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Sustainable and Inclusive Urban Development

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"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 urbanisation."

H.E. Dr. Bandar M.H. Hajjar

President, Islamic Development Bank and
Chairman of the Board of Executive Directors

EXECUTIVE SUMMARY

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.

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.

The scale and rapidness of urbanisation 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 urbanisation 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 2050[1].

- ***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 output[2].

[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:

- *Without growth is a key challenge to many IsDB MCs.* While urbanisation 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 housing[3]. In 15 IsDB MCs, the urban population living in slums exceeds 50 percent[4].
- *Rapid urbanisation 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 improved sanitation[5]. 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 resources[6], 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

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).

[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.

of the global population living in threatened lands, and 26 percent at 4 degree C warming[7]. A study conducted by SESRIC[8] 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).

The urban agenda comprises some of the most urgent and 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.

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 urbanisation. 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.

This Technical Study Report was prepared in view to develop the first Urban Sector Policy (USP) in the history of IsDB. As such it is anchored in the objectives of the President's Five-Year Programme (P5P) and the IsDB's 10-Year Strategy (10-YS) to promote sustainable and inclusive urban development.

Given that virtually any topic of national interest (e.g. health, education, climate change, social cohesion) touches down on urban space --- the USP is designed to serve also as a platform to fortify and reinforce several IsDB sector and thematic policies within the urban space and provides an opportunity for the Bank's Global

[7] SESRIC 2019. OIC Environment Report (October 2019).
[8] SESRIC 2012. Managing Disasters and Conflicts in OIC countries.

Practices to ensure: (i) better **synergy** across sector and thematic policies intervening in the urban arena; and (ii) **efficiency** and maximize development impacts in helping our Member Countries achieving their SDGs.

The Technical Study Report was developed through a comprehensive, transparent and inclusive consultation process involving three days of online consultation workshops with participation of representatives of MCs, IsDB Management, Internal Technical Working Group, Urban Global Practice Team, and key Development Partners.

Sustainable and Inclusive Urban Development is the overarching development theme for the USP. It is underpinned by five pillars, each of which contributes to the achievement of 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 & Environmental Resilience.

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This study was prepared under the general oversight of Dr. Mansur Muhtar, Vice President (Country Programs Complex) and under the guidance of Mr. Amadou Thierno Diallo, Director, Economic and Social Infrastructure Department, and under the management of Mr. Sami Ahmad Faruqi, Global Practice Manager, Social Infrastructure Division. The core team was led by Mr. Papa Abdoulaye SY, Global Lead Urban Development, Mr. Bipin Dangol, Senior Sanitation Expert and Mr. Ashkur Rahman, Global Senior Urban Development Specialist. The main author of the study was Stephen Karam, Lead Consultant of IsDB Urban Sector Policy with inputs from Regional Consultants: Hippolyte Etende (SSA), Sonya Hamzaoui (MENA) and Rudy Yuwono (ASIA). The team received valuable contributions from IsDB's Global Practices, Regional Hubs and Operations Evaluation Teams, representatives of Member Countries, and urban development departments of partner multilateral development banks, UN agencies, and other bilateral urban development agencies.

External consultations were held on the draft Urban Sector Policy with presentations via videoconference in regional MC workshops and development partner workshops from July 6-8, 2020. Very valuable feedback and guidance were shared with the team preparing this Technical Study prior to and during the workshops. In particular, the team would like to acknowledge the workshop participation and contributions of many MCs (SSA): Benin, Burkina Faso, Cameroun, Chad, Cote d'Ivoire, Gabon, Mali Sierra Leone, Senegal, Chad, and Togo; (MENA) Bahrain, Lebanon, Libya, Saudi Arabia, Somalia, UAE, and Algeria; (ASIA) Malaysia, Indonesia, Uzbekistan, Tajikistan, Kazakhstan, Iran, Turkey, Albania, Azerbaijan, and Pakistan. The following Development Partners also provided valuable comments and guidance, including representatives from: Arab Urban Development Institute (AUDI), Asia Development Bank (ADB), Asia Infrastructure Investment Bank (AIIB), CEDARE, Cities Alliance, Bill and Melinda Gates Foundation (BMGF), GIZ - German Corporation for International Cooperation , Gora Mboup (GORA), UN-Habitat (ROAF and ROAS), UN ESCAP, UNDP, UN ESCWA, World Bank, and Ale Badara SY (Africa Consultant), Antoine Noubouwo (Africa Consultant), and Urooj Malik (Asia Consultant). Without their contributions and insights, finalization of this document would not have been possible.

ACRONYMS AND ABBREVIATIONS

ADB	Asian Development Bank
AFD	Agence Française de Developpement
AfDB	African Development Bank
AIIB	Asia Infrastructure Investment Bank
BED	Board of Executive Directors
BMGF	Bill and Melinda Gates Foundation
CAF	Development Bank of Latin America
CH	Cultural Heritage
CWIS	Citywide Inclusive Sanitation
DPL	Development Policy Loan (WB)
DRM	Disaster Risk Management
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
FCS	Fragile and Conflict-Affected Situations
FSM	Fecal Sludge Management
FSTP	Fecal Sludge Treatment Plant
GiZ	German Corporation for International Cooperation
HICs	High Income Countries
ID	Islamic Dinar
IsDB	Islamic Development Bank
IFS	Islamic Financial Sector
IPCC	Intergovernmental Panel on Climate Change
LED	Local Economic Development
LICs	Lower Income Countries
LMICs	Lower Middle Income Countries
MCs	Member Countries (of IsDB)
MCPS	Member Country Partnership Strategy
MCUSN	Member Country Urban Sector Note
MDBs	Multilateral Development Banks
MENA	Middle East and North Africa Region
NDC	Nationally-Determined Contributions
NGO	Non-Governmental Organization
NUA	New Urban Agenda
NUP	National Urban Policy
OIC	Organisation of Islamic Cooperation
P4R	Program For Results (WB)
P5P	President's 5-Year Programme

PPP	Private-Public Partnerships
SDG	Sustainable Development Goals
SESRIC	Statistical, Economic and Social Research and Training Centre for Islamic Countries
SSA	Sub-Saharan Africa Region
Sukuk	A legal instrument of financial certification used in Islamic finance
SUMP	Sustainable Urban Mobility Planning
TPG/TSP	Transport Practice Group/Transport Sector Policy
UD	Urban Development
UMICs	Upper Middle Income Countries
UNFCCC	United Nations Framework Convention on Climate Change
UN Habitat	United Nations Human Settlements Programme
UDSGN	IsDB Urban Development Sector Guidance Note
USP	Urban Sector Policy
USPG	Urban Sector Practice Group
WPG/WSP	Water Practice Group/Water Sector Policy
WB	World Bank
WW	Wastewater
WWTP	Wastewater Treatment Plant

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INTRODUCTION

The level of a civilisation can be estimated by the size and growth of its cities, an inevitable consequence of the development of human society.
IBN KHALDUN, AL-MUQADDIMAH, 1377

Dating back to the earliest of times, cities have been the foundation of human civilisation, promoting the advancement of culture, science, learning, technology, industry, innovation, as well as economic growth and commerce. It was understood that with the benefits of co-location or gatherings of societies in dense urban space would come the opportunities to exchange knowledge, goods and services that would accelerate the development of human society. And so, this has been the case with the rise of many great civilisations centered around their capital cities, as *Ibn Khaldun* observes.

But it is also true that the convergence of people in densely settled cities can bring major challenges. History has shown how cities have experienced the ravages of destructive fires, pandemic outbreaks (as is the case today with COVID-19), crime, congestion, forced migration, and abject poverty, and many of these conditions persist today. This reality underscores the fact that cities require more advanced systems of infrastructure services, medical care, urban planning and management and ways of promoting social cohesion that in many countries do not keep pace with rapid urbanisation. When this happens, resentments emerge and cities quickly take on the image of something negative, something to be resisted and avoided, when, if well-managed, they can be vital engines of economic growth and poverty alleviation. The Islamic Development Bank Group (IsDB) therefore has a key role to play in helping its Member Countries (MCs) take on and resolve these critical urban management challenges and to support MCs in harnessing the economic and innovative potential of their cities.

Entering the 21st century, the world experienced a notable 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 into the future, making the transition to an urban society and how to manage it a development imperative. From a global perspective, Sub-Saharan Africa, South Asia, and parts of the Middle East, where IsDB MCs are predominantly concentrated, are expected to be the regions that experience the most dynamic and rapid urban growth in the decades ahead. As such, the need to have an up-to-date Urban Sector Policy that provides a proactive vision, strategic framework, and engagement tools, services and financial products for member countries will be vital to both IsDB and its counterparts.

IsDB has operated in the urban sector over the past eight years under the guidance of an Urban Development Sector Guidance Note (UDSGN), issued in May 2012. UDSGN

provides an important baseline from which this Technical Study attempts to update knowledge on new global urban policy trends, specific country experience, and operational lessons learned, while setting a foundation for IsDB's new Urban Sector Policy. An effort has been made, as well, to cover topics and issues relevant to IsDB's institutional policy documents and guidelines, including the IsDB 10 Year Strategy (2016-25), the President's 5-year Programme (P5P), Policy Development and Management Guidelines, and relevant sector and thematic policy notes, among other guiding documents.

This Urban Policy Technical Study (TS) is organized into four main parts.

Part I -- *Global Context for Urban Development* -- takes stock of some of the key global urban trends over the past decade that illustrate and document how urbanisation is a significant demographic force, recognizing some of the critical challenges (e.g. affordable housing, urban management) it poses for today's emerging market economies and the potential it holds for those countries that plan for and manage it appropriately (e.g. economic growth potential and poverty reduction). Related to these trends, Part I also considers the global development policy agenda and its bearing on sustainable and inclusive urban development, including the Sustainable Development Goals (SDGs), the Paris Agreement on Climate Change, the New Urban Agenda adopted at Habitat III in 2016, and the Sendai Disaster Risk Reduction Framework adopted in 2015.

Part II -- *Member Country Needs and Urban Sector Priorities* -- narrows the focus of the TS to the specific regional conditions and trends in IsDB member countries (MCs) organized by regional country groupings. Each country grouping is reviewed across five thematic areas -- Urban Economy, Urban Transport, Urban Housing and Slum Upgrading, Urban Water and Sanitation, and Disaster, Climate and Environmental Resilience -- in terms of the key trends, challenges and regional priorities, drawing on regional reports prepared by IsDB regional consultants who prepared inputs and analysis for the TS.

Part III -- *IsDB Positioning in the Urban Development Sector* -- explores various aspects of IsDB's Urban Global Practice positioning within the global policy framework of Part I and IsDB MC needs and priorities in Part II, including IsDB's role within global urban development financing trends, IsDB's urban development portfolio and its evolution, IsDB corporate policies and guidelines, as well as staffing and resources, avenues for development partner collaboration (both those that have been leveraged and emerging opportunities). Part III culminates in a SWOT analysis of IsDB's Urban Global Practice that is ultimately used as an input to Part IV.

Part IV -- *A Policy Framework for IsDB Urban Development Operations* -- draws from each of the preceding parts of the study in formulating a thematic orientation for IsDB's new Urban Sector Policy (USP), which emphasizes sustainable and inclusive urban development. Five policy pillars are proposed for the USP to structure the urban work program, illustrate alignments with global urban policy trends and respond to MC urban development needs and priorities. Key cross-cutting thematic areas that reinforce and

enable urban sector policy are then outlined, including municipal finance, urban governance, and citizen engagement, among others. This is followed by guiding principles agreed for the USP (e.g. country-focused selectivity, capacity building and knowledge sharing), and areas for building synergies between the USP and other IsDB sector and thematic policies to harmonize and integrate IsDB's program of support for MC cities. Finally, a number of suggested management and implementation tools are proposed for piloting or mainstreaming during the USP implementation period.

I. GLOBAL CONTEXT FOR URBAN DEVELOPMENT

The importance of cities to developing countries cannot be overestimated. So important are they to the economic and social well-being of their residents and to the nation as a whole that the twenty-first century has been declared the *Urban Century*. Once relegated to the narrowly circumscribed role of being the providers of the most basic public services -- waste collection and the paving of local roads -- today city mayors have risen to the highest ranks of national government on their public service track records of spurring innovation, creating economic growth and jobs, establishing close relationships with their local constituencies, while improving their lives and livelihoods.

National-level ministries of economy, finance and development have taken notice. Where urban affairs were once the modest domain of ministries of urban development or local government, Ministers of Finance and Economy increasingly want to know about the health and welfare of their cities, as they now see them as the lifeblood of the country's economy, the generators of jobs, and perhaps the most important vehicles for lifting the prospects of the country's poor out of extreme poverty. Increasingly, they recognize that a thriving economy with important welfare effects depends not only on the dynamism of economic sectors, but on the spatial dimension where sizable production and consumption markets come together in cities. Ed Glaeser, a professor of economics at Harvard University and author of *Triumph of the City: How Our Greatest Invention Makes Us Richer, Smarter, Greener, Healthier, and Happier*, would agree. He states that "Cities are the best path we know out of poverty." (Glaeser 2011)

Why this sudden awakening? Much of the attention on cities came into focus at the turn of this century when around 2008 the United Nations declared the world's population had surpassed a major milestone in becoming an urban majority for the first time in human history. Demographic projections into the decades ahead have shifted the policy debate from the global scale to the developing world, which will (and already is) the locus of transformative urbanisation processes, particularly in the least urbanized regions of Sub-Saharan Africa and South Asia.

The challenge today for nearly all developing countries is to harness the forces of urbanisation to promote economic growth and reduce poverty, and to avoid or at least mitigate the considerable negative spillovers of dysfunctional land markets, informality and slums, and unplanned urban expansion and sprawl that can be equally threatening for the prospects of a developing country as the promising potential that urbanisation can bring.

This section of the report is devoted to surveying the major global urban trends and their impact on IsDB Member Countries: urbanisation dynamics, critical policy issues for national and local governments, and the important linkages to the global policy agenda.

A. Global Urban Trends

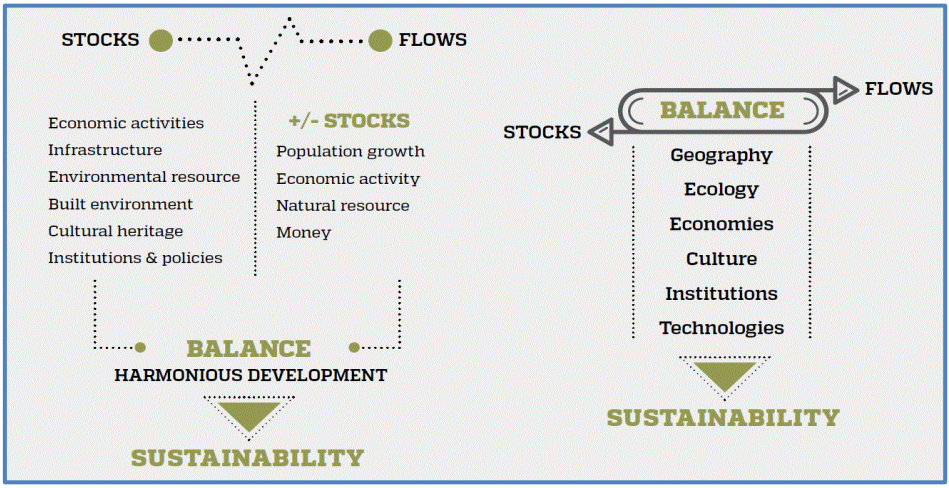
1. Understanding Urbanisation Dynamics

Today's global urban population stands at 55 percent (2018), having grown enormously from only 30 percent in 1950, but projected to grow much higher by 2050, when it's expected to reach 68 percent. All regions have now well exceeded the 50 percent threshold, with the exception of Asia, which is just reaching 50 percent, and Africa lagging behind at 43 percent. Roughly half of the world's population live in relatively small settlements of 500,000 inhabitants or less. One in eight urban inhabitants live in mega cities of 10 million or more. Several decades ago, all mega cities were located in higher income countries, mainly in the northern hemisphere. Today, large cities are concentrated in the global south. (United Nations 2019)

Low income and Lower-Middle Income countries are now the locus of the most rapid urban growth. In 2018, cities in those countries hosted 32 and 41 percent of the population respectively, but by 2050 both country groupings will cross the 50 percent threshold with 50 and 59 percent of their populations living in urban areas respectively. (United Nations 2019)

The diagram below provides an informative way of understanding the different dimensions of urbanisation and its linkage to sustainability by presenting the "stock" (population, economic activities, infrastructure, environmental resource consumption, etc.) and the "flows" that urbanisation can facilitate for better or worse, depending on how it is managed; maintaining a balance is key to sustainable urban development. Recognizing forces that are beyond a country's or city's control and undertaking actions to manage what they can control. Sustainable development is most critically about managing urban growth, especially in low income and low-middle income countries.

Figure 1: The Nexus of Sustainability and Urbanisation

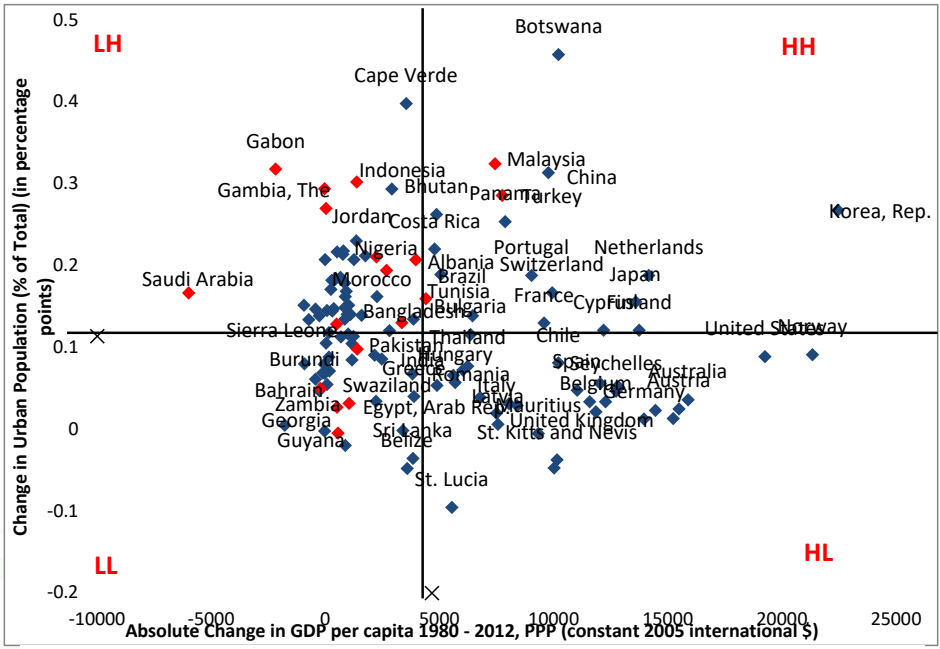


Source: IsDB Urban Policy Concept Note Presentation

2. Urbanisation and Economic Growth

As the hosts of the vast majority of a country's industrial and service establishments, cities globally are estimated to generate on average about 80 percent of a country's GDP. Countries that have successfully managed urbanisation have enabled a structural transformation of their economy from a predominantly agrarian one with low productivity to an industrialized and service-based economy with higher productivity returns. Figure 2 below plots the economic growth and urbanisation performance of several countries globally over a 32 year period (1980-2012), showing how they have been able (or not) to leverage urbanisation for economic gains. Several among them are IsDB MCs (in red). In quadrant HH, Malaysia and Turkey have distinguished themselves in achieving high economic growth with rapid urbanisation. This is largely predictable based on economic theory, as, over time, countries should move from LL (low urbanisation rates and low GDP growth) upward toward HH. Most IsDB member countries are still pre-industrial, which explains their concentration in LL (such as Egypt, Pakistan, and Sierra Leone). Less fortunate are those that rise to LH (rapid urban growth without strong GDP growth), which includes Jordan, Indonesia, and Gambia among others. (World Bank 2014)

Figure 2: Urbanisation and Economic Growth (1980-2012) in Selected Countries



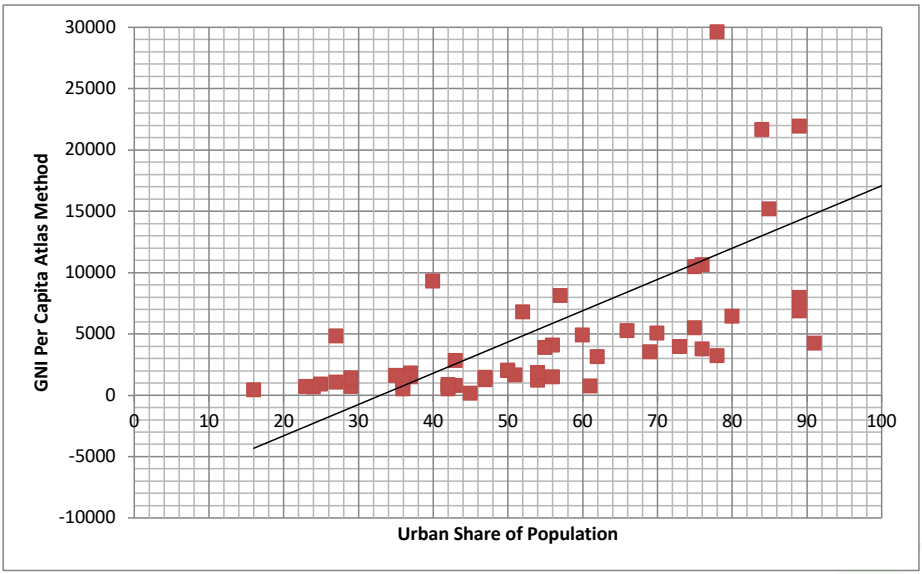
Source: World Bank 2014: Author's Calculations using WDI GNI and Urban Population Data

Leveraging the potential gains from urbanisation is dependent on managing cities well.

