in many IUDPs. While housing projects were completed successfully, some components were delayed or canceled due to problems with land acquisition, and housing intended for the poor was often occupied by middle-income groups.

70. The Bank's involvement in the housing subsector in the past five years has been limited. Currently, the focus is on increasing the availability of housing finance to low-income households through lending to financial intermediaries, which in turn on-lend to the informal sector via community-based financial institutions and NGOs. Three housing finance loans have been made, one for India and two for Sri Lanka; Sri Lanka experienced problems in targeting loans to low-income groups, and in the privatization of the host institutions. In addition to the housing finance loan in India, TAs are being used to strengthen state-level housing finance

institutions and to establish a secondary mortgage market in the country. Policy dialogue focuses on removing legal and regulatory constraints to reform housing finance, strengthening links between the formal and informal finance sectors, laying the foundation for secondary mortgage markets, and supporting microcredit schemes for housing and income-generating activities.

71. The *Impact Evaluation Study of Bank Assistance in the Urban Development and Housing Sector* (ADB 1997b) noted that housing projects had suffered from a lack of quantifiable indicators of success in meeting targets. In addition, there was no private sector involvement in project development that could have introduced some market discipline into project design. More community ownership of projects at an early stage in project design could have improved O&M and achieved better cost recovery. The report noted that slum upgrading is a complicated task, in effect a mini-IUDP, and requires similar levels of effort in institutional coordination. Lastly, the report observed that a better understanding of beneficiaries and demand is needed, with resulting benefits in sector policies, institutional responses, and investment programs.

4. Urban Finance

72. Until recently the Bank had been involved in few stand-alone urban finance projects. The Regional Development Account project in Indonesia¹¹ was an attempt to shift the focus of lending to the financing mechanisms of the sector. More recently, the Bank has begun to investigate the feasibility of an urban and environmental infrastructure fund for India,¹² designed to attract domestic and foreign capital into the sector.

C. Coordination with Multilateral and Bilateral Organizations

73. The Bank is working with other external support agencies through geographic coordination of assistance programs and in some cases cofinancing of lending and/or TA. In addition the Bank is supporting NGOs, both as a component of projects and directly, as in the Orangi Pilot Project in Karachi.¹³

74. Multilateral support agencies operating in the urban sector in the Region include the World Bank, UN agencies (including United Nations Centre for Human Settlements [UNCHS–Habitat] and United Nations Children’s Fund), and the European Union. The World Bank provides the most comprehensive assistance, covering integrated urban projects, water supply, waste management, urban transport, environmental management, and housing finance. Strong emphasis is placed on policy dialogue and capacity building and the World Bank supports its operational activities with sector and research programs. Among the UN agencies, UNCHS provides technical support aimed at all aspects of human settlements development, and codirects the Urban Management Program with the UNDP and the World Bank. UNCHS also directs the Sustainable Cities Program. The Local Initiative Facility for Urban Environments supports NGOs and CBOs in the Region.

75. Bilateral support to the urban sector includes the Department for International Development (United Kingdom), focusing on urban poverty relief in South Asia; the German Agency for Technical Cooperation (GTZ) on local government capacity building in various countries; Japan’s Overseas Economic Cooperation Fund on transport, drainage, and other urban infrastructure; Australia and New Zealand on local government capacity building; and

¹¹ Loan 1501-INO: *Regional Development Account*, for \$50 million, approved on 5 December 1996.

¹² TA 2936-IND: *Urban and Environmental Infrastructure Fund*, for \$400,000, approved on 12 December 1997.

¹³ Loan 1001/1002-PAK: *Karachi Sewerage Project*, for \$85 million, approved on 14 December 1989.

USAID on highly leveraged, policy-based assistance programs focusing on urban and housing finance, decentralization, and privatization.

76. In addition to these government-led programs, support to the urban sector also comes from numerous NGOs, CBOs, and academic-based research institutes in many DMCs, such as the Asian Institute of Technology in Bangkok.

D. Lessons Learned

77. The experience of the Bank and DMCs in the provision of Bank support to the urban sector indicates a number of lessons that need to be considered in developing strategies for the sector.

- (i) **Acknowledge the complexity.** IUDPs, and the urban sector overall, involve management of resources and delivery of services across several subsectors and levels of government, as well as involvement of a variety of private sector and community stakeholders. Urban development therefore requires well thought-out policy frameworks and close linkages between many agencies, and IUDPs should be based on clear institutional roles and responsibilities. More attention is needed to improving the integration of project components, responsiveness to client needs, sustainable provisions for O&M, and the improved use of performance indicators with which to measure project impacts. IUDPs could be focused on fewer subsectors and as far as possible the number of executing agencies should be limited to simplify project implementation.
- (ii) **Community involvement.** Project success and sustainability depend on community ownership, which in turn depends on community involvement in project preparation. Ways must be found to strengthen community and beneficiary involvement in project selection and design. This takes time and requires in-depth understanding of community preferences and ability and willingness to pay for services. Enhanced public awareness of urban development, infrastructure, and service issues and options is a precursor of this process.
- (iii) **Target beneficiaries.** The selection of urban centers and sectors to be included in IUDPs should be guided by the level of commitment of candidate centers and sectors rather than by top-down planning. A specific set of criteria is needed, against which the performance of urban centers should be evaluated prior to entry into the program, and a longer term relationship with project cities and towns combined with a more flexible approach to project content.
- (iv) **Increase emphasis on the environment.** Emphasis on pollution control and environmental management should increase as these subjects are given higher priority by middle-level DMCs such as the PRC, Philippines, Sri Lanka, and Thailand. This will require institutional coordination and strengthening as improving environmental conditions almost always involves issues of cross-sectoral, and often cross-border, responsibilities.
- (v) **Enhance the focus on urban transport.** The Bank has had limited involvement in the urban transport sector in DMCs, yet this sector is important for promoting urban efficiency with potential high economic rates of return. Infrastructure-led planning for urban expansion is acknowledged to be more effective than more traditional zoning and other spatial planning techniques. While the capital costs and lengthy preparation and implementation phases of major transport investments may be daunting, partnerships could be formed with private sector

concerns in build-operate-transfer, build-operate-own, and other similar arrangements. In addition, other areas of urban transport are equally important, such as pricing policies and traffic management, where intervention would yield significant benefits.

- (vi) **Housing for the poor.** Direct housing interventions in favor of the poor have been less than successful. Indirect support such as developing affordable and sustainable housing credit, improving land transfer mechanisms, making land use controls effective, and legalizing informal settlements are more likely to improve access to land and shelter for the poor.
- (vii) **Service delivery.** Cross-sectoral institutional strengthening and policy reforms are critical for delivering better urban services. Issues needing greater emphasis include the role of the private sector and market-based reforms, horizontal and vertical coordination among agencies, community involvement, cost recovery, demand management, and innovative funding mechanisms.

Greater reliance needs to be placed on market mechanisms for the delivery of infrastructure and services, particularly in large cities. Examples include pricing of road transport and water supply to regulate demand where this would protect nonrenewable resources or compensate for unquantifiable externalities. Successful private sector participation in water supply and solid waste management in some DMC cities indicates the potential for wide-scale development of public-private partnerships in these and other urban services.

- (viii) **Social equity.** While increasingly relying on private capital and market mechanisms for infrastructure and service provision, policy frameworks and provider agreements must ensure equitable and affordable access to basic services and infrastructure for the urban poor and vulnerable groups.
- (ix) **Spatial planning and effective land management.** Assistance in spatial planning and land management has been largely unsuccessful as planning has not been proactive in helping to develop efficient land markets, but has concentrated instead on land-use regulations that are frequently unnecessary. Public-private partnerships can be an effective means of making access to land and shelter more affordable. While DMC governments have not been effective in managing land in isolation, especially when faced with rapid urban expansion, the public sector has an important but indirect enabling role in supporting the private sector's ability to supply affordable land and shelter.
- (x) **Local government.** Local governments, in association with public corporations and/or the private sector, are the appropriate foci for the efficient provision of urban infrastructure and services. However, local governments are typically weak in human, financial, and technical resources, and thus capacity building at the local government level is vital if improvements are to be made sustainable.

The rapidly increasing demand for infrastructure and services requires innovative thinking about the potential sources of finance available to local governments. A joint approach by central and local levels of government to facilitate local government access to bond markets and institutional investment is needed. At the same time, local governments need to improve their financial management in terms of revenue-raising and budgeting.

IV. OBJECTIVES AND POLICY PRIORITIES

A. Urban Development Objectives

78. The starting point for formulating urban development objectives is the Bank's Medium Term Strategic Framework, 1995-1998. The five strategic objectives against which Bank project activities are measured are (i) promoting economic growth, (ii) reducing poverty, (iii) supporting human development, (iv) improving the status of women, and (v) protecting the environment. While the objectives are currently under review, they are not likely to change dramatically. At least 50 percent of projects and 40 percent of lending should be for projects with social or environmental benefits. Bank operations are targeted to emphasize policy support; capacity building; strengthening of productive capacity, infrastructure, and services; and improved regional cooperation.

