

IsDB



البنك الإسلامي للتنمية
Islamic Development Bank

Urban Sector Policy

“Sustainable and inclusive urban development”



Social Infrastructure Division
Economic and Social Infrastructure Department
September 2020



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Abbreviations

BED	Board of Executive Directors
DMA	District Metering Area
FSM	Faecal Sludge Management
GHG	Green House Gas
HCUD	Higher Councils for Urban Development
IsDB	Islamic Development Bank
ICT	Information and Communication Technology
MCs	Member Countries
MCPS	Member Country Partnership Strategy
NUA	New Urban Agenda
NUP	National Urban Policy
P5P	President's 5 Year Programme
10- YS	Ten Year Strategy
SCADA	Supervisory Control and Data Acquisition
SDG	Sustainable Development Goal
SSA	Sub-Saharan Africa
STI	Science Technology Innovation
UGP	Urban Global Practice
USP	Urban Sector Policy
WHO	World Health Organization

““ Unsustainable cities are burdening the future of our societies and, without definitive commitment to invest in innovative technologies, our cities will remain unprepared for the challenges associated with rapid urbanization. ””

H.E. Dr. Bandar M.H. Hajjar
President, Islamic Development Bank and
Chairman of the Board of Executive Directors

I Purpose, objectives and background

1. Entering the 21st century, the world experienced a noteworthy demographic shift when, for the first time in human history, the world's urban population surpassed its rural population. Demographic trends and projections indicate that this shift of rural to urban population will continue, making the transition to an urban society, and how to manage it, a development imperative. From a global perspective, Sub-Saharan Africa (SSA), South Asia, and parts of the Middle East, where the Islamic Development Bank (IsDB) Member Countries (MCs) are predominantly concentrated, are expected to be the regions that experience the most dynamic and rapid urban growth in the decades ahead.
2. The IsDB Urban Sector Policy (USP) is intended to guide all IsDB urban programmes and operations, focusing on the overarching goal of achieving a sustainable and inclusive urban development in its MCs. As such, the need to have an up-to-date USP that provides a proactive vision, strategic framework, engagement tools, services and financial products will be vital to both the IsDB and its MCs. These objectives are promoted internationally by Sustainable Development Goal 11 (SDG 11) and the commitment to work towards **"leaving no one behind"**. These objectives are in alignment with the current broad strategic objectives of the IsDB, especially the Ten Year Strategy (10-YS) and the President's Five Years Programme (P5P) which focuses on competency, linkages, innovative financing and results delivery.
3. The scale and rapidness of urbanization cannot be underestimated in the challenges it poses for developing countries - both positive (if it is well-managed) and negative (if countries do not have the policies and institutions capable to manage it). Following are some of the salient urban development opportunities for and threats to IsDB MCs:

- **An unrelenting urbanization trend.** In 1950, the world’s urban population stood at about 30 percent. Today, it has reached 55 percent and demographic projections suggest it could reach 68 percent by 2050¹.
- **Cities are the economic engines of the national economy.** Since most industrial and service activities take place in cities, urban areas are estimated on average to account for 80 percent of a country’s economy output².
- **Urbanization without growth is a key challenge to many IsDB MCs.** While urbanization and economic growth are expected to move in tandem, many developing countries, particularly in Sub-Saharan Africa, face a migration “push” from rural areas (due to poor living conditions) rather than an economic “pull” from cities, many of which have failed to generate the jobs and economic opportunities for those migrants.
- **Megacities today are a dominant feature of the developing world.** Once exclusive to the developed world, most megacities today are in developing countries, and many still within IsDB MCs.
- **Expanding informal settlements and urban slums represent a critical challenge.** In many SSA countries, as many as 80 percent of urban inhabitants have no access to formal housing³. In 15 IsDB MCs, the urban population living in slums exceeds 50 percent⁴.
- **Rapid urbanization increases demand for urban services.** About 286 million people in IsDB MCs go without improved access to water supply and 666 million lack access to

1 World Urbanization Prospects 2018 Revision, United Nations Population Division, United Nations (2019).
2 Estimates vary but several sources cite cities as generating 80 percent or higher of a country’s or the global GDP, including World Development Report 2009: Reshaping Economic Geography, World Bank (2008); Urban World: Mapping the Economic Power of Cities, McKinsey Global Institute (2011); Urban America: Us Cities in the Global Economy, McKinsey Global Institute (2012).
3 Stocktaking of the Housing Sector in Sub-Saharan Africa: Challenges and Opportunities. World Bank (2015), citing Nigeria (80%), Ghana (90%), Senegal (80%), Zambia (80%), Cameroon (97%).
4 World Development Indicators and UN-Habitat Data (2014).

improved sanitation⁵. While access has improved in recent years, substantial gaps remain between high and low income MCs.