Emphasis needs to be placed on effective urban planning, integrated with transport and housing policies and planning so that the adverse impacts of urbanisation (negative externalities), don't undermine the potential for promoting economic growth and poverty reduction. Cities that have not managed urbanisation well due to poor planning, lack of financial resources to develop infrastructure services, among other factors, face significant urbanisation costs, including congestion and long communing times, with low cost housing too far from where jobs are located, particularly for the poor, thus making urbanisation less sustainable and inclusive.

Figures 3 and 4 are entirely devoted to IsDB MCs. The first, below, plots IsDB MCs by their GNI Per Capita and their urban share of population, both in 2018. Noteworthy is the correlation of GNI per capita and urban share of population with the mean reflected in the upward sloping line of the plot diagram. While many of the high per capita income countries are oil-exporting arid-climate countries with populations concentrated in more habitable urban settlements, there are several where growth was driven by urbanisation.

Figure 3: IsDB Member Country GHI per capita and Urban Share of Population (2018)

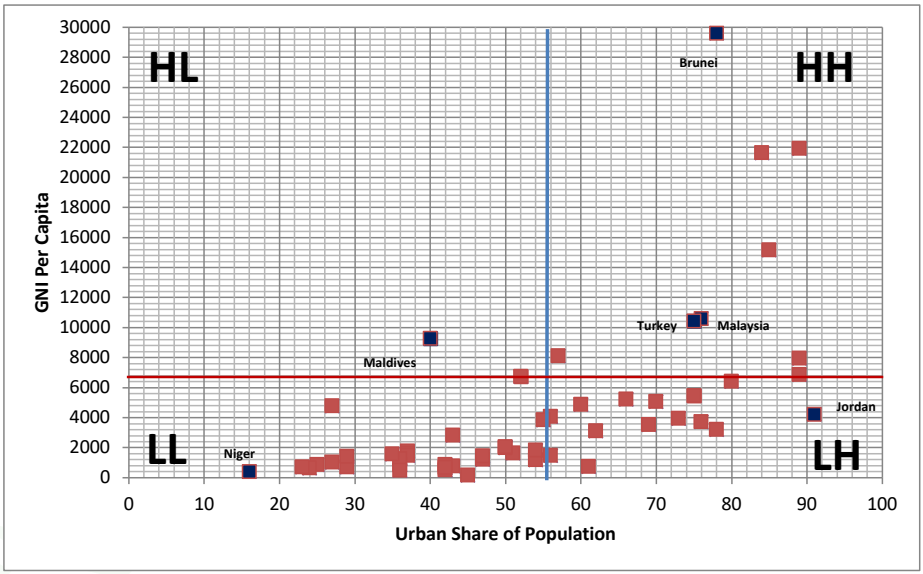


Source: Author's Calculations using WDI GNI and Urban Population Data from World Development Indicators

Figure 4 below takes the same variables of the previous plot chart, but groups the clusters of countries into four quadrants divided by the mean of each (GNI per capita and Urban share of population). This was done to illustrate the dynamics at play in each of the groupings. The average urban share of population for all IsDB MCs in 2018 was 55 percent (represented by the blue line), while the average GNI per capita in 2018 was $6,651 (represented by the red line). Representing the high performers (HH) are Brunei (attributable in part to its vast oil wealth), Malaysia and Turkey. Malaysia used its cities to transition economically in the 1970s from a primary exporter of raw materials (rubber and tin) to higher value added manufacturing of appliances, equipment and processed raw materials (commercial hardwoods). Without any energy resource endowments, Turkey harnessed its cities to transition to an industrialized economy starting in the 1950s, when urbanisation began its first major thrust. In doing so, it was able to substantially reduce poverty and establish a broad middle class over the course of the 1980s until today. (World Bank 2015)

Most IsDB member countries are concentrated at the other end of the spectrum (LL) with low levels of urbanisation and GNI per capita but are poised to take advantage of urbanisation in delivering economic dividends, provided the manage the urbanisation process well. Niger represents the extreme case of low urbanisation and low GNI per capita.

Figure 4: The Potential and Missed Opportunities of Urbanisation in IsDB MCs



Source: Author's Calculations using WDI GNI and Urban Population Data from World Development Indicators

Maldives is an outlier as the only IsDB member country that has achieved relatively high GNI per capita with modest urbanisation (HL), owing to its very small population of about half a million and diverse tourism and agricultural economy. By contrast, many IsDB countries have drifted laterally from LL to LH (Low GNI per capita and High urbanisation), illustrated in the extreme case of Jordan with very high urban population but modest GNI per capita. These countries illustrate a critical risk facing rapidly urbanizing countries today, which is missing out on the urbanisation dividend if it is not effectively harnessed and managed to deliver economic growth and shared prosperity.

This perspective may provide the strongest rationale for the importance of IsDB's dedicated commitment to advancing urban development in each of its member countries. Particularly for those in the LL and LH quadrants (where most IsDB MCs are concentrated), there are urgent needs for IsDB's financing for urban infrastructure to improve access to and the quality of municipal services, attract private investment, reduce congestion and carbon emissions, promote affordable housing and improve the quality of life and economic prospects in those countries in general.

With rapid urban growth, IsDB MCs should aim to leverage urbanisation with the productivity gains that cities can help foster by improving urban governance and management. Rapid urbanisation often coincides with and should help facilitate structural

shifts in a country's economy from a dominant low-productivity agricultural sector to increased GDP contribution by higher productivity industrial and services sectors. Here, IsDB MCs present a mixed picture. Among the 300 largest metropolitan economies in the world, OIC country capitals of Istanbul, Dhaka, and Jakarta rank 12th, 25th, and 28th according to the 2018 Global Metro Monitor (SESRIC 2019). However, there are significant and widening gaps with other OIC country cities that have not been able to achieve the productivity gains that these three cities have witnessed. Particularly in the Sub-Saharan Africa region where the phenomenon of "*urbanisation without growth*" is being witnessed in some countries, the urgency of improving urban governance and management cannot be underestimated, as many African cities otherwise will be unable to keep pace economically with rural-to-urban migration (World Bank 1999) In such countries, there is more of a "*push*" factor that drives migration to urban areas, caused mainly by poor living conditions in rural areas, than a "*pull*" factor of SSA cities attracting rural migrants because of the economic opportunities they generate. Improving urban governance and management is one key to solving this puzzle, because as cities grow, the potential benefits from agglomeration economies can be offset by high negative externalities of congestion, poor housing conditions, crime, and other factors that undermine a city's ability to deliver on its economic growth promise.

IsDB MC cities have leveraged tourism as a driver of economic growth, but more could be done and should be reflected in IsDB's Urban Sector Policy. Four IsDB MC cities range among the top 10 destinations for visitors in the world in 2018, making tourism-led development an important dimension of IsDB Urban Sector Policy. Dubai, with 15.93 million tourist arrivals annually, and Kuala Lumpur with another 13.79 million rank 4th and 7th among the 10 most visited cities in the world. Rounding out the top ten, they are joined by Turkey's Istanbul (13.40 million) and Antalya (12.41 million) ranked 8 and 10 respectively. However, with the vast number of cultural heritage sites in IsDB countries, more could be done to promote cultural heritage-based tourism in IsDB MCs, making service economies as promising as industrialization in driving IsDB MC economic growth. Not only with cultural heritage sites in both urban and rural areas that need protection and preservation, but also with adjoining and supportive urban infrastructure and services that will need to be upgraded to attract private investment in the tourism sector, including transportation and mobility investments and services, logistics and tourism operator facilities, urban water and sanitation infrastructure services that support the tourism industry, improvement and upgrading of public spaces, among other interventions. These and other elements could feature into integrated urban tourism and cultural heritage preservation investment operations financed by IsDB for its MCs.

Industrial-based urban growth is often hampered by lack of access to serviced industrial land and adequately serviced manufacturing areas in cities. While data is not readily available on IsDB MCs regarding main constraints to manufacturing capacity, lack

of urban serviced industrial land for larger-scale, more efficient and modern manufacturing operations is often cited by businessmen in "Doing Business" Surveys of the World Bank as a key deficiency. As urban growth creates the need to transition from an often dominant informal small-scale urban economy to a more formal economy with larger scale firms, so the need arises for adequately-serviced and sufficiently scaled manufacturing space, including dedicated three-phase electrical power with limited or no brownouts, adequate supply of water and sanitation services, and transportation networks and links to ensure the smooth flow of manufacturing and finished products, as well as labor mobility across urban space. IsDB will need to consider how its interventions in MCs, particularly for late urbanizing countries in SSA, can benefit from integrated urban operations that help position SSA cities to improve their productivity and economic growth with adequate infrastructure services. Dedicated systems in industrially-zoned areas are one way of achieving that in an economically feasible way when country-wide or city-wide systems fail to deliver and are too costly to upgrade overall.

Table 1: Doing Business Ranking for Construction Permit Issuance by Region

Region	Rank	Score	Procedures (Number)	Time (Days)
East Asia	84	70	14.8	132.3
Middle East & North Africa	87	61.7	15.7	123.6
South Asia	98	65.3	14.6	149.7
Sub-Saharan Africa	126	58.5	15.1	145.4

Table 2: Top 20/Bottom 20 Rankings of Countries by Construction Permit Issuance

Top 20	Ranking	Bottom 20	Ranking
Malaysia	2	Syria	186
United Arab Emirates	3	Libya	186
Qatar	13	Yemen	186
Morocco	16	Somalia	186
Bahrain	17	Afghanistan	183
		Sierra Leone	181
		Niger	180
		Guinea-Bissau	177
		Chad	174

Source: Tables 1 & 2: World Bank, Doing Business 2019 Rankings (www.doingbusiness.org/en/rankings)

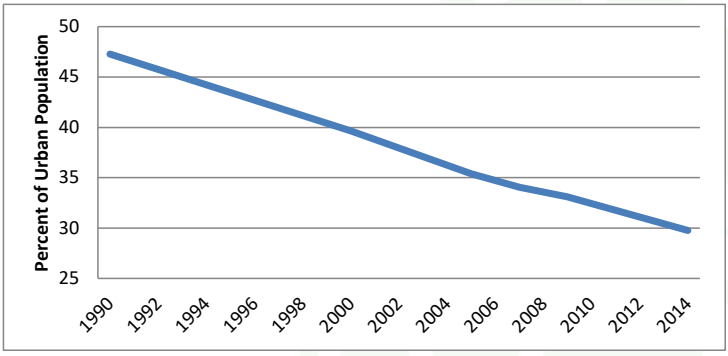
3. Urban Poverty & Slums

No urban policy can dwell on the promise of urbanisation without at the same time acknowledging its significant downside risks, many of which have materialized globally and in IsDB MCs in particular. With IsDB's Urban Sector Policy adopting a dual-themed orientation to urban development -- namely making it more *sustainable* and *inclusive* for its member countries, the challenge of addressing the causes of urban poverty becomes a paramount concern. For urban development to be inclusive, it must avoid or at least mitigate the inequalities that arise with urbanisation. That is, inequalities of access to services, of secure tenure, of access to jobs and affordability of safe and adequate housing.

As a by-product of rapid urbanisation, or more pointedly of highly functional labor markets with dysfunctional land markets, the growth of informal settlements and slums are almost an inevitable consequence rapid urbanisation. The proportion of urban population living in slums (SDG Indicator 11.1.1) is one of the key globally-accepted methods for monitoring urban poverty under the UN SDG Agenda 2030. As such, it represents a key variable that IsDB MCs will need to collect data on and monitor to report progress on the SDGs.

Poor and inadequate housing remains a persistent challenge globally and for IsDB MCs in particular. Poor or inadequate housing is defined by UN-Habitat and refers to housing located in precarious areas (non-zoned informal housing situated on slopes subject to landslides or in flood plains subject to flooding) or without access to basic services, including water, sanitation or waste services.

Figure 5: Percentage of Global Urban Population Living in Slums

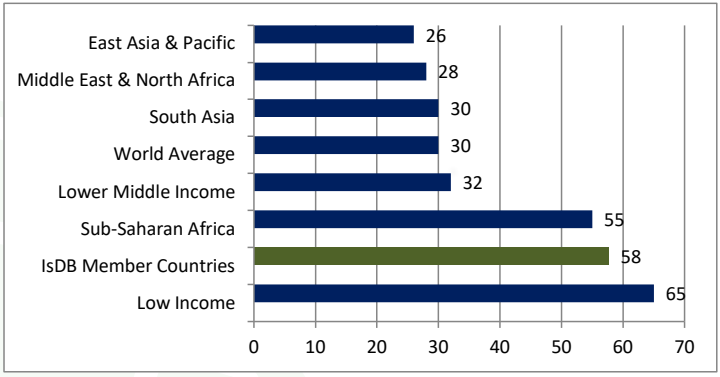


Source: Author Calculations with WDI/UN-Habitat Data (2014)

As illustrated in Chart 5 above, the percentage of urban population living in slums globally, based on available data, has been steadily declining from 48 percent to 30 percent

over the period 1990-2014. However, a breakdown of the slum population stock by country region and income group (Figure 6) presents a stark and very different picture. As expected, low income countries host the largest percentage of slum dwellers at a 65 percent average of the urban population. Even as many LICs have low shares of urban population, their urban settlements have never been planned and designed to accommodate the number of people that live there today. IsDB MCs come next at 58 percent, which underscores the critical importance of IsDB's focus in its Urban Sector Policy on improving urban housing and slum upgrading as a vital element of fulfilling its emphasis on *inclusion.* As a region, Sub-Saharan Africa has the largest percentage of its population living in slums and it's also growing the fastest. Sudan accounts for the highest number of people living in slums at 91.6 percent, followed by Chad, Guinea-Bissau, and Mozambique at 80 percent. East Asia and Pacific and Middle East and North Africa Regions have the lowest incidence of urban population living in slums with regional averages of 25 and 28 percent respectively.

Figure 6: Percentage of Urban Population Living in Slums by Region & Income Group



Source: Author calculations with WDI/UN-Habitat Data (2014)

Benchmarking by the world average, regional average and/or income group average will be an important challenge and development measure and the new IsDB USP calls for annual review of this indicator under its Urban Housing and Slum Upgrading Pillar (see Part IV below), which, significantly, is situated at the center of the USP pillars in promoting sustainable and inclusive urban development. The best performing IsDB MCs in terms of slum reduction have been Suriname and Tunisia, which report only 10 percent of their urban populations living in slums today. They will be useful models for other IsDB MCs who could benefit from knowledge exchanges, benefitting from lessons learned (SESRIC 2019).

There are many factors that contribute to dysfunctional urban land and housing markets. As demand dramatically increases for housing with rapid urbanisation, supply side capacity becomes stressed. Many lower income countries have not yet established robust manufacturing capacity for construction materials or contractor capacity to deliver the quantity of housing units needed to keep pace. Many of the housing construction inputs have to be imported at much higher cost than what could be developed in the local market. Contractor capacity and turnover ratio is likely week due to prior unrealized latent demand. Available land for housing may also be in short supply due to poor urban planning in not projecting urban growth and formal urban land expansion requirements, or urban planning regulations have put constraints on building heights and density ratios, making the use of urban land uneconomic. Cities lack the revenues for infrastructure financing to absorb the sharp influx of migrants because their tax base is only then beginning to expand, so there is a need for central governments to intervene with fiscal transfers that aim to "equalize" or smooth out this horizontal imbalance between local economic base and demographic growth surges that spike demand for municipal services.

While the benefits of urbanisation have been felt by many countries, no country has passed through its period of rapid urbanisation without great difficulties and challenges. Singapore is one of the most striking examples, as it was once overwhelmed by informality and urban slums when its cities lacked the capacity to absorb the inflow of migrants over the 1940s and 50s. Starting in 1960, despite being a poor country with virtually no natural resource endowments, they established many of the critical policies and institutions necessary to harness and manage urbanisation, ultimately emerging as a high income country with impressive urban infrastructure and services by the mid-80s. Among IsDB countries, Turkey stands out as a prominent model for promoting inclusive urbanisation, particularly in the ways it managed once overwhelming informality by taking a number of steps to regularize informal settlements. It launched a series of amnesties over a number of years that granted slum dwellers land title to ensure security of tenure, which prompted households to self-invest and upgrade their dwellings, while municipalities installed roads and utility connections to service once informal areas. This experience is well documented and highly relevant for other IsDB MCs (World Bank 2014 & 2015).

4. City Size and Regional Spatial Dynamics

Mega-Cities. Mega-Cities are becoming an increasing urban management challenge in IsDB MCs. Of the top 28 cities in the world by population size, a considerable seven or 25 percent are in IsDB MCs. MENA region is represented most prominently with five, led by Cairo; Asia region is next with two, headed by Jakarta, which is estimated to be the third largest city in the world; but SSA countries are also represented by Lagos, which has over 21 million inhabitants, ranking it at as the fourteenth largest city in the world. With increasing urban growth pressures, IsDB MCs will need to develop more

sophisticated urban management systems to deal with the complexity that comes with size and to avoid the negative externalities of congestion spillovers on urban efficiency and productivity. An increased policy focus will be needed in IsDB's Urban Sector Policy on supporting IsDB MCs in strengthening urban governance and management systems (including ICT and other e-governance applications), proactive and regularly applied strategic and spatial planning, and improved systems for municipal financial accounting and budgeting, among other areas.

Secondary Cities. While much of the attention these days is paid to megacities (generally with populations of 10 million and upwards), which have shifted from once being mainly concentrated in high income countries to now being concentrated in developing countries, secondary cities have often been overlooked. This is unfortunate because most urban inhabitants still reside in cities of 500,000 or fewer inhabitants (50 percent), and they perform important functions within a country's system of cities, particularly during periods of rapid urbanisation.

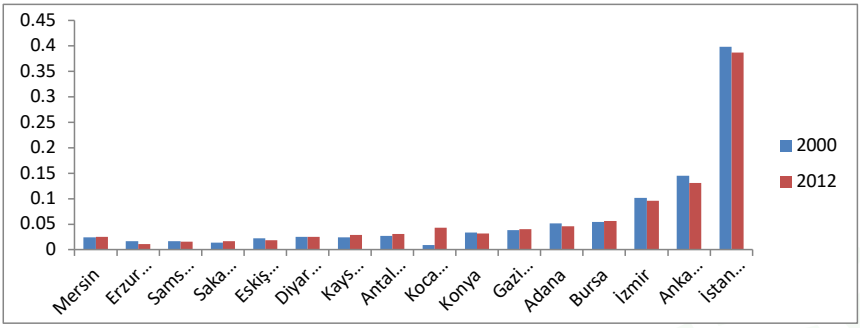
First, they provide can provide regional balance across a large geographic country, serving as service and manufacturing hubs to the small towns and villages within the region. Second, they can absorb the "overflow" from large megacities, by offering an alternative, more affordable urban alternative to their larger counterparts. Housing is generally more affordable, congestion is generally much less, and quality of life in some respects can be much better. Third, they can help a country retain its manufacturing base as large megacities shift to primarily service-based economies and land costs rise, making manufacturing less cost effective. Many countries will experience an outflow of manufacturers to the periphery of a larger megacity or to an alternative secondary city, provided there are strong transport connections that prevent the cost of moving goods prohibitive for firms located outside a primate city.

