

## EXECUTIVE SUMMARY

### A Paradigm Shift in Thinking about Urbanization

1. ***Urbanization is a defining phenomenon of this century, and the developing world is where this demographic transformation is taking place.*** In the decade since the preparation of the last World Bank urban strategy, the world has become, for the first time, more than half urban. Over 90 percent of urban growth is now occurring in the developing world and nearly two billion people will become urban residents in the next twenty years.<sup>1</sup> In Africa and South Asia urban populations are expected to double during this period. Much of this urban growth is occurring in medium and small-sized cities, with about 53 percent of the world's urban population residing in cities of 500,000 or less.<sup>2</sup> **This demographic trend raises important questions about the process of managing urbanization and delivery mechanisms for urban development assistance in the decade ahead.**

2. ***The Bank is rethinking its approach to urbanization.*** A “new paradigm” has emerged, supported by a growing literature. Urbanization in the developing world was once considered too fast and unmanageable, something to be resisted and controlled. For many today, the question is not one of how to contain urbanization, but rather how to prepare for it – reaping the benefits of economic growth associated with urbanization while proactively managing and reducing the negative externalities of congestion, crime, informal settlements and slums.

3. ***Policy makers are recognizing that urbanization is not only inevitable, but also a powerful force in support of economic growth and poverty reduction.*** With cities accounting globally for an estimated 70 percent of GDP, increasingly, the emergence of this “new paradigm” is grounded in the notion that density -- and the urbanization that drives it -- is essential to achieve agglomeration economies and productivity gains.

4. ***However, rapid urbanization, if not well managed, will lead to more informal settlements and poverty.*** Across all the regions where the Bank is engaged, the share of urban poverty is increasing, with the exception of ECA<sup>3</sup>. It is estimated that one billion people today live in urban slums in developing countries. The growth in slums has been fueled in part by migration from rural areas. With the anticipated influx of more rural migrants and natural urban growth, cities will need to be prepared to absorb the expected demographic growth and minimize further expansion of informal settlements and urban slums.<sup>4</sup>

5. ***Today, an estimated 70 percent of Greenhouse Gas (GHG) emissions come from cities.*** Urbanization, if properly managed, can help advance the climate change agenda through the design of denser, more compact cities that would also benefit from energy efficiency gains and reduced travel time and costs for urban residents and businesses.

### Rethinking the Bank's Strategy on Urbanization

6. ***To reap the benefits of poverty reduction through increased urbanization countries require national urban strategies supported by new diagnostic frameworks.*** The Bank is launching the piloting of a new diagnostic framework and analytical tool to assist countries in proactively responding to the urbanization pressures facing them. This new tool – the

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<sup>1</sup> UN-Habitat, 2006.

<sup>2</sup> *Ibid.*, p.5.

<sup>3</sup> Ravallion, Chen and Sangraula 2007.

<sup>4</sup> See World Development Report 2009 – *Reshaping Economic Geography* and *Urbanization & Growth*, Commission on Growth and Development, World Bank 2009.

Urbanization Review (UR) -- would be a client-driven instrument designed to examine demographic trends nationally and within cities; impacts on land and housing availability and affordability; mobility and access to jobs and critical infrastructure services; as well as urban-rural spatial transformations. The UR would be an instrument to further inform Country Assistance & Partnership Strategy formulation in countries where rapid urbanization requires a strategic response.

7. ***Addressing the challenges from urbanization will require much closer collaboration across all tiers of government.*** Urbanization is not exclusively a challenge for cities. To be effective, developing countries will need efficient, multi-tiered coordination mechanisms to support policy formulation and coordinated interventions between national, regional and local governments. Metropolitan and regional agencies may need to be established where there is a mismatch between municipal boundaries and the urban economic footprint in order to deliver services more effectively in cities and peri-urban areas and promote economic growth.

