

**THE WORLD BANK URBAN & LOCAL GOVERNMENT  
STRATEGY**

**CONCEPT & ISSUES NOTE**

**FINANCE, ECONOMICS & URBAN DEPARTMENT  
SUSTAINABLE DEVELOPMENT NETWORK**

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### CONCEPT & ISSUES NOTE

#### A. Background and Rationale

1. ***Urbanization is a defining phenomenon of this century, and the developing world is the locus in which this demographic transformation is taking place.*** In the decade since the preparation of the last Bank urban strategy, the world has become, for the first time, more than half urban. The world's urban population has reached 3.3 billion and by 2030 is expected to grow to almost 5 billion.<sup>1</sup> The locus of this enormous global demographic transformation has shifted to the developing countries with over 90 percent of urban growth now occurring in the developing world.<sup>2</sup> It is projected that urban populations in developing countries will grow by almost 2 billion over the coming twenty years, equivalent to almost 70 million each year. Urban populations in Africa and Asia will double in this period. By 2030, developing countries will have 80 percent of the world's urban population.

2. ***The emergence of secondary cities as the driving forces of urban population growth and their role in development will require a shift and a more diversified approach to urban development assistance.*** While much media attention is focused on mega-cities and on the rapid pace of urban growth, urban growth rates are actually slowing down in many larger cities. In fact, about half of urban growth is occurring in medium-sized and small cities of about 500,000 and fewer, which now host about 52 percent of the world's urban population.<sup>3</sup> As stated in the World Bank's recent World Development Report 2009 (WDR 2009) – *Reshaping Economic Geography*<sup>4</sup>, the main challenge for the urban policy maker is to understand the importance of managing this system of cities or “portfolio of places” (of different sizes and vocation) within a country so as to maximize the benefits of agglomeration economies, while ensuring a smooth urban transition.

3. ***The benefit of agglomeration economies is attracting national-level attention.*** With more than half of GDP coming from cities, the economic future of most developing countries will be determined by the productivity of these burgeoning urban populations. As the WDR 2009 points out, urbanization is necessary for growth but is not sufficient to assure it. This interdependency between macro-economic performance and urban welfare has been seen in the aftermath of macro-economic crises in Argentina, Brazil, East Asia, and Russia, where the poor have fallen farther than their middle class counterparts.<sup>5</sup> On a global basis about 75 percent of economic production takes place in cities. Developing countries are rapidly increasing the urban shares of their GDP, with most countries already surpassing the 60 percent level. Growth has also been accompanied by changes in the composition of production and consumption in many countries, with resulting new patterns of trade between countries and continents. Patterns of urban

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<sup>1</sup> The State of the World Population 2007: Unleashing the Potential of Urban Growth, (New York: UNFPA, 2007), p.1

<sup>2</sup> State of the World's Cities 2006/7, UN-Habitat, (London and Sterling, Virginia: Earthscan, 2006)

<sup>3</sup> Ibid, p.9

<sup>4</sup> World Development Report 2009 – *Reshaping Economic Geography*, World Bank, 2009.

<sup>5</sup> Samuel Morley, “Urban Poverty and Macro-Economic Performance”, UN Economic Commission for Latin America, 1998; Alberto Minujin and Eduardo Anguita, *La Clase Media: Seducida y Abandonada*, (Buenos Aires: Edhasa, 2004)

concentration have become important parts of this process, with countries benefiting from agglomeration economies to achieve increasing levels of productivity. The benefits of agglomeration have been well-documented in East Asia where cities have been a major part of rapid economic growth in countries such as China, Japan, Korea, or Malaysia.<sup>6</sup> The case of China is most revealing, with 50 percent of GDP generated in coastal areas accounting for only 20 percent of the territory. Many of the Bank's client countries have cities that wish to emulate China's experience and local economic development approaches are in high demand.

4. ***There is also increasing recognition of the benefits of urbanization on poverty reduction in aggregate terms.*** The UNFPA studied the impact of urbanization on poverty reduction in 25 countries and concluded that urbanization had a significant effect in this reduction, for example in Bolivia where 28.3 percent of poverty reduction from 1999 to 2005 came from urbanization, while the number is 17 percent in Brazil for 1999 to 2004.<sup>7</sup> In China, the percentage of rural poor living in extreme poverty fell from 36% to 5% in the last 30 years. This was due to explosive urbanization during the same period.

5. ***Yet, over time, poverty is increasingly urbanizing.*** Across all the regions where the Bank is engaged, the share of urban poverty is increasing, with the exception of ECA<sup>8</sup>. More than a billion people today live in urban slums in developing countries fueled largely by in-migration from rural areas. The persistence of informal settlements in peri-urban areas in places like Cairo, Brazil, and several growing cities in Africa poses a special challenge given the ambiguity of status of recent migrants to cities. The expansion of urban slums are generally characterized by an absence or lack of infrastructure services such as water supply, sanitation, electricity, and solid waste management, in addition to land tenure security problems, inadequate housing and weak or limited social services. Inner-city slums have been identified as the nexus of vulnerability in urban areas with characteristics ranging from income poverty, poor housing, inadequate infrastructure and services, crime and violence, evictions, and now, increasingly, man-made and natural disasters.<sup>9</sup> The growth of urban slums was recognized in the Millennium Development Declaration establishing goals in 2000. 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 avoid further expansion of informal settlements and urban slums.

6. ***Dysfunctional land markets are a core constraint for urban development today.*** Access to land in cities and urban areas for both commercial and residential development represents one of the most critical binding constraints facing governments in most developing countries, with many negative implications on growth as well as on poverty alleviation. In terms of access to land for residential purposes, the magnitude of informality in urban land and housing markets and the increase over time of extra-legal development is a strong indication of the crisis in access to land. According to UN-Habitat's report on the challenge of slums (2003), 43% of the total urban population in developing regions lived in slums in 2001, with the share of slum dwellers to total urban population reaching its highest level at 72% in Sub-Saharan Africa. UN-Habitat projects that the slum population could reach as many as 2 billion slum dwellers by 2030, if it is not

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<sup>6</sup> Shahid Yusuf and Kaoru Nabeshima, Post-Industrial East Asian Cities: Innovation for Growth, (Washington and Stanford: World Bank and Stanford University Press, 2006)

<sup>7</sup> UNFPA, op.cit., p.36

<sup>8</sup> Martin Ravallion, Shaohua Chen and Prem Sangraula, "New Evidence on the Urbanization of Global Poverty," Policy Research Paper No. 4199, 2007, World Bank, Washington, DC.

<sup>9</sup> UN Habitat, Global Report on Human Settlements 2007: Enhancing Urban Safety and Security, (London and Sterling, Virginia: Earthscan, 2007)

addressed. These figures signal a major affordability problem in terms of access to land (and housing) and reflect the many severe distortions affecting urban land markets.