- **Poor linkages between urban planning and urban transportation have resulted in high congestion costs in developing country cities.** As motorization rates rise with urban growth and prosperity, congestion costs too are emerging across most IsDB MCs. A shift in focus to urban mobility, alternative non-motorized transportation options, better public transport, and more effective urban planning can help reduce congestion, prevent avoidable urban road injuries or deaths, and improve air quality impacted by vehicle emissions.
- **Cities are both the causes and victims of climate change impacts.** Cities consume an estimated 75 percent of all consumed natural resources⁶, account for as much as 80 percent of Green House Gas (GHG) emissions, and 50 percent of post consumer waste.
- **Cities are the epicentre of disaster risk.** In a business as usual scenario, sea level rise could submerge land currently home to 164 million in 44 IsDB MCs – mostly urban. At 1.5 degree C warming IsDB countries account for 20 percent of the global population living in threatened lands, and 26 percent at 4 degree C warming⁷. A study conducted by SESRIC⁸ showed that the number of disasters in OIC countries increased from 681 (23%) during 1990's to 1431 (26%) from 2000 to 2012. Arab countries are mostly affected from floods (229), epidemic (91), drought (42), storm (41) and earthquake (23).

4. The urban agenda comprises some of the most urgent and

5 Urban Development in OIC Countries: Towards Sustainable Urbanization. Statistical, Economic and Social Research and Training Centre for Islamic Countries (SESRIC), 2019.

6 Resilience and Resource Efficiency in Cities. UN Environment Programme, 2017.

7 SESRIC 2019. OIC Environment Report (October 2019).

8 SESRIC 2012. Managing Disasters and Conflicts in OIC countries.

compelling development challenges facing developing countries today. Countries which devote resources and management efforts to their cities will reap the benefits of agglomeration economies, job creation and economic growth. It will also help make them more inclusive by reducing poverty. Those which don't will face a perilous future of expanding informal settlements and slums and insufficient economic opportunities to lift poor rural migrants out of poverty, a situation compounded annually by unprecedented rates of urban growth.

5. While the world focuses on megacities in developing countries, more than half of the global urban population lives in secondary cities of 500,000 people or less . The function of these secondary cities is quite critical. They often serve as the regional hub of economic activity within a country, linking urban and rural markets for activities that are essential to the lives and livelihoods of residents in both areas.

Secondary cities provide a market for rural agricultural produce, access to regional networks and commercial services, and relief from the pressure on capital or primate cities which quickly become congested and unaffordable in times of rapid urbanization. Rural areas provide food security and many natural resources, necessary for urban settlements to survive and thrive. More recently, they served as their temporary refuge from the coronavirus pandemic.

6. Urban policy has evolved substantially over the past several decades. Fifty years, ago many countries saw their cities as mere providers of basic services, such as solid waste collection and sanitation, with little need for national-level urban policies. Today, the functions of cities are recognized as more complex and significant for both the scale and quality of their services to the growing urban population.

Decentralization is one of the forces that elevated the role of cities when they were entrusted with responsibilities and, much more slowly, fiscal resources, devolved to local governments. Rather than deprive national governments of their once perceived role, decentralization ushered in a new

era for urban policy. Today the central role of government is even more critical in setting good standards for municipalities and guidelines for urban management, land use planning, housing policy, promoting rural-urban linkages, generating economic opportunities to lift the poor out of poverty, and ensuring adequate municipal financing to meet the needs of new urban growth for service. This scope is well beyond the capacity of any one agency.

To foster national-level urban policy coordination, some countries formed higher councils for urban development, overseen by a high-level official to develop a coordinated policy and intervention strategy for sustainable and inclusive urban development⁹.

