

# FINANCING THE CITY: ADB'S PERSPECTIVE<sup>1</sup>

## I. THE URBAN CENTURY IN ASIA

1. Over the past 30 to 50 years the populations of most Asian cities have grown at a rate and pace that has exceeded, by far, the political will and the financial, technical, managerial and administrative capacity of the responsible authorities to provide sufficient levels of infrastructure, municipal services and affordable housing to meet the basic needs of the people. The result has been burgeoning city growth that is largely unplanned and uncontrolled. The consequence is that most cities today suffer from inadequate water supply and sanitation systems, severe traffic congestion, a proliferation of low grade housing, including slums and informal settlements, inappropriate land management and environmental degradation of air, land and water. At the same time, there has been a high level of urban poverty, a low quality of life indicated by poor public health standards, and serious social problems as shown by increasing incidence of crime, violence and vandalism. Continued urban growth is expected to compound these problems.

2. Yet cities are increasingly becoming engines of national economic growth. In almost all countries, cities are making significant contributions to national economic productivity. Studies indicate that urbanization enhances productivity and that countries with high levels of urbanization enjoy higher gross domestic product (GDP) per capita than countries with low levels of urbanization. However, the contribution that cities make to their respective countries' economies could even be higher if the cities can be made more efficient.

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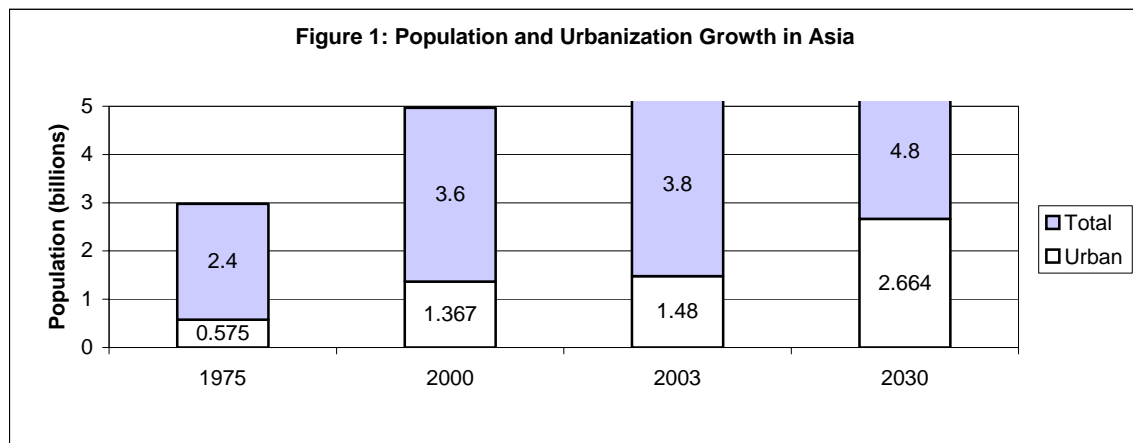
<sup>1</sup> Paper presented by Bindu Lohani, Director General, Regional and Sustainable Development Department (RSDD), ADB at the ADB Annual Meeting Seminar on "Financing the City" on 3 May 2005.

**(The views expressed in this paper are the views of the author and do not necessarily reflect the views or policies of the Asian Development Bank. The Asian Development Bank does not guarantee the accuracy of the data presented. The countries listed in this paper do not imply any views on ADB's part as to sovereignty or independent status or necessarily conform to ADB's terminology.)**

## II. THE URBAN CHALLENGE

3. One of the major development challenges facing the Asian Development Bank (ADB) and its developing member countries (DMCs) for the next 20 years is how to effectively manage explosive urban growth and mobilize the necessary financial and technical resources so that cities achieve their full economic potential, poverty is eliminated, the environment is sustained and our towns and cities become good places for all citizens to live, work and conduct business. For a city to achieve this state it is necessary to establish a collective vision of what the city of the future should be, to develop a carefully planned and fully resourced strategy to achieve it, and to mobilize the political will and managerial capacity to implement it.

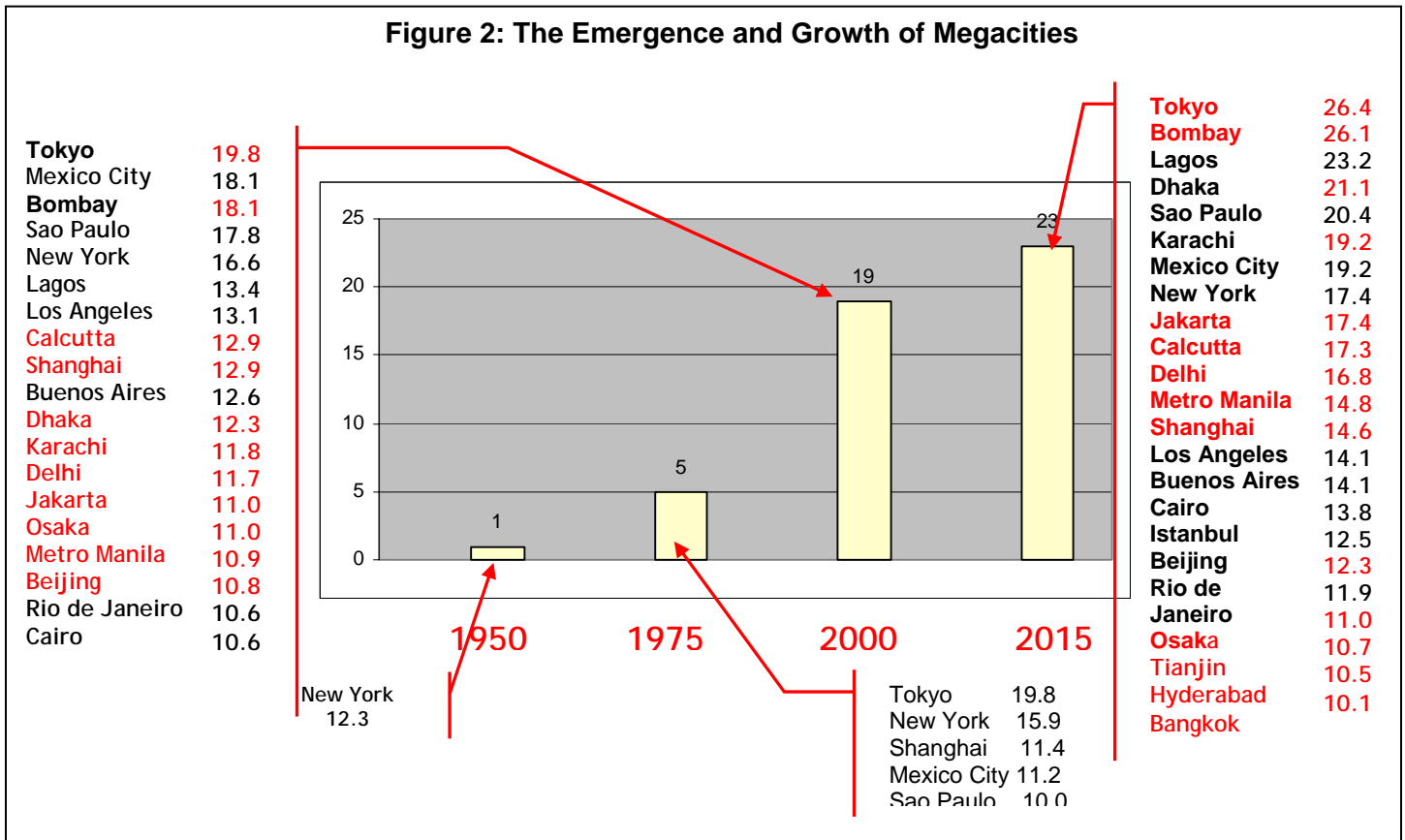
4. To put the scope and scale of this challenge into perspective, consider the historical trend and future projection for population growth and urbanization in the Asia and Pacific Region (the Region) as shown in Figure 1.