7. ***Decentralization is under way to a varying extent in all of the regions where the Bank is engaged, but a harmonized approach within the Bank in responding to demand for assistance is not yet in place.*** A recent IEG report<sup>10</sup> documents the range of different project experiences where the Bank has been engaged in the area of decentralization across different Bank departments and finds gaps and the absence of a harmonized approach as being a key shortcoming. In many countries, the complexity of the process itself has left disconnects between expenditure and revenue assignments, outdated legal and regulatory frameworks and, often, administration decentralization is observed to be well in front of fiscal decentralization. Going forward, there will need to be a greater effort within the Bank and donor partners to agree on a conceptual approach with analytics, processes, and policy recommendations that are better harmonized and coordinated.

8. ***The impact of climate change will fall disproportionately on the urban poor.*** The fore-mentioned developments all come at a time of increased global awareness of climate change and the likelihood that urban areas will be heavily affected.<sup>11</sup> A majority of the world's cities are on coasts or river flood plains, especially mega-cities like Mumbai, Tokyo, and São Paulo. The increased vulnerability of urban systems and sectors to climate change impacts poses numerous dilemmas for decision makers and stakeholders at the local, national, and regional level. Although it is difficult to precisely estimate the number of people who are at risk from extreme weather events and sea-level rise, a recent worldwide analysis has shown that approximately 600 million people currently live in the low elevation coastal zone, which is the area along the coast that is less than 10 meters above sea level.<sup>12</sup> 360 million of these people live in urban areas, thus increasing their vulnerability to climate change impacts considerably. These specific climate changes risks must be understood in a context of deteriorating environmental health conditions due to rising air pollution, GHG emissions and significant risks to urban water supply due to mismanagement of watersheds in many instances. Linking environmental health, energy efficiency and livability concerns, leading cities are now considering how to build sustainability into the way they plan for the future. This has important climate change co-benefits, since a greater emphasis on public transit, higher density, and encouragement of energy efficient buildings with better facilities management, contribute to these local goals while also reducing the cities GHG footprint. And, current and possible future financial flows being considered under the UNFCCC negotiations, such as those coming today from the Clean Development Mechanism, could support an acceleration of the needed investments.

9. ***The evolving nature of the urban agenda requires a rethinking of our approach and methodologies.*** With the exception of climate change, most of these issues are not new and have been the subject of extensive policy discussion and research in both rich and poor countries. The response of the international community has evolved considerably over time, from pilot experiments with low-cost housing in the 1960s, to sites and services and slum upgrading in the

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<sup>10</sup> Independent Evaluations Group (IEG). (2006) Decentralization in Client Countries: An Evaluation of World Bank Support, 1990 - 2007. World Bank: Washington DC.

<sup>11</sup> UNDP, Human Development Report 2007/2008: Fighting Climate Change, Human Solidarity in a Divided World, (New York: UNDP, 2007), David Satterthwaite, Saleemul Huq, Hannah Reid, Mark Pelling, and Patricia Romero Lankao, Adapting to Climate Change in Urban Areas: The Possibilities and Constraints in Low and Middle-Income Nations, Human Settlements Discussion Paper Series, Climate Change and Cities 1, (London: IIED, October 2007)

<sup>12</sup> McGranahan, G., D. Balk, and B. Anderson. The rising tide: assessing the risks of climate change and human settlements in low elevation coastal zones. *Environment & Urbanization*. 19(1): 17-37. April 2007.

1970s, municipal management in the 1980s, policy reform in housing and land markets, coupled with privatization of infrastructure in the 1990s, and more recently towards city development strategies sponsored by the Cities Alliance and other international initiatives. The portfolio of international urban aid had by the year 2000 reached more than 11,000 cities and towns in the developing world.<sup>13</sup> A key question going forward will be how we ensure that future interventions have meaningful impacts that matter most to our counterparts in developing countries.

## **B. Assessment of the World Bank's Urban Strategy & Portfolio Performance**

10. ***An evolving approach to Urban Development Policy.*** The Bank's urban strategy – *Cities in Transition: World Bank Urban and Local Government Strategy* – was issued in 2000. It was a well-received document that reflected a thoughtful vision for how to look at the challenges posed by growing cities. The general consensus is that the four pillars of the strategy – livability, good management and governance, competitiveness, and bankability – remain the key qualities or attributes that will need to guide city development over the coming years. The strategy remains valid in the way it frames many of the key city challenges; however, recent and pressing developments, including rapid urbanization, decentralization, food security, volatile prices and supply of energy, the global financial crisis, climate change, and the increasing recognition of the role cities play in national economic development, are compelling reasons to review the urban agenda and ensure that the Bank, in conjunction with its development partners, remains relevant and positioned to fulfill its intellectual leadership role.

11. ***Urban Portfolio Performance.*** The World Bank's portfolio of development assistance, like its member countries, has been urbanizing over time. Since its first urban lending operation was approved in 1972, a sites and services project in Senegal, the Bank has financed investments and technical assistance in more than 130 countries and within those countries, in more than 7,000 cities and towns.<sup>14</sup> The urban portfolio has included investment in shelter, infrastructure, slum upgrading, municipal development, environmental improvements, and social services. The current active portfolio includes more than 155 operations in more than 60 countries amounting to US\$10.3 billion in lending commitments.

12. ***Upsurge in Urban Lending.*** Over the past five years, the Urban Portfolio<sup>15</sup> has rebounded significantly, nearly matching its peak during the period 1985-89 in lending volume. Moreover, the number of investment projects during the same period is nearly double that of all previous five year periods<sup>16</sup>. This remarkable increase follows a period of consistent decline over the 15 year intervening period as reflected in the Chart below. While the decline occurred in parallel with an overall reduction in overseas development assistance and a shift of the Bank away from infrastructure lending, factors likely contributing to the subsequent increase in lending are (i) increased client demand, (ii) impact of the Bank's Infrastructure Action Plan (FY2004-7), and (iii) a significant increase in urban analytical work.

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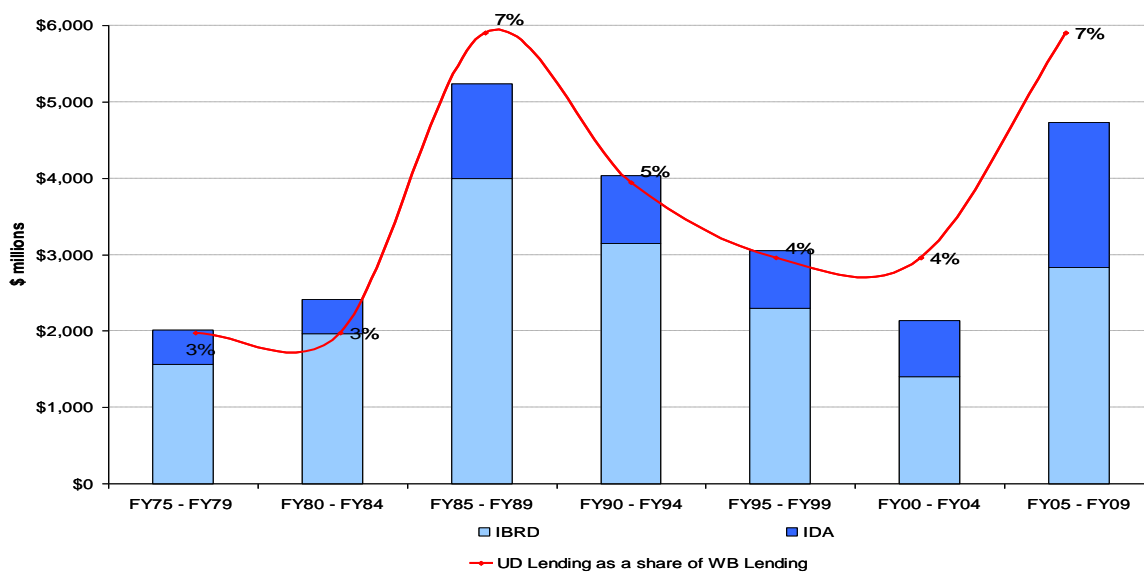
<sup>13</sup> Estimate by Michael Cohen, "Urban Assistance and the Material World: Learning by Doing at the World Bank", *Environment and Urbanization*, Vol.13, No.1, April 2001, pp.37-60