8. ***Sharpening the Bank's urban business lines is a central focus of the new World Bank Urban Strategy.***<sup>5</sup> The new Urban Strategy builds on the recommendations made in recent internal and external reviews<sup>6</sup> of the Bank's urban development program. Accordingly, the new Urban Strategy realigns the Bank's urban business lines with five focus areas considered to be critical for cities and local governments in the decade ahead. Each of these business lines addresses the Bank's core mandate of poverty reduction, both directly and indirectly as further detailed below:

- i. ***Focusing on the Core Elements of the City System: The City Management, Finance and Governance Business Line.*** This business line assists cities and local governments improve planning and financing of service delivery, strengthening urban governance, including governance of utilities (such as energy and water) and enabling effective city management. Over the past decade, decentralization has led increasingly to the devolution of more authority to local governments, without the corresponding and necessary fiscal decentralization. This business line aims to support a number of critical actions that include updating of legal and regulatory frameworks, building sound accountability mechanisms for local governments and utilities, and promoting a mix of financing strategies by segmenting local governments into those that can access market-based finance and those that will need support, such as technical assistance and performance incentives to access the market.
- ii. ***Making Pro-Poor Policies a City Priority: The Urban Poverty and Slum Upgrading Business Line.*** Narrowly-focused, neighborhood-level slum upgrading interventions, while generally effective, have fallen short of addressing the magnitude and scope of expanding informality and slums. In addition to pursuing sound macro-economic policies aimed at enhancing growth, cities will need to become more informed and better equipped to address urban poverty. This business line aims to support cities and national governments in addressing urban poverty both directly and indirectly by expanding policy-based interventions and scaling up investments in services for the poor to the city-wide and national level. In addition poverty analysis and mapping will help policy makers tackle the issue of urban poverty in an informed manner. Partnerships will play a critical role and would involve NGOs and CBOs, as well as the private sector.
- iii. ***Enabling City Economies: The Cities & Economic Growth Business Line.*** Cities are increasingly recognized as the engines of economic growth, creating jobs and economic

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<sup>5</sup> This refers to the World Bank (IBRD/IDA) Urban Strategy

<sup>6</sup> These reviews were carried out by the Bank's Quality Assurance Group (QAG) and the Operations Evaluation Department (OED), now the Independent Evaluations Group (IEG) in 2003.

- opportunities for increasing numbers of urban residents, not least of which are rural poor migrants seeking work opportunities. This business line outlines a range of strategies cities can pursue to drive economic growth. These include improvements in the subnational investment climate, competitiveness analysis and private sector partnerships. Cities can also develop cultural heritage assets linked to sustainable tourism development, and, in advanced post-industrial cities, use brownfield redevelopment and urban revitalization approaches to transform idle land and property assets into productive reuses. New tools are also being tested to help cities develop market intelligence to attract new retail investment, financial services, and real estate developers to poor and underserved inner-city areas.
- iv. *Encouraging Progressive Urban Land and Housing Markets: The Urban Land, Housing & Planning Business Line*. An enabling environment to develop the housing and land markets continues to remain a cornerstone of the urban policy framework. However, where formal markets have failed to reach the poor and low income groups due to land scarcity and affordability issues, practical measures are proposed, including microfinance for incremental low-income housing solutions, low-cost building technologies, and rental housing options. Improved targeting of housing subsidies to the poor will be a priority in the decade ahead. As a measure to anticipate future urban growth, conducting urban planning audits is recommended to ensure that urban regulations are not set arbitrarily, thus preventing cities from achieving higher densities and causing land and housing scarcities that can drive up prices.
  - v. *Promoting a Safe and Sustainable Urban Environment: The Urban Environment, Climate Change and Disaster Management Business Line*. This business line advocates a focus on urban form and design to achieve efficiency gains, reduce a city's carbon footprint, and take advantage of the co-benefits of climate change mitigation and adaptation. As part of the Urban Strategy, the Bank is launching a new initiative called the ECO<sup>2</sup> Cities Program. Using an ECO<sup>2</sup> Cities Audit, participating cities can pursue a sustainable green city agenda by carrying out a baseline diagnosis of their current status and measures that can be taken, including introducing technology changes, as well as retrofitting of infrastructure and buildings. The Bank's joint work with the Global Facility for Disaster Risk Reduction (GFDRR), combined with the development of a new Urban Risk Assessment tool, aims to improve the safety and well-being of vulnerable urban poor populations.