5. In the mid 1960s, at about the time ADB was established, the Region was predominantly rural in character. Asia's population was about 1.7 billion and only 320 million (19%), equivalent to 1 person in 5, lived in towns and cities. By the mid 1980s the region's population had grown to 2.6 billion and 640 million (25%), or 1 person in 4, lived in urban areas. The rate of urbanization continued to exceed the rate of population growth and by the mid 1990's Asia's population reached 3.1 billion and 930 million (30%), or 1 Asian in 3 were urbanites. This inexorable trend of massive urbanization is expected to continue and it is forecast that the Region's population will reach 4 billion by 2020, with 2.2 billion (55%), or 1 person in 2 living in a town or city.

6. Along with this dramatic increase in urbanization, we in Asia have witnessed the emergence and growth of very large conurbations including the so called mega cities. A mega city is loosely defined as a continuous urban area with a population of 10 million people or more.

7. As shown in Figure 2, it was estimated that there were 19 mega cities each with a population in excess of 10 million, 22 cities with 5 to 10 million people, 402 cities with 1 to 5 million people, 433 cities with 0.5 to 1 million people and a further 1.5 billion people were living in smaller cities.

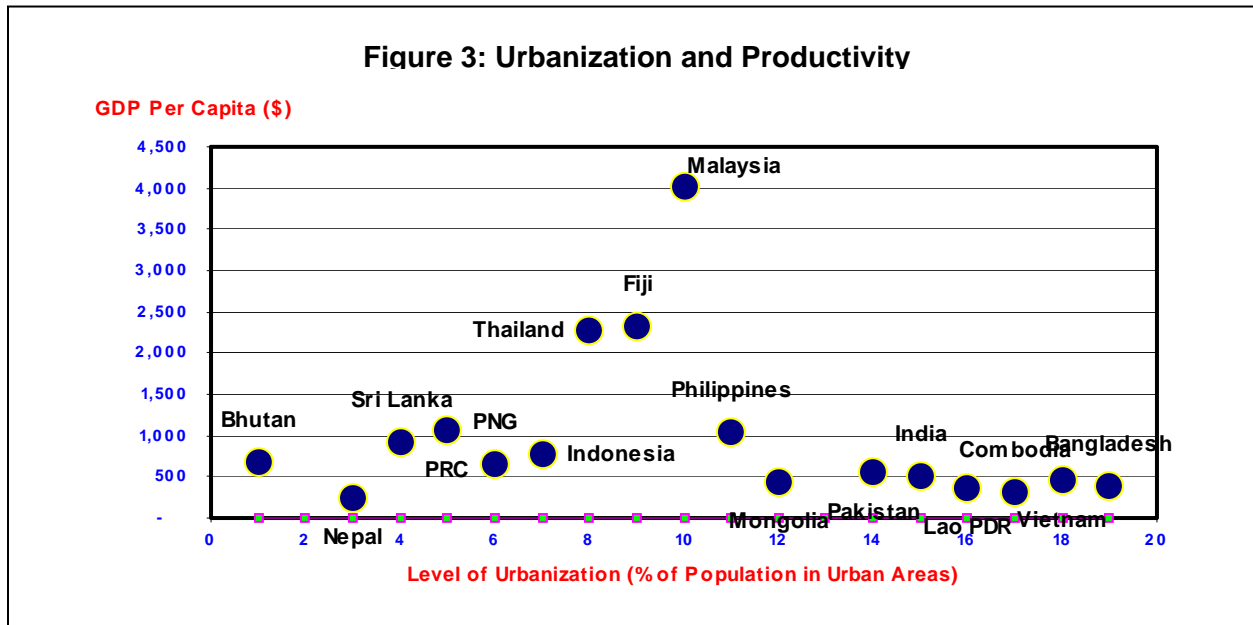


8. A recent United Nations Human Settlements Program (UN Habitat) study shows that most of the world's very large cities are located in Asian developing countries. In 1980 only eight cities worldwide were classified as mega cities. Shanghai, Peoples' Republic of China (PRC), with a population of 11.7 million was the only mega city in an Asian developing country. Two other Asian cities, Tokyo and Osaka were also mega cities, but located in a developed country (Japan). By 2000 there were 19 mega cities worldwide and 10 cities were located in Asian developing countries. By 2010 UN Habitat forecasts 23 mega cities worldwide with 12 cities located in Asian developing countries. These cities will include; Bombay, India (23.6m); Dhaka, Bangladesh (18.4m); Karachi, Pakistan (16.6m); Calcutta, India (15.6m); Jakarta, Indonesia