<sup>14</sup> Cohen, *op.cit.*

<sup>15</sup> For the purposes of this review, portfolio data refer to the composite total of entire projects or project components that address one of the four urban development thematic areas extracted from the Bank's Business Warehouse. These numbers do not include all activities financed or undertaken in urban space.

<sup>16</sup> See Annex 2 for a more detailed breakdown of the Urban Lending and AAA portfolio.

**Chart: Urban Sector Lending by IDA/IBRD Share & as Percentage of Total WBG Lending**



13. **Evaluations of the Bank’s Urban Strategy and Lending Portfolio suggest mixed results.** Two urban sector reviews (by QAG and OED)<sup>17</sup> have been carried out since the issuance of the Bank’s last urban strategy. Both address the urban strategy itself, and, generally, arrive at similar conclusions. Overall, their findings confirm that the urban sector has a “solid analytical sector strategy, providing an overall framework that is understood and supported by urban staff and well-regarded externally.” However, these reviews go on to note that the Strategy has had limited impact. Specifically, a major advocacy effort is recommended that “puts the urbanization challenge facing the developing world more centrally in the Bank’s corporate agenda.” In addition, the reviews both point out the need for a clearer direction in the urban sector with clearer product lines. The QAG review concludes that there is a need to ensure a “better balance of efforts for analytics and advocacy, even if that means temporarily reducing some resources directed to operational services, in order to be more effective at the corporate level.”

14. **Overall, the Bank’s Urban Portfolio has been performing well.** Over 80% of the urban portfolio is rated *satisfactory* or above, which is higher than the Bank-wide average. This reflects historical trends in which urban operations have typically performed above the Bank average according to most criteria. However, preparation time for urban operations tends to be higher than the Bank average and preparation costs also tend to be higher. In addition, average project size is small relative to Bank-wide lending and the use of wholesaling instruments focusing on policy reforms (Sector DPLs), and programmatic approaches (APLs) both fall below Bank averages. These observations would need to be further considered in thinking through the ways in which the Bank’s urban teams will respond with more innovative approaches, delivered in less time, to an increased demand for projects by an expanding number of secondary cities. In general, it is

<sup>17</sup> Urban Development Sector Board Assessment, World Bank Quality Assurance Group (QAG), July 29, 2003, and Improving the Lives of the Poor Through Investment in Cities: An Update on the Performance of the World Bank’s Urban Portfolio, Operations Evaluation Department (OED), Roy Gilbert, World Bank, 2003.

recognized that Bank-supported urban projects have been more successful in implementing physical infrastructure than in helping to build sustained local financial and technical capacity. These areas would need to receive special attention under the new strategy.

**15. *Reviewing specific indicators from the 2000 Urban Strategy, many targets have been met without clearly impacting urban development.*** Several building blocks were established under the 2000 Urban Strategy, including: (i) support for national urban strategies; (ii) launching of city development strategies (CDS) – through Cities Alliance; (iii) scaling up services to the poor; and (iv) enhancing capacity building. Generally, these targets have been met, but national urban strategies have often taken the form of a topical focus on one or more key urban issues rather than taking stock of the broader urbanization process across the national landscape. This and other factors have likely contributed to the limited presence of urban issues in Country Assistance Strategies. Cities Alliance is now in its 10<sup>th</sup> year of operation and has supported over 100 city development strategies over the past decade in 48 countries, of which some 11 are multi-regional in nature. Several CDSs have been considered best practice, though some concern has been noted about linkages to follow up investments. WBI has launched a training program on slum upgrading and Cities Alliance has supported up to 91 upgrading programs through 2008, 83 of which were country specific and 8 multi-regional.

### **C. Objectives and Guiding Principles**

**16. *There is a need to recognize that urban settlements can no longer be viewed in isolation but need to be understood as part of a “System of Cities” in a country.*** As economic development occurs and nations move from dispersed agrarian activities to manufacturing and services, the composition of the places where economic activity takes place may be characterized by three distinct urbanizing areas. This system of cities or portfolio of places as documented by the recent WDR 2009 has the following characteristics: small towns more adapted to rural markets and activities (but due to lower land-rent values are generally best to take advantage of internal scale economies), medium-sized cities (which benefit from localization economies), and large cities able to provide the urbanization economies required by firms and entrepreneurs. While this classification is useful for understanding the urban system and the phenomenon of urbanization, it increases the demands on national governments and the Bank to understand and address this increased complexity. This reality presents the Bank and other development agencies with a new area of focus in urban development over the coming decade, particularly regarding the need to expand scope and coverage of development assistance, as well as ensuring that the urban agenda is squarely addressed at the national level.

**17. *The new Urban Strategy would focus on six objectives that underpin a new World Bank approach to meeting the urbanization challenge.*** These objectives would build on the Bank’s comparative advantages, drawing on inputs from a range of different sector expertise across the World Bank Group, provide a viable and meaningful basis for engagement with partners, and better align the Urban Development approach to the Bank’s corporate mandate of fighting poverty. Specifically, the objectives would be oriented toward: (a) understanding and adapting to key developments over the past decade that have had an impact on urban development and city issues; (b) elevating the urban agenda to the national level, recognizing that a holistic approach to understanding and responding to urbanization challenges is necessary and that national governments will need to play a key role; (c) formalizing and creating instruments to improve efficiency at the retail level (more standardized and better tested products and approaches) that can improve response time, enable scaling up of assistance, and anticipate the need for more integrated approaches; (d) developing and mainstreaming analytical tools, our global knowledge base and datasets on which our operational interventions heavily depend; (e)



better aligning the urban strategy with the MDGs and the Bank's corporate agenda; and (f) exploring how best to coordinate and leverage the Bank's work among donors and development partners.

18. ***The conceptual framework elaborated in WDR 2009 will provide an important approach to urbanization going forward.*** The new Urban Strategy provides a unique opportunity to harness and operationalize the messages of the WDR 2009 which explores the relationship between scale economies and urbanization. The linkages of policies and institutions for integration between the rural-urban space will be one critical area of focus. Accordingly, a section of the Urban Strategy would give special attention to the spatial dimension of urbanization, drawing on the WDR 2009 messages, and would place particular emphasis on messages to national decision-makers who oversee agencies dealing with land, housing and infrastructure services that do not fall within the scope of city mandated functions but have a bearing on development outcomes at the city level.