79. Most urban development, water supply, and housing projects are classified by the Bank as human development projects. In addition, depending on their specific goals, urban projects frequently address one or more of the other four overall strategic objectives. The current priority for the Bank to respond to the economic crisis in several DMCs is highlighting the key role of urban projects in reducing urban poverty. The overall strategic objectives can be realized for the urban sector through the following operational objectives:

- (i) maximizing the economic efficiency of urban areas (economic growth) through
 - (a) increased contribution to GDP;
 - (b) easier market entry for small businesses;
 - (c) creation of employment;
 - (d) attraction of inward investment; and
 - (e) availability of suitable land, infrastructure, energy, and services to meet business demand;
- (ii) reducing urban poverty through
 - (a) reduced unemployment; and
 - (b) increased number of households with access to land, infrastructure, and services;
- (iii) improving quality of life (human development and the status of women) through
 - (a) reductions in environmental pollution levels;
 - (b) improved support mechanisms for the disadvantaged;
 - (c) enhanced role for gender development;
 - (d) reduced crime levels;
 - (e) reduction in serious illness;
 - (f) availability of suitable land, infrastructure, and services to meet residents' demand; and
 - (g) increased participation in decision making;

- (iv) achieving sustainable urban development (protecting the environment) through
 - (a) reduced use of nonreplaceable natural resources;
 - (b) increased use of energy pricing, taxation, and energy-saving forms of urban land use and construction;
 - (c) increased social equity in the distribution of social benefits;
 - (d) reductions in environmental pollution levels; and
 - (e) use of improved urban management systems, including good governance, decentralization, private sector involvement, funding mechanisms, and community participation.

80. To achieve these objectives, the Bank should promote the following policies for inclusion in national government urban sector policy and strategic frameworks: (i) promoting good urban governance, (ii) improving urban management; (iii) mobilizing financial resources; (iv) reducing urban poverty; and (v) addressing urban development subsectors (IUDPs; water supply, sanitation, and solid waste management; and transport and housing).

B. Policies for Promoting Urban Governance

1. Principles

81. Four principles for achieving good governance underlie all policies for strengthening urban management in DMCs.

- (i) **Accountability.** If city managers and staff are to be more accountable to central government policy makers and to residents, their work will need to be assessed using performance indicators and benchmark criteria. Accountability is also increasingly important in the delivery of services by the private sector.
- (ii) **Participation.** Greater participation is an essential prerequisite of good governance, represented by a growing web of interest groups that want more say in policy development and implementation. Participatory approaches are of particular relevance to reduce urban poverty and enhance the role of the informal sector. Community participation will also be enhanced where the principles of demand management are used to improve service delivery.
- (iii) **Predictability.** With many cities growing faster than the institutional capacity to manage their growth, administrative and legal procedures are often applied unevenly and to the disadvantage of the poor. An overhaul is required, so that, for instance, housing and land regulations and standards are affordable to poor families. Innovative land tenure policies could allow squatter families and informal businesses to enter the formal housing and land markets. Streamlined procedures for land registration and the validity of titles give confidence to households and businesses. In addition, potential private investors in the delivery of city services need confidence that the legal system is adequate in terms of contract law, dispute procedures, and clear allocation of responsibilities.
- (iv) **Transparency.** In dealings between the private sector and local governments, transparency is too often lacking. As an example, data on land markets is often not freely available, resulting in increased costs to the potential developer and often the payment of illegal demands for money. This problem should ease as, for example, computer-based land information systems facilitate the storage and dissemination of data and as the benefits of freely available data are realized. To

promote transparency and accountability, specific anticorruption measures should be put in place and enforced.

2. Decentralization

82. Decentralization is a commitment to sustainable development through empowering citizens and their locally elected officials, accompanied by a reduction in the monopolization of resources and powers by central authorities. From the perspective of intervention, external resources should be used not so much to produce direct results as to strengthen local capacities to initiate and manage activities that produce benefits for the local community. This implies a demand-driven process, where communities define what they feel they need in terms of development, and where participatory processes for such input are institutionalized. Decentralization should not be viewed as a goal in itself, but as an instrument for achieving more effective service delivery systems, opening institutions to wider civic participation, and increasing public trust in government.

83. There are compelling reasons for DMCs to pursue decentralization policies, which, properly conceived, will greatly improve the management of urban areas and support the better delivery of urban services. The Local Government Code (1991) in the Philippines, the Decentralization Act (1998) in Nepal, and the 74th Constitutional Amendment in India for example, are landmark pieces of legislation by which local governments have been given greater authority, responsibility, and resources to implement urban development projects. A prudent decentralization program should include

- (i) the simultaneous decentralization of responsibilities, resources, and autonomy;
- (ii) strengthening of local government capabilities, powers, and responsibilities;
- (iii) the collection and diffusion of information on local government services;
- (iv) the retention by central government of certain functions for reasons of efficiency, such as income redistribution and macroeconomic policy; and
- (v) review of city government remuneration, incentives, and career structures.

84. Three critical types of coordination are needed to support the decentralization process. Policies are needed to address the following:

- (i) **Vertical coordination** will remain important to urban management as central government will continue to be responsible for the legal framework of the public sector and for various critical functions. Responsibility for services should be assigned to the level of government whose boundaries best incorporate the beneficiaries of those services.
- (ii) **Horizontal coordination** will be needed among public sector stakeholders involved in city development as well as public-private sector coordination. Cross-border coordination will be needed where large contiguous urban areas are composed of numerous local governments (such as the Metro Manila National Capital Region, the Calcutta metropolitan area, and Indonesia's JABOTABEK, the Jakarta metropolitan area).
- (iii) **Internal coordination** mechanisms are critical to overcome poor coordination of interdepartmental, sectoral, spatial, and financial planning; poor coordination of service provision; inadequate staffing; and unfamiliarity in dealing with private service delivery companies. In addition, cities face many cross-sectoral issues such as poverty reduction and environmental protection that require new arrangements for coordinated action.

3. Community Participation

85. Development programs funded through external assistance have often been criticized for having been designed in a top-down fashion, dictating the kinds of activities that should be undertaken. Such programs were typically not designed in consultation with stakeholders who would be affected by the project, or worse, by those required to implement, operate, and maintain them. The following principles support community participation:

- (i) **Support and utilize participatory processes.** Learning from past experience, current development theory encourages stakeholder participation in community and urban development. For this to work, people must be aware of the issues, and have the authority to make decisions, act on them, and mobilize the required resources.
- (ii) **Develop effective systems for communication, replication, and feedback.** Participatory decision-making processes, by design, require decentralized local governments that can be effectively responsive. Inherent within these processes are systems for communication, replication, and feedback.

4. Private Sector Involvement

86. The introduction of market-based principles and private sector expertise into the urban sector can bring a variety of benefits, particularly in larger cities.

- (i) **Market-based approaches.** The adoption of market-based approaches may allow existing agencies to deliver better and self-financing services. In other cases, the private sector may bid to operate a service, either on a contractual or an ownership basis. For example, the corporatization of public sector water enterprises to allow more autonomy and better human resources than local governments, can lead to improved services, increased operational efficiency, reduced tariffs, and access to private financial resources. Similar approaches can and are being applied in public transport, markets, and solid waste management in many DMC cities. However, the possible problems associated with replacing public monopolies with private monopolies in the delivery of services should be considered, especially in Pacific DMCs whose market size is extremely limited.
- (ii) **Training and familiarization for local officials.** Whichever form of private sector involvement in service delivery is decided upon, government officials will need to be trained in their new responsibilities as a party to the contract. The contract will bind the private operator to provide services in which payment is by results, while the government retains overall regulatory authority. A national statutory framework is needed as a starting point for contract negotiations and must cover factors such as minimum quality standards and environmental parameters.
- (iii) **Regulatory framework.** At the local level, regulations will need to address the quality, price, and required reliability of the service; the investment program; maintenance of assets; and rights of access in the public domain. Risk assessment is another skill where public agencies will need to gain understanding so that they can create an environment conducive to attracting the private sector. Furthermore, in forging agreements with private sector providers, the rights of the urban poor to enjoy equitable access to basic urban services must to be protected.

C. Policies for Mobilizing Financial Resources

87. A variety of policies are available to support the mobilization of financial resources, and to finance and maintain urban infrastructure and services, including the following:

- (i) **Promotion of fiscal autonomy.** The catalyst for improving financial management at the city level is the drive toward financial autonomy that encourages responsibility, efficiency, and increased sustainability in funding urban services. In this connection, DMCs' central governments should allow local governments to retain locally collected revenue and to seek funding from a wide range of sources, including the private sector. Increased fiscal autonomy should be accompanied by regulatory mechanisms appropriate to protect the interests of producer and consumer.
- (ii) **Computerization and automation.** Increased autonomy should also encourage computer-based accounting, cost control, billing and collection procedures; contracting out of services such as infrastructure maintenance; and development of management information systems and strategic financial planning.
- (iii) **Market-based and economic pricing of services.** Pricing policy will become more urgent given the pressures on government resources and the increased role of the private sector. While full cost recovery is the long-term objective, in the short term efficiency, cost reduction, and revenue collection should be improved. Action needs to center on the establishment of sound pricing policies, i.e., marginal costs must reflect the costs of additional capacity together with those of O&M and the externalities associated with environmental damage. However, despite the drawbacks, some element of cross-subsidy will frequently be justified as a last resort to maintain access to services for the urban poor. More rigorous targeting of subsidies to families rather than property will need to be encouraged.
- (iv) **Direct cost recovery.** At the same time, service quality will need to be kept commensurate with prices to avoid the build-up of consumer resistance. For that reason, direct cost recovery through user charges will usually be more effective than indirect cost recovery through property taxes and similar levies. However, indirect taxes will remain important elements in the local government revenue base. Property taxes in particular can be better structured to capture the economic benefits of land, as being shown by Bank-assisted projects in Dhaka.¹⁴
- (v) **User charges and service fees.** The adoption of market-based principles for pricing urban infrastructure and services will also help DMCs estimate the incremental demand for resources more accurately. Differential pricing of road usage, for instance, coupled with efficient public transport, as in Singapore, will help keep the demand for new road space at levels that are economically sustainable. Fees should also take account of maintenance costs; for example, by adding a surcharge to water bills to help fund the cleaning and repair of drainage systems. Such charges also act to develop pressure within user groups to compel local governments to maintain assets at high standards.
- (vi) **Land-related financial instruments.** DMCs also need to examine different methods of capturing some of the unearned gains in land values, which result

¹⁴ TA 2307-BAN: *Modernization of Land Administration*, for \$600,000, approved on 7 March 1995; and TA 3054-BAN: *Land Administration Reform*, for \$880,000, approved on 14 August 1998.

from new or upgraded road construction and other assets built at public cost; for example, through betterment charges, land readjustment techniques, and contributions in cash or kind by developers.