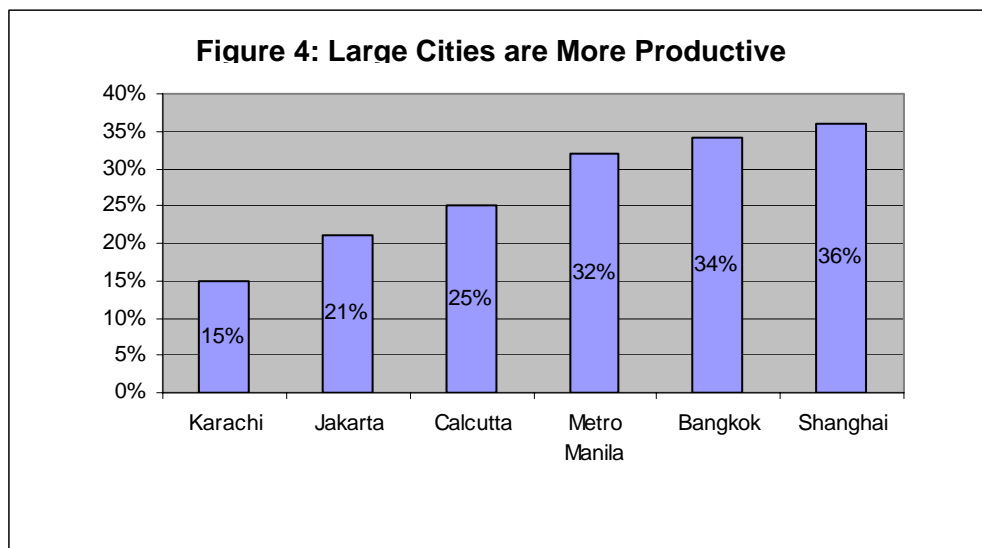
(15.3m); Delhi, India (15.1m); Metro Manila, Philippines (13.9m); Shanghai, PRC (13.7m); Beijing, PRC (11.5m); Tianjin, PRC (10.0m); Seoul, Republic of Korea (9.9m); and Hyderabad, India (9.5m). If mega cities account for only those in excess of 10 billion, the urban picture must expand to consider the additional 2 billion people living in thousands of “smaller” towns and cities throughout the region that range in size from 50,000 to 10 million people.

### **III. OPPORTUNITIES AND CONSTRAINTS**

9. This unprecedented urban growth reflects the increasing importance of cities. Now, cities are recognized as (i) the focal points of economic activity and the engines for economic growth; (ii) centers of excellence for education, health care, innovation, entrepreneurship, business, commerce, industry, culture and social services; (iii) large markets for all types of products, goods and services; (iv) well connected with the wider world through all types of transportation, telecommunications and information technology systems and; (v) the primary centers for jobs, employment and livelihood opportunities. There is strong evidence, shown in Figure 3, to suggest that urbanization enhances productivity and countries with a high level of urbanization enjoy higher gross domestic product (GDP) per capita than countries with a low level of urbanization. For example, in the mid 1990s, Korea had 80% of its population in urban areas and a GDP of \$10,000 per capita which equalled that of Argentina, while Nepal had less than 15% of its population in urban areas and a GDP of only \$200 per capita.



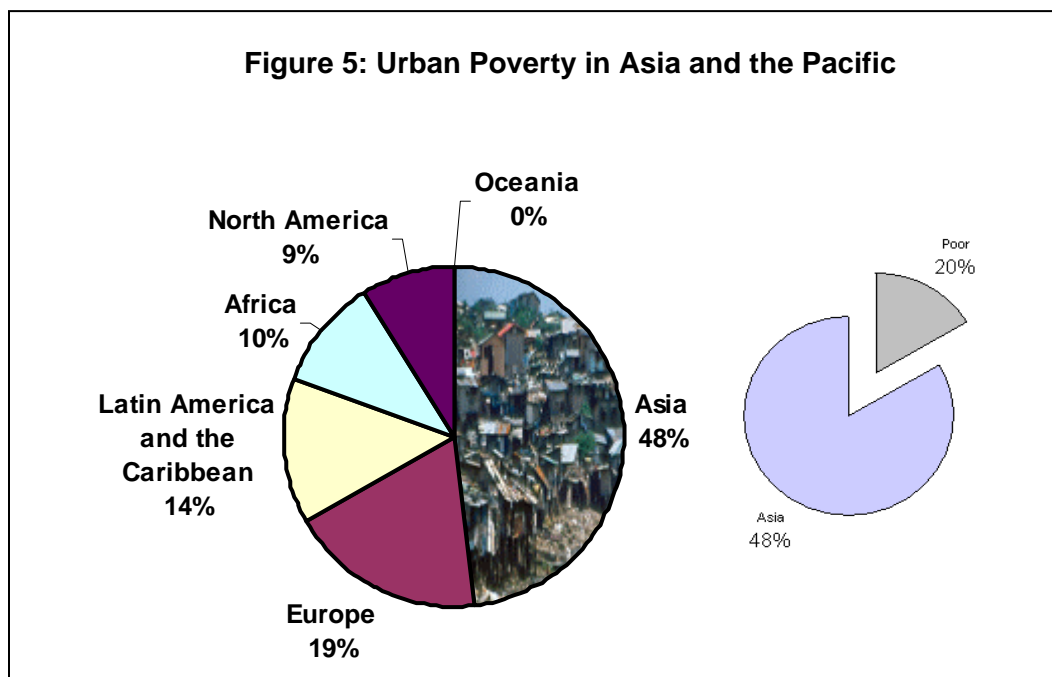
10. In all countries cities have a greater output per capita than other areas. This explains why incomes are higher in urban areas, why many people migrate from rural to urban areas and why this migration is good for economic development. Workers moving from low productivity rural areas to higher productivity urban areas increase the average productivity of the country and, consequently, its wealth. There is also evidence to show that large cities are more productive and that labour productivity increases with city size as shown in Figure 4. For selected cities the ratio of city GDP per capita compared to national GDP per capita was found to be 1.9 for Metro Manila, 2.5 for Calcutta, 3.5 for Bangkok and 3.7 for Shanghai. This suggests that these large cities are making important contributions to their respective countries' economies. However, significant as these productivity ratios are, they could be even higher if the cities could be made to function more efficiently. Higher productivity ratios for the cities would bring substantial benefits to the national economies and make major inroads against poverty in both the urban and the rural areas.



11. In addition to economic efficiency, urbanization also promotes human development. We see that the urban population as a share of the total population usually exceeds 70% for highly industrialized countries (HIC) with a high human development index (HDI). For countries classified as least developed countries (LDC), with a low HDI the urban population as a share of the total population is usually less than 30%. Furthermore, the annual rate of urban population growth is expected to average from 3.7% to 4.6% between 1995 and 2015 for the LDCs with low HDI, a much higher urban growth rate than the 0.6% to 1.7% rate forecast for the HICs with high HDI. This means that many of the poorest and least developed countries' with under developed institutions and limited financial, technical and management capacity will face the biggest challenge in coping with rapid urbanization.