19. ***The approach applied to this Sector Strategy will begin with a stocktaking of recent developments.*** Here, the Strategy would review new trends, focusing in particular on global public goods and the climate change agenda, the impact of the global financial crisis on local governments, the demographic transformation and its implications for cities, refocusing on urbanization from a growth perspective, weighing trade-offs between the need to attract investment and create jobs in cities with approaches to accommodate new migrants with adequate and affordable housing and services.

20. ***Six Strategic Pillars will be elaborated with a three-part analysis.*** The Strategic Pillars would comprise the following: (i) Cities and Economic Growth; (ii) City Management and Governance; (iii) Urban Poverty and Slum Upgrading; (iv) Urban Planning, Land & Housing; (v) Intergovernmental Fiscal Relations and Municipal Finance; and (vi) Urban Environment & Climate Change (including Natural Disaster Management & Risk Reduction). The structure of the analysis of each theme will be the same. Each will begin by taking stock of new facts, trends, analysis, and opinions on each theme. The assessment will ask how these new developments change the way we think about these problems internally, how they change conventional wisdom or the message that we have been delivering to clients and what products are needed to be effective in addressing problems or taking advantage of new opportunities. This three-part analysis is being covered in background papers prepared for each theme. Since each pillar corresponds to a line or lines of ongoing business for the Bank, there is considerable knowledge and information on hand.

21. ***A focus on Strategic Pillars linked to the Urban Business Lines will help to clarify and bring focus to these business lines.*** The six strategic pillars together comprise most of the issues facing urban policy makers and leaders. The pillars themselves represent distinct objectives related to urbanization but additionally serve to organize the Bank's current lines of business. This will allow the report to link specific types of Bank advice and operations to particular questions that our clients face.

#### **D. Operationalizing the Strategy**

22. ***Linking Urban Strategy preparation efforts to upstream dialogue and information exchange.*** In addition to the six background papers, several learning events have been organized under the Urban Strategy Speaker Series to discuss key issues addressed in each thematic area, which together constitute important intermediate outputs. These fora would be used to exchange views, present research and share information with key stakeholders within the Bank and

externally, generally across the main audience groups that the strategy is aimed to serve. An advisory panel has also been established to provide insights on early draft outputs and to ensure that key concerns and interests are being picked up leading into the preparation of the final strategy document.

23. ***Efforts would be made to link the Bank-wide and regional urban strategies.*** The Strategy would review the specific emerging challenges and trends in each region and attempt to link proposed instruments, interventions strategies, and global knowledge products to the regional needs as they emerge in the review process. To ensure consistency between the Bank-wide and regional urban strategies, the strategy would be prepared in parallel with updates of the urban strategies in the Bank's six operational regions. Special sessions were set up at Urban Week (March 9-12) in which Bank-wide and regional urban strategy teams presented emerging messages, ideas and realities on the ground to ensure good fit between the regional and Bank-wide strategy. This measure is intended to align the regional approaches to urban development with the Bank's overall strategy, reflecting both regional priorities and the corporate agenda and will help to avoid the disconnect that was apparent in implementing and achieving results linked to the 2000 Strategy. In addition, beyond the urban sector, efforts are being made to coordinate with sectors preparing new strategies in energy, environment, among others, as well as to align messages with recent strategies on transport and health, among others.

24. ***A Proposed New Tool – the Urbanization Review – would for the first time provide an opportunity to review urbanization trends using an integrated and multi-sectoral approach.*** The objective of the Urbanization Review is to provide policy makers at both the national and local level with a tool to understand how urbanization is occurring in a given country or region, the challenges it faces and how to improve the chances for an efficient urban transformation. This tool and methodology, which would be fully developed by the first year of the Strategy's implementation, would be elaborated in several modules and designed around the many sectors on which urbanization has a bearing – demographics, labor migration, urban transport and other infrastructure services, land markets, and intergovernmental fiscal systems would all need to be assessed within this framework. As such, it will require enhanced collaboration and coordination within and across Bank Networks, including SDN, PREM and HDN, but also IFC/FIAS. The aim is to provide national leaders and policy makers with a comparative analytic framework for the different types of urbanization patterns taking place globally that could be used to derive different and contextually appropriate policy responses. Ideally, it would be used as an input to Country Assistance Strategies.

25. ***Developing a New Generation of Knowledge Products.*** The process of preparing a new Urban Strategy also presents the opportunity to review the relevance, timeliness and utility of the Urban family's Knowledge Products. A particular focus would be on developing global knowledge products that combine innovation with modular approaches that would be aimed at reducing preparation time and cost. This element of the strategy is intended to respond to the short political tenure of city officials and the anticipated increase in demand for Bank urban operations in the context of rapid urbanization and increased demand to focus on supporting agglomeration economies. Early indications suggest the need to respond to emerging demand in the areas of climate change, documentation and dissemination of good practice experience across all sub-sectors, enhancing data on cities and urban settlements at the aggregate level, in addition to providing practical and sound analytical approaches to understanding urbanization. In addition to the Urbanization Review described above, a number of new analytical and resource tools are now under consideration, including development of a Greenhouse Gas Index (GGI) at the city level, preparation of an Urban ICT toolkit, launching a new Urban Governance Program and advancing the Bank's support for the Global City Indicators Program (GCIP). All of these would

be undertaken with partners in order to share expertise and reach agreement on harmonized standards and approaches to the extent possible.

26. ***The new Strategy would also explore the use or expanded use of a different blend of the Bank’s Financial and Investment Instruments.*** A recent review of the Bank’s Urban Infrastructure Funds, typically using FIL instruments, notes a decline over the past several years in the use of these funds but underscores their utility in wholesaling approaches to financing local governments<sup>18</sup>. Such an approach will become increasingly important in countries where growth in secondary cities raises the need to expand the scale and reach of Bank financing. The Urban Sector has also not taken full advantage of Sector Development Policy Instruments that could be more effectively utilized in focusing on needed policy reforms (an area lagging behind in the urban sector) as a complement to infrastructure investments. Finally, Specific Investment Loans (SILs) are increasingly being used to bundle and leverage global facility resources, including GPOBA, PPIAF, Carbon Finance Credits, and the like, but not to the fullest extent. This would be further explored under the Strategy, along with a new instrument – the Programmatic SIL – which is now under development that enables bundling of institutional reforms with investments based on specific agreed outcomes. All of these instruments would be considered under the new Strategy as complements to the Sub-National Finance Program (SNFP), which provides a range of financial products and services directly to local governments without the need for a sovereign guarantee.

27. ***Diversity among regions and across special country groupings will require a cross-cutting approach to address relevant issues of topical interest.*** Throughout the strategy, an attempt will be made to identify where distinctions are appropriate between regions, Middle Income Countries (MICs), IDA countries, and Fragile States to reflect that the Strategy is not assumed to be proposing a “one size fits all.” approach.

