

Appendix 5. Summary of ADB's Urban Sector Strategy

A. The Context of the Strategy

- **Asia's future is urban.** Within a generation developing Asia will be predominantly urban. In 1966, only 1 in 5 Asians lived in cities; today, with an urban population of 1.3 billion, the ratio is 1 in 3. By 2020, every other Asian will live in a city. Six (Beijing, Kolkata (formerly Calcutta), Jakarta, Mumbai (formerly Bombay), Shanghai, and Tianjin) of the world's megacities (continuous urban areas with over ten million people) are located in the region, and 11 more Asian megacities are projected to emerge by 2025 (Bangalore, Bangkok, Chennai (formerly Madras), Dhaka, Hyderabad, Karachi, Lahore, Manila, New Delhi, Shenyang, and Yangon).
- **The challenges are great.** Today, 830 million people in developing Asia lack safe drinking water; two billion lack sanitation facilities. Well-managed urbanization can facilitate and sustain economic growth and broadly support improved quality of life and increased opportunities for people. Conversely, weak policies, ineffectual management, and low levels of investment will prevent cities from achieving their full potential and erode previous gains. Without proper management and planning—for land, water, transportation, housing, and the environment—Asia's cities face the prospect of becoming unmanageable sprawling slums.
- **We must reach the urban poor.** Increasing urban poverty and inequality threaten to undermine the promise of sustainable urban development. Two thirds of the world's poor live in Asia, surviving on less than one dollar a day, with an ever-increasing proportion living in cities, or on the peri-urban rim. Urban poverty is multidimensional and complex; the effect of cumulative deprivation brought on by lack of employment and livelihood opportunities, poor education, inadequate shelter and squalid living conditions, health risks from poor sanitation, air pollution, crime, and the absence of social safety nets.
- **We must enhance capacity and support partnerships.** Local governments are in the frontlines of this urban transformation, and serve as the interface between policy and people. Decentralization and devolution of authority to local governments have strengthened their role in the urban development process, but central governments have not always provided the resources to allow local governments to fulfill the new roles. Local governments are transitioning from their traditional role as a provider of urban services to that of an enabler, which in turn is creating opportunity for the private sector. Increasingly, private sector participation is being relied on to meet financing demands and to introduce efficiencies in the delivery of services. Communities and nongovernment organizations (NGOs) also play a vital role. Enhancing capacity and building partnerships are essential.
- **We must think in new and innovative ways.** The lessons being learned in Asia's megacities provide an opportunity to address the same problems being replicated on a smaller scale in rapidly growing secondary cities. At the

same time, urban and rural sectors should be viewed as an interlinked, interdependent continuum in the development process. We must begin looking past stand-alone projects and seek holistic, integrated solutions.

B. The Challenges

The challenges that the Asian Development Bank (ADB) faces in preparing an urban strategy are as follows:

- **Reducing urban poverty.** This goal is best achieved through well-targeted, integrated interventions in government strategies for poverty reduction, which provide a framework for ADB assistance. Better efforts must be made at understanding the multidimensional nature of urban poverty, where it occurs (through poverty mapping exercises), and causes and characteristics of poverty (which vary from country to country). Slum upgrading and providing low-cost housing present good entry points into urban poor communities and a platform to deliver other services. Addressing urban poverty through urban development will require attention for (i) promoting income and wealth poverty (through micro-finance and employment creation); (ii) improving quality of life poverty (infrastructure, services provision and shelter); and (iii) reducing vulnerability of the poor (through targeted fiscal policies such as subsidized user charges).
- **Improving urban services.** The goal is to achieve market-based provision of urban services based on delivery of appropriate and affordable services using, as possible, market competition and effective private sector participation. An important element is cost recovery through economic pricing, enterprise reform, corporatization, and exploring private sector participation (privatization, management contracts, build-operate-transfer and biological oxygen demand schemes, etc.).
- **Promoting good governance.** In the frontline of the urban development process, cities must pursue good governance through strengthened legislation, regulation, monitoring, enforcement, accountability, participation, predictability, and transparency. Performance indicators and benchmarking can measure the effectiveness of policies. Support for political and fiscal decentralization helps to empower local governments, who often lack capacity, with greater authority to deliver urban services.
- **Strengthening urban management.** Local governments have essential roles in providing urban services, facilitating the efficient and equitable access to urban land and promoting sound, balanced urban development through effective planning and policy. With an increasing array of responsibilities on the shoulders of local government under decentralization, there is a need to improve capacity, skills and expertise, while incorporating best practices and innovation.
- **Protecting the environment.** Environmental improvements require institutional coordination between public and private sector organizations, which have been difficult to achieve. Lack of political commitment and environmental awareness and poor enforcement are cited as major causes of low levels of investment in environmental man-

