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Section 6.

The Time to Act Is Now

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The case for working with developing nations to improve their cities as places to do business and to live is strong and clear. The opportunities are great. Yet the U.S. devotes comparatively little of its development resources to urban areas (current data are lacking and donors' definitions of urban expenditures vary widely, preventing accurate quantitative benchmarking). As has been well said by Tannerfeldt and Ljung in *More Urban Less Poor*:

Urban development is a rather neglected area in international development cooperation. The share of funds allocated is low, the donor agencies are not staffed for the purpose and there is insufficient understanding of the issues.

The Case for Greater U.S. Involvement in Urban Development

The case for redirecting and augmenting U.S. development resources to urban development is (a) moral, (b) urgent, (c) in our national interest and (d) cost effective. Such a redirection is also consistent with our recognized leadership role in urban programs in the past. The roots of a new direction are now beginning to take hold. It is the optimum time to help them grow to fruition.

Address an Urgent Task

Urbanization is occurring now and cannot be reversed. The next decades will see extraordinary city growth in developing nations. This is the only chance to get ahead of major urban problems and avoid prohibitively expensive, and perhaps ultimately unachievable, remedial actions. "It's cheaper to manage it now than fix it later" has never been more true than it is in this case.

Of the 500,000 people who migrate to Delhi, India each year, it is estimated that fully 400,000 end up in slums. By 2015 Delhi will have a slum population of 10 million.

Improve the Lives of the Poor

Just as the U.S. is combating HIV-AIDS, malaria and other diseases in poor countries, its generosity should extend to helping the poorest urban residents to improve living conditions, which can potentially improve health and prolong life. Assistance in rationalizing urban policies and increasing infrastructure investments, by making cities more efficient for business, will generate jobs and raise the earnings of the poor. These advances, in turn, will enable urban poor people to improve their children's and their own health and well-being, by upgrading their housing and living environment and gaining access to the health services and educational opportunities that are now closed to them.

Climate change alone is enough to make the case for urgency. The emissions of nearly all third-world cities are small compared to their developed country counterparts (China being a notable exception). But this will not last as urban growth continues. Now is the time to make the public transport investments and energy efficient infrastructure that will keep the greenhouse gas emissions of the developing world from exploding over the next half century, as rising incomes lead to massively increased auto fleets and durable goods ownership.

A reasonable estimate is that China and India alone will add 100 million cars to the road over the next 20-30 years.²² Efficient mass transit and clever traffic management will reduce the demand for new car owners, divert others from commuting to work by car and generally reduce auto usage.



China is already investing heavily in subway systems to mitigate the coming consequences of an auto surge.

Acting today to prevent additional slum formation through extremely simple, properly transport-serviced "sub-divisions" to accommodate growth will also pay huge future dividends in lower infrastructure provision costs.

Serve U.S. National Interests

Infectious diseases respect no borders. Improving the health of urban residents decreases the risk that such diseases (for example, SARS and H1N1 [swine flu]) spread internationally. In addition, improvement in slum dwellers' lives, especially those of disaffected youth, reduces tensions and lowers the probability of destructive civil strife and the need for costly UN and other "first world" military and reconstruction interventions. Productively engaged youth are less likely to join gangs and other anti-social organizations. Finally, more productive developing country cities generate higher household incomes which in turn generate demand for goods and services; direct investment,

which generates profit for firms, including U.S. firms, is more likely to flow to efficient, more competitive locations.

Improve Aid Cost-Effectiveness

A multi-sector focus offers the opportunity to realize synergies among programs and break out of the sector programming straightjacket. Standard procedure now is for projects in each development intervention to be implemented independently. A focus on urban programming will use scarce resources more effectively by coordinating investments in utilities, transport, and other sectors.

Consider a program to create low-income subdivisions in peri-urban areas. Plots can be defined and the organizers ready to sell the plots with ownership documentation. But unless the site is connected by transport to job locations, few poor are likely to take the offer. Providing acceptable

transport to the city center may involve more than creating a van service, however. If the main arteries are severely congested so that commute times would be two to three hours, improved traffic management or, more probably, a more capital intensive solution is also necessary, such as rapid bus transit (benefiting all commuters on the route). Coordinating the two investments is common sense and highly effective, but has certainly not been often done to date.

Resources to Build On

Rebuild the U.S. Leadership Role

USAID was a recognized leader in urban programs in the past. Its network of Regional Housing and Urban Development Offices, active in the 1980s and early 1990s, was unmatched in terms of on-the-ground capacity. At the 1996 Habitat II Conference in Istanbul, for example, a number of USAID programs were cited as best practices. The time is right to reassert such leadership again, especially given new project-specific knowledge and additional resources on which to draw. Some current capacity remains on which to build, for example, the Development Credit Authority guarantee program. Additional resources include the strong program to provide wholesale sources of housing finance developed by the Overseas Private Investment Corporation (OPIC) in the past five years, and the Millennium Challenge Corporation's (MCC) large infrastructure grants. The U.S. role can also be structured to be a genuine opportunity for multilateral cooperation, helping to reinvigorate past alliances and generate new collaborative efforts. These steps will ensure that America's resources will be maximally leveraged.

Leverage the Already Emerging Roots of a New Direction

A host of recent developments makes now the time to seize the initiative, as the following list makes clear:

- A number of countries are thinking more strategically about urban development, including Uganda, Vietnam, Mongolia, Brazil, Turkey, Morocco, Chile and South Africa. Countries will, therefore, be receptive to a new urban thrust from the international community.
- The World Bank is refreshing its thinking, with a new urban policy statement due in October 2009.