28. ***Leveraging the World Bank Group’s comparative advantage of multi-sector expertise across networks and facilities.*** The urban sector is well-positioned to fulfill the role of the “integrator” function in managing dialogue at the national and local government level on urban affairs, but its effectiveness will depend on how internal partnerships are structured and leveraged. The preparation of a new strategy and its implementation will provide critical opportunities to maximize the outreach and impact of such knowledge and expertise, including advising clients about the “Energy Efficient Cities” Program of the Energy Anchor, mobilizing technical assistance for financial management and credit rating assessments from PPIAF, mobilizing resources from Cities Alliance, coordinating interventions using IFC/FIAS sub-national ICAs, Doing Business Assessments, among a myriad of other resources and programs that can provide support to cities and national governments in support of urban development.

29. ***An assessment of human and financial resources implications of the new Strategy will be reflected in the document.*** This assessment will include close coordination with regional urban sector units regarding human resource planning, assessing the existing and needed skills mix, as well as identification of training and recruitment needs. Financial resource requirements will depend in part on the response of other donors, some of whom have indicated in interest in providing support in specific areas, potentially through trust funds. Upstream discussions with Global Facilities have also indicated some scope for mobilizing resources. In all cases, the Strategy Paper would recognize today’s resource-constrained environment and would place heavy emphasis on being selective and focused in pursuing new initiatives.

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<sup>18</sup> Patricia Annez, Gwenaëlle Huet, and George Peterson, Lessons for the Urban Century: Decentralized Infrastructure Finance in the World Bank, Directions in Development Series, The World Bank, 2008.

30. ***Communications & dissemination strategies will need to be enhanced at the Urban Anchor and across the regions.*** With greater decentralization of Bank staff to the regions over the past decade, the knowledge sharing and dissemination function of the Urban Anchor will take on increasing importance. In parallel with the formulation of the new strategy, the Urban Anchor has engaged a Communications Specialist to assist in assessing the current methods and dissemination strategies of the Anchor. One measure already taken has been the launching of the new *DIRECTIONS in Urban Development* issues note series. This bi-monthly publication serves to provide timely and focused responses to emerging trends and topics of interest to cities, towns, national governments and development partners in urban development. Following issuance of the new Strategy, efforts would be made to use the issues note series and other communications tools to extend the reach of its messages to key constituencies.

## **E. Results Framework**

31. ***The development of a results-based framework will be a key area of focus for the new Urban Strategy.*** The results framework will specify key milestones for measuring inputs, outputs, outcomes and indicators of progress within a specific time horizon. Emphasis will be placed on areas where the Strategy has a direct bearing on improving knowledge, developing new financial and technical assistance instruments, and on assessing fulfillment of the Strategy's Key Objectives. A careful but important distinction will be made between the initiatives and actions proposed for the Bank (where the Bank would need to take responsibility for delivery and quality control) and areas to be influenced by the Strategy over which the Bank would have no or limited control. In the latter case, Urban Strategy implementation would be assessed on the basis of its impact and effect in changing the way client countries and development partners respond to the Strategy and its messages.

32. ***To ensure that there is effective follow-up during the implementation phase, a Monitoring and Evaluation Plan will be prepared for the Urban Strategy.*** This would be agreed with each of the six regional urban units to ensure buy-in and ownership across all six of the operational units. As a complement, the Urban Anchor is also supporting Bank-wide efforts to strengthen results monitoring by working across all Thematic Groups to identify specific performance indicators that will become a mandatory element of project design and supervision across the six urban business lines. The aim is to improve our understanding and reporting of results, while also helping to standardize and improve project performance, both at the design and supervision stages. Mid-cycle reporting procedures and milestones would be agreed within the new OPCS guidelines currently under discussion with CODE.

33. ***Updating the Bank's Urban Thematic Codes.*** In the course of reviewing the Bank's urban portfolio, an urgent need was recognized to revamp and overhaul the existing urban thematic codes. The current coding system using large aggregate categories that prevent assessment of the performance of the Bank's urban business lines, in terms of quality control, lending volumes, and impact/outcomes. OPCS is currently revamping the sector/thematic coding system and has welcomed the proposal of the urban team to consider revisions to these codes. Realigning these codes would contribute to more effective results monitoring, while helping to sharpen the urban business lines.

## **F. Partnerships**

34. ***Knowledge Management & Partnerships:*** The renewed interest in urbanization and city development has led to a significant increase in the interest and in the production of knowledge at the operational and research levels. New and old partners are emerging with ideas, approaches,

and concerns, capitalizing and contributing to the multi-sectoral approach of the urban field. At the bilateral level, sustainability as well as city form and inclusion are now recurrent themes in all urban bilateral agendas. A key element of the envisaged partnerships will be to harmonize approaches and to mobilize resources, bearing in mind the resource constraints of the Bank and other bilateral donors and the need to place heavy emphasis on being selective and focused in pursuing new initiatives.

35. ***Cities Alliance and the United Cities and Local Governments (UCLG) will remain key partners both during the Strategy preparation process and throughout implementation.*** Recent discussions with Cities Alliance, for instance, have opened up new possibilities for collaboration on a policy-based approach to slum upgrading that would be supported by a \$15 million grant Cities Alliance recently received from the Gates Foundation. The Urban Anchor is also in the process of establishing a structured dialogue with UCLG to institutionalize its coordination efforts and strengthen its partnership.

36. With the decentralization of Bank operational work to country offices, increasingly knowledge production has moved to the field. In addition, a large portion of the knowledge and learning is being generated through external partners. This has caused a decoupling and localization of knowledge products while our clients look to the Bank for global knowledge. The Urban Anchor in partnership with WBI would play a key role in recoupling and convergence of the knowledge between the development partners, the Bank field offices and HQ for global knowledge sharing and dissemination.

37. ***Partnership Platforms will be explored as a way of reaching out, connecting with and networking across various sources of urban development knowledge and good practice.*** The Anchor is ready to rebuild its role and function as a knowledge leader. This would be carried out through partnerships with universities and institutes at the center as well as in our client countries. The emerging partnership with Singapore on the World Cities Summit (June 2009) and as a capacity building hub for South and East Asia, as well as the Middle East (in partnership with the East Asia Region and WBI ) is an example of this. A joint WB Anchor/WBI approach would be agreed on ways to foster the development of other regional training centers and capacity building hubs, through wholesaling approaches that enable the Bank to effectively work with and empower regional urban centers of excellence. The Anchor also proposes to build stronger partnerships with universities in the area of urban development through a Researcher in Residence Program which would sponsor academics on sabbatical for a period of 6-9 months. This is also expected to be extended to practitioners, such as city officials and policy makers, in due course. The intention is to enrich our work in the Bank through knowledge sharing and partnerships.