Secondary cities are in many OIC countries growing as fast or faster than primate cities. While urbanisation is often discussed as a mega city growth phenomenon, over the past two decades secondary cities are in many instances contributing more towards urban growth than their primate counterparts both globally and in Organization of Islamic Cooperation (OIC) countries. Globally, secondary city growth has been exponentially high over the last half century when cities of 500,000 grew from 14 in 1950 to 202 in 2015 and are expected to reach 343 by 2035. Within this global context, OIC countries are urbanizing faster than their non-Islamic counterparts, averaging over 3 percent urban growth annually. (SESRIC 2019).

Taken together, OIC countries account for 22 percent of the world's urban population despite having eight countries (Uganda, Niger, Chad, Comoros, Tajikistan, Afghanistan, Guyana and Burkina Faso) that rank among the 20 least urbanized countries. In Turkey between 2000-12 (See Chart 7 below), many secondary cities -- such as Bursa, Gaziantep, and Kocaeli (often referred to as Anatolian Tigers) have consistently

outstripped Istanbul in terms of their annual urban growth. (World Bank 2015) This noteworthy rapid urban growth in OIC secondary cities is not only happening in large land-mass, high-middle income countries, such as Turkey, but also in lower income countries with secondary cities like Batam (Indonesia), Nnewi (Nigeria), and Abomey-Calavi (Benin), which are among the fastest growing OIC cities, all of which are growing at a pace of over 6 percent annually. This reality underscores the need for IsDB's urban policy to have a specific angle on assisting MCs with rapid urban growth in secondary cities. (SESRIC 2019).

Figure 7: Comparative Growth of Turkey's Primary and Secondary Cities (2000 & 2012)



Source: Turkey Urbanisation Review: Rise of the Anatolian Tigers, World Bank, 2015

5. Cities and the Challenges of Social Inclusion

Fragile and Conflict-Affected Situations (FCAS). Fragile and conflict-affected situations are becoming an increasing feature of the development landscape, and, consequently, there is a heightened focus on these countries by development agencies and MDBs globally. Forced migration has placed an undue burden on host communities and managing social cohesion and inclusion has become a major challenge. Although FCAS countries featured on a UN-classified list change from year to year, many IsDB MCs are included in this classification. For instance, Lebanon hosts the highest number of displaced persons per capita in the world. All three of the middle income FCAS countries -- Iraq, Lebanon, and Libya -- are IBRD MCs; and nearly half (13 of 29) of the low income FCAS countries are IsDB MCs. Given that much of the focus of FCAS programs has been in urban areas where conflict is often taking place or where refugees seek refuge, urban teams are most often called upon with their integrator skills to lead such operations. Syrian refugees in Lebanon and Jordan are almost exclusively (80-90%) located today in

urban areas, making FCAS a vitally important thematic issue to be addressed in IsDB's Urban Sector Policy. Moreover, regional, within-country, and inter-country displacement creates problems of social unrest, economic burden of service provision, and competition for natural resources and jobs. Accordingly, efforts will be made to more actively mainstream FCAS into IsDB's Urban Sector Policy. (UNHCR 2019)

Gender and Youth Mainstreaming. Gender and youth mainstreaming into Urban Policy and operations is becoming more prevalent and explicit in development practice given the tendency to overlook these issues in past policies or operations or to have them subsumed into non-disaggregated beneficiary or participatory groups. Given the demographic youth bulge prevalent in many of IsDB's MCs in SSA, MENA and South Asia traditional approaches that may exclude women, the IsDB Urban Sector Policy will need to address these two critical topics in a forthright manner. Ways of doing so would include drawing from best practice global experience and using standardised and tested methods of disaggregating beneficiaries (whenever possible) in investment operations. In addition, the increasing use of participatory methods that puts marginalized stakeholders into a position of contributing toward identifying development needs or investment priorities will be further explored in IsDB's Urban Sector Policy. Building social inclusion for women and youth into technical assistance and infrastructure design and delivery will be an essential dimension of IsDB's Urban Sector Policy given its aim to promote sustainable and inclusive urban development.

6. Cities and the Green Agenda

The challenges and downside risks of urbanisation are significant and without proper planning and efficient resource allocation, urbanisation can be overwhelming. Land management and urban planning are probably the most crucial, as slums are essentially an outcome of the dysfunctional confluence of land and labor markets. Countries experience a substantial spike in demand for land and housing in the early phases of urbanisation that most countries don't have the planning and housing supply capacity to address. Accordingly, as is often advocated in this paper, ensuring that a sound land use planning system is in place is perhaps the most crucial first step that a country can take to prepare for rapid urbanisation. Well-administered land use management and zoning applications can help promote the preservation and expansion of public green spaces within cities, prevent encroachment on sensitive peri-urban and rural ecosystems (including their outright absorption due to sprawl), and can incorporate methods to more broadly "green" urban areas with tree plantings, rainwater harvest systems, and methods of reducing a city's carbon footprint.

Globally, cities consume 75 percent of the natural resources consumed, emit 80 percent of greenhouse gas emissions, and produce about 50 percent of post-consumer waste. (UN 2020). Hence, cities are among the worst offenders of the climate change

agenda. But many cities have taken on this challenge and lead their nations in adopting measures to reduce their climate footprint, using such measures as congestion charging to reduce carbon emissions, adopting broad-based recycling programs, promoting urban agriculture and community gardens that have manifold benefits, including improvements in food security. These and other innovations are putting cities at the forefront of the global policy agenda that emphasizes sustainability and inclusion.

What follows is a review of the global policy agenda relevant for urban development in IsDB MCs. Starting with Agenda 2030 and the Sustainable Development Goals (SDGs), Climate Change, and then evolving more specifically to aspects of urban policy in the New Urban Agenda and disaster risk reduction in cities (Sendai Framework).

B. Global Policy Agenda and Linkages to Sustainable & Inclusive Urban Development

In this section, we review global development trends and standards against which the IsDB Urban Sector Policy (USP) can be programmed and benchmarked. We begin at the apex level, exploring linkages with the globally-accepted Sustainable Development Goals (SDG) standard. The SDG Agenda established 17 SDGs and was adopted by the UN General Assembly in 2015 as a 15-year plan to be reached by 2030 (Agenda 2030). We then drill down to the specific urban development field encapsulated by the "New Urban Agenda" adopted at the UN Habitat III Conference and explore the key elements of disaster risk reduction strategies reflected in the Sendai Framework.

1. Sustainable Development Goals[9]

There are long-standing debates about whether "urban" is a space or a sector. Is it simply a passive space where "things happen," or is it a sector with professional rules and practices that prevail or should prevail? Without wanting to enter into this long-standing debate, it would be sufficient to say that it is a bit of both. Given that virtually any topic of national interest (e.g. health, education, climate change, social cohesion) touches down on urban space -- that is, issues or forces that either impact cities or are impacted by them -- there is a virtually limitless scope that can be ascribed to urban policy (unlike, say, transport sector policy). Because of this somewhat unique feature, urban programs and urban specialists are often thought of as the "integrators" of different sectors in a common space.

Accordingly, of the seventeen SDGs elaborated by the United Nations, most, if not all could fit in one way or another into an urban policy. Chart 8 below reflects a comprehensive mapping of the SDGs with the broad linkages to urban development. However, to remain focused in this exercise to formulate IsDB's Urban Policy, while a

[9] In this section, content is referencing the SDG literature, which is available on sustainabledevelopment.un.org

number of SDG goals will be considered from the perspective of coordination and integration, four will take on central importance, because Urban Policy and IsDB's urban program will need to take the lead or co-lead in these areas. They are: (i) Sustainable Cities and Communities; (ii) Clean Water and Sanitation; (iii) Affordable Clean Energy; and (iv) Climate Action. The relevant targets and indicators for each have been selected and attached as ANNEX IV to this report. Below is a brief review of the features and highlights of each and the rationale for their selection as global SDGs for IsDB's Urban Sector Policy.

Sustainable Cities and Communities (SDG 11) is the most relevant to IsDB's urban policy. This SDG has trackable indicators that in some cases have shown remarkable improvement over time. For instance, from 1990 to 2016 the global urban population living in slums fell from 46 to 23 percent. Other areas covered by this SDG include public transport, waste collection, urban air quality, access to open public spaces, and National Urban Policies designed to respond to urbanisation challenges today. This latter policy element would be an interesting and highly relevant feature to monitor under the Urban Governance dimension of IsDB's USP. As of the beginning of 2019, 150 countries had developed such policies and almost half are implementing them. The UPG could identify the current status of MCs that have National Urban Policies and provide support to develop them over time as a contribution to this SDG Target.

Clean Water and Sanitation. Access to safely managed water and sanitation services[10] is one of the most fundamental development needs of every country, and, over the years, greater emphasis is being placed on the safety of water given poor water quality, even when there is access. Since the advent of the COVID-19 pandemic, hand hygiene has also risen to the forefront of the urgent needs under SDG 6. Water has become an even more urgent need over recent decades, as threats to water security are growing in all regions and are particularly acute in the MENA region. In 2017, some 60 percent of people worldwide and only 38 percent in least developed countries had a basic hand-washing facility, leaving an estimated 3 billion people without basic hand-washing facilities[11]. Given the large scope of IsDB's water and sanitation

[10] Safely managed Drinking Water service means drinking water from an improved water source which is located on premises, available when needed and free from Fecal and priority chemical contamination. Safely managed sanitation service means use of improved facilities which are not shared with other households and where excreta are safely disposed in situ or transported and treated off-site. (www.washdata.org)
[11] Sustainable Development Goal Agenda found at www.un.org

programme under the Urban Development Programme, SDG 6 (Clean Water and Sanitation) is a second and highly relevant SDG for the IBDG USP.

Affordable and Clean Energy. Although the production and distribution of electric power is generally beyond the scope of local governments and urban development, cities are by far the largest consumers of energy and thus a focus on improving energy efficiency and integrating renewable energy are both important ways in which cities can contribute to SDG 7 (Affordable and Clean Energy). Increased investment in solar-powered street lighting and improving the energy efficiency of municipal buildings are two ways to contribute. International financial flows to developing countries in support of clean and renewable energy reached $18.6 billion in 2016, almost doubling from $9.9 billion in 2010.

Climate Action. A fourth relevant SDG for the IsDB's USP is Climate Action (SDG 13). This SDG encompasses not only building, landscape and public infrastructure design to promote climate change mitigation and adaptation, but also consideration of Disaster Risks associated with seismic events, landslides, flooding, and other natural-induced disasters. Integrated urban planning and mobility planning can be critical contributing factors toward reducing our carbon footprint, including urban design that reducing reliance on the automobile, encourages pedestrianization through dedicated walkways and bike routes, decreasing CO2 emissions.

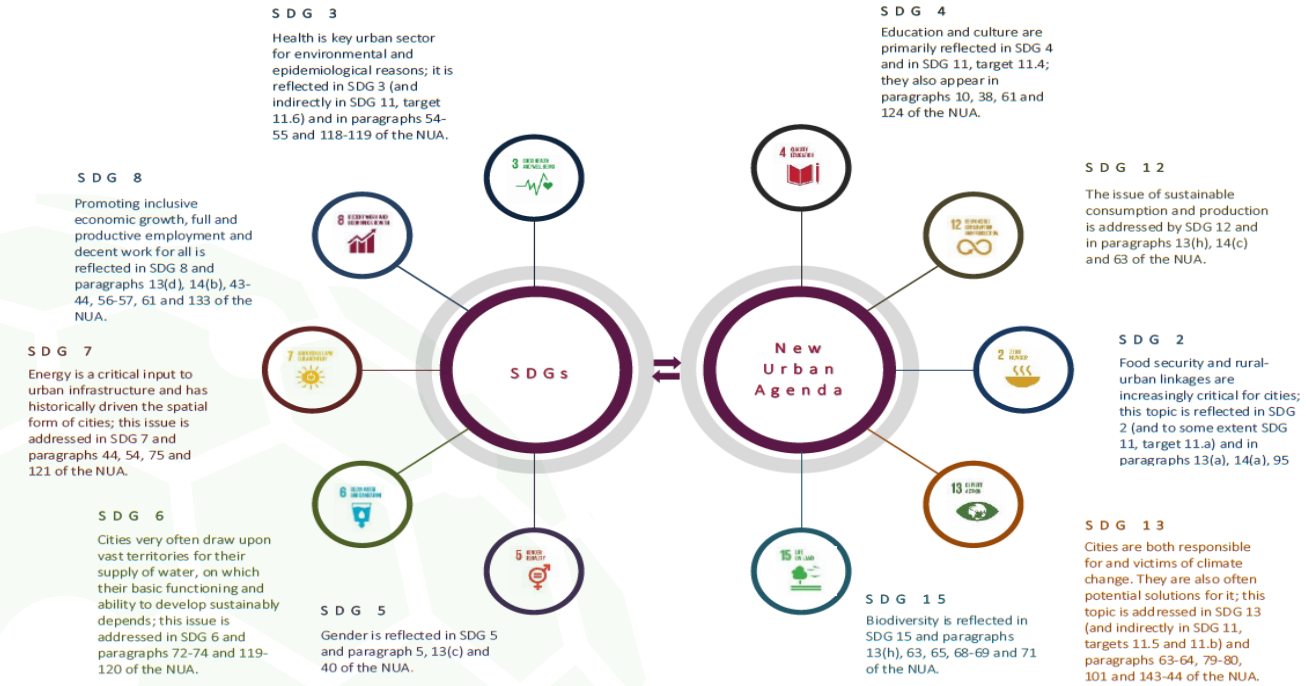
The SDGs are very harmonious with Islamic thought and practices going back centuries, and many of the concepts have equivalent terms in Islamic cultural and language, as reflected in Box 1 below.

Box 1: Quranic Concepts of Sustainability

1. *Adl (Justice)* - governing human relationships and other living creatures;
2. *Mizan (Balance)* - governing both human social and economic relationships but also the environment, especially in ensuring the equilibrium of nature, the use of resources and life cycle of all species;
3. *Wasat (Moderation*) - choosing the middle path in economic planning, social conduct, scientific pursuits, ideological views, material, water and energy consumption;
4. *Rahmah (Mercy)* - governing all aspects of human relationships and treatment of all living animals, plants and insects including micro-organisms;
5. *Amanah (Custodianship)* - Humankind is considered to be a trustee appointed by the Creator, for all earth's assets;
6. *Taharah (Spiritual & Physical purity*) – generating a clean economy devoid of usury and deceitful marketing techniques and business transactions; cleanliness that would generate a healthy society devoid of air and water pollution; generating contented individuals through spiritual purity, conscious of the presence of his/her Creator, that would result in a balanced society, living in harmony with the environment;
7. *Haq (Truthfulness and Rights)* Truthfulness in all dealings that recognizes the respective rights of others (humans, animals and plants);
8. *Ilm Nafi' (Knowledge and science*) - Knowledge, whether theological, scientific or technological, must be beneficial to others (individuals and society) including future generations.

Source: Z.H. Matali, ''Sustainability in Islam'', *Exploring Synergies between Faith Values and Education for Sustainable Development*, R. Clugston & S. Holt (Eds.), UNESCO Chair on Education for Sustainable Development and the Earth Charter, 2012.

Figure 8: The New Urban Agenda (NUA) Linkages to SDGs



Source: SESRIC staff design based on UN Habitat, *Action Framework for Implementation of the New Urban Agenda,* 19 April 2017.

2. Paris Agreement (on Climate Change)

The "Paris Agreement" refers to the agreement of most of the world's countries to the United Nations Framework Convention on Climate Change (UNFCCC), which was signed in 2015 and entered into force on November 4, 2016. It is the only global unified basis for countries throughout the world to commit to reducing the impacts of climate change through country specific measures and actions. The primary instruments used are Nationally-Determined Contributions (NDCs), which each country formulates and commits to do. 186 countries have submitted their first NDCs in 2016, which are recorded on the UNFCCC website. NDCs are renewed and updated every four years, and there was a stock-taking of the status of countries in addressing their NDC commitments in 2018. The second NDCs will fall due this year (2020); three countries have already submitted their second NDCs so far.

The central aim of the Paris Agreement and NDCs is to strengthen the global response to the threat of climate change by keeping global temperature rise this century well below 2 degrees Celsius above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5 degrees Celsius. Additionally, the Agreement aims to strengthen the ability of countries to deal with the impacts of climate change. To reach these ambitious goals, appropriate financial flows, a new technology framework and an enhanced capacity building framework will be put in place, thus supporting action by developing countries and the most vulnerable countries, in line with their own national objectives. The Agreement also provides for enhanced transparency of action and support through a more robust transparency framework. The UPG is well-positioned to support MCs in implementing commitments to their NDCs, particularly under its Urban Policy given the substantial scope that touches on actions in the urban arena.

3. New Urban Agenda – UN Habitat III Conference

IMPLEMENTING THE NEW URBAN AGENDA

At the UN Habitat III Conference (UN Conference on Housing and Sustainable Urban Development) held in Quito, Ecuador, a "New Urban Agenda" was adopted on October 20, 2016 based on the premise that "if well-planned and managed, urbanisation can be a powerful tool for sustainable development in both developed and developing countries." Conference participants recognized that urbanisation is a powerful force affecting much of the developing world, where cities occupy 2 percent of the total land area but 70 percent of the global economy, account for over 60 percent of energy consumption, 70 percent of Greenhouse Gas (GHG) emissions and 70 percent of solid waste.

Implementing the New Urban Agenda. Four key pillars were established to implement the new urban agenda, as follows:

- Urban Rules and Regulations. Urbanisation requires effective city management and rule of law in promoting sustainable cities. Rules include regulations and bylaws that preserve historical buildings and cultural heritage, ensure adherence to zoning regulations and building codes to protect residents and businesses from potential disasters, and ensuring the safety and well-functioning order of cities, particularly as they grow and become a more serious challenge to manage.
- Urban Planning and Design. Urban planning becomes a critical challenge in the wake of rapid urbanisation. Ensuring that city plans are flexible but also enforced and up-to-date with sufficiently skilled urban planners and city officials in a position to administer and uphold them are all vital attributes for managing sustainable cities. Well-devised urban plans also have associated capital investment programs that ensure there is adequate provisioning of public goods -- streets, water and sanitation, open spaces, and buildable plots.
- Municipal Finance. The backbone of any well-managed city is a well-managed municipal finance regime. Effective budgeting, robust own-source revenue collection, and prudent expenditure management are all hallmarks of well-run cities. Often overlooked, budgeting and implementation of a strong Operations & Maintenance (O&M) program is critical to ensuring effective operation of city infrastructure and facilities and to prevent accelerated depreciation of built assets that can generate additional unwarranted costs. At the national level, intergovernmental fiscal transfers can be instrumental in promoting horizontal equalization (redistribution of tax revenue proceeds particularly to localities with a weak local tax base) and vertical balance in spending between central and local government authorities.
- National Urban Policies. Long-neglected and unlike other "sectors" many countries have not developed national urban policies to oversee and guide the development and well-being of their cities. With Habitat III came a formal commitment to develop overarching national urban policies to address intersecting policies issues relating to urban and regional planning, housing, slum upgrading, municipal finance and a range of other areas. Such policies can be an essential link to economic, transport, and other strategic national policies that promote overall process of national development. (See section 2 of this report for the status of NUP in OIC countries.)

Orientation of Countries. In order the implement the New Urban Agenda, IsDB MCs will need to embrace and pursue the following strategic orientations:

- Embracing Urbanisation. Rather than trying to block or forestall rural-to-urban migration, which has largely resulted in unplanned, informal settlements, and dismal

living conditions, countries facing rapid urbanisation should be more proactive and plan ahead for incoming migrants. This will be a particularly critical strategic orientation for rapidly urbanizing countries in the SSA region.

- Integrating equity into the development agenda. While urbanisation has been well-documented as a force that can promote economic development, growth and poverty alleviation, during early phases of urbanisation inequalities will grow in urban areas and mechanisms need to be put in place to ensure that inequalities can be identified and addressed upfront. These may include access to affordable housing, ensuring intergovernmental fiscal transfers are used to promote horizontal balance and equalization in access to financial resources across both economic prosperous cities and those towns and cities in lagging regions with a weak economic and financial base.
- Promoting national urban planning and planned city expansion. Urban planning has rightly been criticized in the past for being overly rigid and formal, often leading to lack of enforcement, and negligible effect in managing development and effective land uses in cities. Accordingly, given the volatility and increase of migration (forced and/or economic), there is an increasing need to use flexible but enforceable planning tools that have been tested and adapted in recent years to be more practical and effective. Clarifying legal frameworks and ensuring central, regional and local government roles are clear is an important element of this strategic orientation. Also, ensuring that cities are sufficiently financed to be able to undertake planning exercises and are capable technically to follow-up with plan implementation. Proactive measures are increasingly being used, as well, in rapidly urbanisation countries to organize public right of ways and provide adequate infrastructure services in peri-urban areas where informality can otherwise take root and cause the need for costly upgrading after the fact.
- Determining how Sustainable Development goals can be achieved through sustainable urbanisation. Recognizing the enormous impact of cities on a country's sustainability in terms of energy consumption, waste generation, expanding land use is important and need to be addressed at both the national and local level so that, for example, rural to urban land conversion does not compromise agricultural production. Urban plans should therefore have linkages to the principles of Sustainable Development and to the specific SDG targets and indicators in order to contribute to national objectives.
- Aligning institutions within new urban agenda. The New Urban Agenda (NUA) will require more than a business as usual approach to managing cities. Strategic involvement of ministries of economy, finance, transport, etc. is crucial. Some countries, like Afghanistan, acting within the guidance of the NUA, have established Higher Councils for Urbanisation that bring together key ministries, usually with the ministry of urban development or municipalities as the technical secretariat and under the oversight of a high level official, like the president or prime minister, to ensure active

coordination is achieved across sectors. These new trends in developing the policy and institutional architecture to strategically address the challenge of rapid urbanisation can help harness it into a potential engine for economic growth, while minimizing the negative spillovers that come with internal migration pressures.