12. About 70% of the world's poor live in Asia and although poverty is considered by many to be a rural phenomenon, the incidence of urban poverty is significant and growing, affecting about 800 million people, 240 to 260 million of them reside in urban areas. Almost 40% of the region's population live in urban areas (2001). See figure 5. Given the rate of urbanization

presented earlier in this paper in paragraph 5, it is conceivable that in the not too distant future the absolute number of urban poor will exceed the number of rural poor in many countries. Urban poverty can be harsh and extreme. It is manifested in poor quality of life as well as low income and low paying jobs; high living costs for food, water, rent, education, health care and transport; long journey to work; shortage of affordable housing; exposure to environmental risks and hazards; weak family support and coping mechanisms; and vulnerability to economic and market changes. The majority of the urban poor are concentrated in Bangladesh, India, Indonesia, Pakistan and the People's Republic of China. Six megacities in the region- namely Beijing, Mumbai, Kolkata, Jakarta, Shanghai, and Tianjin have the largest concentrations of urban poor. Nearly one third of the urban poor have no access to safe water and half do not have access to adequate sanitation.



13. Compounding poverty are high levels of environmental stress. The rapid and often uncontrolled population growth, industrialization, and increasing vehicle densities are threatening urban environmental conditions in the Asia-Pacific region. Several Asian cities have been recorded by the World Health Organization to have the highest levels of particulates and sulfur dioxide in the atmosphere. The environmental problems of Asian cities include the depletion and contamination of water resources, rapid run-off leading to soil erosion and flooding, land contamination, air pollution, and the loss of irreplaceable natural resources such as forest reserves. Poor wastewater management and solid waste collection and disposal result in direct discharge of wastes to surface drains, leading to increasing risks of health epidemics. The economic impact of pollution in these Asian urban areas, in terms of loss of productivity and health costs, have been estimated to range from 1-5 percent of their GDP.

14. Most environmental management in the Asia-Pacific Region has consisted largely of remedial actions to clean up existing pollution through infrastructure investments. Often, as in the case of waste collection and treatment, such actions are unaffordable to city residents with incomes of \$1,000 per family per annum or less. In a real sense, there is a danger of never being able to keep up with the demand. ADB has undertaken a variety of projects within a broad definition of environment with some projects focusing specifically on urban environmental improvement. The difficult, but ultimately worthwhile, task is to develop preventive policies and programs that can forestall future environmental degradation without imposing impossible financial burdens on governments. However, given that the benefits of sustainable programs and policies are often only evident over the long term, communities as well as policymakers and decision makers need to be convinced of the worthiness of these approaches, particularly at the local level, in order to ensure the sustainability of urban areas.

15. In Asia, rising political participation and democratization are bringing new opportunities, but also new demands. As urban populations are demanding more and different things from their governments increasingly need to forge more meaningful partnerships with the private sector as well as civil society in which mutual responsibilities are clearly set out and an appropriate balance is struck between private incentives and public interests.

16. Several Asian societies are becoming more democratic and pluralistic. This transition has often reinforced economic dynamism. This bodes well for the future. Democracy creates governance institutions that endure under successive governments, thereby helping to dispel some of the uncertainty associated with authoritarian regimes. Nonetheless, the transition to a democratic government is accompanied by uncertainty and risk. For those Asian countries facing such transition, their effective governance and management – at the national, sub-national and local level -- will be important concerns.

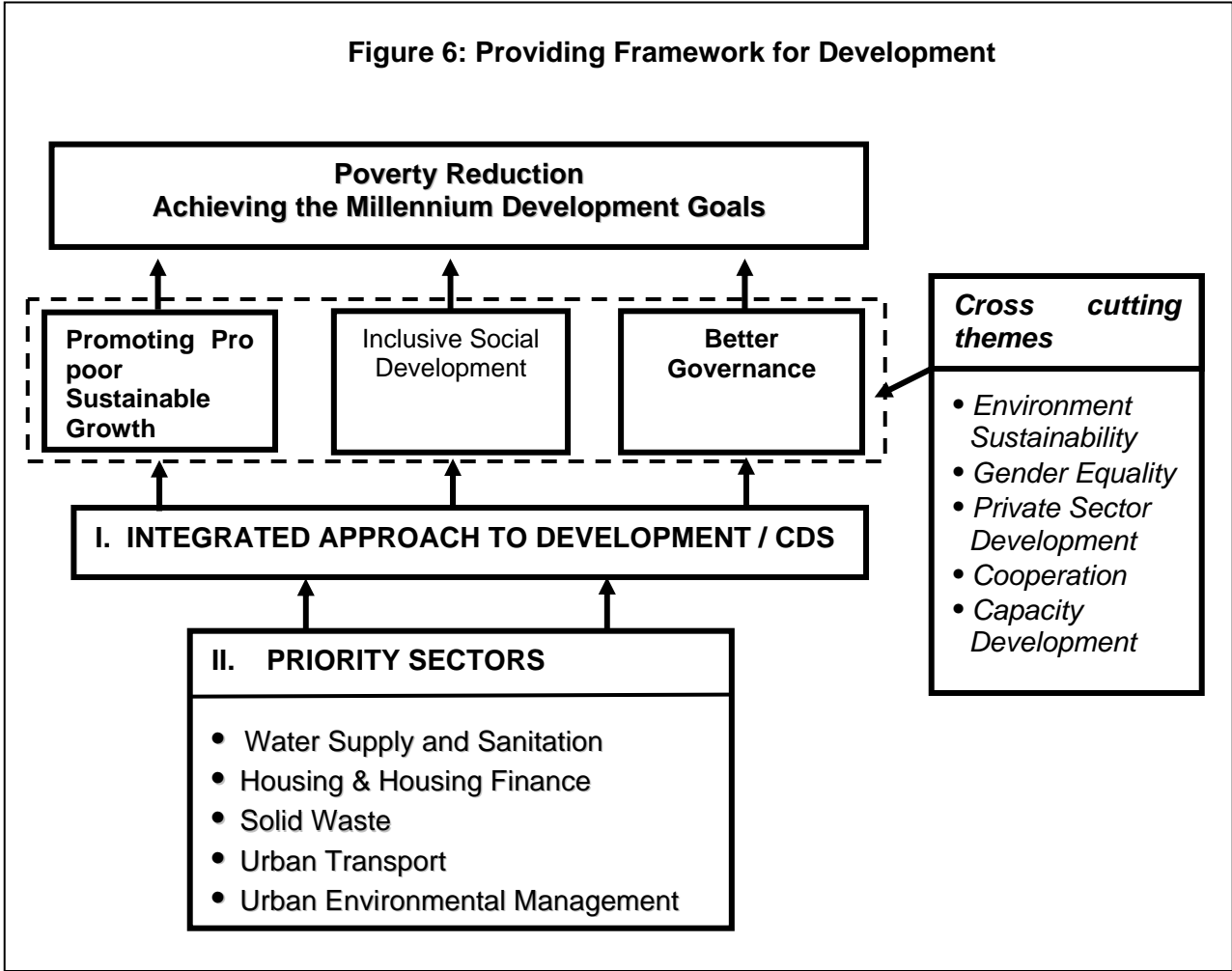
17. While urbanization and globalization will increase the premium on fiscal prudence and moderate taxation, the pressures for government spending in Asian cities will rise. Rising public demands for spending on health, education, the environment, and infrastructure are likely to accompany rising income levels. An ageing economy will also promote higher demands for tertiary health care and old-age economic security. As Asian countries become more democratic, demands for higher spending may become more vociferous and powerful. Democratization, of course, does not necessarily imply fiscal profligacy, but simply the potential for greater budgetary pressure.