## **G. Consultations and Feedback Process**

38. ***Consultations will involve a multi-track approach.*** Urban Development by definition involves a spatial approach anchored institutionally in the lowest tier of government but involving a wide range of public and private sector actors, as well as civil society, at the national, intermediate and local level. As such, the consultation process will need to be carefully managed to be inclusive but focused. To that end, an interactive website ([www.wburbanstrategy.org](http://www.wburbanstrategy.org)) has already been established with materials, including recent Bank urban research and publications, presentations with video clips from the Urban Strategy Speaker Series, a Library of Reference Materials and a Discussion Board to facilitate debate and discussion on emerging topics of interest. As the Strategy preparation process proceeds, and following clearance by CODE, the Concept Note would be posted at the website, as well as the background papers intended to bring

attention to the emerging issues and the Bank’s approach. A Consultation Matrix and Plan is under preparation with the regions and EXT to ensure (i) coverage where demand and urbanization pressures are the greatest; (ii) a balance between Country Groupings is achieved (e.g. MIC, IDA and Fragile States), and (iii) incorporation of key stakeholder groups, including civil society organizations, as well as national and local governments to the extent possible. Cost-effective approaches have been agreed using regionally-based urban teams who would facilitate consultations at the regional level once the Concept Note has been reviewed and cleared by CODE. Participating in regional conferences and events where counterpart officials and urban practitioners are present is also being considered. Videoconferencing using the Bank’s GDLN facilities would be utilized when appropriate.

39. Upstream discussions and information gathering has already commenced with a range of development partners and client countries at and around events in which policy makers and urban practitioners are present, such as the World Urban Forum (Nanjing, November 2008), Cities Alliance Consultative Group Meetings (Barcelona, January 2009), and a SIDA-hosted development partner meeting in Stockholm (January 2009). Downstream consultations are planned for South Asia and Marseille (April 2009) jointly with the WDR 2009 dissemination workshops.

## H. Risks

40. In implementing the strategy significant attention will need to be devoted to lessons learned from the past urban strategy. In addition, as set out in this Concept Note, greater efforts would be devoted to the integrator role of the urban family and cross-sectoral collaboration will be critical. The strategy team will take into account these and other risks as set out in the following matrix:

Risks	Mitigation Measures
<u>External:</u> Resistance of national governments and cities to adopt new measures to assess and report on results.	The proposed new Results Framework and Indicators would be consistent with global development aid efforts as reported in Paris and Accra. Upstream consultations on the proposed indicators would provide the opportunity for client governments and cities to engage in this process.
<u>External:</u> Managing Expectations: Inability to generate substantial new finance; reluctance to dedicate WBG (IBRD/IDA) resources.	The Urban Strategy may not be proposing substantial new financing as opposed to better ways of packaging assistance and mobilizing other funds. One specific initiative in this regard will be the aim of designing projects (SILs) that tap into concessional financing from Global Facilities (e.g. GPOBA, PPIAF, Carbon Finance Credits). Also, the Sub-National Finance Program (SNFP) is in place to provide sub-sovereign financing to credit-worthy local governments.
<u>External:</u> The implied increase in support for automation through ICT applications may not have wide applicability among smaller cities due to capacity constraints.	Automation of systems can never take a “one-size fits all” approach. A very careful assessment of needs would be undertaken prior to making any commitment of funds for automation. The Strategy would simply outline the objectives and approach for ICT enhancements and a toolkit (developed jointly by the Urban Anchor and GITC) would provide guidance to municipalities in adopting such systems.
<u>Internal:</u> Intersectoral collaboration on the Urbanization Review will require a greater WBG commitment to working cross-sectorally.	Preliminary consultations with relevant Bank Departments indicate a willingness to work across boundaries. Development of a WBG analytical and diagnostic tool in the form of the Urbanization Review will be a means of testing

	and confirming this approach, including in-depth consultations across Bank Departments.
<u>Internal:</u> Existing urban staff skills may not match with requirements of implementing the new Urban Strategy.	A review of existing urban staff skills is being carried out in parallel with the preparation of the new strategy. Recruitment needs would be assessed and aligned in accordance with the findings of this assessment.
<u>Internal:</u> Bank systems do not align with the new business lines elaborated in the Urban Strategy.	A detailed process of reviewing current WB Business Warehouse has been carried out and will require realignment of some of the Thematic Codes currently used by the Urban Sector. Preliminary indications from OPCS suggest that the proposed changes are in line with the Bank-wide process of updating Sector/Thematic Codes.

## I. Status of Preparation and Timeframe

41. Significant upstream work has already been accomplished and includes: (i) development and launch of the Urban Strategy website; (ii) launch of the Urban Strategy Speaker Series; (iii) completion of the portfolio review; (iv) completion of upstream discussions with development partners, regions and selected client countries; (v) commissioning and near completion of all background papers; (vi) Urban Strategy Focal Points established in each region; (vii) preliminary consultations and commitments confirmed on most WBG Department inputs to the Urban Strategy.

42. Processing of the Urban Strategy is proposed against an ambitious timeframe with the aim of having a document ready for circulation by the Bank's Annual Meetings in October. The proposed timeframe below draws upon existing guidelines as well as measures proposed by OPCS to the Board with the aim of updating and streamlining the Bank-wide strategy preparation processes.

Milestone	Proposed Date
• Distribution of Concept Note for Virtual OVP Review	March 6, 2009
• Completion of OVP Review and Circulation of Minutes with Proposed Changes	March 20, 2009
• Submission of Concept Note to CODE	March 27, 2009
• CODE Concept Note Review Meeting	April 15, 2009
• Consultations with Stakeholders, including use of interactive website	April-May 2009
• Distribution of Draft Urban Strategy Paper to OVPs	May 18, 2009
• Downstream OVP Review of Draft Urban Strategy Paper	May 27, 2009
• VP/MD Clearance	June 5, 2009
• Submission of Draft Strategy Paper to CODE	June 11, 2009
• CODE Downstream Review Meeting	July 8, 2009
• Circulation of Draft Strategy to Board for Approval on No Objection Basis	end-July/Sept 2009
• External Publication – Launch at Annual Meetings	October 2009

## **J. Internal Process and Team**

43. The exercise is being carried out under the general supervision of Abha Joshi-Ghani, Urban Sector Manager (FEU), by a core team comprised of Stephen Karam (Sr. Urban Economist and Task Team Leader), Mila Freire (Urbanization Review), Judy Baker (Lead Economist), Dan Hoorweg (Lead Urban Specialist), Robin Rajack (Sr. Urban Specialist), and Barbara Lipman (Sr. Housing Specialist). Several sub-sector and thematic background papers have already been commissioned as follows: Somik Lall (WDR 2009 urbanization messages), Alain Bertaud and Richard Green (Urban Planning, Land Use and Housing Issues); David Satterthwaite (Urban Environment & Climate Change); Shahid Yusuf (Cities & Economic Growth); Tim Campbell (City Management and Governance); George Peterson (Intergovernmental Fiscal Relations and Municipal Finance); and Judy Baker (Urban Poverty).

44. Each region has nominated regional urban focal point(s) to participate on the strategy team to ensure linkage and coordination with regional urban strategies as follows: Ming Zhang (LAC), Christine Kessides and Yan Zhang (ECA), Alexandra Ortiz and Madhu Raghunath (MNA), Catherine Farvacque-Vitkovic and Matt Glasser (AFR), Roland White (SAR), Hiroaki Suzuki (EAP). Focal points have also been identified across the SDN Departments as well as other Networks in the Bank and World Bank Group. Several in-house and external fact gathering and update meetings have been convened to apprise and consult colleagues, partners and counterparts on the process and emerging issues. Briefings of relevant Sector Boards have been arranged or are in the process of being scheduled. In addition, an Advisory Group has been formed and includes development partners, academicians, and local government representative associations.