- The Rockefeller and Gates Foundations and other funding sources are increasingly supporting new research on urbanization and urban development.
- UN-HABITAT's Water and Sanitation Trust Fund is rapidly expanding its assistance to regional development banks to support project development and implementation.
- Change in the structure of the U.S. foreign assistance architecture is being considered and Congress is working on a new Foreign Assistance Act. The Initiating Foreign Assistance Reform Act of 2009 (HR.2139) has been introduced by Representatives Berman and Kirk.
- New relevant legislation has been introduced in Congress. The Paul Simon Water for the World Act (S.624) seeks to expand on the Water for the Poor Act and the Shelter, Land, and Urban Management (SLUM) Assistance Act (HR. 1702) calls for the development of a U.S. urban strategy.

Revitalizing Urban Assistance: An Approach that Will Work

Four elements are essential to revitalizing urban programming in U.S. assistance: leadership, an effective approach, a strengthened cadre of urban development experts, and sharply increased coordination both within the United States government, with other donors, and with country governments.

Leadership

Assuming that USAID plays a leadership role in a newly unified development assistance structure, the Administrator must clearly articulate the importance of programs to improve economic efficiency and livability in developing countries' cities. This should be reflected in policy documents and in budgetary allocations. He/she must also consistently reinforce this message by actively monitoring progress and establishing a dynamic process for transferring best practices—both from within USAID and outside (MCC, other USG agencies, multilaterals and bilateral, and major international NGOs)—to all involved.

An Effective Assistance Strategy

A new assistance approach must be adopted that uses metropolitan areas as the organizing device and a realistic five to ten year time frame. Urban investments tend to be complex and a realistic timeframe is essential to realize most benefits, which tend to occur at later stages in the investment process. MCC's Compact implementation, constrained by the maximum five year Compact term, offers a lesson.

A promising approach would be to encourage USAID Mission Directors and others involved in country-level programming to consider moving along four complementary tracks.

- (a) Policy Reform.** Essential work is needed on fundamental policy reform of the type outlined in the previous section, to permit cities to act more decisively and at a higher activity scale (e.g., reallocation of authorities and revenues from national to municipal governments and streamlined land registration and regulations). Accomplishing such changes requires committed national and local government counterparts, greater technical expertise, and several years of hard work. But these reforms are the key to truly improved urban management.
- (b) Urban Planning.** Full participation in the formulation of a comprehensive city or metropolitan development plan is crucial. Cities Alliance has been the most active, working with citizen groups, local administrators and officials, business interests and others, sometimes with

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USAID support, to prepare City Development Strategies (CDSs) in dozens of cities that define development and urban management directions.²³ These can then be extended by broader capital improvement plans to form medium term development guides. USAID missions could support both of these efforts.

Working at the city or metropolitan level, rather than at the sector level, enables the involvement of the labor, trade, and product markets that constitute a city's economy. A

sector-level approach is unlikely to realize the potential synergies among investments, such as those between slum upgrading and school and health clinic location.

Urban development is too often conflated with making improvements in national capitals or primary cities. In fact, most growth going forward is expected in mid-sized cities and attention can profitably be given to them. In some ways working in these cities is more attractive: the problems are more tractable, per unit service provision costs may well be lower, and it is genuinely possible to address problems before large deficits develop. On the other hand, they will likely have lower levels of own revenues to contribute.

(c) Host Country Ownership. Models of host country ownership in development assistance already exist. For example, the MCC's approach to programming foreign assistance, with country ownership as a key principle, is highly effective. Its resources can play an important role in financing country-identified infrastructure and other urban investments, especially if maximum Compact terms are extended to permit the detailed design and implementation of more complex urban projects.

(d) Mobilization of Resources and Collaboration. In an era of dramatic expansion in the number of donors (public and private), municipalities, working closely with national governments, are the natural coordination point. Critically,

the CDS could be an organizing device for multiple donors, public and private, including international NGOs like Habitat for Humanity International, to participate in city development investments and related activities, as well as being the guide for future U.S. programming. Different donors could take the lead working with different cities or groups of cities (i.e., an "Adopt a City" approach). An important result of donors working together at the city level would be a heightened interest in achieving reforms to eliminate the main policy impediments to efficient

urban development currently lodged in national laws, regulations, and administration.

More broadly, sharply increased cooperation and coordination is necessary at four levels: among USAID sector programs, between USAID and other U.S. agencies, in U.S. programs with NGOs and other donors, and between the “city lead donor” and the city administration. Congress or the Administration must be clear on the necessity of such coordination and define a mechanism for its realization. The obvious option is to put a single agency in charge, an agency with a significant presence in every country where such programs are to be mounted and with urban expertise.

A Strengthened Cadre of Urban Development Experts

If USAID is to lead U.S. Government efforts toward a greater international focus on urban areas, strengthening its cadre of urban development experts will be essential. Today, only a handful of knowledgeable staff is at the Agency, reflecting a decline ongoing for over a decade. A professional trained in urban development in every USAID mission that requests help to mount an urban program would both provide the required expertise and signal the seriousness of the new commitment to urban issues. To encourage an integrated approach to urban project programming, such an urban expert could be an additional staff position not counted against a mission’s head count. These officers and the missions’ urban programs should be back-stopped by an enlarged expert team in Washington and, as appropriate, in regional offices. Without such in-house competence, programs are unlikely to run smoothly or effectively. The present expansion of USAID staff is a fortuitous opportunity for adding these experts to the team. ■