- (vii) **New sources of funds.** New funding sources including private capital are needed for DMCs to meet the costs of infrastructure investments. However, many city economies will take time to expand to a level where they can afford to employ private capital. In the meantime, they will need to continue to rely on transfers from central governments to supplement locally raised revenues. In turn, decisions will be needed on which taxes and charges should be controlled by local governments. Other methods that can be used to supplement local revenues include municipal development funds and other financial intermediaries, community mortgage programs, loans for housing finance through local CBOs, and the funding of new infrastructure through associated property development, as in Hong Kong, China and the Philippines.
- (viii) **Capital markets and credit finance.** Cities need assistance to achieve long-term access to capital markets and/or direct private investment in infrastructure. Issues include removing constraints such as the lack of credit ratings for local governments, addressing the lack of long-term debt instruments such as municipal bonds, and assisting central governments to cope with the required expansion of credit and understand the lending options for urban infrastructure projects. The many examples of private concession contracts in relation to regulatory entities need to be available to people involved in city finance.

D. Policies for Improving Urban Management

1. Institutional Strengthening and Capacity Building

88. Examples of the Bank's increasing support for capacity building are the recently approved loans for the urban sector in India, Indonesia, and Sri Lanka,¹⁵ and for TAs for governance in Dhaka and Bangalore, India.¹⁶ Across the Region, some of the priority areas to be addressed include training in management skills, especially in response to the increasing use of demand-led provision of services; development of expertise in performance monitoring; financing of investments; evaluation of development proposals; coordination of spatial planning and sector investments; and an increasing use of community resources. Key elements are as follows:

- (i) **Define clear roles and functions.** A fundamental component of improving urban management is the appropriate institutional structure for planning, financing, and delivering services and other functions of government. Responsibilities for delivery of a service should be assigned clearly to one level of government, the corporate private sector, or the community. An underlying problem is that policies for the urban sector are made in many parts of governments with poor cross-sectoral coordination of policy making. In addition, the growing importance of the

¹⁵ Loans 1549/1550/1551-IND: *Housing Finance Project*, for \$300 million, approved on 25 September 1997; Loan 1572-INO: *Capacity Building in Urban Infrastructure Management*, for \$42 million, approved on 4 November 1997; and Loan 1575-SRI: *Third Water Supply and Sanitation (Sector) Project*, for \$75 million, approved on 6 November 1997.

¹⁶ TA 3053-BAN: *Promoting Good Governance in Dhaka*, for \$150,000, approved on 3 August 1998; and TA 2471 IND: *Resource Mobilization Study for Local Governments in Karnataka*, for \$300,000, approved on 14 December 1995.

private sector is placing new demands on the public sector, which is already short of skilled staff. It is important for city government to thoroughly review responsibilities for service delivery before inviting the private sector to participate.

- (ii) **Promote government as an enabler, not provider.** The public sector needs to adopt an enabling role in support of the private sector. In an enabling role, the government sets policies and makes choices in sector priorities; monitors private sector operations in service delivery; supports the economic health of the city; and protects the community against threats to urban quality of life, including pollution, congestion, overcrowding, and damage to scarce resources. An important component of the new relationship is to encourage public-private partnerships in land and property development, and service delivery. In many urban areas capacity building is crucial to enable governments to fulfill their existing mandate, let alone take on the new skills required.
- (iii) **Support for skills training and other capacity-building initiatives.** The lack of skilled human resources is a major constraint to developing the necessary structures for urban management, particularly at the local government level. The relatively low status and pay, and lack of incentives offered by most local governments is a principal cause. In some cases, as in India and Indonesia, the status of the local civil service could be elevated to be on par with the national civil service. In addition, public and private corporations can be created that often attract better-qualified staff than government.
- (iv) **Promote regional cooperation.** The problems of managing urban growth and improving the competitiveness and livability of urban areas are common to many countries. Bringing DMCs together at various levels of interaction, including the local government level, is a powerful way to share best practices, cross-fertilize innovation, and promote new ways of problem solving. Networking and cooperation also allows one city to learn from and prepare for problems currently being encountered in another city, and for lessons learned to be shared and successes repeated.

89. Building appropriate institutional structures for urban management is an incremental process. It is better to have imperfect institutions that can adapt quickly to outside forces than to have rigid systems that cannot. Moreover, even in small- and medium-sized towns with few resources, a small group of well-trained multidisciplinary staff willing to think innovatively and with strong community and political backing can have a significant impact on achieving city development objectives.

2. Urban Land Management

90. Policies to achieve adequate land for residential, industrial, and other uses to improve the economic efficiency of urban areas and to improve the quality of life for residents are as follows:

- (i) **Improve the efficiency and transparency of land markets.** The tools that can be used to improve the efficiency and transparency of land markets include improved mechanisms for land transfer (cadastral mapping, land titling, and registration); land information systems for the benefit of private and public interests; deregulation of unnecessary land-use controls; incremental forms of tenure designed to help residents in informal/squatter areas become part of the formal city; and institutional and legal reforms so that land can be used as collateral. Such policy and technical reforms can also contribute to improved property-based tax revenues.

- (ii) **Rationalize the institutional framework for land administration.** The framework for land administration needs to be rationalized in the context of decentralizing responsibilities for urban management. An example would be merging land development public corporations that operate at the national level with local governments.
- (iii) **Accelerate the delivery of serviced land.**¹⁷ The Bank will support capacity-building actions to accelerate the delivery of land serviced with adequate access to roads, water, drainage, and electricity. For example, in cities in South Asia DMCs with remaining public land, the objective may be to treat land as an asset in an investment portfolio, i.e., to secure funding and provide security for private sector partners. In DMCs where land is predominantly privately owned, land pooling mechanisms can be tested and applied as part of public-private partnerships, using techniques such as joint ventures for commercial property development, land readjustment, and guided land development.
- (iv) **Improve spatial planning and urban planning systems.** Improved systems for urban planning and regulation should continue to give strategic guidance on urban expansion and renewal policies, and to address the externalities arising from land development such as pollution. However, systems should consider the use of innovative approaches to planning and building standards, incremental in nature, that also increase affordability. Other approaches may include the use of flexible zoning, techniques whereby the private sector provides social/offsite infrastructure in exchange for fast-track planning/building approvals, permissive systems of development control, and innovative techniques such as land-use controls tied to environmental impact.
- (v) **Establish procedures for public participation.** More effective procedures are needed for public participation in decision-making on the use of land and location of infrastructure investments. Planning processes should incorporate specific components and resources for discussions with a wide range of stakeholders, CBOs, NGOs, business groups, environmental and other pressure groups, academia, etc., as well as other public sector agencies. There should be procedures for an iterative process of plan development and project implementation, using focus groups for example. Mechanisms should be developed and put in place to ensure public participation in the urban land management processes.

3. Urban Environmental Management

91. Policies for environmental management are designed to manage air, water, land, and soil resources to (i) maintain their qualities and quantities at levels that are not harmful to public health, (ii) support balanced ecosystems, (iii) contribute to the visual aspects of urban development, and (iv) provide sustainable urban areas. Priority strategies include the following:

- (i) **Stimulate demand for investments and policy reform.** The demand for urban environmental improvement can be pursued through (a) institutional strengthening, including the issues of low willingness to pay, weak institutional and technical capability, lack of supporting policy and legal frameworks, and the need to create a conducive setting for private sector financing; (b) pilot projects

¹⁷ Provided with basic infrastructure.

to demonstrate the benefits of urban environmental improvement; (c) strengthening of municipal financial capacity for environmental improvements; (d) increased resource utilization as a project objective; for example, the incorporation of a sewage treatment project within the overall water quality management framework; (e) campaigns to heighten public awareness of environmental issues; and (f) promotion of regional cooperation.