## **Annex 1: World Bank Urban and Local Government Strategy: Draft Outline**

### **A. Background & Introduction**

### **B. Urbanization in a National Context: A Systems of Cities Approach**

### **C. Six Strategic Pillars & Areas of Focus**

- a. Cities & Economic Growth
- b. City Management and Governance
- c. Urban Poverty & Slum Upgrading
- d. Urban Planning, Land and Housing
- e. Intergovernmental Fiscal Relations and Municipal Finance
- f. Urban Environment & Climate Change

### **D. A Review of Urban Development Challenges & Opportunities at the Regional Level**

### **E. World Bank Urban Vision & Strategic Objectives Along Six Business Lines**

### **F. Lessons Learned from An Assessment of the Previous Urban Strategy**

### **G. Operationalizing the Urban Strategy**

- a. Urbanization Review: Framework and Methodology
- b. Knowledge Products
- c. Investment Products
- d. Role of the Urban Anchor
  - i. Partnerships, Research & Knowledge Generation
  - ii. Knowledge Dissemination and Communications Strategy

### **H. Results Framework**

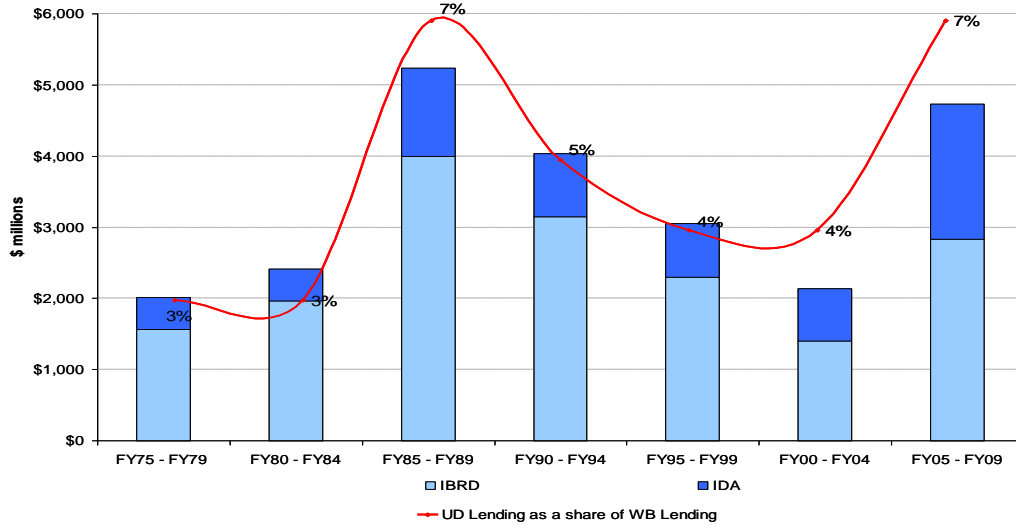
### **I. Partnerships under the New Strategy**

- a. Partnership Platforms: WBI Networks, Singapore/Marseille Hubs
- b. Cities Alliance and United Cities and Local Governments (UCLG)
- c. Bilateral Donors & Other Development Partners

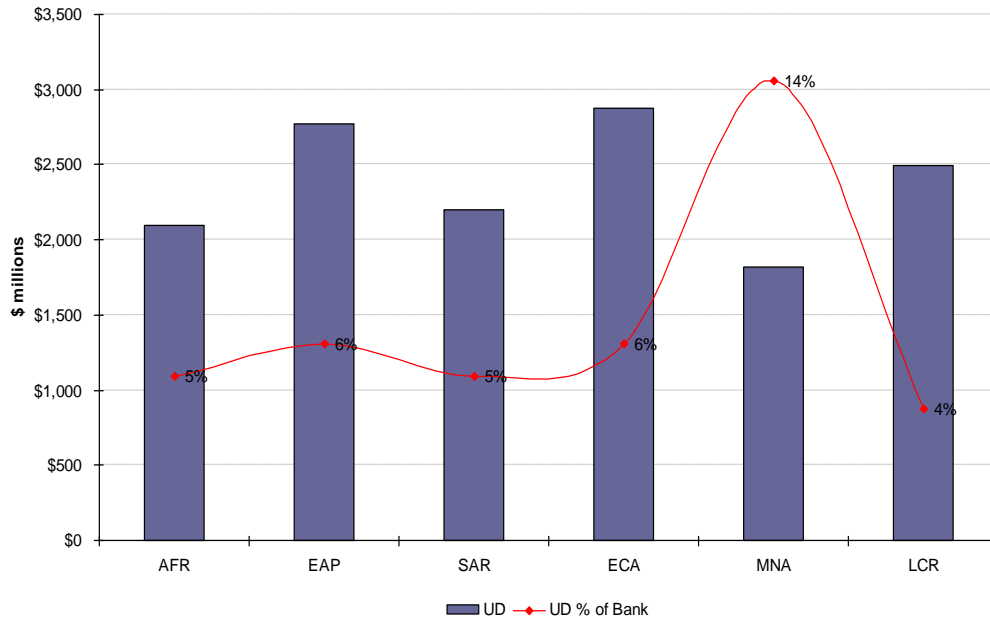
### **J. Annexes: Data Tables & Case Studies**

**Annex 2: Urban Sector Board Portfolio Tables**

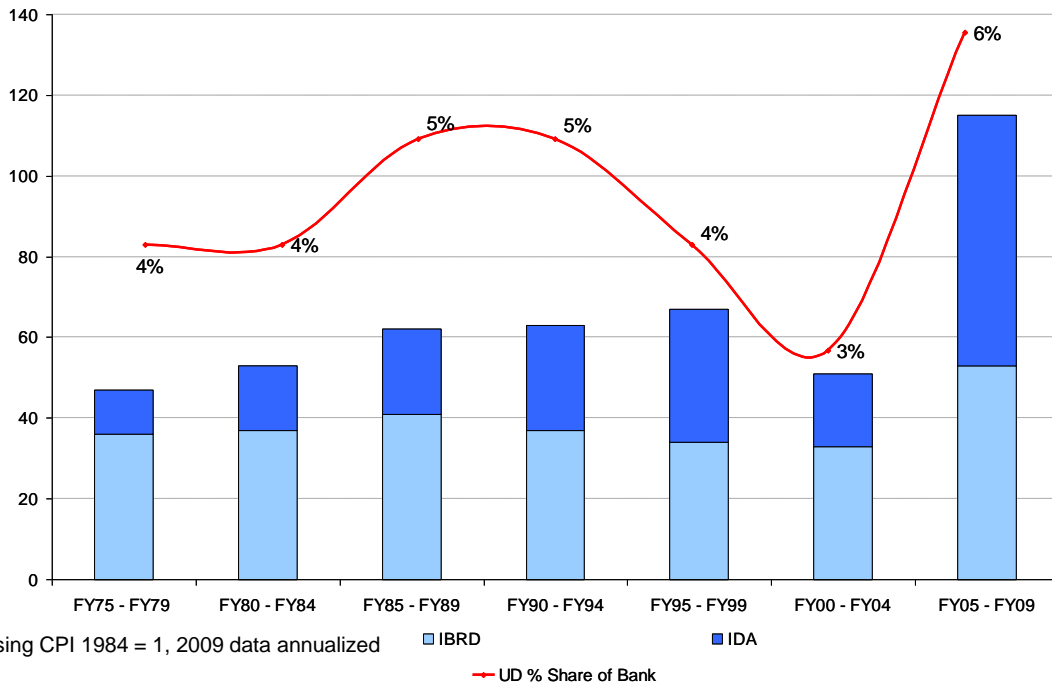
**Chart 1: Volume of Financing FY75-09 & Share of Total WBG Financing**