4. Sendai Framework for Disaster Risk Reduction

The Sendai Framework for Disaster Risk Reduction (Sendai Framework) was agreed and endorsed at the UN General Assembly following the Third UN World Conference on Disaster Risk Reduction in 2015. It spans fifteen years (2015-2030) and was formulated to align with other Agenda 2030 global policy platforms, such as the SDGs. Its main purpose is to provide member countries with actions to protect development gains from disaster risks and advocates for *preventing new and reducing existing disaster risk through the implementation of integrated and inclusive economic, structural, legal, social, health, cultural, educational, environmental, technological, political and institutional measures that prevent and reduce hazard exposure and vulnerability to disaster, increase preparedness for respond and recover, and thus strengthen resilience.* (UNISDR 2015)

Because cities and other urban areas are locations that feature high density concentrations of people and physical assets, they are especially vulnerable to most disaster risks, particularly seismic, flood, and pandemic risks. In addition, forced migration due to internal or cross-border conflicts often generate refugees that gravitate to cities for a variety of reasons, including safety and potential informal work opportunities. As such, urban areas are both places of highest vulnerability, as well as places of refugee in responses to disasters, depending on the type of disaster and prevailing conditions. Accordingly, there is an increasing recognition of the role that cities need to play in promoting improved disaster preparedness and resilience. Such measures include (i) raising public awareness about disaster risks and appropriate response strategies; (ii) preparing disaster reduction and preparedness plans for their city, (ii) mainstreaming disaster risk reduction measures throughout all city policy and planning tools, including spatial planning, residential and commercial building codes, and for infrastructure planning and design, among other measures. For these and other reasons, support for disaster risk reduction provided by Multilateral Development Banks (MDBs), like IsDB, is often by the urban global practice which has the integrator skills necessary to address most of the DRR requirements, specialized training in urban planning and construction codes, and experiencing in planning and financing a range of diversified infrastructure in cities, rather than in a single sector. IsDB's DRR support to MCs will therefore be driven by its DRR unit, but operationally grounded in urban operations of the Urban Global Practice, making it a fundamental area of focus for the IsDB Urban Sector Policy.

II. MEMBER COUNTRY NEEDS & URBAN SECTOR PRIORITIES

A. Urban Development Needs in IsDB Member Countries

Group 1: Sub-Saharan Africa (SSA)[12]

The Sub-Saharan Africa Country Grouping of IsDB (SSA) comprises 23 countries and stands second in size at 40 percent of the 57 IsDB MCs. Its main concentration of countries falls within the east and west sub-regions in Sub-Saharan Africa, along with the small island of Maldives in the Indian Ocean and Suriname, located in the northeastern region of South America. All of the IsDB low income member countries are located in this regional grouping (with the exception of Afghanistan), and the average GNI per capita for the Group is $1,839. There are no high-income countries. This makes the programming of urban development needs more similar across the region than in MNA and ASIA where there are significant differences in country income and a range of other characteristics, though demands will always vary greatly from country to country[13].

This country grouping has the lowest average urban share of population of the three IsDB regional groups at 44.6 percent, which is still higher than the SSA region as a whole at 40 percent. By 2050, it is expected that the entire region will have 1,258 million living in urban areas, or roughly 47 percent of the population. The SSA Regional Group of MCs is also in the midst of the fastest urban growth in the world with East Africa expected to grow by 930 percent from 1990-2050 and West African just behind at 890 percent. The average urban growth rate for the SSA Group of countries stood at 3.8 percent, slightly lower than the 4.1 percent for the SSA region as a whole. Among its countries facing enormous urbanisation pressures is Uganda, which at 6.2 percent annual urban growth (2018) ranks as the fastest in the world. Countries in this region are also beginning to reap the benefits of urbanisation as some have been able to sustain impressive economic growth in recent years and are attractive foreign direct investment in their cities as never before.

Lagos is the region's only mega-city (IsDB MCs) and the SSA region has the highest percentage of population living in slums at 57 percent[14]. Many SSA Group countries are going through various stages of decentralization, placing new responsibilities and also

[12] In this section, reference is made to the IsDB's Group 1 Countries which comprise primarily Sub-Saharan African countries, but also include Suriname in South America and the Maldives in the Indian Ocean. Where data is available for these countries, they are included in the regional analysis and generation of group averages. When exceptions arise, they are noted.

[13] Unless otherwise noted, all demographic and economic data (GNI) are drawn from the World Development Indicators Database (2018 data) and regional average figures are calculated and presented by the author.

[14] The latest global survey data on slum populations was carried out by UN-Habitat in 2009, as reflected in the Millennium Development Goals (MDGs) Database (mdgs.un.org).

pressures on the regions. This, combined with inadequate financing resources, has resulted in large backlogs of underfinanced urban infrastructure investment needs.

Urban Economy. Starting in the 1990s, most SSA countries have experienced modest but sustained economic growth for nearly two decades. This has been due to a number of factors, including rapid urbanisation that is now taking shape as early stage agglomeration economies in urban areas with the formation of a denser labor pool and the convergence of production and consumption markets; improved macroeconomic conditions and public policies that encourage foreign and domestic investment as never before; modest improvements in economic infrastructure in selected countries and in targeted ways to attract manufacturing investments; and initial linkages forming with trade partners in global value chains that improve access of exports to foreign markets.

Of particular note are the emerging intraregional trade networks that have formed around concentrated sub-region trade hubs in Nigeria, Cote d'Ivoire, and to a lesser extent in Senegal -- all IsDB MCs. Cities are at the nexus of these emerging trade economies and will be relied upon to help drive and grow the process for regional economic and trade integration in the years ahead, provided they are equipped with the needed economic infrastructure that enables them to attract investment by firms that are seeking lower transaction costs in several areas across the region, from better access to industrial-serviced land with suitable infrastructure, lower red-tape and delays/cost in obtaining construction permits and other documentation necessary for establishing and operating a new business (IMF 2014).

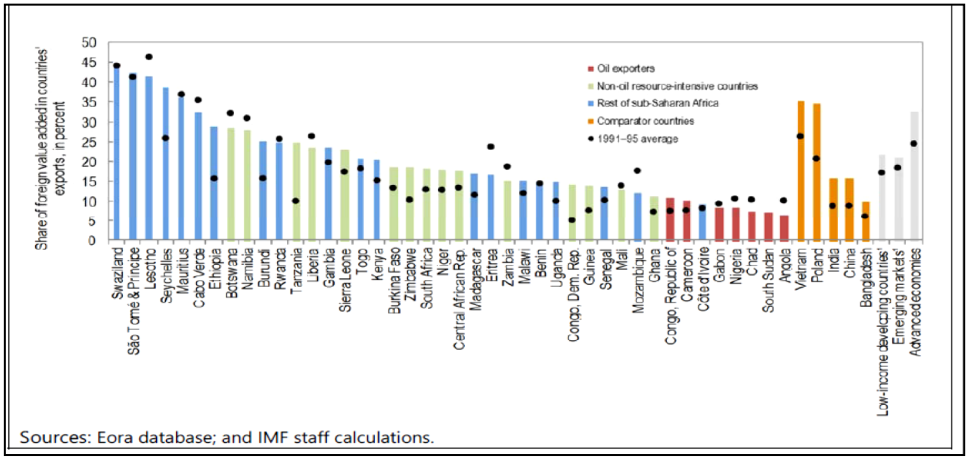
To leverage the Sub-Saharan Region's trade potentials and ensure strong job creation and durable growth in the process....it is more critical than ever to make progress in filling the infrastructure gap.

IMF: Trade Integration and Global Value Chains in Sub-Saharan Africa (2014)

The chart below highlights the current status of many IsDB MCs in the SSA Group in comparison to other SSA countries and other regional comparators regarding their degree of integration into GVCs. Many IsDB MCs are shown to be lagging but with the opportunity to advance GVC integration through enabling manufacturing capacity in IsDB cities. These non-oil exporting countries include: The Gambia, Sierra Leone, Togo, Burkina Faso, Niger, Benin, Uganda, Guinea, Senegal and Mali.

IsDB USP can support these efforts by helping MCs address the critical economic infrastructure gap, which remains a binding constraint for many. Targeted delivery of high quality infrastructure in a concentrated area, such as through municipal enterprise parks or industrial zones would help anchor and expand this process, while creating vital employment opportunities for new urban migrants and for youth, who are facing very high unemployment rates.

Figure 9: Selected Countries Depth of Integration in Global Value Chains (2008-12)



Urban Mobility. SSA is the region with the highest number of road fatalities. The highest incidence of road injuries and fatalities is among pedestrians and bicyclists due to a lack of appropriate street signage, effective traffic management on urban roads, very limited provision of sidewalks, pedestrian walkways, and bicycle paths, despite the fact that those modes of mobility are still the most common.

Regarding public transportation, a sizable number of West African countries, in particular, have invested in BRT systems, including Benin, Burkina Faso, Gabon, Guinea, Nigeria, Senegal, Sierra Leone, and Togo, all of which have 25-50 kilometers of network. However, there are limited BRTs in the SSA Region's low income countries (only Burkina Faso, Guinea, Togo and Sierra Leone) and of limited coverage, which is troubling given the growing demand for public transport and the relatively cost effective means by which BRTs can provide it. Unlike light rail systems, BRTs are flexible and mobile and can be adjusted to land use plan changes. They are scalable to the size of ridership and they have much lower fixed costs and operating costs, thus substantially reducing the subsidies that are almost always needed in the cases of metro systems and rail. (IsDB 2018)

Three IsDB MCs in the region have light rail systems (Cote d'Ivoire, Cameroon, and Mozambique) and others plan to develop them in the coming years. No IsDB MCs in SSA have extensive metro systems, and only Lagos has adopted a Sustainable Urban Mobility Plan (SUMP). (IsDB 2018)

With rapid urbanisation now contributing to congestion in many of the region's primate and secondary cities, investments in public transport should be a priority focus. All should be underpinned by well-prepared SUMPs, and this should be a condition of IsDB

financing. Cost-effective solutions using low carbon-emitting buses within sound BRT systems and with well-defined city feeder/main bus line routing, coupled with off-street parking provisions for commuting nodes at the periphery of these cities would be practical and cost effective ways to bring up ridership gradually and encourage a modal shift. Such measures would also have strong climate change co-benefits that could be recorded against country Nationally Determined Commitments (NDCs) under the Paris Agreement.

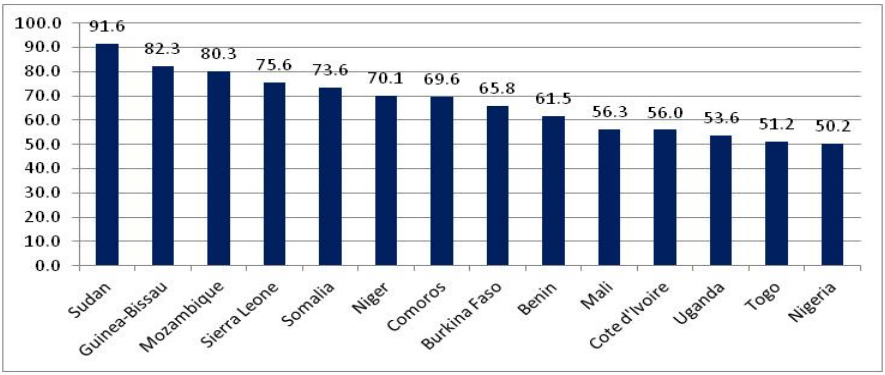
Urban Housing and Slum Upgrading. The SSA region has the greatest prevalence of slums of any region in the world. Perhaps more worrying is the recognition that it is only now rapidly urbanizing, thereby compounding the informality and inadequate living conditions in cities. Fifteen of IsDB MCs have greater than 50% of their urban population living in slums, with Sudan, Guinea-Bissau and Mozambique being the most extreme cases with nearly 92, 82 and 80 percent of their populations living in slums respectively. (See Figure 10 below)

These conditions warrant major attention and investment in the area of urban housing an slum upgrading. While the latter will need to deal with the stock, helping to regularize informal settlements, provide them with services and security of tenure, the former will require substantially upgraded housing policies, legislation and market-based mechanisms to dramatically improve supply capacity to meet growing demand.

Solutions won't be reached by supporting governments in becoming the major supplier of housing on the market, as that will only demonstrate that the government's ability to deliver under any scenario will be well below what the market needs it to supply to keep up with demand. Rather, understanding what holds back the housing supply market in terms of contractor capacity, construction materials costs and availability in the local market, sufficient serviced land in residential areas, among other factors will need to be carefully assessed and reforms undertaken to remove the bottlenecks. On the demand side, targeted subsidies at the lowest end of the market will help to address access to affordable housing only when the supply side has been reengaged.

Finding ways to make the housing market attractive to the private sector is one of the most fundamental needs in responding to the enormity of demand. Working closely with housing specialists at UN-Habitat and elsewhere will help to construct a multi-dimensional action plan for the sector in many of the region's countries where action today on housing is paramount.

Figure 10: Percent of Urban Population Living in Slums in SSA Countries (2014)



Source: WDI Indicators, author's calculations

Urban Water and Sanitation. 286 million people are without access to improved water source in IsDB MCs and another 666 million without access to adequate sanitation. (SESRIC 2019). Among IsDB MCs, SSA Group countries, and selected Asia Group countries are the ones with highest proportion of needs. As expected, conditions are worse in low and low-middle income countries where water and sanitation coverage is quite low and interventions in these two regions would contribute substantially to advancing the SDG 6.1 and 6.2 (safely managed water and sanitation services and facilities) and related indicators. Among the few SSA Group countries reporting on the urban population with access to safely managed drinking water, Sierra Leone ranks among the weakest with only 12 percent coverage, followed by Uganda (16 percent) and Nigeria (25 percent). (WDI 2017 Data)

In SSA IsDB MCs, only 22 percent of households used safely managed sanitation services. For 90 percent of them, excreta are treated and disposed of in-situ; 2.3 percent are emptied and treated offsite and disposed and only 5.5 percent have wastewater treated offsite. Latrines are the common infrastructure; the use of septic tanks is limited to 15 percent while sewer connections are scarce (only 4.1 percent). Progress is low, especially for the use of sewer connection (GLASS, 2014).

As far as hygiene is concerned, a lot of progress is yet to be achieved: only 22.8 percent of the urban population have access to basic hygiene, that is to say availability of a hand washing facility on premises with soap and water; 18 percent have limited access (without water or soap) and 47% have no facility at all. This is of particular concern during the COVID-19 pandemic.

Financing for safely managed water and sanitation services and facilities are one of the primary reasons for low service coverage, particularly in low income countries, as reflected in Table 3 below. 37 countries in SSA or 82 percent of the governments indicate insufficient financing to reach the SDG national targets. In addition, weak institutional capacity to mobilize financing, sustain cost recovery, and deliver services efficiency are characteristics of Cameroon, Gabon and Sierra Leone. (WHO 2014)

IsDB has a large and active portfolio in water and sanitation across all regions, but particularly in the SSA region. In addition to investment financing needs are critical institutional capacity to respond to these critical needs. Benin, Gambia, Mauritania, Nigeria, Senegal and Uganda all rank highly in institutional capacity strengthening needs and inadequacy of financing (see Table 3 below), making them high priority countries for IsDB UPG targeting of support.

Table 3: IsDB MC Urban Sanitation Financing & Institutional Response Capacity

		Adequacy of Financing to meet MDGs		
Index of Institutional Capacity to Invest and Respond		**<50%**	**50-75%**	**>75%**
	High	Benin, Gambia, Mauritania, Nigeria, Senegal, Uganda		Burkina Faso, Morocco, Tunisia
	Medium	Cote D'Ivoire, Guinea, Mali, Mozambique	Niger	Chad
	Low	Cameroon, Gabon, Sierra Leone	Sudan	

Source: WHO Global Analysis and Assessment of Sanitation and Drinking Water (GLAAS) (2014)

Table 4 below shows the calculated average annual cost required to achieve the safely managed drinking water and sanitation targets including basic hygiene facilities in urban areas of IsDB MCs, Sub-Saharan Africa (SSA) region. Nearly US$ 14.25 billion is required each year up to 2030 to provide the safely managed WASH services 2030 in the SSA region. About US$ 8.2 billion and US$ 5.2 billion is required annually to achieve the universal targets of safely managed drinking water and sanitation services respectively. The countries such as Nigeria, Sudan, Côte d'Ivoire, Mozambique, Cameroon need huge annual investment to achieve the targets of safely managed WASH services and facilities.

Table 4: Calculated Average Annual Cost Needed for Safely Managed WASH in SSA region

SN	Country	Region	Average Annual cost required (US$ Million) from 2015 to 2029			
			Safely Managed Water Supply	Safely Managed Sanitation	Basic Hygiene	Total
1	Benin	SSA	60.10	58.31	9.67	128.08
2	Burkina Faso	SSA	109.82	76.21	21.93	207.95
3	Cameroon	SSA	426.13	167.88	30.94	624.94

4	Chad	SSA	209.82	48.22	7.59	265.62
5	Comoros	SSA	12.68	7.50	0.13	20.31
6	Côte d'Ivoire	SSA	579.41	355.48	38.48	973.37
7	Djibouti	SSA	17.23	47.74	1.66	66.63
8	Gabon	SSA	75.01	84.17	2.47	161.65
9	Gambia	SSA	16.51	14.89	2.83	34.23
10	Guinea	SSA	164.52	29.82	10.31	204.65
11	Guinea-Bissau	SSA	33.03	5.09	1.51	39.63
12	Guyana	SSA	4.02	4.00	0.04	8.06
13	Mali	SSA	220.88	80.21	18.93	320.01
14	Mozambique	SSA	400.90	255.98	78.56	735.44
15	Niger	SSA	135.36	34.03	6.48	175.87
16	Nigeria	SSA	4,265.92	2,811.96	530.53	7,608.41
17	Senegal	SSA	175.43	73.41	21.15	269.99
18	Sierra Leone	SSA	138.10	47.17	8.47	193.74
19	Somalia	SSA	57.53	24.89	5.92	88.35
20	Sudan	SSA	798.80	833.26	64.25	1,696.32
21	Suriname	SSA	3.73	9.72	0.13	13.57
22	Togo	SSA	67.60	27.18	6.31	101.10
23	Uganda	SSA	174.86	117.89	15.93	308.68
Total for SSA:			**8,147.38**	**5,215.01**	**884.21**	**14,246.60**

Calculated from the database on SDG WASH cost tool assessed at https://www.sanitationandwaterforall.org/tools-portal/tool/sdg-costing-tool

One key reason for inadequate water and sanitation coverage is that a large percentage of urban residents in SSA countries are living in slums on un-serviced land without networked and sanitation services. Consequently, many have to rely on unregulated and often unsafe tanker water that can cost as much as four times the cost of network water. So, the need to regularize slums is mainly focused on improving their shelter and security of tenure (SDG 11.1); once that is done safely-managed water and sanitation services can be extended more effectively.

Among other critical challenges is weak household budgeting for water and sanitation services, which leads to serious problems with Non-Revenue Water (NRW) at water utilities, as many households have not been able to pay for services, which in turn means there is an inability to service and maintain lines or to invest in network expansion in other districts of a city. Measure to improve this could include introducing a tiered tariff based on consumption levels, where pricing of the first increment (basic water consumption need) is low for all users, and then progressing increasing the rate that would allow flexibility of consumption for higher income households while building in an incentive for water conservation. Technical assistance and support to water utility companies in tariff pricing, investment planning and measures for cost recovery are among the highest

institutional priorities in SSA countries. Box 2 below highlights recent piloting experience with pre-paid metering in SSA countries with some notable successes and potential for expansion and rollout or initiating pilots in other SSA countries by IsDB UGP. Uganda, an IsDB MC, is considered an innovator in that regard.