- (ii) **Address industrial waste management.** Items covered should include hazardous and toxic wastes, medical waste, and other nondomestic waste from industrial processes. Emphasis should be placed on the development of economic instruments to minimize waste creation and enforce due care by waste generators. Where treatment systems are necessary, development of centralized systems should be encouraged.
- (iii) **Manage domestic waste.** Particular attention should be paid to the collection, treatment, and disposal of domestic (solid and liquid) wastes in order to mitigate the health risk and environmental nuisance. Minimizing the creation of solid waste should be encouraged through a combination of economic instruments and public awareness.
- (iv) **Control air pollution.** Large cities should focus particularly on air quality monitoring systems; vehicle maintenance; traffic management; and the introduction of unleaded gasoline, natural gas, and other benign fuel technologies for domestic and vehicle use. In addition, TA and institutional strengthening will be required to assist in developing appropriate legal instruments and incentive frameworks, and in legal enforcement.
- (v) **Strengthen urban environmental management systems.** Strengthening urban environmental management systems in DMCs will involve (a) promoting close coordination and cooperation between national environmental management agencies and municipal governments, (b) strengthening environmental impact assessment of urban development projects, (c) strengthening the process of environmental audit, and (d) strengthening capacity for integrating environmental dimensions into spatial planning and development projects in environmentally sensitive areas.
- (vi) **Provide for disaster mitigation.** Government, local communities, and the private sector must take a proactive role in natural disaster mitigation, including preparedness programs to help people reduce personal and economic loss caused by earthquakes, floods, and severe weather disturbances. Reducing earthquake hazards, for instance, can include better forecasting; improved model building codes and land-use practices, development and improvement of seismic design and construction techniques, accelerated application of research results, and reduced risk through the use of post-earthquake investigations and education.

E. Policies for Reducing Urban Poverty

92. While the growth process in most DMCs may not have been as equitable as desired, it has led to significant improvements in the living conditions of the urban poor. However, the benefits of “trickle down” economic growth can not be relied upon to eradicate severe and absolute poverty in the next several decades. Instead, explicit objectives must be identified and consciously incorporated in development strategies to reduce the level of urban poverty. The key strategies are as follows:

- (i) **Implement integrated poverty reduction programs.** Physical, economic, and social components should be combined to have the greatest impact on reducing poverty, with a focus on improving quality of life. Attention should be placed on improved access to basic social services, and on related issues such as addressing the needs of vulnerable groups such as women and street children. Infrastructure and service projects and pricing mechanisms should incorporate policies to ensure equitable access to urban services at affordable prices for the urban poor.
- (ii) **Improve access to microcredit.** Broadening the opportunities for the urban poor to gain access to microcredit will ensure that the potential business acumen for the poor is fully realized, generating beneficial impacts in terms of economic growth and poverty alleviation.
- (iii) **Strengthen gender equity.** Empower women through facilitating their equal access to education, health, job opportunities, land, and credit.
- (iv) **Develop partnerships of local and provincial governments, central government, and communities.** The energies and commitment of the poor will be harnessed only if communities recognize a general commitment to community-based participatory programs with real resources and shared decision-making. Awareness building is needed to help engender between all parties, the strong element of trust that is necessary.
- (v) **Develop a policy framework.** The direct approach uses the availability of land, employment generation, human resource development, and population growth control, and relies on programs aimed directly at increasing the incomes of targeted families. The indirect approach requires the incorporation of explicit policies into growth strategies designed to reduce poverty. The indirect approach has an obvious appeal to many economically hard-hit DMCs at present, but will be severely constrained by budget considerations.

F. Policies for Urban Subsectors

1. Integrated Urban Development Projects

93. Given the necessity to retain a holistic approach to addressing urban development issues, IUDPs will continue as a mainstay of the Bank's urban assistance. However, such projects should be based more firmly on institutional reform and have a clearer client focus. IUDPs will benefit from the following modifications:

- (i) **Incorporate institutional strengthening and policy dialogue.** IUDPs should be developed following or in parallel with a sustained process of institutional development and policy dialogue in the participating agencies and local government units. Where commitment or capacity is weak, related physical components will be reduced in size or eliminated unless commitment and capacity is enhanced through dialogue and capacity building. Where poor capacity or inadequate awareness is preventing the expression of demand in circumstances of clearly demonstrable need, capacity should be strengthened and awareness heightened so that demand will be adequately expressed.
- (ii) **Select cities in response to demand.** Candidate cities and towns will be selected only if the potential beneficiary local government demonstrates commitment, and has urban management capacity. Participation criteria should include (a) a staff structure and complement adequate to undertake current

obligations and project activities; (b) preparation of annual accounts to prescribed standards; (c) demonstrable financial soundness (e.g., an accumulated surplus, no recent deficit, and positive net working capital); and (d) manageable accounts receivable. Furthermore, continued improvement in management and financial performance should be a condition of remaining in the program.

- (iii) **Tailor the scope of projects.** The scope of projects, though not necessarily the number of components, will increase to reflect the new demands of effective urban management, including reforms to the land and housing market, capacity-building in public-private contract procedures, new roles for the public sector, the use of microcredit and skills upgrading for the poor, and the application of management information technologies. Projects will include only subsectors that will clearly benefit from synergies between components under the IUDP approach.
- (iv) **Develop long-term relationships.** To the extent possible, the Bank should seek to develop long-term relationships with participating agencies and local government units to achieve effective improvements in their institutional development, including management reforms.

94. In summary, the changes in the approach to IUDPs should be evolutionary rather than radical, building on the extensive experience of their use in DMCs, with the aim of generating as large a catalytic effect on the urban sector as possible. Long-term relationships with particular towns and cities also lend themselves to pilot tests of sustainable development policies, information exchange, cofinancing opportunities, and demand-driven approaches to service delivery.

2. Water Supply, Sanitation, and Solid Waste Management

95. Based on the overall objective of providing equitable, cost-effective, and sustainable investments in urban water supply, sanitation, and solid waste, subsector policies should include the following:

- (i) **Increase institutional autonomy.** Autonomy in water supply, sanitation, and solid waste management agencies, should be increased through decentralization, devolution, and community participation and responsibility. Public awareness of issues such as hygiene education, water conservation, and waste minimization needs to be strongly developed. Where appropriate, private sector participation under the direction of a regulatory agency should be encouraged to help support the autonomy objective through management contracts, leasing, or concession arrangements. If there are severe financial constraints on water resource development, concession contracts may be most appropriate.
- (ii) **Improve financial resource management.** Improved financial resource management can be achieved by (a) ensuring the utility has well qualified and trained staff appropriate to the volume of funds being handled; (b) seeking independence from government subsidies, (e.g., following Bank policy to restrict subsidies to piped metered water supplied in bulk to informal settlements, even where residents do not have official tenure to the land); (c) giving priority to a sound cash flow that allows revenues from tariffs to meet O&M costs, debt servicing, and a contribution to capital investment; (d) reducing accounts receivable to the lowest practical amount; and (e) ensuring the utility produces an audited annual report. Ideally, the financial management of the utility will be guided by a government statement on tariffs.

- (iii) **Use performance indicators.** Improved management of water resources or solid waste can be achieved if the utility uses performance indicators to measure unaccounted-for water, collection efficiency, etc. This enables the utility to compare its performance over time, monitor the performance of contractors, and compare its performance with that of other utilities. For water utilities, leak repair, accurate measurement of consumption, identification of illegal connections, and up-to-date mapping all contribute to reductions in unaccounted-for water. The Bank strongly encourages water demand management through high tariffs to discourage excessive consumption and supports the development of public awareness programs to help public understanding of the need for tariff increases, water conservation, waste minimization, etc.

3. Urban Transport

96. Policies in the transport subsector should support the spatial and economic growth of urban areas, as well as contribute to urban sustainability in general. Policy priorities include the following:

- (i) **Maximize the benefits of transport infrastructure.** Benefits of current infrastructure can be maximized by (a) ensuring that roads and drainage are maintained; (b) providing for pedestrian access and safety; (c) managing traffic efficiently; (d) enforcing driver training, licensing, and compliance; (e) giving priority to public transport; (f) using traffic restraint measures such as road pricing and parking controls; and (g) reducing air and noise pollution.

Benefits of new infrastructure can be maximized by (a) developing an effective road hierarchy, giving access to underused land, and creating safe environmental areas; and (b) using road investment (and in some cities using mass transit systems) as part of coordinated land-use/transport planning to guide city expansion into preferred areas, rather than relying on ineffective physical planning controls.
- (ii) **Establish clear roles for the public and private sectors.** The public sector should be responsible for (a) developing overall city transport goals; and (b) taking policy decisions on public funding, tariffs, and environmental acceptability, as a framework for private sector operation of transport services and the implementation of transport projects. Once such restructuring is under way, the private sector is more likely to become substantially involved.
- (iii) **Generate competitive markets.** Transport sustainability requires generating competitive markets, including competition between modes. Public regulation will be needed to ensure that strategic goals are met, e.g., avoiding wasteful duplication of infrastructure, maintaining safety standards, and monitoring the performance of privatized or contractual operations of public transport services. A priority is to develop market-based skills and procedures among state-owned transport enterprises, in some cases aiming for full corporatization with a mandate to set tariffs, borrow, and determine expenditures. Prices should, as far as possible, reflect the externalities of (a) the sector in the form of user charges (with social objectives provided for separately through explicit subsidies to transport operators); and (b) the impacts of traffic congestion, pollution, and road damage. In the absence of more direct charging mechanisms, fuel taxation may be used.
- (iv) **Develop public transport alternatives.** Measures to restrain private transport will not be effective without a high quality public transport alternative. Mass rail

transit (MRT) is a vital long-term tool in structuring cities—especially megacities in the Region. However, experience in Bangkok, Metro Manila, and elsewhere shows that MRTs will only be effective as part of an integrated transport strategy that may take many years to complete. MRTs may not be viable without associated property development, as many of the benefits accrue to people who do not use the service and thus cannot be reflected in income. As such, MRTs are very suitable for cofinancing. An interim solution, where cities have not yet developed integrated transport policies and/or cannot afford the high costs of MRTs, is the use of high capacity dedicated bus lanes.