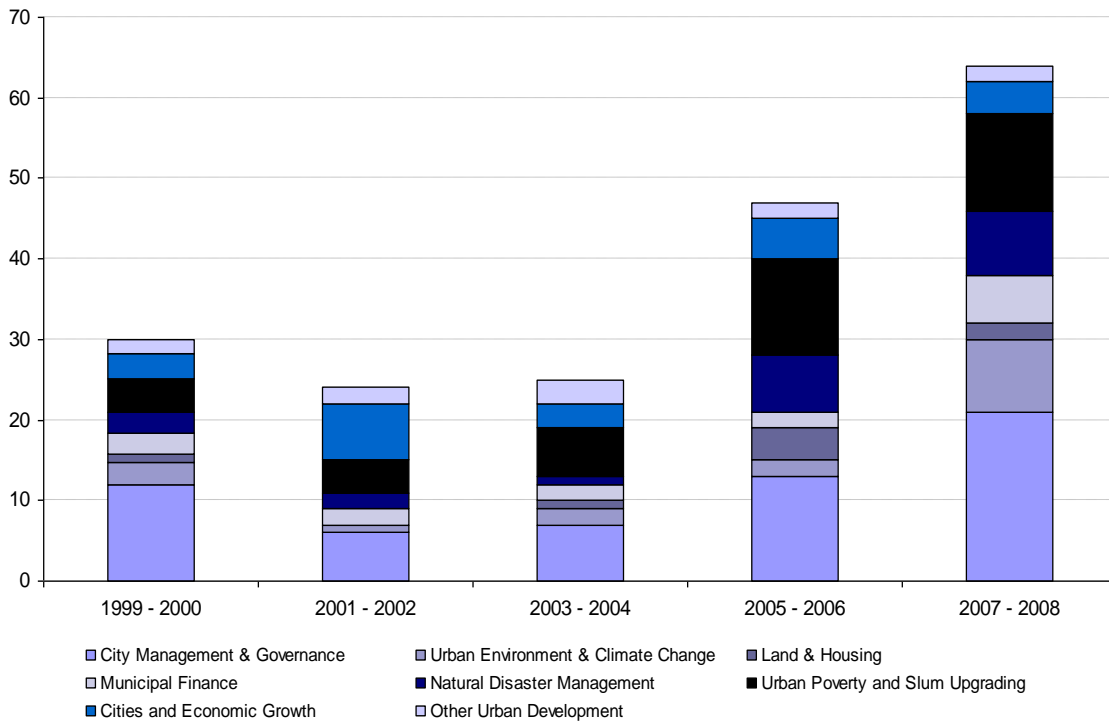
**Chart 2: Volume of Financing by Region FY98-08 & Regional Share of Total**



**Chart 3: Number of Urban Operations FY75-09 & Share of Total WB**



**Chart 4: Number of Urban Operations FY99-08 by Project Type**



**Table 1: Total Urban Economic Work (EW) Projects Delivered, 1999-2008**

	<b>AFR</b>	<b>EAP</b>	<b>ECA</b>	<b>LCR</b>	<b>MNA</b>	<b>SAR</b>	<b>OTH</b>	<b>Total</b>
FY99	0	4	1	0	1	4	0	10
FY00	1	4	0	1	0	0	0	6
FY01	1	1	3	1	3	1	0	10
FY02	0	9	0	6	4	1	0	20
FY03	1	6	10	1	5	1	2	26
FY04	2	3	3	1	2	0	3	14
FY05	4	4	2	2	1	6	2	21
FY06	7	6	1	0	5	5	0	24
FY07	3	2	7	2	3	3	2	22
FY08	1	1	1	0	3	1	3	10
<b>Total</b>	<b>20</b>	<b>40</b>	<b>28</b>	<b>14</b>	<b>27</b>	<b>22</b>	<b>12</b>	<b>163</b>

Note: Data extracted from Business Warehouse 2/23/2009

**Annex 3: Internal Bank Urban Strategy Team Members and Focal Points**

<i>Urban Strategy Core Team</i>	
Judy Baker	Lead Economist, FEU, and Background Paper Author for Urban Poverty and Slum Upgrading
Alain Bertaud	Consultant, Background Paper Author for Urban and Land Use Planning
Tim Campbell	Consultant, Background Paper Author for City Management & Governance
Kim Colopinto	Junior Professional Associate
Mila Freire	Consultant, Background Paper Author for Urbanization Review
Richard Green	Consultant, Background Paper Author for Housing Issues
Dan Hoornweg	Lead Urban Specialist, FEU
Somik Lall	Sr. Economist, FEU
Barbara Lipman	Sr. Housing Specialist, FEU
George Peterson	Consultant, Background Paper Author for Municipal Finance Issues
Robin Rajack	Sr. Urban Development Specialist, FEU
David Satterthwaite	Consultant, Background Paper Author for Urban Environment & Climate Change
Shahid Yusuf	Economic Advisor, WBIPR
<b>Regional, Sector &amp; Global Facility Focal Points</b>	
Alexandre Marc	Social Development
Andrew Norton	Social Development
Lili Liu	Poverty Reduction & Economic Management
Kai Kaiser	Poverty Reduction & Economic Management
Victor Vergara	WBI
Andre Herzog	WBI
Klaus Lorch and Ana Goicoechea	FEU
Angela Marcarino Paris	Water
Erick Fernandez	ARD
Marc Juhel	Transport
Andreas Kopp	Transport
Masami Kojima	Energy
Philippe Dongier	CITPO
Deepak Bhatia	CITPO
Christine Kessides	ECA Urban
Yan Zhang	ECA Urban
Catherine Farvacque-Vitkovic	AFR Urban
Matt Glasser	AFR Urban
Ming Zhang	LAC Urban
Alexandra Ortiz	MNA Urban
Madhu Raghunath	MNA Urban
Roland White	SAR Urban
Hiroaki Suzuki	EAP Urban
Henrika Brecht	Global Facility for Disaster Risk & Recovery
Lee Travers	Subnational Finance Program
Isabel Chatterton	Subnational Finance Program
Robert Whyte	IFC/FIAS
John Wille	IFC/FIAS
Margaret Grosh	HDN
Gail Richardson	OPCS

## Urban Strategy Paper Concept Note

William Cobbett	Cities Alliance
Jyoti Shukla	PPIAF
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