Lessons learned gleaned from the IsDB Kalabancoro (Mali) Water Supply Project Completion Report in 2017 include: (i) regularly reviewing and adjusting tariffs to ensure financial stability premised on water service offered; (ii) need for greater institutionalization of water consumer groups, demand-driven approaches, and participatory and inclusive processes to be actively utilized.

BOX 2: Innovations in Water Supply Metering and Cost Recovery in the SSA Region

Several East African countries, including IsDB MCs, are piloting and in some cases rolling out prepaid metering schemes to support their efforts to achieve at least operational cost recovery in the provision of water and electricity services. The experience of Uganda's National Water and Sewerage Company (NWSC) points to important lessons. Over 200,000 households were fitted with prepaid metering for water supply in Kampala where payments are now regularly made, and costs are more reasonable than buying through independent providers. In Mogale City in South Africa, an estimated 50 percent of households now have access to direct water supply due to a pre-paid metering system. In a study of eight cities where the pilots were conducted in countries across East Africa, poor households in seven of the eight cities or over 87 percent experienced a decline in the cost of water they consume through pre-paid metering as an alternative to the cost of non-network water kiosks or vendors. In Kenya, the Nairobi Water and Sewerage Company (NWSC) has developed a new phone app that allows users to make water supply and sewerage payments by phone. These and other new market applications are proving to be invaluable to the "unbanked" and particularly for low income households with insecure tenure, inadequate credit or savings, who would otherwise not be eligible to access network systems, such as the displaced Syrian population.

Pre-paid Metering has its advantages and also key implementation challenges. Early pilots in East Africa indicated that technology requirements, system maintenance and installation costs in early trials were all challenges that were encountered in the water supply sector. Moreover, there is a need to go beyond prepaid metering to the entire pre-paid system due to associated requirements for provision of information to customers, managing the technology, and addressing any installation hick-ups that arise, which might lower customer confidence in the system and acceptance of the new technology. On the positive side, there are many well-documented advantages to pre-paid metering, including (i) substantial improvements to cost recovery for the utility and reduction of Non-Revenue Water (NRW) losses; (ii) customers having more control over consumptions with "pay as you go", so they can better manage their household cash flow; (iii) network expansion has resulted in increased payments rather than the opposite, which was the case in the past; (iv)conservation practices have expanded widely under successful programs; and (v) pre-paid metering can enable better targeting of subsidies and social benefits to those who need support the most (using vouchers or subsidy tokens for recharging), avoiding the system-wide free-rider problem that prevails today in many countries.

Disaster, Climate & Environmental Resilience. Urban development challenges in meeting the Nationally-Determined Commitments (NDCs) for Climate Change in all developing countries are many and varied. Consequently, there are a number of priority areas, including adaptation, mitigation, institutional capacity building, technical capacity building, finance, and other factors.

In SSA countries, concerns about floods and flash flooding appear to be the highest concern, with sea-level rise being a concern of countries in coastal regions. Droughts, by contrast, are much less of a concern[15]. All developing countries cite the importance of adaptation over mitigation, given that their contributions today to carbon and GHG emissions are comparatively much lower than developed countries. But all recognize the growing importance of the need to focus now on mitigation measures given rapid urbanisation, growing motorization rates, and the absence of enabling legislation and regulations in buildings, the transport sector and in other areas that factor mitigation into infrastructure, transport and housing considerations. SSA countries as a region saw urban areas as a critical area of focus in comparison to other regions, followed thereafter by Asian countries. Many of the climate mitigation actions are viewed as integrated with urban transport, and to a lesser extent with housing/buildings, and water. (UN-Habitat 2017b)

Storm water drainage and flood infrastructure are viewed as important considerations and urgent needs due to poor existing road infrastructure, including very limited storm water drainage networks and flood prevention/mitigation infrastructure.

Solid waste management and its environmentally-safe disposal is a major concern of regional countries. Often cited examples are the lack of sanitary landfills, or ones that have far exceeded handling capacity, the absence of separate at source practices, weak institutional capacity to promote recycling, uncontrolled dumpsites, and weak collection services and supportive infrastructure.

With growing urban populations across the SSA region, the solid waste management situation is becoming more acute, as post-consumer waste generation increases in parallel.

[15] Based on findings of an UN-Habitat survey reported in *Sustainable Urbanization in the Paris Agreement: Comparative Review of Nationally Determined Contributions for Urban Context*. Nairobi: UN-Habitat 2017.

Group 2: Middle East and North Africa (MENA)

The Middle East and North Africa (MENA) Group is the largest country grouping with 24 of the 57 IsDB MCs. Beyond the conventional MENA region geographically, the Group covers Albania in southeast Europe, Azerbaijan in the Caucasus Region, Afghanistan in Central Asia and Pakistan in South Asia. It features significant heterogeneity across its countries with respect to income levels, including seven high income oil-exporting countries, along with a reasonably balanced group of upper and lower middle income countries, and Afghanistan as its only low income country. The average IsDB country income per capita stands at $11,134, well above the average country income for the SSA Group and nearly double the Asia Group.

Many of the MENA Group countries have already experienced the main thrust of urbanisation, where it's now beginning to taper off. The Group's average urban share of population is relatively high at 69.5 percent, slightly higher than the MENA region as a whole (65 percent). Average urban population growth for the Group, which stands at 2.4 percent (compared to 2.2 percent for the wider region), is still keeping pace, however, as it's pulled up by four countries that continue to experience high annual urban growth between 4.1-5 percent in Bahrain, Oman, Mauritania, and Yemen.

Economically, many MENA countries have now gone through their structural economic transformation from agriculture to manufacturing and services, though attracting foreign investment and improving economic competitiveness remains a key challenge for many. Several MENA countries face the problem of spatial disparities of wealth with lagging regions, particularly countries along the southern basin of the Mediterranean (Morocco and Tunisia), as well as Egypt.

Because most MENA countries feature arid climatic conditions, pronounced periods of drought are a recurring problem and all are water stressed to varying degrees, apart from Iraq. While decentralization processes have been started in the post-Arab Spring era in many MENA countries, a majority are constitutionally defined as unitary governments, and the devolution of responsibilities (and more importantly fiscal decentralization) has been slow and more often in the form of de-concentration of responsibilities to provincial governments.

MENA also hosts the largest number of refugees and internally displaced persons (IDPs) of any region in the world, further burdening the local governments that host them, but without adequate budgets to cover their infrastructure financing needs even before accounting for the burden imposed by displaced persons. Many MENA countries, however, have been able to take important strides in preserving their cultural heritage (Morocco, Egypt, Tunisia, Lebanon and Turkey most prominently) and leveraging them for tourism-led development.

Urban Economies. The MENA region has a diverse range of city economies. At the upper end are cities like Dubai and other Gulf cities that are well-connected to international networks and have high quality infrastructure and amenities that are rivaled by few other cities around the world. At the other end of the spectrum, there are the cities of Kabul, Damascus, Aleppo and several other cities in Syria, cities across Iraq, cities in the north of Jordan and on the eastern frontier of Lebanon that are beset by political instability and the challenge of hosting refugees or IDPs without the capacity to offer jobs or quality of life standards that continue to burden them -- all classified as host communities in Fragile and Conflict Situations.

Several MENA countries have taken advantage of their cultural heritage assets and adopted tourism-led development by restoring monuments, historic buildings, old city quarters, spice markets and other venues that are attractive to foreign tourists when the countries are stable. Morocco, Egypt and Turkey began early on and set a high standard for regional countries, but Tunisia and Lebanon followed thereafter and expanded cultural heritage projects in multiple cities down the entirety of their coastlines. Many of these cities have secured UNESCO World Heritage Site designations that helps generate substantial tourism interest and visitors who stimulate demand for services from the hospitality sector, local crafts, and other ancillary services.

BOX 3: Urban Operations to Promote Local Economic Development: The Case of Lebanon's SAIDA INFRASTRUCTURE DEVELOPMENT PROJECT (SIDP)

Saida is a coastal city and third largest in the country, located about 40 kms south of Beirut with a population of 80,000 within the city and an estimated 250,000 in the wider metropolitan area. Because of Lebanon's history and geography, coastal cities often, such as Saida, serve as the economic hubs of their region and generate economic activity that benefits outer-lying towns and villages in a type of hub and spoke local economic system that illustrates the principle of urban-rural linkages.

The needs of IsDB MC cities are diverse and complex and often attempts to address these multi-dimensional development needs can result in a complex project design that is fraught with difficulties during the implementation stage. SIDP was designed as an integrated operation to promote local economic development (among other objectives), including investments in urban roads, street lighting and mobility improvements, water and sanitation system upgrades, electricity and telecommunication capacity enhancement, landscaping and improvements to public space and facilities. Investments were targeted at both commercial and residential districts of the city and resulted in a substantial reduction in congestion and commuting time within the city center (thereby improving livability and productivity); improved street lighting to make the city safer; enhanced commercial investment and activities; and substantially improved water services quality, among other impacts.

Despite the broad scope of works and institutions involved in the project, it managed to perform well against virtually every measure due to several critical elements. These included:

- Dedicated financing and project preparation time *in advance of* commencing implementation to ensure investments were well-designed and ready for tendering by project inception
- Appointment of a field-based Project Focal Point to coordinate with different stakeholders at the national and local level
- Contracting of an experienced and capable local contractor who both understood the local dynamics necessary to get the work done, while also attending to active communication with stakeholders
- The one key difficulty the project faced was the inability of EDL (Lebanon's Public Sector Power Company) to allocate sufficient resources to be able to fulfill its obligations for upgrading of electricity services in the target areas, which underscores the need to confirm up front that all funding is lined up by all counterpart agencies.

Source: IsDB SIDP Project Completion Report, November 2017.

What many of these countries will need in the years ahead, especially with high numbers of unemployed youth that threaten to destabilize regional cities, are manufacturing jobs with adequately serviced industrial land. The World Bank's Doing Business survey teams have identified cities in the MENA region with insufficient serviced industrial land as a major binding constraint to new investment. However, under current circumstances demand in these areas will not likely materialize until the situation stabilizes and there is a renewed interest in investment. In the interim, over the next 5-10 years, smaller scale interventions that help improve the functioning of central business districts and the local residents who use them would help to improve the efficiency and productivity of the businesses there. Such interventions could help both primary and secondary cities address a large backlog of dilapidated infrastructure that is both dated and damaged during wars or other periods of conflict. A profile of the Saida Infrastructure Development Project (SIDP) is presented below to illustrate how small-scale investments in secondary cities can have a dramatic effect on a smaller city and its residents and businesses.

Urban Mobility. Many cities in the MENA Region are poised to take advantage of improvements in urban mobility, having passed through their most rapid periods of urban growth and needing now to plan and deliver infrastructure services to reduce congestion. To do so, several of the larger regional cities (12) have started to develop and use Sustainable Urban Mobility Planning (SUMP), including Morocco (5 cities), Tunis, Cairo, Amman, Doha, Riyadh, Dubai, and Abu Dhabi.

Cities in eight MENA region countries have some form of public transit system with networks of between 50-75 kms, including Turkey, Egypt, Jordan, Morocco, Palestine, Iraq, Bahrain, Qatar, and Iran (which has 50-75 km networks in three cities: Tabriz, Tehran, and Isfahan). Many of the larger cities in those countries have BRTs, while Cairo and Istanbul are two of only a few IsDB MC cities with an extensive metro system.

Road traffic injuries and fatalities are a major concern in the Gulf states in particular, but also in other cities in the region. Saudi Arabia has a very large number of fatalities per capita at 8,205 with growth in that number of 90 percent from 2000-13. Other countries in the region with very worrying traffic fatality growth during the same period are UAE (228 percent), Qatar (93 percent), and Libya, which grew by 131 percent during the same period.

High motorization rates in the region (which are one factor for the number of fatalities) are attributable to fuel subsidies, which makes vehicular transport both cheap and convenient, but act as a disincentive for low carbon transport. Substantially higher average GNI per capita in MENA countries in comparison to the other two regional groupings (as motorization rates rise with income growth) is another factor.

Priorities for the region in general are (i) measures to reduce urban road traffic injuries and fatalities; and (ii) encouraging a modal shift through the expansion of cost-effective public transit systems.

Urban Housing and Slum Upgrading. The high demand for housing, infrastructure and urban management systems in many cities in the MENA Region has stressed the ability of governments to provide serviced land. In spite of significant progress in regularizing informal settlements that had proliferated in the closing decades of the 20th century, there is still a significant shortage of affordable housing in most lower-middle and upper-middle income countries, as well as in low income Afghanistan.

While the private sector has taken an increasingly active role in providing housing for households in the upper-income tiers, there is still a shortage of affordable units for lower-income households down market, especially due to large family size.

A lack of housing finance mechanisms, except at the highest income levels, has hindered the production of formal housing for lower- and middle-income households. However, the global economic crisis of 2008 and the ensuing collapse of the luxury housing market is leading housing developers in the Mashreq and Maghreb to re-examine opportunities for the middle-income housing market. The proportion of sub-standard housing varies from country to country, with slum dwellings forming isolated, marginalized pockets in some countries, while in Mauritania and Southern Tier countries, especially Somalia and Sudan, 67 to 94 per cent of urban residents live in slums. In the Maghreb and Mashreq, middle-to-low-income groups tend to live in informal settlements that have housing of adequate quality and infrastructure, but many households still lack security of tenure through land title.

Most countries in the Maghreb and the Mashreq have made significant progress in developing initiatives to increase the supply of affordable housing through targeted housing subsidy programs, while the Gulf Cooperation Council countries and Saudi Arabia have policies to provide their citizens with housing that of relatively high quality standards. In the Gulf countries, the housing conditions of low-income expatriate workers, however, presents a unique challenge.

Morocco, Tunisia and Egypt have made the most notable national commitments to slum upgrading and the production of affordable housing. Although using different models, all three have developed dedicated national housing agencies that conduct planning, fund projects with private sector participation and coordinate implementation on behalf of local municipalities. Tunisia was the first Arab country to eliminate slums, restore historic areas, regularize land tenure and ensure basic services to the urban poor. Turkey is another relatively good practice model for other IsDB MCs to learn from, ranging from widespread granting of amnesties and granting title to slum dwellers, putting in place long-term mortgage financing, and forging partnerships between TOKI, Turkey's Housing Authority, and the private sector using profit sharing schemes on public land.

Several countries in the MENA country grouping still have relatively large shares of their urban population living in slums and could benefit by learning from the experience of Morocco, Tunisia, Egypt and Turkey (all within their own region and IsDB member countries). Though well behind the urban slum populations in the SSA region, Djibouti (65.6%), Afghanistan (62.7%), Yemen (60.8%), Iraq (47.2%), and Pakistan (45.5%) still carry large slum populations and are among the fastest growing urban populations in the MENA region. Slum upgrading programs targeted at these countries in MENA would be important and a response to likely demand.

Morocco, which has the most developed affordable housing program among Arab countries, reduced the number of slums by 65 per cent between 1990 and 2010. Its national public holding company produces social housing, resettles slum dwellers and develops new towns, with market rate units cross-subsidizing the lower-income units. Through diverse incentives and subsidies to promote private sector investment, Egypt's National Housing Project aims to build 500,000 affordable housing units between 2005 and 2011, mostly in new towns. These initiatives and lessons learned from their implementation offer important models for consideration by other Arab countries as they embark on new affordable housing programs. New town development, however, should be approached with caution when opportunities often abound in inner city areas for redevelopment with potential for densification in often large tracts of underutilized urban land.

Urban Water and Sanitation. The MENA region as a whole and IsDB MCs in particular have on average very high water and sanitation coverage, with fairly good access to safe and affordable potable water and sanitation services, in comparison particularly to the SSA region, in keeping with countries from their income group. Non-revenue water and outdated tariffs with relatively high subsidies, however, undermines water saving and conservation and is an area of critical concern. In several MNA countries, and in Jordan and Lebanon in particular, the largest consumer of energy are water utilities who use power to operate water supply pumping stations, treatment plants and other operations. In both countries, one of the major sources of insolvency of the electric companies is the unpaid and mounting arrears for electricity supplied to water utilities.

Improvements to the system will not take place over night but requires a coordinated effort and one that is closely coordinated with other development partners given the enormity of the need. Fortunately, water and sanitation networks coverage is quite high across most MNA countries, so efforts now should be focused at making the supply and sanitation more sustainable and more inclusive by better targeting subsidies to the poor instead of selling water below cost across the board.

All countries in the region, with the exception of Iraq, are severely water stressed and unless serious efforts are devoted to dramatic improvements in water conservation,

building community awareness, and reducing the relatively high NRW, cities will have much more serious challenges down the line. (WRI 2019)

Table below presents the calculated average annual cost required to achieve the safely managed drinking water and sanitation targets including basic hygiene facilities in urban areas of IsDB MCs, MENA and Europe region. Nearly US$ 10.5 billion is required each year up to 2030 to provide the safely managed WASH services 2030 in this region. About US$ 4.46 billion and US$ 5.85 billion is required annually to achieve the universal targets of safely managed drinking water and sanitation services respectively. The countries such as Iran, Turkey, Iraq, Algeria, Egypt and Morocco still need high annual investment to provide sustainable and safely managed WASH services for all by 2030.

Table 5: Calculated Average Annual Cost Required to Achieve Safely Managed WASH Targets in MENA Region

SN	Country	Region	Average Annual cost required (US$ Million) from 2015 to 2029			
			Safely Managed Water Supply	Safely Managed Sanitation	Basic Hygiene	Total
1	Albania	Europe	18.47	13.54	0.52	32.53
2	Algeria	MENA	463.65	645.96	14.47	1,124.08
3	Azerbaijan	MENA	84.54	78.26	1.94	164.74
4	Egypt	MENA	303.66	638.25	15.43	957.35
5	Iran	MENA	962.01	1,272.11	54.04	2,288.16
6	Iraq	MENA	1,007.13	685.13	42.50	1,734.76
7	Jordan	MENA	86.89	91.48	5.69	184.06
8	Lebanon	MENA	22.50	62.02	2.10	86.62
9	Libya	MENA	58.61	173.84	3.22	235.67
10	Mauritania	MENA	128.56	79.33	9.53	217.43
11	Morocco	MENA	330.90	416.64	5.24	752.78
12	Syria	MENA	104.66	134.34	7.50	246.51
13	Tunisia	MENA	56.99	119.31	2.19	178.48
14	Turkey	MENA	704.15	1,329.10	54.83	2,088.08
15	Yemen	MENA	127.61	113.88	5.74	247.23
Total for MENA & Europe:			**4,460.32**	**5,853.20**	**224.95**	**10,538.46**

Calculated from the database on SDG WASH cost tool assessed at https://www.sanitationandwaterforall.org/tools-portal/tool/sdg-costing-tool

Disaster, Climate & Environmental Resilience. IsDB MCs in the MENA Region face challenges of severe drought due to warming climate in already the most arid region of

the world. Adaptation measures noted above, particularly in urban water interventions to improve conservation and reduce waste and unaccounted for water losses are becoming not only desirable but now a necessity. Drought was cited as one of the most serious concerns of the countries surveyed in the region, along with flooding exposure to storm surges and sea level rises in coastal areas across the region.

Though mitigation was cited as less of a concern, efforts to reduce vehicle emissions but offering public transit alternatives, as noted under urban mobility, will help to reduce the region's environmental footprint, while making transport more sustainable and accessible to low income households.

MENA countries have also been affected significantly by human-induced conflict disasters in recent years. Over the last decade, refugees and both domestic and regionally-displaced persons have reached a crisis point in MENA, taking into account both the Iraq and Syrian crises. Today, MENA countries account for the highest number of refugees and internally-displaced persons of any region in the world, with Lebanon hosting the highest number of refugees per capita and Jordan hosting refugees that account for roughly 10 percent of their population. IsDB is already working closely with other development partners in supporting conflict-response interventions. Urban operations are typically best suited to address such crises, as refugee populations are typically concentrated in urban areas (up to 80 percent in Jordan) and place an undue burden and service delivery demand in host communities. Accordingly, IsDB has been involved in and will continue to devote financial resources and its expertise to support impacted host communities with support that will improve their resilience to such disasters.

While MENA countries have not been the hardest hit by COVID-19 pandemic impacts, several countries have faced significant surges without the capacity to respond in a timely manner. Included within existing and planned urban operations will be efforts to support local governments in developing pandemic response capacity and preparedness, including urban planning to reflect measures for social distancing, adequate provision of public green spaces, and disaster preparedness planning for potential future incidents.