- 7.** The New Urban Agenda (NUA), which emerged at the Habitat III Conference in 2016, captures this important dynamic. One of its cornerstones was the elaboration of the National Urban Policy (NUP) as a vital urban management tool for national governments to promote sustainable and inclusive urban development. The NUP is the centre-piece of the IsDB's urban sector policy and the foundation on which sound urban development can be promoted in member countries.
- 8.** Member countries look out to the IsDB, as a multilateral development bank, to help mobilize financing for urgently needed urban infrastructure. However, development outcomes will not be assured by filling infrastructure financing gaps alone. This policy recognizes that the IsDB Urban Global Practice (UGP) will need to act as a knowledge bank, delivering good practice guidance that supporting the financing of infrastructure projects. It also serves as a knowledge broker to share peer country good practices and lessons learned with IsDB MCs. Several measures are taken for the UGP to fill this role through existing tools, systems development and good management practices, directly or through development partners, such as the UN-Habitat, the Bill and Melinda Gates Foundation and Cities Alliance.

⁹ One example is Afghanistan where President Ashraf Ghani formed an HCUD involving over 12 different national level agencies whose programmes intersect in the urban space.

II Definitions

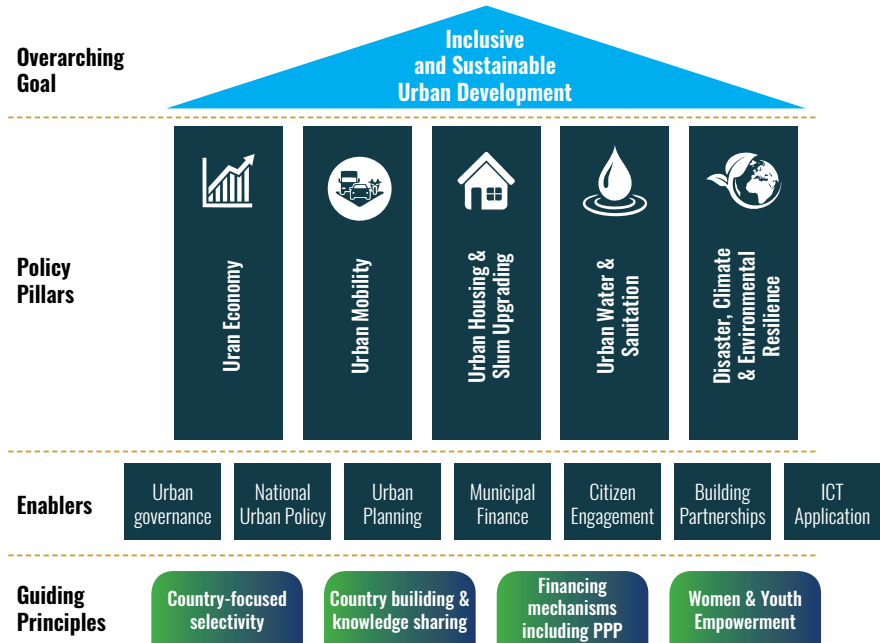
- **Urbanization.** The rate of annual urban growth in a country is derived from natural population growth in urban areas, rural-to-urban migration plus refugees in some circumstances.
- **Agglomeration economies.** The economic benefits derived from the co-location of people in dense urban settings that foster the convergence of production and consumption markets, innovation and the exchange of know-how as a means of promoting economic growth and reducing poverty.
- **Urban slums.** The outcome of dysfunctional land and highly functional labour markets where supply constraints on land are overwhelmed by fluid and mobile labour markets that represent a growing demand.
- **Sustainable cities.** Cities which meet the triple bottom line of economic, social, and environmental sustainability or provide for the needs of the current generation without compromising the ability to meet the needs of the next.
- **Inclusive cities.** Urban inclusion involves the provision of affordable necessities, such as housing, water and sanitation services; guaranteeing equal rights and participation of all, including the most marginalized; and creating jobs and giving all urban residents the opportunity to enjoy the benefits of economic growth. (World Bank).
- **New urban agenda.** The new urban agenda represents a shared vision for a better and more sustainable future, one in which all people have equal rights and access to the benefits and opportunities that cities can offer, and in which the international community reconsiders the urban systems and physical form of our urban spaces to achieve this. (UN-Habitat).

- **National urban policy.** A coherent set of decisions derived through a deliberate government-led process of coordinating and rallying various actors for a common vision and goal that will promote more transformative, productive, inclusive and resilient urban development for the long term. (Cities Alliance).