agement facilities. The challenge is to move beyond remedial actions for cleaning up pollution to preventative actions that can forestall future environmental degradation without imposing impossible financial burdens on government.

- **Achieving greater development impact.** ADB urban projects and programs should promote lasting improvements in outcomes, particularly in improving the quality of life for the poor. ADB must improve its ability to work at the strategic level while designing selective interventions for maximum development impact. Through consultation and stakeholder participation, responsive and appropriate interventions should be prioritized.

C. Urban Development Objectives and Priority Sectors

The overall objectives for the strategy are summarized as follows. The current priority for ADB to respond to the economic crisis and its aftermath is highlighting the key role of urban projects in reducing urban poverty.

1. Maximizing the economic efficiency of urban areas through
 - a. increased contribution to gross domestic product;
 - 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.
2. Reducing urban poverty through
 - a. reduced unemployment; and
 - b. increased number of households with access to land, infrastructure, and services.
3. Improving quality of life 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 illnesses; and
 - f. availability of suitable land, infrastructure, and services to meet demand.
4. Achieving sustainable urban development through
 - a. reduced use of non-replaceable natural resources;
 - b. increased use of energy taxation, pricing and energy saving forms of land use and construction;
 - c. increased social equity in the distribution of social benefits;
 - d. reductions in environmental pollution levels; and
 - e. improved management systems, including good governance, decentralization, private sector involvement, funding mechanisms, and community participation.

The following are the proposed core sectors for urban operations and where new opportunities are expected to emerge. Over the next two- to three-year time frame, the mix of work between and within these sectors will require some level of refocusing and refinement to respond to the crosscutting concerns of poverty reduction, governance, gender equity, and private sector participation.

- **Water supply and sanitation.** Water and sanitation projects aim to provide universal access to adequate, reliable and

affordable supplies of clean water with commensurate sanitation facilities for wastewater management that improve social welfare, environmental integrity, and economic productivity, with projects in both larger urban centers and rural towns. Increasing participation among stakeholders is vital, particularly for women, NGOs, and the private sector. Meeting rising demand, addressing affordability, improving the management of systems, implementing measures for demand management, and achieving full cost recovery through economic pricing are challenges to be met. For wastewater, there is a high need but low demand, with low levels of willingness to pay. Low cost sanitation approaches must be developed.

- **Urban development and urban management.** Investments in municipal infrastructure help unlock the potential of cities. Efforts must be made to improve operations and maintenance (O&M) to maintain existing systems for urban service delivery, transport, drainage and flood control, and to protect investments already made. Capacity building by urban managers and policymakers is closely linked to the long-term sustainability of investments and interventions. Urban planning systems must be strengthened, with improved processes for resource allocation, prioritizing development, and reaching the urban poor. Regional cooperation in benchmarking skills, networking, and cooperation is important to allow one city to learn from another.
- **Housing and housing finance.** ADB has carried out relatively few housing projects. Slum upgrading and improving access to basic services in urban poor communities are gateways for reaching the poor. Squatter communities often need to be relocated from areas not fit for human habitation. Opportunities exist for strengthening national housing finance systems to place them on sustainable footings, to attract private sector capital and expertise, and better involve community-based organizations. Interventions in the housing sector offer a good opportunity to address the three main crosscutting themes of poverty reduction, governance, and private sector participation.
- **Solid waste management.** Efficiency of systems needs to be improved through private sector partnerships, and integrating informal waste collection to extend services to the urban poor. Cost recovery, waste recycling and minimization measures, and support for inter-local cooperation are tools to create sustainable solid waste management systems.
- **Urban land management.** Land management is critical to successful business, social, and residential development in the city or megacity and where relevant, to the wider extended metropolitan region. Related to the shelter sector and housing for the poor, effective policies require a sound understanding of urban land markets, developing the legal and institutional structures, land use planning, zoning tenure, cadastral surveys, and titling. Capacity building actions are needed to accelerate the delivery of serviced land, using a variety of mechanisms. Geographical information systems (GIS), with in-depth relational databases, are powerful decision-making tools for urban planners and policymakers, and can be utilized for poverty mapping.