Group 3: Asia

IsDB's ASIA Group of MCs is the smallest with a total of ten. Geographically, the Group spans as far west as Turkmenistan, north to Kazakhstan, across South Asia (Bangladesh) to Indonesia and Malaysia in Southeast Asia. The Group also includes Guyana, which is located in the northeast region of South America. Because of its broad geographical coverage, this Group is also somewhat heterogenous in its configuration with a range of different needs across three continents.

The ASIA Group from a country income perspective is centered around the middle with 4 upper middle and 4 lower middle countries, as well as one high income (oil-exporting Brunei), and one low income country (Tajikistan). Though South Asia is the second fastest urbanizing region of the world, the Asia Group of countries has the lowest average annual urban population growth rate at 2.1 percent. This is so despite IsDB Asia Group countries on average having a 10 percent lower share of urban population (49.5 percent versus 59 percent) than the wider region. Urbanisation has been advancing for some time now in the region and there are four megacities hosted by IsDB Asia Group, including Dhaka, Jakarta, Karachi, and Kuala Lumpur.

Critical urban challenges for Asia Group countries are managing urban congestion costs arising with rapid unplanned urbanisation and having the highest number of coastal cities (South and Southeast Asia) under threat from storm surges and water level rising due to climate change.

Urban Economy. In the next decade, Asia's economic growth is projected to be the world's fastest and largest, and future growth in the countries will largely depend on local economic development. The region's middle classes have also grown rapidly over the past few decades, of whom a large majority live in urban areas. IsDB Asia countries will provide significant contributions to global and regional economic growth, as most of the region's countries are projected to continue their relatively stable and higher economic growth since the last decade. This will be based on both the emerging formal economy and the informal sectors whose contribution to the overall urban economy is necessary in order to achieve an inclusive and sustainable growth.

It is also critical to ensure that urban dwellers have the skills to work in emerging fields and to foster innovation. The strengthening of community knowledge and skills in urban related sectors will add value to the community and economy. Improving investment in skills development and education, particularly for marginalized groups, such as women, youth and the disabled, is critical to nurture both sustainable and inclusive development. Youth development is also essential to capture and realize the benefits from demographic dividend.

Many of the cities in the region have invested in developing strong manufacturing capacity through dedicated industrial zones and export processing zones. Bangladesh has shown dramatic improvement, for instance, over the last two decades. But rapid urbanisation has introduced new congestion costs that need to be mitigated to improve the productivity and efficiency of businesses operating in the CBD and other commercial districts. Investments in updating and upgrading commercial districts to reduce congestion and improve traffic flows, and other forms of urban regeneration, particularly in degrading sections of central Asian cities is therefore considered a priority need of the region in many of the cities.

Urban Mobility. Road safety is a key concern in the IsDB Asia Region. Southeast Asia has the second highest number of road traffic fatalities (20.7 in 100,000) of the three IsDB regions. Pedestrians and bicyclists are the most common transport users with injuries and fatalities, but motorized two and three wheel vehicles, which are very popular in the region, particularly south and south-east Asia, are close behind. Fatalities continue to rise steadily with increasing motorization rates, reaching 1.3 million in 2016.

Public transport is starting to get traction in the region. Jakarta has over 100 km of BRT network, and Bangladesh 50-75km. Bangladesh also has more than 100 km of urban rail, along with Kuala Lumpur. Central Asian cities are also well represented with light rail transit over dense cities, including Tashkent, Almaty, Mashhad, and Baku.

Kuala Lumpur is one of only three IsDB MC cities with an extensive metro, comprised of 135 stations on seven lines over 208 kilometers.

With poor air quality due to high polluting transport and energy sources across the region, but particularly in Central Asia and Southeast Asia, more dedicated efforts will be needed to move urban residents to public transit and other alternative forms of transportation. But investments are desperately needed in infrastructure and facilities in order to make enable these shifts.

Going forward, ASIA regional countries will be prime candidates for expansion of affordable and clean transit options, improvements to road safety and updating urban transport policies and strategies, for instance by using SUMP.

Urban Housing and Slum Upgrading. IsDB Asia countries are facing an increasing shortage of adequate housing supply to serve their growing urban population. Land scarcity, high land prices, lack of regulations, inefficient market and long permitting procedures make adequate housing not affordable for lower-income urban dwellers.

Because of these factors, the informal delivery model for housing provision has been predominant in South and Southeast Asia countries, such as Pakistan, Bangladesh, and Indonesia. The informal delivery model is characterized by informal housing and an underdeveloped housing finance system. Countries also face difficulties to regulate and achieve optimum results from the involvement of private sectors in providing affordable and adequate housing for the lower-income groups.

In South Asia, Bangladesh needs 8.5 million new houses in the next five years to overcome the existing urban housing shortage, which covers mostly low and low-middle income households. The Government estimated annual demand for urban housing is at 500,000 units per year, but public housing supply is limited. Private sources mostly contribute to urban housing demand in Bangladesh, as the government can only provide 7% of the demands through its public housing fund.

Land scarcity and the increasing cost of housing inhibits accessibility for the lower-income groups. Low-income households, which have very limited access to loans in any form, represent about 80% of the housing market in Bangladesh.

Pakistan's housing shortage is estimated to have reached about 10 million units in 2020. The annual housing demand in Pakistan is at 700,000 units, but the annual supply is only 250,000, leaving an annual gap of 450,000 units. Lower and lower-middle income groups represent about 60 per cent and 25 per cent of the demand respectively.

The housing gap in Pakistan is mainly filled by informal settlements, about 25 per cent of the gap from the occupation of government lands (*katchi abadis*), 60 per cent from the subdivision of agricultural land (ISALs), and the remaining 15 per cent is filled by the densification of lower-income low-rise settlements in the inner cities areas. In densified informal settlements, the already small-size unit becomes smaller to create more affordability and create social, physical, and environmental problems related to overcrowding. There is a need to develop mixed-use zoning and vertical-housing as a part of the affordable housing strategy, to distribute the activities across urban areas and reduce densification in the city centre.

From Southeast Asia, Indonesia's housing backlog was estimated at 13.5 million units in 2017. Housing demand is between 800 thousand to 1 million housing units per year, but the government can only provide 20 per cent of the needs. Private developers contribute to 40 per cent of the housing needs, while individual resources cover the remaining 40 per cent.

The government estimated that only 40 per cent of Indonesian households could afford to buy houses with some sort of government subsidy, while 20 per cent of the households would require significant government assistance to afford to buy houses. Despite various government-funded low-cost housing projects and programs in Indonesia, there is still a lack of means to provide affordable housing for the lower-income market segment.

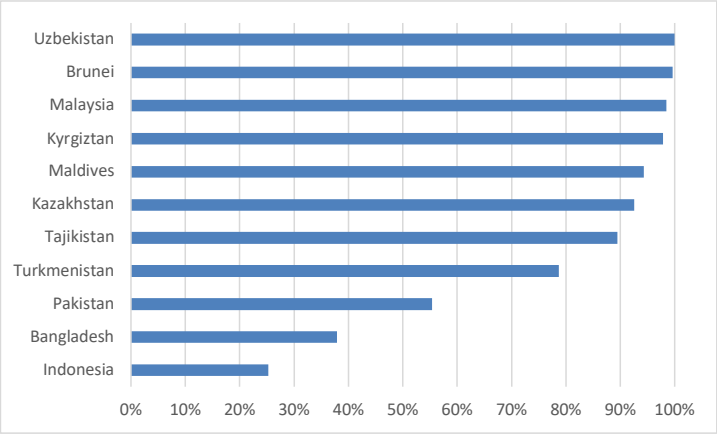
Central Asian countries have a slightly different housing provision structure from the other sub-regions. The Central Asia countries acknowledge limited property rights with most of the land being permanently leased but still owned by the state, and the tenure rights are only given for the dwellings. An exception exists in Tajikistan, which allows citizens to acquire land rights.

In Central Asia cities, the majority of the additional housing stock is not coming from new construction, but rather from additions on existing houses as a result of urban area expansion into the rural territory. Most housing stocks are provided by private resources, and the government investment in public housing is very limited. Central Asia cities also face the problem of aging housing infrastructure that has low safety and energy

efficiency. Aging buildings also contribute to air pollution and emissions due to the excessive use of fossil fuel.

Urban Water and Sanitation. As shown in Figure 11 below, six countries have met the MDG target of 90% access to the improved water sources. Turkmenistan and Tajikistan are slightly below the 90% provision level, reaching 78.7%, and 89.5% respectively. Three countries, however, have not reached 60% in providing piped-water source for their urban population, namely Indonesia (25%), Bangladesh (37.9%) and Pakistan (55.4%).

Figure 11: Improved Water Source, Piped (% Urban with access) 2017



Source: SDG Index and Dashboard Report 2018

Largely due to geographical reasons, a significant share of urban households in the three countries still depend on other sources to provide clean water. In Indonesia, a large portion of urban population depends on groundwater and shallow water as the clean water source due to geographical and topographical advantage.

In Bangladesh, the majority of urban population use tube wells as the major source of clean water. Tube wells and rainwater harvesting are popular sources of clean water in Pakistan as well. As a result, in their National Report for Habitat III, Bangladesh and Pakistan reported that their population's access to safe drinking water and improved water sources have already reached above 90%, albeit not from the piped sources.

Urban areas in IsDB Asia region have nearly reached their targets regarding access to the toilet, leaving Indonesia alone, which still has 3.9% of its urban population practising open defecation. However, the high access to basic sanitation in most cities are not accompanied by services to safely manage the wastewater or fecal sludge. Not all

households use septic tanks that meet specification standards, and not all cities have fecal sludge management service yet. Except for Malaysian cities, sewerage system coverage in the cities of Bangladesh, Pakistan, Uzbekistan and Indonesia is still deficient. The challenge to increase access to safely managed sanitation service is enormous in most cities in IsDB Asia region, as reflected in Table 6 below.

Table 6: Level of Access to Basic Sanitation in 2017

Countries	Level of Access (% of Urban Population)	Population Served (x 1 Million)
Bangladesh	50.69	29.9
Pakistan	76.62	55.0
Uzbekistan	100.00	16.1
Indonesia	80.25	115.8
Malaysia	99.86	23.83

Source: UNICEF – WHO Joint Monitoring Programme

Access to safely managed sanitation can be increased by developing fecal sludge management (FSM) services that consists of periodical desludging and treatment of fecal sludge at specified facilities. The FSM development needs to be preceded or accompanied by efforts to improve the quality of the used septic tanks. Indonesia and Bangladesh have started to improve their FSM services. Infrastructure is needed, but no less important is the regulatory, institutional and financial aspects to ensure the sustainability of the services downstream. In this respect, cities in the Asian region are still very weak. Some cities already have sound development plans including FSM Institutional & regulatory Framework (In Bangladesh) , but their implementation is still hampered due to the weak institutional and financial capacity of the cities. Consistent implementation is crucial when cities already have plans to develop their sanitation systems. It should be noted that the availability of FSM services is not an equivalent substitution for a sewerage system.

Table below shows the estimated average annual cost required to achieve the safely managed drinking water and sanitation targets including basic hygiene facilities in urban areas of IsDB MCs, Asia region. Nearly US$ 9.5 billion is required each year up to 2030 to provide the safely managed WASH services 2030 in this region. About US$ 6.3 billion and US$ 3 billion is required annually to achieve the universal targets of safely managed drinking water and sanitation services respectively. The countries such as Indonesia, Pakistan, Bangladesh, and Malaysia still need high annual investment to provide sustainable and safely managed WASH services for all by 2030.

Table 7: Estimated Average Annual Cost for Achieving Safely Managed WASH in IsDB MCs in ASIA region

SN	Country	Region	Average Annual cost required (US$ Million) from 2015 to 2029			
			Safely Managed Water Supply	Safely Managed Sanitation	Basic Hygiene	Total
1	Afghanistan	Asia	224.36	35.45	3.42	263.23
2	Bangladesh	Asia	1,451.78	300.46	60.37	1,812.61
3	Indonesia	Asia	2,351.58	1,256.69	56.18	3,664.45
4	Kazakhstan	Asia	120.66	158.28	6.17	285.11
5	Kyrgyzstan	Asia	14.61	20.20	0.31	35.11
6	Malaysia	Asia	567.78	464.15	22.76	1,054.70
7	Maldives	Asia	4.61	2.99	0.23	7.83
8	Pakistan	Asia	1,319.27	592.95	62.92	1,975.14
9	Tajikistan	Asia	18.30	20.39	0.39	39.08
10	Turkmenistan	Asia	51.75	35.51	1.65	88.91
11	Uzbekistan	Asia	159.35	123.80	2.46	285.61
Total for Asia:			**6,284.04**	**3,010.88**	**216.85**	**9,511.78**

Calculated from the database on SDG WASH cost tool assessed at https://www.sanitationandwaterforall.org/tools-portal/tool/sdg-costing-tool

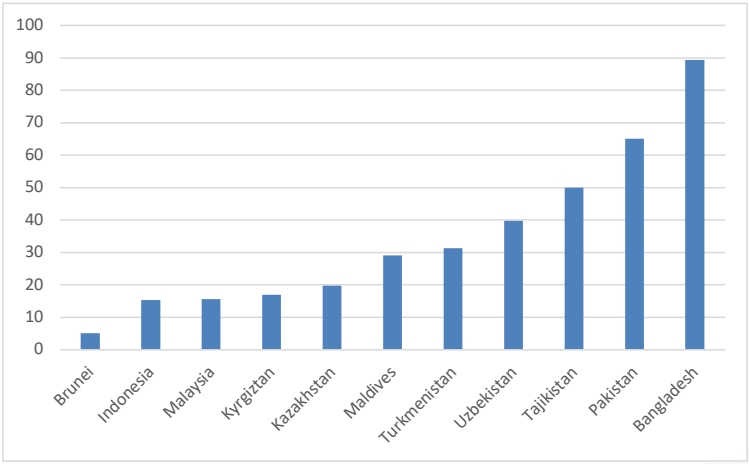
Disaster, Climate and Environment Resilience. The growth of cities has become the main driver of air pollution, contributed by various urban activities such as increases in transport, energy, construction, and manufacturing. Air pollution is now a major issue in all sub-regions of IsDB Asia MCs. Cities such as Pakistan, Bangladesh, Indonesia, and Uzbekistan are often placed on the list of cities with the worst air quality in the world. Transportation is one of the major urban activities in the region that contribute to air pollution, as people motorization rates are rising with economic growth and the increase in private vehicles has been problematic because of their overreliance on heavily polluting fuels.

Energy is also a major contributor to air pollution. In Central Asia, people in the concentrated urban areas of Kazakhstan burn coal and other non-renewable fuels for heating in the winter, as cleaner energy is limited and expensive. Tashkent, Dushanbe, and Almaty all experience poor air quality, ranging from 40 to 80% of the days in 2019. With policy improvements, the dependency on and negative impacts from excessive use of the fossil fuel can be avoided, as Central Asia sub-region has a large reserve of renewable energy potential that can be further optimized, including, if well planned, in urban areas.

Overall, the PM2.5 concentration in IsDB Asia countries is categorized at a moderate level between 12.1 to 35.4 μg/m^3. Based on the SDG indicator performance in 2018, only Brunei has reached a good level of PM2.5 concentration, of less than 12 μg/m^3

PM 2.5 in its urban areas, while in Indonesia and Malaysia the air pollution are categorised as "moderate".

Figure 12: Annual Mean Concentration of PM2.5 in Urban Areas (ug/m3) in 2018



Source: SDG Index and Dashboard report 2018, country profile

In South Asia, Pakistan and Bangladesh cities are among the most polluted cities in the world, with the average concentration of PM2.5 in urban areas of both countries falling into the "unhealthy" category (See Figure 12). The average PM2.5 concentration in Central Asia countries is also higher than acceptable levels, with Uzbekistan and Tajikistan PM2.5 concentration in urban areas categorized as "unhealthy for sensitive groups".

Solid Waste. UN-Habitat has found that most of the cities in developing Asia countries are facing major difficulties in urban waste management. The management of solid waste falls under local government responsibility, and successful waste management is based on the locally appropriate solution.

According to SDG Countries Profile in 2018, the municipal waste per person per day in IsDB Asia ranges from 0.4 kg in Bangladesh to 2.5 kg in Maldives (Figure 13). There is a positive correlation between income level and waste generation, and cities in IsDB Asia countries tend to generate high urban waste per capita, more than the global average waste generation of 0.74kg per person per day. Bangladesh and Indonesia generate the least urban waste per capita per person per day, as reflected in the Chart below.

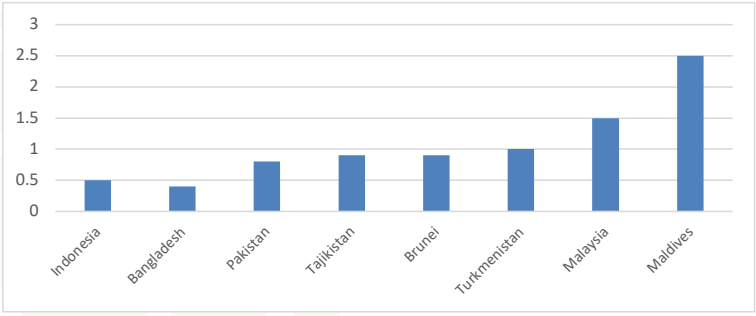
A majority of the local city governments in developing countries face the challenge to achieve cost-effective and environmentally sustainable waste management. Their situation is mainly due to lack of capacity and resources in managing urban waste and

non-enforced regulations. In low-income countries, local governments can spend as much as 20 per cent of their budgets on waste management and still not be able to provide the service for the entire urban area.

Many urban areas in South and Southeast Asia are still lacking in sanitary landfills, mainly due to limited land availability and sustainable management. The landfills in Dhaka are reported to be over capacity and have weak environmental management. Karachi and Lahore only have limited sanitary landfill sites that will soon reach their capacities, while the other cities in Pakistan do not have any proper facilities to manage, treat, and dispose their waste.

In Indonesia landfill availability and environmental sustainability are considered inadequate to process the growing number of urban solid waste. The central government has designed the landfills based on the standard sanitary landfills, but the management and operation largely depend on the local government capacity and resources. Urban solid waste management in Indonesia is also complicated, as landfill areas can be located in other jurisdictions that requires inter-governmental cooperation through complex bureaucratic procedures.

Figure 13: Municipal Solid Waste in IsDB Asia Countries (kg/day/capita)



Source: SDG Index and Dashboard report 2018, country profile

In many cases, non-government actors have to contribute in managing urban waste due to the lack of capacity of the local government to provide sustainable waste management services. In Indonesia, the citywide community-based "waste banking" approach of Surabaya City is showing strong results in helping local government in managing resources. In Dhaka, the informal waste management is estimated to cover half of the urban waste services. Waste management becomes an essential informal economic sector that provides employment for waste pickers and management operators and generates added-value products from waste recycling activities.

B. Urban Development Priorities by IsDB Regional Grouping

Based on this desk review assessment and subject to consultations with regional countries, urban development sector needs and priorities are identified in the matrix (Table 8) below with prioritization by income grouping.

Table 8: Region/Country Income Group USP Financing or Technical Assistance Prioritized Needs by USP Pillar

IsDB USP Pillar & Area of Need	IsDB USP Potential Project Intervention Typologies Infrastructure and/or Equipment & Technical Assistance (Entire Project or Component of Project)	IsDB Regional Group, Country Income Classification & Priority Rank										
		SSA (1)			MENA (2)				ASIA (3)			
		Upper Medium (UM)	Lower Medium (LM)	Low (L)	High (H)	UM	LM	L	H	UM	LM	L
Urban Economy	Urban Regeneration/Upgrading Commercial Districts	M	L	L	L	H	H	L	M	M	L	L
	Cultural Heritage, Historic City Tourism-led Development	M	M	L	L	M	M	M	L	M	L	L
	Municipal Enterprise/Industrial Parks or Zones	H	H	H	L	M	M	H	L	M	M	M
Urban Mobility	Alternative Transport Mobility Options	H	H	H	L	H	H	L	L	H	H	M
	Low Carbon Public Transit Development or Expansion	H	H	M	L	M	M	M	M	H	H	M
	Urban Road Safety	M	M	M	H	H	H	M	L	H	H	H
	CBD/Commercial District Congestion Relief Measures	M	M	L	L	H	H	H	M	H	H	H
Urban Housing	Slum Upgrading	H	H	M	L	M	H	H	L	M	H	H
	Serviced Land for Private Housing	H	H	M	L	H	H	M	L	M	M	M
	Low Income Public Housing	M	H	H	L	M	H	H	L	M	H	H
Urban Water & Sanitation	Water and Sanitation Network Extension	H	H	H	L	M	M	H	L	M	H	H
	Water Supply Conservation/Energy Efficiency + Utility Management, including responses to Droughts	M	H	H	H	H	H	M	L	M	M	M
	Wastewater and Fecal Sludge (FS) Treatment Plants	M	H	H	M	M	H	H	L	M	H	H
	Water Supply Treatment Plants	H	H	M	L	M	M	M	L	M	M	M
Disaster, Climate & Environmental Resilience	Energy Efficiency and Safe Municipal Public Buildings & Residential Housing	M	M	M	L	M	M	M	M	M	M	M
	Solid Waste Landfills and SW Management Enhancement	M	M	M	L	M	M	M	L	M	M	M
	Stormwater Drainage and Flood Protection Measures	M	M	M	L	M	M	M	M	H	H	H
	Energy Efficiency and Disaster Resilient Residential Housing	L	M	M	L	M	M	M	L	M	M	M
	Conflict-induced Displacement Disasters	L	M	M	L	H	H	H	M	M	M	M

C. National Urban Policies and Institutional Frameworks

In the previous section this report examined urban services and conditions as they present themselves on the ground in IsDB MCs relating to urban economies, urban mobility, urban housing and slums, urban water and sanitation, and climate change and environmental resilience. As can be readily gleaned from this broad set of policy areas, there are typically a large number of institutions and policies that govern each, including at the national level (ministries of economy, finance and development; ministries of transport, ministries or authorities on water affairs; spatial planning agencies; ministries of local government or administration; and ministries or agencies for housing, among others). In addition, there are regional and local tiers of agencies including regional development authorities, provincial administrations, and local governments, among others. In short, the magnitude in volumes of legislation, policies and institutions impacting urban development in one way or another is staggering and lends itself to policy and institutional conflicts, overlap, lack of clarity on responsibilities, and some gaps as well.