III Scope

9. This policy is designed to fulfil three key functions: (i) provide a framework for developing programmes and projects with member countries that promote sustainable and inclusive urban development; (ii) offer a coordinating framework that harmonizes relevant IsDB sector and thematic policies at the policy level and builds synergies with other sector operational engagements; and (iii) align the urban policy with other corporate policies, particularly the President's 5-Year-Programme and the IsDB Ten-Year-Strategy, as its guiding framework. It also offers a basis on which to exchange views and mobilize partnerships in promoting sustainable and inclusive urban development with other multilateral development banks, international organizations, civil society organizations and the private sector.
10. Sustainable and inclusive urban development is the overarching development theme for the USP. It is underpinned by five pillars, each of which contributes to achieving sustainable and inclusive urban development in different ways. These pillars are depicted below as: urban economy, urban mobility, urban housing and slum upgrading, urban water and sanitation, and disaster, climate and environmental resilience

Figure 1: Urban sector policy framework



Pillar 1: Urban economy.

11. The first pillar of this policy is urban economy. Without a vibrant urban economy, IsDB MC cities will be unable to create needed jobs, generate revenues and provide urban services of a standard that is sustainable and inclusive. Urban residents without livelihoods that can support them will be unable to pay for urban services. This in return, would require across-the-board subsidies, which is not sustainable, and which would prevent the city from being inclusive by expanding network services to new urban migrants in an inclusive manner.

A focus on urban economy represents a proactive approach to preparing for urbanization. Many IsDB MC cities lack adequately serviced land for industrial and manufacturing processes. This policy calls for support in developing municipal enterprise parks that offer the benefit of co-location. High quality infrastructure suitable for industry can be delivered in a cost-effective manner, while firms benefit from the innovation and networks that co-location brings.

12. Municipal enterprise parks can be used to attract and leverage private sector financing and development for on-site services, while municipal investments can be made in developing off-site infrastructure. Such investments will help establish an economic footprint to anchor global value chains, enabling higher level value added production in countries seeking to transition from agrarian to industrial and serviced-based economies. But they must also be prepared with rigorous market analysis and active involvement of the private sector to confirm market demand.

13. Other interventions could include: (i) restoration of cultural heritage assets in historic city districts, among other cultural heritage endowments and (ii) investments in upgrading existing commercial districts to reduce congestion, improve productivity and attract new private investments. Finally, recycling and green jobs will be promoted when and wherever possible.

Pillar 2: Urban mobility.

- 14.** Negative spillovers from urbanization often arise in urban road congestion, which undermines firm productivity, raises urban road traffic accidents and injuries, and erodes quality of life conditions for urban residents, including increased air pollution. Improvements to urban mobility under this policy would take the form of support for preparing sustainable urban mobility plans, developing alternative non-motorized transport options, including pedestrian walkways and bike paths, among other options.

It would support urban road upgrading, scale up public transport enhancements, increasing off-street parking options, and improving traffic flows through signaling system upgrades, improved traffic management systems, and intersection/pinch point traffic flow improvements. All such interventions would need to be well grounded in urban plans to enable transit-led development, ensuring that housing development clusters have safe, clean and affordable access to transport options.

Pillar 3: Urban housing & slum upgrading.

- 15.** While housing is a private good, housing markets in many IsDB countries are dysfunctional with major formal housing shortages and large segments of urban populations resigned to living in informal settlements and slums. This policy calls for measures to improve affordable housing supply, upgrading of informal settlements and slums, and developing policies and the enabling environment to encourage private sector engagement on both the supply and demand sides. When market failure prevents lower income households from accessing the formal market, targeted subsidies would be warranted, provided they do not ramp up demand before a supply response is ensured, thus causing housing prices to rise even further.
- 16.** Many IsDB MC cities will need IsDB support in developing sound housing policies, intervention strategies and financing to support a variety of solutions, many of which

can be used to leverage and attract desperately needed private sector investment into the housing market. One underexplored area is rental market opportunities where there are possibilities of partnering with the private sector. Large tracts of urban land in the public sector remain untapped and underutilized and can be effectively deployed to expand formal housing stocks if appropriately zoned, serviced with infrastructure requirements and made ready for private sector developers to develop residential housing with low income provisions compensating for public land value.

Pillar 4: Urban water and sanitation.