4. Urban Housing

97. Bank operations will aim to improve the efficiency of selected housing and housing finance subsectors so they can better serve the urban housing needs of the DMCs, particularly their low-income residents. Policy priorities include the following:

- (i) **Implement legal and regulatory reforms.** Legal and regulatory reforms allow for better operation of housing markets, for example by introducing simplified forms of tenure, procedures for using collateral and noncollateral to access credit, more flexible regulations for mixed land uses, and use of traditional building materials.
- (ii) **Minimize use of subsidies.** Cost recovery should be maximized and subsidies minimized in the financing of low-income housing and slum upgrading. Where subsidies are necessary, they should be transparent, up-front capital write-downs of the shelter package.
- (iii) **Increase private sector participation.** As part of the transition to an enabling role for governments in DMCs, the private sector, NGOs, community groups, and low-income householders should play an increasing role in the provision and maintenance of their own housing.
- (iv) **Leverage financial resources.** Financial interventions can be substantially leveraged by assisting formal housing institutions to establish lending windows and programs for community-based finance institutions. However, to successfully lend to low-income markets, the Bank must be prepared to program substantial amounts of TA to build the borrowing and operational capacity of these institutions.
- (v) **Restructure and refocus existing public institutions.** Public housing institutions are in great need of restructuring and refocusing and should expand their links with NGOs and CBOs active in providing low-income shelter.
- (vi) **Support innovative low-income housing schemes.** Innovative low-income shelter schemes could have tremendous impact. They should be offered initially through pilot projects, using combinations of community groups, municipalities, and/or the private sector. Closely associated with such schemes are programs that, in addition to lending for housing, support income generation.
- (vii) **Assist primary housing lenders.** Using such models as India's Housing Development Finance Corporation (private), assistance through loans and equity participation could leverage significant funds to help primary housing lenders mobilize long term-capital for mortgage lending.
- (viii) **Support secondary mortgage markets.** In many countries a number of primary lenders have been established and a secondary mortgage market would be

helpful in recycling primary mortgage funds. Assistance could involve advice and expertise on establishing secondary mortgage markets and taking equity participation to assist the formation of such markets. The Bank is assisting India to develop such markets and insurance procedures.¹⁸

V. THE BANK'S URBAN SECTOR STRATEGY

A. Common Themes

98. Section IV illustrates the wide range of potential policy objectives and components that must inform and guide the Bank's urban sector strategy. Several common themes that are based on these policy objectives must be incorporated into the overall sector strategy.

1. Country-Specific Emphasis

99. To emphasize institutional strengthening, urban management, and capacity building as policy priorities, a stronger focus must be brought to bear on local governance, social, and cultural characteristics. Hence a strong country-specific emphasis is required in project preparation. For example, the policy priority of promoting greater community participation in decision making will very much depend on the opportunities available in a particular DMC, based on the country's form of administration and political climate.

2. Monitoring and Evaluation

100. The policy priorities in institutional development and capacity building highlight the need to identify adequate performance indicators for such "soft" project components. The Bank is addressing the problem at a general level as part of the drive for improved project performance using the project performance reports and the Project Performance Management System. However, more work needs to be undertaken on urban-specific indicators, building on the work undertaken by UNCHS and others on the subject. For all projects, resources will need to be allocated for the preparation of benchmark data and performance indicators as part of the monitoring and evaluation requirements, based on other Bank projects and research into best practice elsewhere. A minimum acceptable list of indicators of project success, and responsibilities within the local government or other executing agency for implementing the monitoring and evaluation system, need to be agreed before a project commences.

3. Information Dissemination

101. To support the implementation of policy priorities, the Bank needs a database of information on holistic approaches to urban development; urban management; and other themes, including research, best practice, and information dissemination. There is a major shortage of basic information on the operations of the urban sector in the Region, for example on the relationship of the formal and informal economies in cities and barriers to entering the informal economy. The Bank should build on its bng experience of facilitating regional and subregional cooperation among DMCs and with outside research and information networks in the Region, such as the Urban Management Program and Citynet, to address these data gaps. Information dissemination activities should include public participation, a key enabling approach.

¹⁸ TA 2833-IND: *Strengthening Housing Finance Institutions*, for \$600,000, approved on 24 July 1997.

4. Target Countries and Subsectors

102. The identification of country and subsector priorities for future Bank assistance in the urban sector is complex. Bank interventions could diversify into new areas of lending, new countries, and new modalities of assistance. Three examples illustrate the possible approaches:

- (i) **A geographic approach.** The emphasis of urban sector assistance could be guided by the level of urban development and consequent country or regional priorities. Thus, the emphasis in South Asia might be on traditional health risk reduction through IUDPs, with components including water supply, sanitation, urban upgrading, informal housing finance, land management, and direct poverty reduction programs. In contrast, middle-income countries in East and Southeast Asia may have other priorities, such as the impact of high land values on shelter affordability, congestion, water resource management, industrial waste disposal, sewerage investments, and flood mitigation as urban areas expand into flood plains and low-lying areas. This approach would also recognize other common elements such as geophysical characteristics (e.g., approaches relating specifically to islands and small landlocked countries).
- (ii) **Support emerging market-driven economies.** The Bank could target DMCs in East, Central, and South Asia in transformation to market-driven economies as candidates for long-term partnerships. In effect, the Bank would begin a new era of urban assistance, much as it has supported Indonesia and to a lesser extent other countries in their economic and social development over the past two decades. The Bank would continue to exert its comparative advantage of support to public sector projects, but would meet new demands for assistance in developing market-led approaches such as demand-driven service delivery and corporatization or privatization of government agencies.
- (iii) **A thematic approach.** The Bank could develop programs to meet, for example, the particular needs of megacities in the Region. Targeting would be based on the fact that the problems of megacities in countries at different levels of development are converging under the influence of globalization. A program component could assist large-scale infrastructure needs in selected megacities using joint financing under the Bank's private sector window. Another possible thematic approach would be direct and indirect programs to reduce urban poverty.

103. Clearly such approaches will be constrained by resource availability, compatibility with the Bank's overall strategy, cooperation with other external support agency programs, and other considerations. A market assessment is essential to position the Bank in its most effective roles for the next decade.

5. Choice of Project Location

104. The policy priorities in Chapter IV imply a gradual, rather than radical, change in urban project components over the next decade. However, a key issue in development of a sector strategy is the choice of project location. At the regional level, the impacts of decentralization, globalization, improvements in communications, and the growth of market-driven approaches to the delivery of services will combine to affect the locational advantages of towns and cities. Earlier attempts at spatial distribution policies, growth center strategies, and other regional development programs have had little success in influencing market forces. Competition between urban areas will increase, megacities will continue to expand, fast-growing secondary cities will continue to emerge, and much poorer urban areas in the rural hinterland will grow more slowly. The strategy implications are profound: for example, the PRC is concerned about

widening differentials between the rapidly growing coastal belt cities and urban areas in the rest of the country, and Thailand about the disproportionate growth of Bangkok at the expense of the rest of country.

105. These trends imply that the Bank and DMCs will need to carefully select urban areas for assistance. Depending on the emphasis of the country operational strategy (COS), it may be efficient to develop a dual approach, addressing the needs of faster-growing (often larger) and slower-growing (often smaller) urban areas. At the same time, the need for sustained assistance in urban management implies that the Bank should establish long-term (at least 10-year) partnerships with selected DMCs to provide assistance at local and central government levels. As part of the COS, integrated projects should be based on the level of interest and commitment shown by city administrators in long-term partnerships with the Bank, and the steps they are willing to take to improve their urban management arrangements. Incentives may be very important. Where potential partner cities or towns have the authority to set their own pay levels, financial incentives for performance can be used to attract good staff. Where the cities do not have such authority, new or modified staff positions or civil service grades could be created to achieve the same ends.

6. Choice of Project Components

106. Component choice is an equally important element of the strategy and should result from a process that places beneficiary urban governments and communities at the center of the component selection process. The Bank must then decide whether to widen, narrow, or maintain the project scope, taking into account an assessment of city problems and priorities, institutional capacity of local government units and other relevant agencies, and consideration of the likely impact of the project. Persistent problems in the urban sector are the frequently poor quality of project preparation by some DMCs a result of resource constraints, the complexity of urban intersectoral relationships and impacts, and the weakness of many local institutions. Even without a sound feasibility study for a particular component, it may be included in the project if the city is willing to work with the Bank in the longer term, allowing time to include project preparation as part of the agreed TA.

7. Leverage

107. In a global environment of limited official development assistance, the Bank must carefully prioritize its urban sector lending and TA and leverage its resources wherever possible. The Bank can leverage additional flows of investments to DMCs by mobilizing increased cofinancing of projects and by promoting the development of capital markets in DMCs. Within the urban sector this is of particular relevance to the needs of megacities, where the scale of investments required is likely to be beyond the Bank's resources. Such cofinancing will be obtained through forward planning and consultation with private stakeholders and other external support agencies. Project investments can also be used to leverage necessary policy changes and capacity building measures.