In this section, the report picks up on the New Urban Agenda (NUA) addressed in Section 1, in which it strongly advocates for the formulation of National Urban Policy (NUP). Until very recently, urban policies and the institutions that implement them have existed in a very uncomfortable juxtaposition with insufficient efforts at multi agency and policy coordination. The NUP is an effort to change that, but its broadness in potential scope can make the process of formulating clear and coherent national urban policy is necessarily a long-term process that simply needs to be put on track. Over time, it is expected that such efforts of aligning and better coordinating policies and institutions that implement them will improve if they are at least put on track and monitored within carefully thought-through monitoring plans.

Beyond their potential for helping to coordinate urban policy, what are NUPs exactly? UN-Habitat defines them as "*a coherent set of decisions derived through a deliberate government-led process of coordination and rallying various actors for a common vision and goal that will promote more transformative, productive, inclusive and resilient urban development over the long term*." (UN-Habitat 2014 b). Every country has a different institutional set up and that makes one uniform structure and content for a NUP too constraining and uniform. What is clear is that if spatial and land use planning guidelines and institutions don't reflect or aren't reflected in national water policy, energy policy, housing policy, land administration, transport policy, and a host of other areas, cities will be subject to random guiding frameworks that often conflict and even work at cross purposes. Accordingly, NUPs are designed to consolidate, rationalize and reflect national policies that have a bearing on urban development into a common framework. They are not intended to replace or to subsume other sector policies within that framework but

should to harmonize and synthesize them and better enable the agencies entrusted with fulfilling that mandates or policies to do so mindful of the implications at the local level. The transaction costs are simply too high for local governments to be the coordinators of all these policies and institutions, and, if left to their own devices, may very well come up with different and potentially conflicting arrangements on the ground in different localities. A well-prepared NUP is cognizant too that there are areas where the NUP has a direct and first instance legitimacy in coverage of a policy area, which could relate to housing policy, spatial and land use planning, or other areas where there are institutional or regulatory gaps. But in most cases, as noted from the wide array of policies and institutions above, NUPs should be coordinating frameworks that draw upon other sector policies and harmonize them with others that have a bearing on urban development, while also helping to clarify appropriate institutional roles as reflected in legal mandates or assignments that have been made over time.

UN-Habitat with the OED undertook a survey in 2018 of the NUPs in over 150 countries. Interestingly, they found that all of them, with the exception of four countries (in North American and European countries), had some form of NUP. Some were found to be explicit (a dedicated NUP by title and content), while others were partial (typically a section on urban policy in a higher level strategic document focused on poverty reduction, sustainable development, land use planning or otherwise). Noteworthy is that the survey found 39 NUPs did not have sufficient information. Further, they noted that NUP formulation is a dynamic process and at various stages in different countries. For that reason, they also designated a five stage status classification for NUPs:

1. Feasibility (the rationale and potential scope of a NUP is under consideration);
2. Diagnostic (initial analysis for a NUP is underway);
3. Formulation (diagnostic work has been completed but formulation of policies is still underway);
4. Implementation (NUP has been officially adopted by a Government);
5. Monitoring & Evaluation (NUP has monitoring and evaluation indicators which are being used to track and monitor implementation

Table 9 below presents the findings of the UN-Habitat/OECD survey work and sets out the identified forms of NUP in different regions and the gaps that exist within them.

Table 9: Identified Policy Instruments Currently in Use and Needing Development by Region

Region	Identified types	Identified Priorities
Africa	• Planning and regulatory framework • Regulatory city construction • Permit and registration systems • Taxation policies	• Housing standards • Building standards • integration of NUPs with budgetary and national planning
Arab States	• Spatial frameworks • National development plans	• Housing development • Transport • Environmental sustainability
Asia and the Pacific	• Urban legislation - building, design and construction standards • Environmental standards • Readjusting taxation and revenue allotted to urban development • Decentralisation policy and empower local government • Spatial frameworks and national development plans • Spatial Development Plans	• Creation of new administrative units through legislation • Disaster management and risks • Regulatory tools to enhance financial base for urban development projects • Spatial regulations • Some sustainability regulations
Europe and North America	• State-city partnerships • Some national frameworks and many regional frameworks • Spatial planning legislation	• Urban renewal • Social cohesion and integration
Latin America and Caribbean	• National constitutions • National legislation • National development plans • National housing programme	• Housing programmes

The following table, extracted from the UN-Habitat/OECD referenced report, provides the status of NUP in 57 IsDB MCs where data was available, including the year of issuance, form and stage of NUP. Under the IsDB USP, the intention is to align with the New Urban Agenda and ensure that each of its IsDB MCs have a NUP, are implementing it, or could be supported to do so, potentially as an element of an IsDB-financed operation. The table can help to identify countries for prioritization of technical support, as well as for benchmarking against targets for improvement or coverage expansion any NUPs developed or updated with IsDB UPG support.

Table 10: Status of National Urban Policy in IsDB Member Countries (2018)

Country	Name of NUP	Year of NUP	Form of NUP	Stage of NUP
SUB-SAHARAN AFRICA				
Benin				
Burkina Faso	Politique Nationale Urbaine	2017	Explicit	Diagnostic
Cameroon	Politique Urbain Nationale	2014	Explicit	M&E
Chad	Strategie Nationale de Logerment	2015	Explicit	Formulation
Comoros	Poverty Reduction and Growth Strategy Paper	2011	Partial	Implementation
Cote d'Ivoire	Service to Promote Home Ownership Tenure	2011	Partial	M&E
Djibouti	Strategie Nationale de development Urbaine	2012-15	Partial	Implementation

Gabon	Mooted National Urban Development Strategy	2014	Partial	Diagnostic
Gambia	Poverty Reduction Strategy	2007-11	Explicit	Formulation
Guinea	Politique Nationale Urbaine	2017	Explicit	Feasibility
Guinea-Bissau				
Mali	National Urban Policy: Politique National de la ville	2004	Explicit	M&E
Mozambique	Politica Urbana Nacional	2017	Explicit	Feasibility
Niger				
Nigeria	National Urban Development Policy	2001	Explicit	M&E
Senegal	Poles Urbaines	-	Partial	Implementation
Sierra Leone				
Somalia	Somalia Urban Development Program	2008	Explicit	Implementation
Sudan	National Urban Policy	2016	Explicit	Diagnosis
Togo	Declaration of Policy of Urban Sector	-	Partial	Implementation
Uganda	National Urban Policy	2014	Explicit	Formulation
Maldives	National Strategies for Sustainable Development	2009	Partial	Implementation
Suriname				
ASIA				
Bangladesh	National Urban Policy	2011	Explicit	Implementation
Brunei	National Land Use Plan	2010	Partial	Implementation
Guyana				
Indonesia	National Policies and Strategies for Urban Development Towards Sustainable Competitive Cities for 2045	2015	Explicit	Implementation
Kazakhstan				
Kyrgyz	National Sustainable Development Strategy (2013-17)	2013	Partial	Implementation
Malaysia	National Physical Plan (2010)	2010	Explicit	M&E
Tajikistan				
Turkmenistan	National Development Strategy (2014-2020)	2014	Partial	Feasibility
Uzbekistan	Masterplan of Population Settlement	2010	Partial	Diagnostic
MIDDLE EAST AND NORTH AFRICA				
Afghanistan	National Urban Policy	-	Explicit	Feasibility
Albania	Law on Territorial Planning	2009	Partial	Implementation
Algeria	Politique de la ville	2016	Explicit	Implementation
Azerbaijan				
Bahrain	National Planning and Development Strategy	2007	Partial	M&E
Egypt	National Urban Policy	2015	Explicit	Diagnosis
Iraq	National Urban Policy	-	Explicit	Feasibility
Iran	National Urban Policy and Smart City Strategy	2017	Explicit	Implementation
Jordan	National Urban Policy	2016	Explicit	Diagnosis
Kuwait	National Urban Policy	-	Explicit	Feasibility
Lebanon	National Urban Policy	2016	Explicit	Diagnosis
Libya	National Physical Perspective Plan	2006-30	Explicit	Formulation
Mauritania				

Morocco	Politique de la Ville (PDC or City Policy)	2012	Explicit	Formulation
Oman	National Spatial Strategy (2010) and Oman Vision (2040)	2010	Partial	M&E
Palestine				
Pakistan	Vision 2025	2014	Partial	Diagnosis
Qatar	National Development Strategy	2011-16	Partial	Implementation
Saudi Arabia	National Urban Policy	2017	Partial	Diagnosis
Syria	National Standards for Regional and Spatial Planning	2014	Explicit	Formulation
Tunisia	National Urban Policy	2016	Explicit	Diagnosis
Turkey	Integrated Urban Development Strategy and Action Plan (2010-23)	2010	Explicit	M&E
U.A.E.	Urban and Regional Structural Frameworks	To 2030	Partial	Implementation
Yemen	Regional Plans	2011	Partial	Feasibility

Source: Global State of National Urban Policy, UN Habitat, 2018.

III. ISDB POSITIONING IN THE URBAN DEVELOPMENT SECTOR

A. Global Urban Development Financing Trends

Financing the SDGs is estimated by the United Nations and World Bank to be in the range of $3.9 trillion per year. The current annual average of development aid and other flows are estimated at about $1.4 trillion. This leaves a gap of about $2.5 trillion in financing need, making the demand for IsDB's development financing and services an important element in the mix of choices available to IsDB MCs. Of the total financing gap, urban development is expected to need about $1.45 trillion per year.

The landscape of development financing in emerging market economies has evolved significantly over recent decades with the emergence of private finance, both capital markets and project-specific investments, and the evolution of donor strategies. China has elaborated an approach called the Belt and Road Initiative (BRI) that attempts to link production markets in diversified value chains across multiple countries through transport infrastructure spanning many thousands of miles, coupled with trade and production hubs in strategically located cities across Asia and into Sub-Saharan Africa.

Bilateral donors, led by DFID, have advocated for more results-based lending and development assistance in their aid programs, using an output-based aid model. Under these schemes, payments are made by development agency sponsors when development results are achieved (increase in the number of people in urban settings accessing affordable and safe potable water) rather than for infrastructure projects that deliver a contracted amount of installed water supply network that may never reach end-users. Elements of this development financing model have evolved into Development or Social Impact Bonds that tap into international capital markets where there are individual and institutional investors interested in diversifying their investment portfolios with social investments that have a lower return but a higher goal of addressing a critical development or social need.

For its part, the World Bank has expanded significantly its financial products and instruments in development finance. It is piloting one of the first Development Impact Bonds in Palestine to promote the creation of new jobs in the hi-tech sector via training and job placement in off-shore computer software programming. Less innovative today, but certainly an innovation within the last 5-6 years, the World Bank is financing over 16 ongoing Urban Performance Grant (UPG) Operations that target improvements in local government financial, technical and managerial capacity, each of which triggers a payment tranche when pre-determined indicators are met. These UPG Operations are usually financed in whole or part by Performance for Results (P4R) instruments that are results-based and not attached to specific infrastructure that is constructed.

WORLD BANK Urban Development Program (as of April 2020). The World Bank's work in urban development aims to build sustainable cities and communities through an urbanisation process that is green, inclusive, competitive, and resilient. It has aligned its corporate strategy for urban development so that it contributes to Sustainable Development Goal (SDG) No.11, implementation of the New Urban Agenda, as well as the World Bank's broader corporate goals of ending extreme poverty and boosting shared prosperity.

Six business lines are used to organize both investment project financing and technical assistance. These are: (i) Cities and Economic Growth, (ii) Urban Poverty and Inclusion, (iii) Municipal Infrastructure and Services, (iv) Affordable Housing and Land, (v) Urban Management, Finance and Governance.

Within these business lines, there are four strategic pillars that are pursued, including (i) Enhancing Planning Systems and Local Capacity, (ii) Strengthening Municipal Fiscal and Financial Systems, (iii) Promoting Territorial and Spatial Development, and (iv) Building Climate Smart and Urban Resilience.

The World Bank invests an average of $1.5 billion in planning and implementing lending projects on sustainable cities and communities every year to help cities meet the critical demands of urbanisation. The active portfolio stands at 225 projects amounting to $29.74 billion, through a combination of instruments, including investment project financing, policy development loans, and Program-for-Results funding.

Increasingly, in recognition of its resource limitations in the face of growing demand for urban financing, the World Bank has actively sought to mobilize private sector financing through a variety of channels, including hosting the City Creditworthiness Academy (which helps guide and train cities about the measures they need to take to access commercial credit markets, as well as other sources of private finance).

The Asian Development Bank (ADB). The ADB recently issued its 25 year operation plan for urban development (September 2019). It notes a growing engagement for ADB in urban development. Dating back to 2010, its lending to urban operations sat at $1.2 billion. By 2018 urban operation financing nearly doubled to US$2.3 billion, and further growth is expected to US$3 billion annually by 2024. Similar to the World Bank and IsDB, it sees a broader demand for urban infrastructure financing due to rapid urbanisation in many of its client countries. This has led to a more diversified portfolio, going well beyond its traditional areas of focus of urban water supply and sanitation, and other basic infrastructure. Today's operations are more integrated, rather than being single sector. Its continued focus on urban water and sanitation is now complemented by expansion to support for integrated urban planning, solid waste management, sanitation and fecal

sludge management, urban transport, climate resilient infrastructure, city regions, economic corridors, and low carbon urban transformation.

B. IsDB Urban Development Portfolio

Early Urban Policy Formulation That is Now Evolving. An Urban Development Sector Guidance Note served as the guiding framework for IsDB's urban sector engagement since May 2012. It provides an important baseline from which any adjustments or refinements will be made under the new USP, guided by lessons learned, emerging new global trends, and corporate shifts in priorities and points of emphasis.

IsDB has also prepared an Urban Sector Policy (USP) proposal in 2019 that sketches the outlines of a new USP. While building on the prior Guidance Note, it captures new trends and points of emphasis. For instance, the growing prominence in need for affordable urban housing is addressed by pulling out housing from Urban Infrastructure and granting it its own stand-alone status. This suggests the need to develop a more distinct affordable housing strategy and monitoring indicators that might have been overlooked or "buried" when it was combined with all other infrastructure services in the past. In addition, Housing is not, strictly speaking, infrastructure or a public good, i.e. shared commonly without restricted access to all citizens. It requires a complex and well-conceived set of policies and legal framework in order for housing markets to function effectively. Accordingly, it is more appropriate to grant it a separate pillar in the new USP.

Other shifts in the Urban Sector Policy Proposal give greater emphasis to the legal and regulatory environment regarding urban policies that have become even more important for countries experiencing rapid urbanisation. Policies and legal rights relating to land and property markets, housing, urban regeneration, urban planning and better managed urban growth all need solid grounding in the regulatory framework and enforcement is critical in order to prevent land grabbing, better manage squatter settlements, carefully manage transitioning city areas and neighborhoods from industrial to post-industrial services.

Another critical new development captured in the New Urban Agenda, is the emphasis on developing countries elaborating a National Urban Policy (NUP). While other sectors, like energy, transport, and education, for example, often have well developed, structured national policies, urban policies are often not elaborated in many developing countries where it has now become paramount to do so in order to better manage rapid urbanisation

The Origins of Urban Development at IsDB. The genesis of IsDB's urban development sector program dates back to 2009, when the Urban Development and Services Division was established under an organization reform at IsDB. A second reform

was undertaken in January 2018 when the UDSD was folded into the new Global Practice Social Infrastructure Division which remains in place today. The GPSID is comprised of several sectors, now referred to as Global Practices, including the Urban Sector, Water Sector, and the Education and Health Sectors.

Historically, the IsDB's urban and water investment financing dates back to 1976. From 1976 to Q2-2018 316 Urban/Water operations have been financed at an aggregate total of US$7,027 million. Table 11 below outlines the historical composition and breakdown of that portfolio. Over the past nine years, (2009-18), IsDB has extended financing to operations in the urban sector estimated at US$4 billion.

Table 11: IsDB Urban/Water Investment Project Portfolio (1976-Q2/2018)

Regional Grouping	Number of Urban/ Water Projects	Average Number of Projects per Country	Urban/Water Financing Volume (millions)	Average Urban/Water Financing Amount per Operation (millions)	Average Urban/Water Financing Amount per IsDB MC (millions)
MENA	163	6.8	$4,579.60	$28.10	$190.82
SSA	133	5.8	$1,968.60	$14.80	$85.60
ASIA	20	2	$478.50	$23.93	$47.85
TOTAL/AVG	**316**	**4.9**	**$7,026.70**	**$22.28**	**$108.09**

Source: Author Calculations based on data from IsDB Operations At-A-Glance (Q2-2018) Report

The following table shows a breakdown of the top 17 IsDB MCs by number of urban/water projects financed by IsDB from the inception of its urban/water program. It could be a good illustration of indicative demand for the urban program under the new USP. The numbers are generally in line with current IsDB MC regional composition. MENA is the largest country grouping with 24, followed by SSA with 23. Bangladesh is the only country representing ASIA (Group 3) country cluster, comprised of 10 countries. With the exception of Bahrain (high income) and Lebanon (upper middle income), all other countries in the top 17 are lower-middle or low income countries.

Table 12: Top 17 IsDB MCs with Urban/Water Operations by Number of Projects (1976-Q2/2018)

IsDB Member Country	IsDB Regional Group	Income Category	Number of Urban/Water Projects
Senegal	SSA	LM	22
Morocco	MENA	LM	20
Lebanon	MENA	UM	17
Tunisia	MENA	LM	17
Sudan	SSA	LM	17
Iran	MENA	UM	15
Mauritania	MENA	LM	15
Guinea	SSA	L	12
Bangladesh	ASIA	LM	11
Algeria	MENA	LM	9
Mali	SSA	L	9
Yemen	MENA	LM	9
Bahrain	MENA	H	8
Burkina Faso	SSA	L	8
Egypt	MENA	LM	8
Syria	MENA	LM	8
Cote d'Ivoire	SSA	LM	7

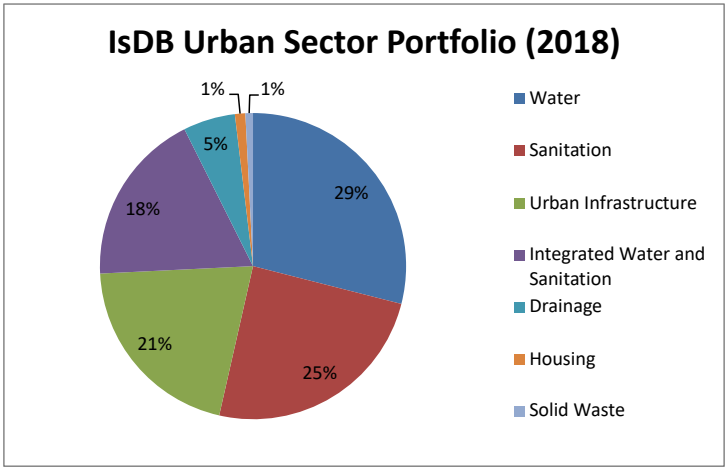
Table 13 below presents the top 17 IsDB MCs by amount of IsDB financing received for urban operations since the inception of urban/water lending. Iran is by far the largest borrower, followed at a distant second by Oman. With an average country income about 9 times larger in MENA than SSA and about nearly double ASIA, the financing distribution is likely reflective of borrowing capacity of IsDB MCs by regional composition.