- 17.** While a few IsDB MCs have met their SDG targets and have high levels of water and sanitation coverage, many low and low-middle income countries still lag well behind and require durable solutions that not only provide improved access to services, but also ensure the ability to pay for those services overtime. With high non-revenue water levels in many IsDB MCs and acute water shortages particularly in the Middle East, efforts to promote water security, water conservation, improved system detection of water network losses, pre-paid metering, and other options will be explored to determine appropriate solutions in country contexts where development needs can vary significantly. Innovative technologies and management approaches, including Supervisory Control and Data Acquisition (SCADA) systems for water utilities, DMA (District Metered Areas), Sanitation Transformative Technologies (STT) combined with Fecal Sludge Management (FSM) will be employed with development partners to promote energy efficiency, financial equilibrium and innovation in water supply and sanitation systems.

Pillar 5: Disaster, climate action & environmental resilience.

- 18.** COVID-19, declared a global pandemic by the WHO, is crippling the global economy and upending people's lives thereby threatening sustainable development across all its dimensions. Urban areas are the epicentre of the

pandemic and over 95% of the confirmed COVID-19 cases are in urban areas¹⁰. In just a few months, the pandemic has dramatically transformed the way people live, work, shop and socialize globally¹¹. In response to pandemics, such as COVID-19 virus, cities, particularly large, densely-settled ones, will need to be supported by a new product line of assessment tools, planning guidelines, investments, and other disaster preparedness support that will help improve their resilience to and post-impact recovery from health-based natural disasters. A recent study from WHO/UN-Habitat has demonstrated the strong linkages between Health and Urban & Territorial Planning.¹²

- 19.** Many IsDB MCs are highly vulnerable to climate change impacts and natural disasters. In a business-as-usual scenario, sea level rise could submerge 164 million urban residents in 44 IsDB MCs¹³. In addition, large segments of West Asia and Southeast Asia, where IsDB MCs are located, are subject to high seismic risk and will need to be supported with disaster risk tools and financing to strengthen their resilience to these risks, including physical investments in flood protection structures and drainage infrastructure, updating of housing and building codes to comply with international disaster resilience standards, and introduction of disaster risk management policies and insurance programmes to help minimize loss of life and material damages, while facilitating post-event recovery.
- 20.** This policy calls for supporting cities in employing adaptation strategies to address climate change impacts, but also supports co-benefits that could come from urban investments in a variety of areas to promote climate change mitigation. These measures include city energy

10 UN-Habitat (2020) UN-Habitat COVID-19 Response Plan; https://unhabitat.org/sites/default/files/2020/04/final_un-habitat_covid-19_response_plan.pdf

11 Johns Hopkins University Center for Systems Science Engineering (2020) COVID-19 Dashboard; <https://coronavirus.jhu.edu/map.html>

12 UN-Habitat & WHO: Integrating health in urban and territorial planning. A Source Book (June 2020).

13 SESRIC 2019. OIC Environment Report (October 2019).

audits that help detect and reduce energy consumption at the city level, reduce costs for the municipality, and reduce energy-related emissions. Several studies have revealed that 75 per cent of energy used in a country comes from cities¹⁴. Measures to expand the use of cost-effective solar and other renewable energy technologies would be an across-the-board filter applied to all infrastructure investments proposed for financing in cities by IsDB. Improvements to solid waste management, environmentally-sound disposal, encouragement of recycling and methods to reduce the volume of waste to landfills would be several operational ways that IsDB can support its MCs in promoting sustainability and environmental resilience. Finally, this USP will serve to promote Disaster Risk Management and Mitigation in urban projects aligned with guidance provided under the Sendai Framework.

21. Once this policy is approved by the Bank, there will be a unique opportunity to develop a Global Practice Integrated Urban Development Operating Model under the umbrella of the Urban Operational Strategy. Considering that all the other sectors, at different levels, are intervening on the urban space, the strategy could be developed as a platform that will cement and synergize all the other thematic or sectoral strategies under the same operational framework to ensure greatest efficiency in the Bank's interventions and utmost developmental impacts.