B. The Recommended Urban Sector Strategy

108. In the course of formulating the recommended strategy, a menu of alternative approaches was considered, including (i) a gradual change strategy, implying continued project-type lending with increased emphasis on institutional development; (ii) a broadened project lending strategy entailing an expansion in the scope of Bank assistance in neglected subsectors such as housing finance, urban land management, environmental protection, and urban transport; and (iii) a policy-based lending strategy that would address urban sector policy reform, development of sector institutions, public-private partnership issues, governance issues, sector financing, and project preparation. Also taken into account in formulating the strategy

were (i) the Bank's overall strategic objectives, (ii) the strategic goals and policy objectives specific to the urban sector, (iii) urban sector priority needs, and (iv) the Bank's comparative advantages and disadvantages with respect to other development agencies. The diverse and rapidly changing nature of urban sector issues requires that the strategy must be flexible. Consequently a combined strategy is recommended, comprising the following elements.

1. Developing Comprehensive Urban Sector Policy Frameworks

109. Well-prepared policy frameworks are essential to the creation of well-defined institutional arrangements and the balanced structure of incentives, and to support effective provision of services and resource management. Countries with reasonably well-defined and suitably framed policy frameworks, such as Malaysia and the Philippines, are better able to absorb investment in the urban sector, while those with less developed policy frameworks are less able to do so.

110. Within these frameworks, the most important aspects relate to (i) governance and links between the public sector, private sector, and the community; (ii) the role of local governments and decentralization; (iii) corporatization and privatization of revenue-earning services; (iv) land management; and (v) access of sector institutions to funding, improved tariffs, and cost recovery. Where clear policies exist for one part of the sector but not the rest, for example, for water supply but not for the role of local governments, lending should concentrate on the well-defined areas and TA on the less well-defined parts.

2. Formulating Improved Integrated Urban Development Projects

111. Improved IUDPs will remain the centerpiece of the Bank's urban lending to DMCs. The critical IUDPs must (i) be demand-driven, (ii) contribute to improved urban management, (iii) reflect local government and community priorities, and (iv) be operationally sustainable. They will need to be carefully designed to create real synergy between a smaller number of components. The projects should be supported by thoroughly developed and strengthened institutional linkages, backed by capacity building and policy support TA. Where there is an urgent need to address particular subsectors, subsector-specific projects should be prepared.

3. Providing Subsector Programs

112. Selectively, in accordance with DMC needs and priorities, the Bank should develop programs in priority new subsectors, including urban poverty reduction, urban environmental management, urban transport, land management, waste management, drainage, and housing finance. The Bank is preparing major lending and TA projects in urban poverty reduction in DMCs hard hit by the current economic crisis, starting with Thailand, Indonesia, and Philippines. In developing such subsector programs care must be taken to ensure that the programs are managed in a holistic manner to avoid negative impacts on related urban subsectors or the economic, cultural, or natural environment.

4. Providing Policy-Based Loans

113. DMCs need increased Bank support for sector policy making and capacity building, and to mobilize their own resources. An element of the strategy is to further develop policy-based lending, including the use of sector development program modality. The scope for policy reform cuts across most subsectors, with common themes being (i) decentralization, increased community participation, and improved governance; (ii) institutional and financial management strengthening; (iii) facilitating, managing, and monitoring private sector provision of services; (iv) interagency cooperation; and (v) project preparation and evaluation.

5. Supporting Private Sector Investments

114. The Bank has a major role in assisting DMCs and their urban governments by providing support for private sector investments through equity and long-term loans without or with partial government guarantee. Funding for water supply, sewerage, solid waste, mass transit, and other services will be attracted by the potential for economies of scale in the operation of the service, and by residents' and business users' greater ability-to-pay, particularly in larger urban agglomerations. The Bank could fund concession projects through its private sector window, and could assist governments in the tendering, selection, and monitoring processes. TA will be needed for in-house training and for investments related to the corporatization of government service departments and utilities.

6. Promoting Cooperation with NGOs and CBOs

115. The Bank should increase its networking and cooperation with NGOs and CBOs, many of which are at the forefront of urban poverty and low-income shelter programs at the local level. NGO and CBO participation should be considered during project design, to build sustainable, long-term relationships between these organizations, local governments, and the Bank. NGOs and CBOs may also serve as training conduits and as a platform for sharing exercises.

7. Catalyzing Information Dissemination

116. The Bank should use its comparative advantages of (i) involvement in the urban processes of nearly all DMCs, (ii) long experience in regional cooperation activities, and (iii) data bases to fulfill its role as a knowledge-based institution and premier information resource for the Region. The Bank should be an active member of the information networks in the Region. Exchange of information should include strengthening links with key external support agencies with interests in the urban sector in the Region. The Bank could have a key role in disseminating the findings of its ongoing regional TA program to DMCs and coordinating its urban research activities with other research centers in the Region to achieve the maximum benefits from its use of resources.

VI. IMPLICATIONS FOR BANK OPERATIONS

117. The continued rapid urbanization of the Region and the dominant role of urban areas in the economic health of DMCs indicate the need for further intervention and accelerated investments in institutional development, capacity building, and infrastructure and service provision. The Bank has a central role in supporting such investments and the urban strategy is designed to guide Bank actions in meeting these expanded demands. The strategy has a number of implications for Bank operations.

A. Lending and Technical Assistance

1. Sector Loans

118. The strategy emphasis on institutional and capacity building assistance in support of improved urban governance and management will require an increasing use of sector and program sector loans. The typical DMC urban sector comprises a large number of towns and cities of varying sizes and widely varying needs and resources. While the larger cities will offer opportunities for project-type lending, in some cases involving cofinancing, many smaller towns and cities can be reached only through sector or sector program-type loans. A proactive, flexible style of operations needs to be developed.

2. Long-Term Relationships with Clients

119. For the enhanced role of local governments and communities in project selection, institutional strengthening, and capability building to be effective, longer-term relationships between the Bank and client DMCs and their local governments will be required, and a longer-term and more flexible funding modality. This would provide the opportunity for continuing support for changing TA and project investment priorities as cities develop their management capacities; become more effective democratic institutions; and thus understand their weaknesses, opportunities, and priorities better.

3. Preproject Investigations and Commitment

120. City governments will need to demonstrate commitment to improving their urban management procedures in order to qualify for assistance. Where multicenter urban projects are proposed, criteria for participation can encourage urban centers to compete for entry. Cities and towns should improve revenue collections, management efficiency, etc. as a precondition of program participation. In parallel, and in addition to the normal fact-finding mission, the Bank should arrange for 1-2 months of preproject investigations of public and private stakeholders on priority subsector needs, institutional arrangements, and private sector/community capacity, as a contribution to subsequent project design. Where relevant, workshops or seminars should be held.

4. Institutional and Governance Issues

121. To place greater emphasis on institutional and governance issues, the Bank will require a deeper understanding of country-specific influences on project design, as part of the development of stronger national policy frameworks. The Bank should renew efforts to complete country urban sector profiles and strategies (with a 5-10 year horizon, updated as necessary), and use these to form the basis for recommending long-term partnerships between the Bank, the DMC, and cities.

5. Coordination between Programs and Projects

122. While most urban sector assistance will be developed and implemented by the water supply, urban development and housing divisions of regions east and west, other divisions (such as transport and communications) will develop projects with important urban linkages and impacts. Coordination can be reinforced by project department staff working closely with programs department, and other staff to ensure that urban initiatives in a DMC are coordinated with the relevant COS and country assistance plan.

6. Urban Sustainability

123. To help ensure that sustainability is achieved, performance indicators needed to measure project outputs and impacts will be identified as part of the project appraisal. This will be of particular importance in the preparation of stand-alone projects or project components dealing with institutional development, governance, and capacity building, where quantifiable indicators are more difficult to identify.

7. Involvement of Resident Missions

124. Resident missions should become more involved in sector institutional development issues, particularly those related to programming and implementation, in line with upgrading of their staff.

8. Expanded Regional Activities

125. To support the Bank's program for the urban sector, regional activities should be expanded. The Bank should prepare regional TA programs on priority issues such as urban management, rather than single projects. The Bank should join programs of assistance to DMCs in cooperation with regional institutions such as the Urban Management Program for Asia and the Pacific and the UN Center for Regional Development. This would leverage the Bank's human resources and accomplish capacity-building work at a lower cost than could be achieved by the Bank alone.

9. Flexible, Responsive Programs

126. The Bank's program for the urban sector in a particular DMC must be sufficiently flexible to enable projects to be accelerated, slowed, or even canceled depending upon the needs demonstrated and commitments shown by participating cities. Similarly, flexibility will be needed for emergency programs with an urban focus, such as the current social protection programs for Indonesia and Thailand.

B. Staff Resources

1. Increased Bank Human Resources for the Urban Sector

127. The proposed growth and widening of Bank activities in the urban sector will increase pressure on the limited staff resources in each division. The increased use of sector and sector program loan modalities may help to achieve greater productivity with existing staff, but an additional management will be required by more flexible lending operations. A major constraint to such operations will be the number of staff available to manage and administer it. Without increasing the Bank's total staff numbers, two options are (i) to increase the number of Bank staff devoted to the urban sector, to more accurately reflect the increasing importance of the sector in national development strategies; and (ii) increasing involvement of staff from related divisions (e.g., infrastructure, environment).