18. Asian cities also desperately need expanded infrastructure in energy, roads, mass transit, telecommunications, wastes management, and environmental control. As with pensions, health, and education, policymakers will have to tap private markets as far as possible. Private

sector investment has already made a significant impact in some countries, such as in the Philippines' energy supply system and in Malaysia's environmental infrastructure. Despite these successes, however, private sector investment in Asian cities' infrastructure remains comparatively small in terms of total investment and is confined to a limited range of sectors as well as countries. Governments' capacity to create the necessary institutional and organizational conditions, including changes in their laws, to support private sector investment in urban infrastructure varies widely. In some countries, the regulatory framework is completely inadequate. Policymakers will have to remove such impediments to private infrastructure investment if countries where projected infrastructure needs are massive, but public resources are limited, are to attract sufficient investment in infrastructure.

#### **IV. PROVIDING THE FRAMEWORK FOR DEVELOPMENT**

19. Framed within the overarching strategic development objective of poverty reduction, ADB published in 1999 an Urban Sector Strategy to guide its approach to urban development. (The Strategy is presently being updated to make it a more effective tool for project identification, formulation, implementation and evaluation.)



20. The vision for the urban sector is to promote safe, liveable, well-managed cities free of poverty. This vision fulfilled promises development. To achieve this vision, though, it is necessary to establish and maintain committed relationships among development partners including government agencies (national, sub-national and local) civil society, private sector, non-government organizations (NGO) and international development finance institutions, both multi-lateral and bi-lateral. The development partners need to agree and implement urban strategies based upon a common vision with targeted interventions aimed at reducing poverty,

promoting good governance, strengthening urban management, mobilizing resources, improving urban service delivery and achieving greater development impacts.

21. The Urban Sector Strategy recognizes the inter-sector nature of urban issues that require holistic approaches and software and hardware interventions that specifically target the urban poor, promote economic development, treat cities as complex living organisms, promote the participation of the private sector and foster the involvement of civil society. Interventions on the software side include introduction and enforcement of appropriate regulations, institutional strengthening, capability and capacity building and human development, and improving the financial, technical and administrative management of urban institutions. Key areas for intervention on the hardware side include, but are not necessarily limited to, urban land management, water supply, sanitation, waste water management, drainage, flood protection, solid waste management, urban environment management, urban transport, municipal finance, housing and housing finance and infrastructure maintenance.

## **V. ADB'S RESPONSE**

22. In 2004, conservative estimates suggested that to sustain the level of economic growth in Asia, about \$400 billion per year would be needed for investing in urban infrastructure for the ensuing 25 years. This amounted to \$12 trillion in mid-2004 prices over a 25-year period. The figure exceeds—by far—the level of investment being made, both then and now. ADB is addressing this gap in a variety of ways – from improving investments, capacity building activities and reform efforts to supporting microfinance, local participation, and partnerships. ADB's commitment is exemplified in a number of ways.

23. **Increased Investments.** ADB’s urban infrastructure investment comprises about 60% of its overall lending portfolio, averaging about \$800 million a year from 2002 to 2004. (See figure 7) Against the backdrop of rapid urbanization, ADB expects to see a stronger focus by ADB on urban development. From 2005 to 2010, ADB expects to significantly increase investments in infrastructure, mainly in transport, energy, water supply and sanitation.

<b>Figure 7: Urban Infrastructure Investments</b> (in \$ millions)			
2003	2004	2005 (planned)	2006 (planned)
832	730	976	1,167

24. **Capacity building and introduction of reforms.** Together with investments on the hardware, ADB has helped governments institute reforms in the context of greater local autonomy and greater private sector participation and stimulated adoption of market-based mechanisms. ADB has developed a number of technical assistance packages aimed at promoting good governance, building capacities of institutions and developing human resources. ADB has also worked with NGOs, which has helped in recognizing the increasing role of local communities and the changing role of local governments in the implementation of development projects. The effect has been a recognition of the diversity of needs and capacity among cities in the region. Some cities have well developed institutions and need investment to address their needs, while others not only need investment but also better institutional capacity to realize the full and multiplier effects of investments.

25. These approaches can be seen in many ADB projects. In PRC, ADB designed an innovative financing plan in the Suzhou Creek Rehabilitation Project<sup>2</sup> comprising an investment component (wastewater facilities, wastewater resources management structures and urban renewal projects) and capacity building and training component for the Executing Agency. Details of the project are shown in Box 1.

### **Box 1. The Suzhou Creek Rehabilitation Project, PRC**

Suzhou Creek, an important waterway that passes through the urban heart of Shanghai (13 million population), is a water source for irrigation and industrial processing and receives large discharges of untreated agricultural, industrial and municipal wastewater and solid waste. As a result, Suzhou Creek had become severely polluted and contributed significantly to the degraded environment and poor living conditions along the creek's banks.

Suzhou Creek Rehabilitation Project was designed to reduce pollution and restore water quality in Suzhou Creek and its tributaries, and improve the environment, living conditions and public health standards in the urban areas adjacent to the creek. The estimated project cost of \$876 million was financed by an innovative financing plan comprising an ADB loan of \$300 million, Government resources amounting to \$275.6 million from the Ministry of Finance (\$132.5million), Shanghai Municipal Government (\$62.7million), and district and county governments (\$55.4million), and a loan from the State Development Bank of \$325.4million.

The benefits of the project include improved living conditions for the 3 million people living in the area, improved public health standards brought about through the removal of 1 million cubic meters per day (m<sup>3</sup>/d) of untreated sewage from the area, more hygienic night soil and solid waste collection facilities for the collection and disposal of about 1,200 tons per day (t/d) of night soil and 300 t/d of solid waste. In addition, about 1.1 million m<sup>3</sup> of polluted sediment have been removed from the creek and its tributaries and disposed of in a sanitary manner.