III-1 Enablers of the urban sector policy

22. **Urban governance.** Good urban governance is recognized as one of the most vital elements of the New Urban Agenda (NUA). A range of support is needed to build human and institutional capacity for improved urban governance, set standards, establish rules of the game that are fair and equitable, and ensure inclusion of the poor and marginalized who traditionally have limited voice in local

14 Several sources including the International Energy Agency (IEA) September 2016.

policy making and urban affairs. Good urban governance includes area such as:

- Legal/regulatory framework for urban development;
- Phasing and sequencing of decentralization;
- Ensuring clarity and alignment of actions within mandates by national/regional/local governments as stipulated by law;
- Intergovernmental fiscal relations;
- Accountability/Transparency regarding municipal conduct in its relations with national government institutions and citizens; and
- Relations with civil society organizations and the private sector.

23. National urban policy (NUP). As noted earlier, NUPs are a central feature of the NUA. Raising their profile, enhancing their scope and monitoring their implementation will be critical in virtually all IsDB member countries. Their purpose is to:

- Foster policy and institutional coordination in urban space across all urban settlements in a country;
- They can be broad in scope to touch on national policy objectives -- job creation, poverty reduction, or be more sector specific, focusing on housing policy, spatial planning policy, aspects of decentralization and a range of other areas, depending on the country; and
- They can help to monitor progress against SDG, NUP and other global, national or project level goals, objectives, and indicators.

24. Urban planning. Urban planning stands at the core of sound urban management and planning for urban growth. Typical problems that arise in developing countries are (i) outdated planning legislation and regulations; (ii) conflicts between different planning tiers/instruments and their

mandated implementing agencies; (iii) lack of a willingness or ability to enforce and apply urban planning guidelines; (iv) inflexibility in applying urban plan provisions in conditions of rapid urbanization when land use changes annually; (v) inadequate funding and/or human resources to plan annual work programmes, and to prepare and oversee implementation of urban plans; and (vi) weak human resource capacity and lack of standards for urban planning and planners in the country.

When urban planning is well-conducted, it can help achieve many benefits in urban environments, including:

- Help coordinate spatial planning at national, regional and local levels;
- Prevent or mitigate uncontrolled urban sprawl;
- Provide for urban growth by advocating for the release of public land and designate area development plans as and when a city needs to expand;
- Ensure enough vital energy, water and other resources that a city needs and associated infrastructure capacity to carry current and planned loads;
- Protect fragile environmental areas from urban intrusion and misuse;
- Ensure adequate provisioning for residential housing and commercial districts to promote quality of life and livelihoods;
- Provide for adequate green and other public space ratios, safe neighborhoods with building setbacks and transport corridors;
- Promote the inclusion of disadvantaged groups through participatory consultative processes and inclusion of urban design features that respond to those needs.

25. Municipal finance. Municipal finance is essential to cities and their residents and hence to this policy formulation and implementation. Typical problems that arise in developing

countries are the following: (i) inadequate revenue assignment authorities to raise revenues necessary to meet expenditure assignments; (ii) inability to set the base and rate for local revenues; (iii) inadequacy and inequitable fiscal transfers; (iv) weak local capacity to prioritize and prepare bankable municipal investments; (v) legal or financial impediments to accessing market-based credit; (vi) contingent liabilities in municipal enterprises, including water utilities, among others. Municipal finance considerations will enter into all urban operations in terms of considering lifecycle costing of investments, fiscal impact, operating and maintenance capacity and budgeting for built assets financed by IsDB, and ensured sound asset management over time to avoid accelerated depreciation of city assets.

- 26. Citizen engagement.** Citizen engagement is crucial to the urban programme, because local governments are the front-line service providers to citizens and enable a government to reach out and respond to the needs of its citizens. Good citizen engagement and consultations can: (i) improve downward accountability by local governments; (ii) improve project interventions through participatory planning and identification of priority investments; (iii) foster inclusion and ensure all strata of society and disadvantaged groups are consulted; (iv) promote sustainability of IsDB-financed investments based on strong local ownership.
- 27. Building partnerships.** The enormity of urban development financing needs across IsDB MCs requires all development actors to strive for greater collaboration and complementary in their interventions. This will need to take place internally within IsDB across relevant practice groups and externally with development partners, civil society organizations and the private sector. Ultimately, the aim should be to improve efficiency, cost-share to reduce costs whenever possible, and eliminate or substantially reduce duplication of effort.
- 28. STI and ICT applications.** STI and ICT are essential elements

of any enabling strategy, but particularly for urban policy. Advanced technology in computerized management information systems, GIS technologies, cell-phone and crowd-sourcing technologies, cloud storage, and a range of other applications have fostered the advance of “Smart Cities”. ICT can help to improve efficiency, transparency, communications, accountability, security and policy decision making, based on the ability to inventory and analyze large amounts of data and information, and to publicly disclose what is appropriate in the public domain. The following are just a few applications that can help foster sustainable and inclusive urban development under urban operations:

- GPS technology and systems to monitor municipal; assets and inventories (e.g. municipal service vehicle use);
- GIS technology and urban planning software to plan and avoid conflicts in infrastructure delivery; provide spatial data and information, among other uses;
- Municipal Financial Management Information Systems (MFMIS) have become an essential tool for upgrading municipal financing management capacity, improving reporting, and increasing transparency and accountability in the use of public funds.

IV Guiding principles

29. In order to implement this policy effectively and help IsDB MCs achieve sustainable and inclusive urban development, four guiding principles have been adopted. These are: (i) Country-focused Selectivity; (ii) Capacity Building and Knowledge Sharing; (iii) Financing Mechanisms, including PPPs; (iv) Women and Youth Empowerment. Each is further described below in terms of its relevance and how it will provide guidance and underpinning support to IsDB USP.
30. **Country-focused selectivity.** Every country is at a different stage of development with different institutional capacities, sector investment needs and priorities. A multi-year MC Partnership Strategy (MCPS) is prepared between IsDB and its respective MCs with the aim of identifying its most urgent development needs, prioritizing them, and then providing the means to address them in its MCPS. Financing constraints, absorptive capacity, and ongoing engagements with other donor partners will invariably affect programming needs in an MCPS. This process must be driven at the country level to sustain strong client relationships, so that the formulation of investment and development programmes are demand- not supply-driven.
- Accordingly, this policy calls for preparation of an Urban Sector Note by the UGP once every few years, with timing to coincide with preparation of a new MCPS. The note would both update IsDB UGP management and staff knowledge of the sector in the country, as well as present sector analysis, and policy and investment options for consideration by MC counterparts in policy discussions. Where there is strong MC demand, the UGP will be able to respond, grounded within its policy framework. Where urban development is less of a priority, and in the interest of selectivity, engagement will not be pursued in that country.
31. **Capacity-building and knowledge-sharing.** Beyond a need for infrastructure financing, IsDB MCs need support for building institutional and human resource capacities

to enable the intended services to be delivered, the built assets to be operated and maintained over time, to improve overall management and monitoring systems, all of which are vital to sustainable and inclusive urban development. Accordingly, across all of its operational engagements in IsDB MCs, the UGP will analyze and assess human and institutional capacities in the areas where the UGP is engaged and will identify gaps that could pose risks to successful implementation and sustained operation of an IsDB-financed asset. Where appropriate, each IsDB urban development operation will include an element for capacity building that may include provision of STI and/or ICT equipment, facilities, training, toolkits and operating manuals as appropriate.

In doing so, UGP teams will first ensure full exploitation of good practice off-the-shelf guides, manuals or toolkits that can be easily, and cost effectively deployed. Leveraging on the STI department, innovative and cost effective design solutions could be promoted through research & development. Successful pilots could be delivered and mainstreamed to other MCs through the Reverse Linkage division. Working under its close collaboration framework with UN-Habitat, Gates Foundation, as well as with Cities Alliance and other development partners, this arrangement will help to avoid duplication while addressing any urgent urban development capacity needs of a member country.

- 32. Financing mechanisms, including PPPs.** A wide range of new financing mechanisms have emerged over recent years to expand financing for development in general and urban development in particular, some of which are designed to foster private sector participation on the investment side, through performance-based contracting, or through other means. Energy service companies have gained traction in the area of street lighting in cities where they invest in replacing inefficient incandescent light fixtures with more efficient LED lighting, many of which are solar powered. Already existing payment streams by

municipalities to electricity providers for street lighting are securitized and used by the energy service companies in recovering the initial capital outlay, plus a margin, within a payback period of on average 7 years. The new LED street lights thereafter revert to the municipality as its own assets, including the cost savings they generate.