2. Improved Skills and Technical Expertise

128. The increased emphasis in the strategy on institutional, governance, and capacity building themes, as well as emphasis on "new" areas of assistance such as urban transport and environmental management, will require new staff skills, which can be achieved by retraining current staff and/or recruiting appropriate specialists. All relevant staff should have training in crosscutting concerns such as poverty alleviation, privatization, and corporatization. Consultants should be available, on a retainer basis or as staff consultants, to help meet skill shortfalls. In addition, experienced urban sector practitioners from DMCs (such as city administrators, chief officers, city engineers, treasurers, and other senior technical officers) can be used to review and confirm the practicability and sustainability of programs and projects.

3. Project Performance Management Skills

129. The goal of the Bank's project performance reports and proposed Project Performance Management System is to increase the focus on sustainability and development impact of projects, as well as improve physical performance. To facilitate this in the urban sector, project reporting will include monitoring and evaluating a range of policy and institutional issues. Project administration staff will need training in these skills.

C. Research Priorities

130. There is inadequate understanding of the increasingly complex operations of social, economic, environmental, and institutional systems making up urban areas in the Region. Moreover, earlier models of urbanization in the Organization for Economic Cooperation and Development member countries are not necessarily relevant to DMC experience. For example, megacities present new challenges in urban administrative responsibilities, employment creation, environmental management, and infrastructure provision. Not enough is known about the internal workings of local governments in the Region, for example their use of community involvement, incentives to staff, treatment of informal settlements, and financial management. Research priorities include the following:

- (i) urbanization: further research on the complex forces of urbanization, where urban growth is occurring, and the impact and effectiveness of strategies to guide urban growth;
- (ii) poverty reduction: the impact of direct and indirect policies for reducing urban poverty and increased social equity;
- (iii) decentralization: evaluation of the process and impact of decentralization policies on urban development, quality of life, and the level of public participation;
- (iv) urban governance: mechanisms to ensure greater transparency, accountability, predictability, and civic participation in local government decision making;
- (v) community participation: best practice mechanisms for increased community participation and the relationship to improved sustainability;
- (vi) private sector involvement: issues and trends related to increasing the role of the private sector in the provision of urban services;
- (vii) informal settlements and the informal economy: approaches and policies for dealing with informal urban settlements; the dimensions and role of the informal economy on urban economic productivity;
- (viii) urban environmental management: policies and techniques for improved environmental management, including controls, incentives, market-based instruments, and the relationship to sustainability goals;
- (ix) local government capacity building: approaches to and overall impact of capacity building initiatives; the relationship between interventions, resulting strengthened capacity, and improved urban management processes; and
- (x) local government finance: analysis of local government financing systems and use of market-based approaches.

131. Priorities and resources for urban research should be developed in collaboration with relevant programs in other divisions of the Bank such as the Economics and Development Resource Center, and the Strategic Planning Office, and with the Asian Development Bank Institute. In addition, the Bank will need to expand the exchange of information on urban issues with the key agencies in the Region such as the Economic and Social Commission for Asia and the Pacific, Asian Institute of Technology, United Nations Urban Management Program for Asia and the Pacific, Citynet, and other regional institutions. Other potential partners include the various bilateral agencies with ongoing urban research in the Region including the USAID, German Agency for Technical Cooperation, and the Department for International Development (United Kingdom). An expanding network of NGOs is carrying out research in urban topic areas, particularly in health, income generation, and housing.

VII. CONCLUSION

132. The proposed strategy implies an incremental and systematic expansion of the Bank's involvement in the urban sector in terms of volume of lending, the range of subsectors to be addressed, and interrelationships of project components. The increasing complexity of the sector and the relative weakness of sector institutions points to the need for more careful preparation of projects, including increased emphasis on institutional aspects to maximize project benefits and increase sustainability, and greater project flexibility. The strategy calls for more in-depth sector analysis focused on policy and institutional issues, in turn requiring more emphasis on capacity building, in DMCs and within the Bank.

133. Tables 1-4 summarize the proposed strategy in terms of (i) overall urban development goals and objectives, (ii) the urban strategy framework, (iii) strategy outputs, and (iv) strategy inputs.

APPENDIXES

Number	Title	Page	Cited on (page, para.)
1	Estimated DMC Population Growth		2, 8
2	Economics of Urbanization		5, 14
3	Urban Infrastructure Investment Requirements		12, 39

Estimated DMC Population Growth

Afghanistan	12.07	1.13	9	14.52	2.46	17	20.14	4.03	20	45.26	18.06	40
Bangladesh	58.31	3.63	6	98.56	13.17	13	120.43	22.03	18	196.13	78.43	40
Bhutan	0.93	0.03	3	1.38	0.06	5	1.64	0.11	6	3.14	0.6	19
India	495.16	93.08	19	768.19	186.83	24	935.74	250.68	27	1,392.09	629.76	45
Maldives	0.11	0.01	12	0.18	0.05	26	0.25	0.07	27	0.56	0.26	46
Nepal	10.37	0.36	4	16.98	1.45	9	21.92	3	14	40.69	13.96	34
Pakistan	57.15	13.45	24	102.49	30.55	30	140.5	48.74	35	284.83	161.58	57
Sri Lanka	11.16	2.22	20	16.11	3.4	21	18.35	4.11	22	25.03	10.66	43
Central Asian Republics												
Kazakhstan	11.91	5.66	48	15.78	8.81	56	17.11	10.22	60	21.75	16.26	75
Kyrgyzstan	2.58	0.92	36	3.99	1.53	38	4.75	1.85	40	7.13	4.08	57
Uzbekistan	10.3	3.64	35	18.11	7.37	41	22.84	9.43	41	37.68	22.30	59
Pacific DMCs												
Fiji	0.46	0.15	30	0.70	0.27	39	0.78	0.32	41	1.16	0.69	60
Papua New Guinea	2.15	0.11	5	3.44	0.48	14	4.3	0.69	17	7.53	2.43	38
Other Pacific	0.46	0.12	26	0.77	0.23	30	0.83	0.53	40	2.04	1.03	50
DMC Total	1,688.34	318.02	19	2,580.18	639.10	25	3,068.29	931.82	30	4,367.05	2,246.54	51
World Total	3,337	1,186	36	4,846	1,994	41	5,716	2,584	45	8,294	5,065	61

Source: UN World Urbanization Prospects, 1995.

THE ECONOMICS OF URBANIZATION¹⁹

134. People move into cities primarily to find jobs. However, determining the gross domestic product (GDP) of cities is not an easy task, as it is difficult to define the borders of each city and its related labor market areas, to estimate the output of the city in local currency and to translate the output estimated in national currency into an output expressed in a common currency. The figures obtained are nevertheless quite revealing.

Table A2.1: Asian Cities, by GDP, 1990

Megacity	Country GDP/capita (in \$)	(City GDP/capita)/ (Country GDP/capita)	City GDP/capita (in \$)	City GDP (in \$ billions)
Tokyo	25,430	1.40	35,600	890.1
Osaka	25,430	1.27	32,300	339.1
Seoul	5,400	1.13	6,080	66.9
Hong Kong	11,490	1.00	11,490	59.1
Singapore	11,160	1.00	11,160	34.6
Bangkok	1,420	3.45	4,900	34.8
Shanghai	370	3.66	1,350	18.0
Manila	730	1.92	1,400	12.5
Jakarta	570	2.15	1,230	11.3
Calcutta	350	2.50	875	9.4

135. The ranking of cities by GDP is completely different from the ranking by population. In terms of output, the largest cities are in developed countries, and few are in Asia. Only Tokyo, Osaka, Seoul, and Nagoya appear in the list of the 20 largest world cities. The world dominance of Tokyo is even more striking in terms of output than in terms of population. Tokyo is by far the most productive,²⁰ producing about twice as much as the second largest world city (New York) and about three times as much as each of the three third largest world cities (Osaka, Paris, and Los Angeles). Tokyo produces nearly as much as the entire United Kingdom, and much more than countries such as the People's Republic of China or India.

136. In all countries, cities have greater output per capita and per worker than other areas (Table A2.1, column 3). This explains why incomes are higher in urban areas, why so many people have moved from rural areas to urban areas, and why the migrations have been good for economic development. Workers moving from a low productivity area to a higher one increase the average productivity of their country and, consequently, its wealth. More detailed studies

¹⁹ This appendix is abridged from a paper by Remy Prud'homme, presented at the Bank's Regional Seminar on Megacities Management.