26. In Samoa and Fiji, where constraints on land and resources are typical of small islands, ADB introduced more proactive urban planning and management that proved successful in identifying strategic issues and focusing on institutional strengthening requirements to address these issues. Under the TA, ADB has promoted improved urban planning and management in these countries and has been instrumental in the establishment of the Planning and Urban Management Agency. Apia, Samoa's capital city, showed indications of improved urban infrastructure services and physical environment in the urban and peri-urban areas. The results

<sup>2</sup> TAR: PRC 32121 Suzhou Creek Rehabilitation Project, June 1998.

were achieved through a highly participatory approach and the introduction of improved processes for urban management.

27. In the Philippines, under the Pasig River Environmental Management and Rehabilitation Program<sup>3</sup>, policy reforms were introduced alongside with the implementation of investments that are designed to make a significant contribution to the improvement of the urban environment and the water quality of the Pasig River basin and promote urban regeneration. A project brief is shown in Box 2.

**Box 2. The Pasig River Environmental Management and Rehabilitation Program, Philippines.**

The Pasig River passes through the urban heart of Metro Manila and is a major waterway of national significance. As result of population growth, urbanization and industrial activities, the indiscriminate discharge of untreated municipal and industrial wastewater the Pasig River has become seriously polluted.

The Pasig River Environmental Management and Rehabilitation Program was designed to make a significant contribution to the achievement of a clean and green urban environment for Metro Manila and improved water quality for the Pasig River basin through (i) policy reforms supported by a policy loan of \$100 million, (ii) an investment loan of \$75 million to finance the necessary public sector investments and (iii) a technical assistance grant of \$1million for institutional capacity building for agencies with environmental management responsibilities.

The project included (i) urban renewal and upgrading covering approximately 500 hectares of depressed urban residential areas at different locations along the river, benefiting about 80,000 low income families (about 440,000 people) with basic infrastructure, community facilities, riverbank improvements and land titling, (ii) the physical creation of the EPA along the river banks involving the relocation of approximately 10,000 squatter families (about 55,000 people) living in locations not fit for human habitation to purpose built, fully serviced accommodation at a variety of resettlement sites at in-city and near-to-town locations, and developing the vacated EPA with riverside amenities and (iii) improved sanitation to provide septic tank cleaning service and septage treatment and disposal facilities to cover about 185, 000 households (about 1 million people) with no sanitation coverage.

28. In Mongolia, where over half of the population resides in urban areas, very little new housing has been built since the end of the socialist era, resulting in a critical shortage of adequate housing. With ADB's assistance, the Ministry of Finance and Economy has implemented a \$15 million loan to improve access of about 32,000 low- and middle- income

<sup>3</sup> TAR: PHI 30308 Pasig River Environmental Management and Rehabilitation Program, April 1997.

households to housing finance<sup>4</sup>. An innovative feature of the project is a policy reform agenda to establish an environment conducive for housing development, set up appropriate mechanisms for housing finance at market rates and strengthen capacities of institutions involved in housing finance and contracting sectors.

29. **Microfinance.** To support the target 11 of the Millennium Development Goals, ADB has extended loans to improve access the access of the poor's access to services, including microfinance. In the Philippines and Indonesia, two projects were designed to provide security of tenure and housing microfinance to address the needs and requirements of urban poor families. See Box 3. for a brief description of the projects in the Philippines and in Indonesia. The projects have been structured differently reflecting the differences in governmental structures and capacity of institutions. Through the Development of Urban Poor Communities project<sup>5</sup> in the Philippines, linkage with financing institutions was established and access to housing finance for the poor was installed. In Indonesia, the Neighborhood Upgrading and Shelter Sector project<sup>6</sup> extended on a non-collateralized basis and have shorter term for the envisaged sites and services development subprojects in Indonesia.

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<sup>4</sup> RRP: MON 32017 Housing Finance (Sector) Project, September 2001.

<sup>5</sup> RRP: PHI 32499 Development of Poor Urban Communities Sector Project, November 2003.

<sup>6</sup> RRP: INO 35143 Neighborhood Upgrading and Shelter Sector Project, November 2003.

### **Box 3. Initiatives in Slum Upgrading and Housing Microfinance in the Philippines and Indonesia**

In the Philippines more than 40 percent of urban families (over 10 million people) live in makeshift dwellings or informal settlements, where availability of safe water, good sanitation and drainage system are grossly inadequate. Some 91 million people are living in Indonesian cities. The Government estimates a shortfall of 6 million houses for poor families that do not have access to basic infrastructure and financing services.

The ADB has extended two loans, one for the Philippines Development of Poor Urban Communities Sector Project (DPUCSP) and one for the Indonesian Neighborhood Upgrading and Shelter Sector Project (NUSSP) to provide security of tenure and advance the bounds of housing microfinance. Both projects work with local governments and NGOs on the supply side to ensure appropriate, affordable plots are available for purchase and with apex financial and microfinance institutions to provide appropriate finance for purchase. The projects are structured differently reflecting the differences in governmental structures and capacity, the sophistication of participating NGOs and the capital market within which the MFIs are working.

The microfinance shelter provision component in the Philippines project will benefit over 20,000 poor urban households. Microfinance for small enterprises will grant an estimated 10,000 loans, generate employment for 40,000 households and benefit as many as 100,000 poor urban residents. The envisaged site and services development subprojects in the Indonesia project, will bring land ownership issues to resolution, including distribution of individual titles and will directly benefit 180,000 poor urban households located in a minimum of 30 local governments.

30. **Local Participation.** ADB confirms that local governments play an important role in urban development as demonstrated in projects, such as the TA on Town-Based Urbanization Strategy Study in PRC<sup>7</sup>. Through this project, the Government aims to strengthen urbanization strategies with a focus on establishing sound town development approaches among 30 local governments in Liaoning and Shanxi provinces. The TA will also include models for developing town-based urbanization strategies in other parts of the country from the experience gained in these towns in order to achieve patterns of urban settlements that contribute to efficient growth, poverty reduction and improved urban environmental quality.

31. Communities are also recognized as partners in urban development. In the Dhaka Urban Infrastructure Improvement Project<sup>8</sup>, community participation was proven to be a critical factor in the successful operation and maintenance of the constructed facilities.

<sup>7</sup> TAR: PRC 35419 Town-Based Urbanization Strategy Study, May 2004.

<sup>8</sup> PPA: BAN 21009 Dhaka Urban Infrastructure Improvement Project, September 2001.