### **Reinforcing Urban Strategy Implementation with Cross-Cutting Approaches**

9. The implementation of the Bank's Urban Strategy will be supported by four building blocks as follows:
  - i. Building Block 1: Knowledge Programs, Product Development & Dissemination. This is designed to ensure that the Bank continues to maintain its leadership role in developing knowledge programs and products, while promoting the dissemination of knowledge and good practice through a variety of instruments and initiatives. The successful Urban Research Symposium would be continued, coupled with expanded collaboration with universities and think-tanks on critical areas of research interest. Specific new and ongoing Knowledge Products and services are also being developed or brought on line within the framework of the new Urban Strategy combined with enhanced communication and dissemination strategies. Their piloting and application will take place through Knowledge Partnership Platforms jointly established with WBI in the Singapore and Marseille Urban Hubs with the aim of enhancing outreach to the regions and strategic partnerships with other development partners, donors and cities.

- ii. Building Block 2: Financing Strategies. Financing strategies for urban development will need to address a range of circumstances, depending on the financial status or solvency of the local government, impact of the global economic and financial crisis, and quality and coverage of existing infrastructure services in a given country. The range of financing strategies includes: (i) *Short-term Crisis-Oriented Strategies*, such as the INFRA Platform; (ii) *Medium-term Development Strategies* using, for example, Municipal Development Projects (MDPs) or investment loans to provide financing for priority infrastructure coupled with reform and performance incentives that aim at bringing local governments to market-based finance over time; (iii) *Market-based Financing Strategies*, such as through the Subnational Finance Program, or through mobilization of capital markets and guarantee instruments, which target credit worthy local governments and viable PPP transactions to support their investment programs; (iv) *Global Facility Leveraging Strategies* aimed at enhancing the impact of Bank lending operations with concessional finance linked to specific policy objectives; and (v) *Policy and Outcome-based Strategies*, which would include enhanced use of policy-based and results-based lending in the form of Development Policy Operations.
- iii. Building Block 3: Partnerships. Partnerships will form a key element of the new Urban Strategy. Internally, the formation of a new Multi-Sector Urbanization Team (MSUT), based on the principles of the Bank's Global Expert Teams (GETs), would facilitate cross-sectoral approaches and solutions to the most pressing urban challenges, provide an opportunity to pilot test and implement *the Urbanization Review collaboratively*, while leveraging the World Bank Group's *expertise across sectors*, including: governance, decentralization, urban poverty, social inclusion, private sector partnerships, infrastructure service delivery, water and sanitation, urban health and education. External partnerships will be encouraged through joint collaborative ventures with development partners, using to the extent possible the Knowledge Partnership Platforms of Marseille and Singapore. Cities Alliance, WSP, Federations of the Poor and other Community-based Organizations, UNHabitat and UCLG will continue to play important upstream, pre-investment and community engagement roles through their established relationships with cities on multiple levels.

Building Block 4: Results Management. A renewed focus on results management is elaborated in this strategy in response to the global agenda on aid effectiveness. Internally, the Bank's urban units are defining core project indicators that are meaningful and measurable to better report on the impacts of the Bank's urban development assistance at the project level. Piloting of the indicators will take place for IDA countries in FY10. Annual portfolio reviews are also planned as a corporate measure to assess performance and to proactively address emerging issues that require corrective action. Externally, support to national governments and cities will come in the form of establishing urban databases and facilitating participation in the new Global City Indicators Program (GCIP). Ultimately, the Bank recognizes that building successful institutions to improve data-collection and analysis will pay the largest dividends in strengthening urban management and improving responsiveness to the Results Agenda.