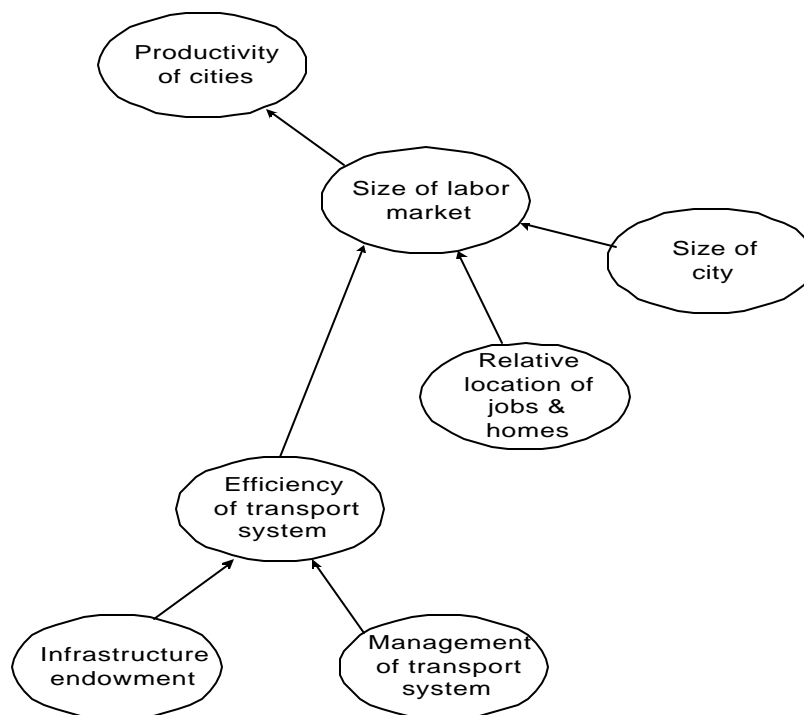
²⁰ The largest world cities by output in 1990 are Tokyo (\$900 billion), New York (\$450 billion), Osaka, Los Angeles, and Paris (around \$300 billion each), London (\$250 billion), and Chicago (\$230 billion).

show that labor productivity increases with city size. The larger a city, the higher its surproductivity (defined as the difference between the productivity and the rest of the country's productivity, divided by the rest of the country's productivity).

137. While the causes of surproductivity are not yet fully understood, it is clear that large cities are not more productive because they benefit from central governments. Rather, large cities are net losers at the budget game. They contribute more to the national budget than they get from it. They subsidize the rest of the country, they are not subsidized by it—at least not by the budget. One hypothesis presently being explored is that megacities are more productive because they have larger labor markets. The size of the labor market at, say, 60 minutes is defined as the number of workers to whom an enterprise on average can have access to in less than 60 minutes. It can also be defined as the number of jobs to which workers, on average, can have access to in less than 60 minutes. The justification for this hypothesis is twofold. First, the larger the labor market, the higher the probability that (i) an enterprise can find the workers it wants, and (ii) the workers can find the jobs they want. A larger labor market also justifies and facilitates specialization of workers and jobs, a well-known way of increasing productivity.

138. Assuming a causal relationship between labor market size and productivity, what accounts for the size of the labor market? One is the overall population size of the agglomeration considered. A second is the relative location of jobs and households. All other things being equal, the labor market size of a very dense city will be larger than that of a very dispersed city. The third is the efficiency of the transportation system, which is a function of the transportation infrastructure and the quality of the management of the transportation system (see Figure A2).

Figure A2: Inputs Explaining the Surproductivity of Megacities



139. Thus, three dimensions are essential to the productivity of a city: (i) the relative location of jobs and homes, (ii) the transportation infrastructure endowment, and (iii) the management of the transport system. Each of these dimensions is directly linked to an urban policy area: (i) urban planning, (ii) infrastructure planning, and (iii) transportation planning. The mechanisms and procedures that have to be considered must contribute positively to each of these policy areas.

Table 1: Overall Urban Development Goals and Objectives

Maximizing Economic Efficiency	Improving Quality Of Life	Achieving Urban Sustainability	Reducing Urban Poverty
<ul style="list-style-type: none"> ? GNP contribution ? Employment creation ? Inward investment ? Availability of inputs (land, services, labor) 	<ul style="list-style-type: none"> ? Pollution reduction ? Assistance to disadvantaged ? Enhanced role for women ? Reduced crime levels ? Reduction in morbidity ? Availability of land, services, infrastructure ? Increased participation 	<ul style="list-style-type: none"> ? Reduction is use of non-renewable resources ? More use of energy-saving development ? Increased social equity ? Improved urban management 	<ul style="list-style-type: none"> ? Reduced unemployment ? Increased access to infrastructure ? Improved quality of life indicators

Table 2: Urban Sector Strategy

Strategic Policy Area	Operational Policy	Monitoring Mechanisms
. Promotion of Urban Governance	? Decentralize decision-making ? Support participatory processes ? Adopt market-based approaches ? Support training for local officials ? Enhance regulatory framework	? National legislation, decrees, executive orders ? Performance benchmarks ? Training courses/participants ? Local legislation
. Mobilization of Financial Resources	? Enhance city-level autonomy ? Use computer-based systems ? Establish economic pricing of services ? Increase direct cost recovery ? Use pricing to influence demand of services ? Use innovative land-related tools ? Utilize new funding sources ? Develop local capital markets and credit finance	? Extent of local finance self-sufficiency ? Share of user charges ? Use of municipal bonds, etc. ? Public finance records ? Monitoring reports
. Improvement of Urban Management	? Establish clear roles for institutions ? Establish public-private sector partnerships ? Support skills training ? Improve mechanisms for land transfer ? Rationalize institutional and legal framework for land administration ? Modernize surveys for land administration ? Accelerate delivery of serviced land ? Develop improved spatial planning processes ? Improve public participatory processes ? Stimulate demand for environmental improvements ? Improve industrial waste management ? Strengthen environmental management systems	? Training courses to participants ? Number of new land titles ? Legislation, etc. ? Ratio of price of serviced land to raw land ? Extent of survey and mapping techniques ? Ratio of serviced land supply to demand ? Completion of plans to approval ratios ? Extent of interaction with stakeholders ? Environmental legislation ? Number of pilot projects ? Share of city resources for environmental improvements ? Improved coordination mechanisms
. Improvement in Design and Delivery of Subsector Projects		
a. Integrated Urban Development Projects (IUDPs)	? Base IUDPs on improved institutional frameworks ? Implement demand-driven approach to city selection	? Performance monitoring ? Choice mechanisms in country papers ? 10-year plans
b. Water Supply, Sanitation, and Solid Waste	? Expand scope of projects ? Increase autonomy in agencies ? Improve financial resource management ? Use performance indicators to measure efficiency ? Improve water resource demand management	? Performance monitoring
c. Urban Transport	? Maximize benefits of existing infrastructure ? Maximize benefits of new infrastructure ? Generate competitive markets ? Develop public transport alternatives	? Public and private vehicle travel times ? Bus priority measures ? Air pollution levels ? Tariff changes ? Public and private services ? Subsidy levels ? New/expanded public transport routes
d. Housing and Housing Finance	? Introduce legal/regulatory reforms ? Reduce use of subsidies ? Leverage financial resources ? Restructure public housing institutions ? Develop new low-income housing schemes	? Legislation ? Monitoring government budget ? Number of community finance institutions ? Performance monitoring ? Funds leveraged

Activities	Targets	Monitoring Mechanisms
<p>Loans</p>	<p>? Expand Bank portfolio with more emphasis on neglected subsectors: sanitation, urban transport, land management, environmental management, and poverty reduction</p> <p>? Continue to support improved IUDPs</p> <p>? Provide policy-based loans in areas such as decentralization, fiscal management, pollution control, and land management</p> <p>? Support private sector investments through equity and long-term loans</p>	<p>? Bank and developing member country (DMC) records, annual reviews, mission reports</p>
<p>Sector</p>	<p>? Prepare country urban sector profiles and establish long-term partnerships with selected DMCs and cities, based on interest and demand from local government agencies</p>	<p>? Bank records, mission reports</p>
<p>Project Preparation Support</p>	<p>? Use preproject investigations to enable better project identification and scoping</p> <p>? Consider support for preparation of transport and drainage master plans through technical assistance (TA) and program loans</p>	<p>? Bank records, mission reports</p>
<p>Regional Technical Assistance</p>	<p>? Develop local government data book</p> <p>? Develop system for urban monitoring indicators and benchmarking</p> <p>? Develop program regional TAs based on key themes such as urban management</p>	<p>? Bank records</p>
<p>Staff Advisory Services</p>	<p>? Provide Bank staff with expertise in institutional capacity-building, and urban management to strengthen advisory services to DMCs</p> <p>? Provide staff with necessary backstopping and support on regional TAs, sector work, information networks, and research</p>	<p>? Bank records, mission reports, government feedback</p>
<p>Research</p>	<p>? Substantially expand the Bank's research program, focusing first on economic aspects of urban services</p> <p>? Designate staff focal points for research and in-house capacity-building</p> <p>? Coordinate research program with other Bank divisions, ADB Institute, and regional research activities</p> <p>? Promote urban sector work and disseminate findings via Bank publications, multimedia and a subsection on the ADB website</p>	<p>? Bank records</p> <p>? Number of publications, volume of sales, visits to website</p>
<p>Capacity-building</p>	<p>? Expand and institutionalize the Bank's urban performance improvement program</p>	<p>? Bank records</p>

Table 4: Strategy Inputs

	Inputs	Targets	Monitoring Mechanisms
1. Staff		? Increase share of the Bank's human resources devoted to urban sector to reflect increased demand for urban assistance ? Arrange training programs for staff in new sector activities, use of Project Performance Monitoring System, etc.	? Work assignment records
2. Consultants		? Identify consultant experience in key strategy components, i.e., institutional development, capacity-building, urban management ? Recruit consultants on a retainer basis and/or as staff consultants	? Work assignment records
3. Information Exchange		? Provide resources for Bank to be the leading institution in production, dissemination, and exchange of urban information in the Region	? Bank documents
4. Budgets		? Agree to appropriate budget to reflect increasing share of urban sector in Bank activities	? Budget records
5. Peer Review		? Institutionalize the peer review process	? Bank documents