32. The Japan Fund for Poverty Reduction Projects (JPFR) in Payatas and Muntinlupa in the Philippines are NGO-led projects that have used participatory approaches with successful slum upgrading and planned relocation. See Box 4. Experience and lessons gained from these pilot projects helped in the formulating larger scale housing microfinance projects.

#### **Box 4. Payatas and Muntinlupa JFPRs**

As a precursor to undertaking large scale housing microfinance projects, with grant assistance from the Japan Fund for Poverty Reduction (JFPR), the ADB has piloted community-based approaches to low income housing which included financing arrangements suitable for the poor. The Payatas JFPR Project is a pilot project for on-site slum upgrading in Metro Manila. The project is NGO lead and uses a participatory process to plan and implement upgrading activity with the 587 families in the participating communities. The communities in question are squatters living near, and often working in, the major garbage facility of Metro Manila. The Muntinlupa JFPR Project is a pilot project for voluntary relocation of a slum communities totaling 587 families living in danger zones in Metro Manila. This project is also NGO lead and uses a participatory process to plan relocation and the development of housing on a new site.

These pilots provided valuable lessons for the formulation of the larger projects. In particular, three lessons relating to the sustainability of housing microfinance influenced future project design. First, the need to have separate organizations performing financing and collection functions, on the one hand, and community mobilization/ development functions on the other hand, was reinforced. The need to work with communities on savings schemes in preparation for the provision of loans was highlighted. Lastly, in the

33. ADB's commitment to environmental protection is reflected in its medium term strategic framework that is, environment as one of the five strategic development objectives of the Bank. The current lending on environmental program is about \$1 billion a year and technical assistance grants is about \$ 25 million a year. Water supply projects comprise 60% of the total investments followed by air quality programs at 18%, social programs, ie. education and population at 11% and biological sectors i.e. agriculture, forestry and diversity at 9%.

34. Some examples of loans contributing to the achievement of the countries' urban environmental programs are the Urban Water Supply and Environmental Improvement in Madhya Pradesh, the first stand alone project in India, the water supply projects in Nepal, Pakistan, India

and Sri Lanka that contribute substantially to improving the supply of clean water to the urban slums, the Kathmandu Water Services Project in South Asia the Harbin Water Supply Project, the Wuhan Wastewater Management Project and the Beijing Environmental Improvement project in PRC , the Second Bandung Urban Development Project, the Neighborhood Upgrading and Shelter Project benefiting poor communities in the urban areas of Indonesia and several others in the region. See Box 5 for a brief description of the Harbin Water Supply Project.

#### **Box 5. Harbin Water Supply**

The Songhua River, the existing water source for Harbin City (3 million pop.), is heavily polluted and is becoming unsuitable for the drinking purpose. Harbin City is the capital of Heilongjiang Province and is the seventh largest city in the People's Republic of China. ADB assisted the City to develop a project that will help meet the demand for high-quality treated water to the City of Harbin through 2010.

The project will include the construction of reservoir and head works that will have adequate storage capacity to support a second phase of development sufficient to meet the needs through 2019. The project will contribute to poverty reduction through provision of water supply connections, lifeline tariffs, increased water supply to targeted poor areas, and employment generation during its implementation and operation. Capacity building and training will assist implementation and increase efficiency in the Harbin Municipal Water Supply Contraction Company (HMWSSC) and the Harbin Municipal Tap Water Company (HMTWC). Tariff reforms will be introduced to achieve full cost recovery.

About 4 million people in Harbin City will receive direct benefits from the project through augmented water supply with improved quality. The low-income group living in the fringe areas will also better service. Corollary benefits from the project include flood protection and provision of irrigation water.

35. In addition a number of technical assistance projects were implemented to build capacities of the local governments and communities. Some of these are the Urban Wastewater Management in Colombo, the Melamchi Water Supply Project, and the water supply and sanitation project in the secondary towns of Azerbaijan.

36. ADB has also taken several initiatives that involve collaboration with development partners and other stakeholders in addressing the environmental challenges. These programs aim to institute reforms and accelerate poverty reduction through effective environmental management and investments. Some of these initiatives are Better Air Quality Management in Asia, the Clean Development Mechanism Facility, Clean Air Initiative for Asian Cities (CAI-Asia),

Promoting Effective Water Management Policies and Practices, the Asian Infrastructure Fund and others.

37. Integrating environmental management approaches into urban development planning will require the adoption of integrated planning, undertaking an environmental impact assessment (EIA), promotion of a resource based project planning, participation of the stakeholders, better information and education and a focus on neglected sectors like the slums in the cities.

## VI. LESSONS LEARNED: FIVE C'S FOR MAKING PROGRESS

38. Lessons learned from ADB's urban projects over the years have been used to improve the effectiveness of new initiatives. ADB has assessed completed projects based on relevance, efficacy, efficiency, sustainability and impacts of the projects. Lessons can generally be grouped under the five "Cs", namely:

- (i) Community
- (ii) Capital
- (iii) Capacity Development
- (iv) Compliance and
- (v) Commitment.

39. **Community.** Communities play an important role in ensuring project success specifically in maintaining effective monitoring and evaluation and good service delivery. As shown in the examples of the integrated urban infrastructure development projects in Indonesia. The *Kampung* Improvement Project (KIP) and market infrastructure improvement program are successful models for improving living conditions through community participation.

40. ADB has developed handbooks on participation, although the degrees of engagement in different cities is wide ranging and cannot be pigeonholed in one set of process. Approaches to community participation that are based on the development of partnerships are continuously evolving. The experience gained, for example, in the Low Income Housing Project in Sri Lanka cannot simply be adopted in the JFPR Payatas and Muntinlupa projects in the Philippines.

41. **Capital.** Capital is crucial for developing and managing cities. As shown in Figure 6, ADB's investments in infrastructure in 2002-2005 represented a little more than 1% of the of the infrastructure requirements. In order to effectively respond to the needs of the urban poor, ADB experience identifies both the supply side of finance (from the governments, private sector, NGOs and development partners) and the demand-side including social mobilization, possible cost recovery mechanisms and subsidies. The Cities Alliance provided \$500,000 to finance the technical assistance on City and Development Strategies in Azerbaijan. The Development of Urban Poor Communities Project has taken this approach in the implementation of housing for low-income families. Facilitating capital flow to smaller financing units, such as communities through, for example credit guarantee schemes, is being initiated in some cities.

42. **Capacity Development.** In many cities there exists a compelling need for better services but initiatives from the government and particularly from external funding agencies have been stymied because of poor governance and weak implementation capacities of concerned government agencies. A case in point is the total absence of major external funding multilateral development banks or donors for urban infrastructure in Dhaka, after the lesson learned from the first initiatives by World Bank and ADB.