- **Urban transport.** There is scope for ADB to provide efficiency improvements through traffic management, municipal-level public transit systems, and municipal road projects. Urban air quality issues can be addressed through improved fuel quality, reduced vehicular emissions, and improved traffic flow. ADB can also assist in establishing clear roles for the public and private sectors and in generating competitive market, including competition between modes.
- **Urban environmental management.** This is a growth area to be addressed through the introduction of market-based instruments, improved coordination across boundaries and jurisdictions, and by promoting holistic, multipronged approaches to be applied by strong institutions in a well-grounded legal and regulatory environment. In many instances, the poor have the greatest exposure to environmental pollution, and benefit the most through interventions in this sector. ADB is building good experience in wastewater management, environmental cleanup of river basins, and comprehensive approaches that bring both environmental and human development benefits.
- **Municipal finance.** ADB needs to work more in this important area to improve fiscal autonomy, including computerization of accounting, billing and collection procedures, contracting out some services, and developing management information systems. In addition, ADB should assist in improved funding for municipal infrastructure through financial intermediaries, strengthen capital investment planning and budgeting processes, improve local resource mobilization (cost recovery, revenue mobilization, and financial management), develop credit ratings and municipal bond markets, and introduce credit enhancement mechanisms.
- **Tourism infrastructure.** Development of tourism plans, programs, and related infrastructure in close cooperation with the private sector, are important for increasing incomes and employment opportunities for the poor.

D. Achieving the Strategy

We will ensure a future of sustainable, equitable Asian cities by

- adopting pro-poor strategies, which will ensure that the fruits of development and quality of life are extended to all;
- thinking of cities as complex, living organisms that must be addressed in a holistic manner, with comprehensive solutions that deliver interrelated programs;
- providing support for decentralization, the empowerment of local governments that brings the decision-making and the provision of services closer to the people served, in a more accountable, participatory fashion;
- involving civil society in a more broad, transparent way, through partnerships with universities, NGOs, beneficiary communities, and other stakeholders;
- promoting private sector participation to narrow the financing gap to be met and bring increased competition and efficiency to the delivery of urban services;
- embracing the digital revolution, and information and communications technology that is transforming the way cities are managed;
- pursuing enhanced networking and cooperation to pro-

mote the sharing of best practices and innovation in urban environmental management; and

- developing a new urban management agenda that promotes public awareness, targets the poor, and helps clients phase-in programs on the basis of available resources. Sound urban development must be viewed as a process, not a result.

E. Implementing the Strategy

In summary the recommended strategy is a combination of several options considered by ADB and its developing member countries and comprises

- developing comprehensive urban sector policy frameworks;
- formulating improved integrated urban development projects;
- expanding subsector programs in priority new areas such as poverty reduction, land management, and housing finance;
- providing policy-based loans;
- supporting private sector investments;
- promoting cooperation with NGOs and community-based organizations (CBOs); and
- catalyzing information dissemination.

The strategy also identifies the implications for ADB operations including lending and technical assistance, staff resources and research priorities, including collaboration with other agencies in the region (external support agencies, academic institutions and NGOs/CBOs).