- 33.** Another mechanism is Development Impact Bonds or Social Impact Bonds, where an investor will put forward capital and accept a marginal return based on satisfying pre-specified development outcomes. Such financing mechanisms has been used to tap into capital markets in ways that were once unheard of. Another financing mechanism is policy and institutional development lending (performance-based grants) where satisfying pre-agreed development outcomes (e.g. increased access to safe potable water) triggers payments to municipalities rather than strictly financing contractors to implement infrastructure projects, some of which fail to benefit target beneficiaries for a variety of reasons. Such operations have proven to have fewer transaction costs and function more efficiently, while enabling a focus on development outcomes, rather than infrastructure delivery. Working with its development partners, both internal and external, this policy calls for UGP to explore and utilize innovative financing mechanisms to the extent possible and in line with MC demand. Finally, the use of the Green sukuk will be explored as well.
- 34. Women and youth empowerment.** Women, youth, and other disadvantaged groups are often overlooked in investment project identification and programming, and infrastructure system designs often are not adapted to the needs of those users. With critical challenges of a demographic youth bulge in many IsDB countries and problems of youth unemployment, many of whom reside in cities, this policy has been designed to ensure the guiding principle of inclusion is mainstreamed into the work of the UGP. There are many tools and mechanisms to achieve this. They include: participatory

planning that makes a dedicated commitment to ensure consultations of women and youth via their Civil Society Organisation (CSO) representative when available; ensuring inclusive design as a standard for public parks, city facilities and utilities (e.g. water) and infrastructure financed by IsDB; providing cities with tools and mechanisms to improve the active participation of women and youth as decision-makers and not just as project beneficiaries. Ultimately, the aim is to mainstream these and other tested approaches that foster greater participation by disadvantaged groups in contributing to their own urban development, thereby making IsDB interventions more valued and sustainable in MCs across the portfolio.

V Roles and responsibilities

- 35.** The main roles and responsibilities of the parties involved with this policy are defined by the enablers and facilitating measures required to support its successful implementation. The specific details will be elaborated in the operational strategy. The IsDB will lead the implementation of this policy in close collaboration with other Group entities. The IsDB will increase its in-house urban development specialists and other related expertise as appropriate during the implementation of this policy. This will enable it to cope with increased urban development intervention activities across the entities and to meet the expectations of this policy for global practice knowledge development and management. Within the Economic and Social Infrastructure department, this policy will be implemented by the urban global practice under the auspices of the Social Infrastructure division.

VI Related policies

- 36.** This policy is anchored in the objectives of the President’s Five-Year Programme and the IsDB 10-Year-Strategy to promote sustainable and inclusive urban development. It calls for an intelligent and integrated approach to all global practice policies for projects and operations in urban areas. Given that virtually any topic of national interest, be it health, education, climate change, or social cohesion is related to urban spaces, this USP is designed to serve as a platform to reinforce several IsDB sector and thematic policies within the urban space. It provides an opportunity for the IsDB’s global practices to ensure (i) better synergy across sector and thematic policies intervening in the urban arena; and (ii) efficiency and maximum development impact when helping member countries achieve their SDGs.
- 37.** At the operational level, this policy intersects and interfaces with all relevant thematic and cross-cutting policies, strategy documents, and any other relevant policy or strategy that may be operational during the period of this policy. Such policies include “Agriculture and Rural Development”, “Science, Technology and Innovation”, Energy, Transport, ICT, Water and PPP (both under development), Health, Education “Poverty Reduction”, “Partnership Development”, “Resource Mobilization”, “Trust Funds Management”, “Crowd Engagement”, “Capacity Development”, “Climate Change”, “Knowledge Management”, “Regional Cooperation and Integration”, “Reverse Linkage”, “Women Empowerment”, “Youth Development”, “Non-Governmental Organizations”, “Disaster Risk Management and Resilience” and “Civil Society Engagement”.

VII Version history

- 38.** This is the first urban sector policy in the history of the IsDB and is prepared for consideration by the Board of Executive Directors (BED). It will be reviewed periodically (as per the operational guidelines) to assess implementation experience and overall impact in achieving the SDGs and in facilitating sustainable and inclusive urban development. Reviews will highlight lessons learned, results achieved, and challenges experienced, making any suggestions necessary for modifying either the policy itself or its operational strategy for better alignment with the future strategic direction of the IsDB.
- 39.** This policy becomes effective from the date it is approved by the BED. A waiver may be obtained for any of its provisions, subject to a waiver proposal, sponsored by the President and approved by the BED.



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