43. The Integrated Urban Infrastructure Development Project (IUIDP)<sup>9</sup> in Indonesia is a good example of the integrated approach espoused by ADB to address the challenges that accompany the growing phenomenon referred to as "city-region"<sup>10</sup>. The IUIDP has demonstrated that the integrated approach for urban infrastructure development allows objective-oriented modifications of project design and components, which is very effective in improving the urban living environment. It has also shown that the success of the IUIDP approach, especially proper operations and maintenance, depends on how well the implementation arrangements facilitate community participation for a sense of ownership. See Box 6.

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<sup>9</sup> Three Integrated Urban Infrastructure Development Projects:  
PPA: INO 22264 Secondary Cities Urban Development (Sector) Project, November 2000.  
PPA: INO 23212 Botabek Urban Development Project, November 2000.  
PPA: INO 21104 Bandar Lampung Urban Development Project, November 2000.

<sup>10</sup> This term refers to an urban agglomeration composed of a core city and immediately adjacent towns forming one contiguous area and whose respective economies are intertwined.

### **Box 6. Integrated Urban Infrastructure Development Projects in Indonesia**

Secondary Cities Urban Development Project, Botabek Urban Development Project, and Bandar Lampung Urban Development Project are the first integrated projects urban infrastructure development projects in Indonesia. Completed in 1996, the three projects included eight similar physical components namely water supply, drainage, sanitation, solid waste, *Kampung* Improvement Program (KIP) and market infrastructure improvement program, urban roads, and guided land development (GLD). The water supply component accounted for over 30 percent of the project cost. Based on evaluation of these projects the IUIDPs are most appropriate for project cities with a population of 100,000 – 500,000 and have several advantages over stand alone projects. The IUIDPs have more flexibility in responding to changing needs, have the ability to incorporate environmental and social concerns and have opportunities for improving urban management.

44. **Compliance.** The ability of governments and cities to proactively comply with ADB's safeguard policies directly affects development effectiveness. The Pasig River Rehabilitation Project which encountered delays due to resettlement issues could not achieve its intended purpose. On the other hand environmental projects like the Beijing Environmental Improvement Project in PRC that have designed the project consistent with the city's environmental strategy and the national policy framework significantly contributed to the city's economic efficiency, reduced poverty and improved the environment and conserved natural resources.

45. **Commitment.** Based on experience with several urban projects city-level ownership, stakeholder participation and commitment determined project success. The Bandar Lampung Urban Development Project in Indonesia is one of several examples where well established ownership of the project by the local government and communities confirmed the sustainability of the facilities provided by the project.

46. The MDGs define a set of goals and targets at the national level. Likewise, where cities establish clear targets and report results residents monitor how city performs and participate with interest and commitment. As demonstrated by Dalian Water Supply<sup>11</sup> in PRC the project delivered tangible benefits for all consumers within a specified period of time. Consequently, consumers accepted higher tariffs in exchange for a more reliable and adequate supply of water.

## **VII. WAY FORWARD: AN URBAN SECTOR STRATEGY FOR ASIA AND THE PACIFIC**

47. ADB is committed to supporting DMCs in more effectively addressing the challenges and capitalizing on the opportunities brought about by the pace and scale of urbanization in the region. In this context, ADB is undertaking a review of the Urban Sector Strategy in 2005 to focus the changing need for Asian cities to seriously consider putting more emphasis on the urban sector in their strategic development framework.

48. To better finance city development, the Urban Sector Strategy shall provide a development framework under the principles of participatory governance, effective institutional and regulatory structures and improved human capabilities and resources.

49. Recent initiatives have helped DMCs and cities create the enabling environment for private sector investments. More recently, ADB has launched local currency bond issues in several regional countries as part of its strategy of stimulating capital market. It sold Malaysian ringgit denominated bonds in November and Indian rupee bonds in January 2005. In the Philippines, ADB plans to issue peso bonds in the second quarter of this year to fund an ADB peso loan that is being finalized. It plans to sell one billion Yuan bond in PRC within the next

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<sup>11</sup> PPA: PRC 25013 Dalian Water Supply Project, November 2003.

few months. Continuing urban growth dictates the necessity to mobilize significant levels of resources from various sources.

50. ADB is likewise exploring the possibility of lending to subnational governments and of increased financing flexibility such as financing recurrent expenditures to improve the economic life of infrastructure assets. These reforms are expected to better position the cities to a more competitive advantage while taking the challenge of halving the proportion of people in extreme poverty in 2015.

51. Aside from these new products in financing the city, new thinking and approaches are being considered in the revised Urban Sector Strategy in the light of emerging issues. The nature of urban issues is increasingly becoming more complex requiring more than single sector stand-alone projects. For example, addressing the emerging challenges of the city-region wherein issues are multi-sectoral and inter-jurisdictional. In a city-region, for example, poverty or environmental problems are very much an inter-sectoral urban development issue requiring interventions that encompass several city jurisdictions and inter-sectoral approach. These innovative approaches may also require a complementary strategy to build and continuously strengthen institutional and human capacities as rapid urban growth invariably entails changing conditions and evolving challenges. The capacities of government at all levels as well as its partners in local communities and the private sector need to keep abreast of these changes.

52. Collaboration between development partners are providing financing and expertise to achieve common goals. Together with Cities Alliance (CA) ADB is engaging cities to achieve coherence of efforts to reduce urban poverty through the city development strategy and “Cities Without Slums” action plan. In partnership with the UN-Habitat, the ADB is also playing a significant role in the Water for Asian Cities Program and is promoting networking of water

utilities in the region (SEAWVN). Together with the World Bank, ADB is supporting The Clean Air Initiative for Asian Cities (CAI- Asia) to address the growing problem of air pollution through an integrated, multi-disciplinary and action oriented approach to urban air quality. ADB is similarly collaborating with GTZ, the Mayors Asia – Pacific Environmental Summit (MAPES) and other organizations in providing a forum for discussions on the state of cities and the sharing of knowledge, experience and best practices. With the Japan Fund for Poverty Reduction co-financing, ADB has prepared several innovative pilot projects that have led to larger project investments and benefited a greater number of poor households. ADB is further strengthening its collaboration with several development partners, including donor agencies (UN Habitat, Cities Alliance, GTZ), to help the DMC's effectively meet the Millennium Development Goals.

53. With Asia's urban population projection to be half of the total population within this century, Asian cities need to collaborate, exchange information and best practices and learn together.