Table 13: Top 17 MCs with Urban/Water Operations by Financing Amount (1976-Q2/2018)

IsDB Country	IsDB Region	Income Categ.	IsDB Projects	IsDB Financing (millions)
Iran	MENA	M	15	$1,228.2
Oman	MENA	H	6	$583.5
Senegal	SSA	LM	22	$514.6
Lebanon	MENA	UM	17	$497.2
Bahrain	MENA	H	8	$461.0
Morocco	MENA	LM	20	$431.5
Cote d'Ivoire	SSA	LM	7	$428.1
Azerbaijan	MENA	UM	4	$265.2
Qatar	MENA	H	3	$243.4
Tunisia	MENA	LM	17	$242.7
Bangladesh	ASIA	LM	11	$231.6
Sudan	SSA	LM	17	$173.7
Algeria	MENA	LM	9	$162.6
Nigeria	SSA	LM	3	$146.0
Mauritania	MENA	LM	15	$145.9
Mali	SSA	L	9	$118.9
Indonesia	ASIA	LM	3	$115.8

Composition of the Urban Portfolio. A vast majority of IsDB's Urban Sector Portfolio is comprised of urban water, sanitation, or integrated water and sanitation projects, which, taken together account for 72 percent of the portfolio. (See Figure 14 below.) The second largest sub-sector of the urban portfolio is Urban Infrastructure, which includes roads, sidewalks, and street lighting, public spaces and facilities, cultural heritage investments, and integrated infrastructure for urban serviced industrial land, among others. Storm water drainage infrastructure is a relatively small portion of the portfolio at 5 percent, while housing and solid waste comprise only one percent each. Going forward, and considering the diversification and growth of the World Bank's and ADB's urban portfolio, as well as the wider range of needs of rapidly urbanizing IsDB MCs, it is likely that IsDB's urban portfolio will need to diversify, with urban water and sanitation sustaining high demand, but growing shares for IsDB MC needed financing in urban housing and slum upgrading, urban mobility, and some potential for urban economies and climate action.

Figure 14: IsDB Urban Sector Portfolio in 2018



Examples of IsDB Operations in Member Countries

Photo 1: Storm Water Management & Climate Change Impact Adaptation Project

Photo 2: Sanimas (Indonesia) Community-Based Sanitation Project – A Success Story

Photo 3: Installation of Balancing Ponds to Attenuate Peak Rainfall Events

Urban Water and Sanitation

OED carried out a comprehensive evaluation of IsDB's water and sanitation (WATSAN) portfolio that it issued in a report in February 2020. The evaluation spanned from the very inception of IsDB financing for WATSAN to October 2015 (1436h). This comprised over 452 WATSAN operations, 332 projects valued at US$7,790 million in approved financing. Of the 332 projects, 238 have been completed, 89 remain active, and five were cancelled or frozen.

The evaluation included 40 randomly selected completed projects (52 operations) or 14 percent of the total approved operations and 32 percent of completed projects spanning 26 MCs from 1991-2015 (1412-1436 h). The scope of the evaluation was to assess (i) project quality in design and implementation, (ii) results or impact of the project, (iii) lessons learned. The key findings were as follows:

- ***Relevance.*** All of the project goals and objectives were found to be highly relevant and consistent with MC development strategies as reflected in national and regional plans, or national emergency programs.
- ***Analytical Underpinnings.*** A key deficiency was noted, however, in the lack of comprehensive technical and feasibility studies at project appraisal, which often led to a relatively high number of changes in the project scope due to hydrological conditions that were not anticipated by the investment project at inception. Only 15 of 37 projects had Cost Benefit Analysis (CBA), EIRR or FIRR completed by appraisal for the investments to be financed, and only 8 projects had post-project evaluations including CBA.
- ***Project Preparation.*** An additional observation was that a number of WATSAN investment projects had a flawed design due to (i) lack of identification of the project's target beneficiaries at inception, (ii) poor siting of bore holes, and (iii) lack of in-depth consideration of social and cultural acceptance of the intervention.
- ***Effectiveness.*** The WATSAN program's effectiveness as a whole in meeting intended results was good overall. Notable among the key achievements were (i) provision of rapid access to water points in reduced time by women; (ii) improved access to water overall in terms of volume of water consumed and coverage; (iii) improved health conditions with a reduction in water borne diseases and infant mortality, attributable to the projects; and (iv) increased meat and milk production in rural farm settings. Rural water interventions, however, were not found to be as effective as urban operations.
- ***Efficiency.*** The average project performance was found to be less than the ideal efficiency, mainly due to a large number of cost variations (actual costs were 69.8 percent higher than estimated costs) on sewage projects, compared to integrated water/sanitation project, which had cost underruns in aggregate. The large number

of variation orders and high cost of them was also a notable deficiency with respect to efficiency, leading to extension of the average implementation period from 4.8-6.7 years. A number of causes were cited for inefficiencies, including (i) lack of hydrogeological studies completed by appraisal stage, (ii) lack of financial and technical capacity of the beneficiary water utility or entity, (iii) delays in the delivery of vital equipment that was sourced from abroad, and (iv) lack of familiarity with IsDB procurement procedures, which caused delays.

- ***Sustainability.*** Sustainability of the projects varied. 19 percent were rated most likely and 43 percent likely to be sustainable, while 38 percent were rated less likely to be sustainable. A number of reasons were cited, including (i) absence of a suitable regulatory framework for cost recovery from users, (ii) a weak institutional environment, (iii) absence of systematic assessment of co-financiers, though it was found that parallel financing of other donor projects had a positive effect in general on IsDB performance with the Kampala Urban Water Supply Project being one positive example.

Lessons Learned & Recommendations in IsDB WATSAN Projects. Lessons learned from the evaluation of IsDB's WATSAN Program can be summarized as follows:

- Financial and Management Planning. All receiving water utilities or entities should have a clear financial and managerial plan and provisions for operating and maintenance (O&M) of the entire water supply/sanitation network and system. Best practice would include updating or providing support to the receiving entity in preparing a financial model so that O&M budgeting is realistic and feasible. In cases where institutional capacity is particularly weak in the areas of delivering services and billing and collections, there may be the need to bring in the private sector. In line with P5P, finding entry points for the private sector in the delivery of WATSAN services, and particularly billing and collections, can be an important and innovative solution to draw on private sector expertise and know-how, shift the commercial risk and burden to the private sector (using PPPs and concessions involving private investment), critical in reducing non-revenue or unaccounted for water losses through performance-based contracting.
- Advances in Pre-paid Metering. A number of countries have had successful pilots in introducing pre-paid metering for services provided by public sector utilities or private sector providers. Pre-paid metering has a number of advantages, including (i) improvements in cost recovery by utility companies, making water supply and sanitation more institutionally sustainable, (ii) enabling users to more effectively budget their consumption patterns, particularly when they face large water/sanitation bills on a quarterly basis that they can't afford, and (iii) pre-paid metering can help better target subsidies by introducing tokens or vouchers for

recharging meters at households determined to be eligible for subsidies. Learning from these pilots will be important for IsDB countries facing problems of high Non-Revenue Water (NRW), poor cost recovery, and financially-distressed low income households. Box 2 in the previous section, provides some specific examples of countries with successful pre-paid metering pilots that include IsDB member countries. Under the USP Capacity Building and Knowledge Sharing Enabler and Reverse Linkage Strategy (See Section 4), IsDB could help by being a broker of knowledge on the uses of this innovative technology, including initiating pre-paid metering in pilot projects of MCs.

- Encouraging sustainable reuses for water. Some IsDB WATSAN projects have been successful at promoting reuses of treated waste water for agricultural use. While this is becoming a widely applied practice globally, there are still some communities that will reject treated waste water for agriculture use, so there is an important need to carry out willingness and ability to pay studies in advance and to promote community awareness of the advantages and ways of mitigating the risks.
- Sound investment project preparation. Many of the operational deficiencies noted downstream were due to insufficient attention to project preparation at and before appraisal, including ensuring the feasibility studies and geophysical surveys are prepared and revised if necessary until they are deemed appropriate before appraisal. Greater attention will need to be devoted to improving the robustness of IsDB's appraisals of water and sanitation projects but ensuring feasibility and geological studies are completed before or at appraisal.
- Pre-qualification of Contractors and Supervision consultants. In country contexts where client institutions and commercial contractor capacity is weak, it may be necessary to carry out a pre-qualification stage to reduce the number of bidding firms down to those that have already been determined to be qualified to undertake the work being proposed. Such contractors should have proven capacity and the financial ability to complete the task in the contract. Additionally, it may be necessary to contract out and pay for the services of an engineering consulting firm to systematically review the work of the contractors to ensure the technical specifications of the work order are adhered to.
- Sustainability of WATSAN Operations. As noted earlier, as many as 38% of the reviewed WATSAN projects portfolio were rated less likely to be sustainable. To improve sustainability, a range of options can be further explored, including the institutional and regulatory environment to ensure it is up to date and addressing key challenges in the sector.
- Social and Environmental Safeguards. Foster greater adherence to IsDB social and environmental safeguards with particular attention to increasing community ownership of assets built under the project. Carrying out willingness to pay and

ability to pay studies, coupled with community awareness campaigns to promote community ownership and awareness about water conservation and water-related public health issues would be good practice to encourage. Working with or through existing Water User Associations (WUAs) or establishing ones where they don't exist and where such collective action is needed could be further explored.

- Innovative Financing Solutions. Because IsDB MCs do not have sufficient financing of their own to cover their vast infrastructure needs, and because IsDB itself has limited financial resources, it will be critical to find new financial sources and financial mechanisms through innovative financing solutions. Emphasis should be placed on leveraging limited own resources with those of others, particularly the private sector. Options could include Social or Development Impact Bonds (SIBs or DIBs), where IsDB could be a sponsor a make payment to private sector companies carrying out the work, where payments are made upon completion of works. Bonds could be used to mobilize private sector financing with returns below typical market rates due to the social and/or development impact. An increasing number of commercial banks and institutional investors are seeking to include SIBs/DIBs in their investment portfolio to demonstrate their social commitment to improving lives of the poor. Such approaches are consistent with the P5P emphasis on mobilizing private sector finance.
- Human Resource Capacity Building. Contracting can be used as an important instrument to ensure continuity of operation of built assets and facilities in accordance with technical specifications and standard operating procedures. Contractors should have training and handover arrangements to the receiving entity clearly specified in the terms of their contract, including for payments.
- Improving the targeting of subsidies. Too many WATSAN systems are by design subsidizing all users by charging user fees well below the investment costs for installed infrastructure, and even below operating costs, which is clearly unsustainable. Accordingly, IsDB governments will need to carefully review the pricing for WATSAN services and ensure the water tariff and pricing regulations are adequate to ensure service providers can recover operating costs, if not full cost recovery. One way of doing this is through a tiered tariff that provides a base rate that is affordable to all for a basic household consumption volume and increase the rate as consumption increases over successive tiers. This structure has two benefits: (i) it is flexible in that it allows higher income household users that have a higher demand for water and the ability to pay to consume at a higher rate at a higher cost, thus subsidizing consumers in the lowest tier; and (ii) it discourages waste and overconsumption, thus promoting more effective water conservation, by imposing a higher cost on larger increments of water consumption.

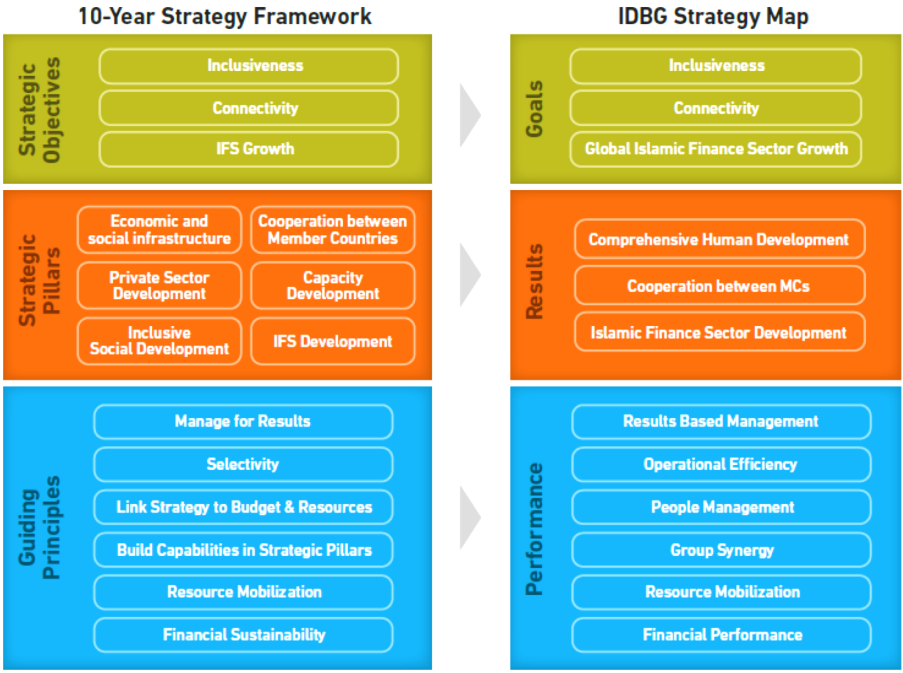
- Water supply system design can be a critical cost factor in undermining cost recovery. Many utility companies in developing countries, e.g. Lebanon, face inordinate electricity costs for water pumping, which is by far their largest cost of operation. In countries where it is suitable, gravity-fed systems should be considered as an alternative to pump-powered supply systems. Turkey is an example of a country that has heavily invested in such systems and where they continue to benefit from dedicating time and cost to ensuring appropriate water supply system design up front. Where this cannot be achieved, increasing use of solar-powered pumps, with adequate supply tank storage capacity will be an important improvement to reduce peak time pumping costs by other means when power supply is a chronic problem in most IsDB MCs.

C. IsDB Corporate Policies and Guidelines

In this section of the report, we review the institutional and policy guidelines and official documents of IsDB and find areas of alignment and gaps with global trends and agendas in order to frame the parameters for the IsDB's new Urban Sector Policy. This section reviews (i) The IsDB 10 Year Strategy; (ii) The President's 5-Year Programme (P5P); (iii) IsDB Policy Development and Management Guidelines; and (iv) Relevant IsDB Sector and Thematic Policy Notes (e.g. Transport, Energy and Climate Change).

Guiding Principles of IsDB 10 Year Strategy

The IsDB 10 Year Strategy was approved in 2014 and spans the period from 2016-2025. Its purpose is to align overall program activities and financing aimed at improving efficiency and effectiveness of IsDB. The strategy is built around three Strategic Objectives (Inclusiveness, Connectivity, and IFS Growth), six Strategic Pillars, and six Guiding Principles linked to a Strategy Map of Goals, Results and Performance as depicted in the illustration below:



The following table identifies areas for potential alignment and convergence of the proposed Urban Sector Policy with the 10 Year Strategy Framework. Each area will be more fully explored in subsequent phases of the USP formulation to tighten and align the fit, including reducing or expanding on specific proposed activities and orientations.

Table 14: 10 Year Strategy Framework and Urban Sector Policy Alignment Matrix

10 Year Strategy Framework	Potential Areas for Urban Sector Policy Alignment
Strategic Objectives	
Inclusiveness	Operations Design: Outreach to city/town/village administrations and citizens through participatory urban planning, joint press conferences, crowd-sourcing results monitoring
Connectivity	Operations Design & Special Programs: Organize and facilitate joint training and learning events within and across regional IsDB Groups
IFS Growth	Municipal Finance: Explore potential for SUKUK in the form of municipal bonds
Strategic Pillars	
Economic and Social Infrastructure	Urban Infrastructure Services, Urban Mobility, Urban Housing and Slum Upgrading

Private Sector Development	Operational Design: Explore potential for Cultural Heritage/Tourism-based industries and Local Economic Development (LED)
Inclusive Social Development	Operational Design: Use Social Development screening and filters in Urban Development operations
Cooperation between Member Countries	Organizational & Operations Design: Co-financing operations; Joint Programs and Partnership Agreements in Urban Development
Capacity Development	Operations Design: National, Regional and International-level delivery systems and programs to reduce duplication and improve efficiency
IFS Development	Municipal Finance: Explore potential for SUKUK in the form of municipal bonds
Guiding Principles	
Manage for Results	Organizational & Operations Design: Revamp UD portfolio performance monitoring system to align with SDGs, 10 Year Programme, P5P
Selectivity	Operations Design: Narrow UD focus to areas of in-house technical specialization and collaborate with other MDBs/Development Partners in gap areas (to be further explored under HR review)
Link Strategy to Budget & Resources	Organizational Design: Align UD practice areas around HR personnel existing or proposed configuration (HR review)
Build Capacity in Strategic Pillars	Organizational Design: Identify and deliver in-house training programs for Economic & Social Infrastructure (HR review)
Resource Mobilization	Operations Design: Identify areas for potential co-financing with other MDBs, the private sector, and WAQF endowment funds
Financial Sustainability	Municipal Finance: strengthen municipal and utility financial budgeting and management systems

Presidents' Five-Year Plan (2017-2022) (Dec 2016)

The President's 5-year Programme (P5P) spans the years 2017-2022 and sets IsDB on a path toward improving its overall efficiency and development effectiveness. It recognizes both past achievements of IsDB, as well as the challenges and opportunities going forward. It outlines the considerable challenges in IsDB Member Countries, such as population growth, high unemployment, poverty and water scarcity. Political instability, particularly over the past decade, has pushed many member countries into the Fragile and Conflict Situations (FCS) with unpredictable flows of refugees whose tenure remains uncertain. In the Middle East, many states with revenues dominated by natural endowments (oil) have faced particular difficulty during periods of prolonged oil price

declines and need to diversity their economies. And there have been growing divisions between the "Haves and Have-nots".

IsDB's Role. In response to these challenges, IsDB needs to (i) support diversification of the economic base of its member countries; (ii) enhance competitiveness; (iii) build capacities; and (iv) improve infrastructure and promote financial and economic sustainability. P5P calls for IsDB to align more closely with MC aspirations by (i) Being Proactive: Reading reality, anticipating the future and attaching core causes of development problems and not just symptoms; (ii) Being Fast and Adaptive: Promptly responding to MC requests and needs, and flexible to release funds and manpower at the appropriate times; (iii) Being at the Frontier of Development: Taking initiatives with development models that are based on Islamic principles and values, blending authenticity and modernity and thus helping to improve Islam's image as an advanced economic and social system that can keep pace with changing needs.

IsDB Exogenous Challenges. P5P outlines several exogenous challenges, including (i) a changing and more competitive environment; (ii) competition from government and specialized funds, private financial institutions and unconventional donor agencies (in this context MDBs have not been able to forge partnership to mobilize resources from the private sector and investment institutions in long term investments as they need to); (iii) competition from international and national investment firms, universities, research centers in the field of knowledge dissemination at a time when MDBs have decreased support for knowledge products due to the cost; (iv) a centralized governance model that inhibits interaction with beneficiaries and other donors alike reduces the ability to interact effectively with the private sector and CSOs. (Other agencies, like WB and ADB have tweaked their business model to preserve their value and keep pace.)

IsDB Endogenous Challenges: P5P also acknowledges endogenous challenges that need to be addressed in the years ahead, including (i) slow project implementation and centralized decision making; (ii) weak alignment with IsDB and member country needs; (iii) very low manpower field presence; and (iv) a minimal role in developing new financing instruments.

Going Forward: P5P sets out a number of important changes foreseen in the years ahead, including (i) the need for gradual change; (ii) increased effort to "crowd in" member and non-member countries to participate in IsDB programs and projects; (iii) improved evaluation of development needs and solutions design, resource mobilization, project implementation and impact evaluation (iv) IsDB needs to act more as a facilitator by crowding in member countries and the rest of the world, thereby leveraging financing and minimizing own liability; (v) financing is likely to be in the same areas but modes of operation, procedures and policies need to be made to improve efficiency and speed of implementation.

Table 15: IsDB President's Five-Year Program and Connections to Urban Sector Policy

President's Five Year Program (P5P) Road Map: Change Requirements	Potential Connections to Explore through new IsDB Urban Sector Policy
1. ***Awareness***: Revamp communications strategy, revitalize member countries engagement through field offices outreach, establish partnerships with the public, private sector, and other development partners	• Engage municipalities, citizens and NGOs on investment programming (urban planning); citizen report-cards (performance monitoring) • Partnerships with private sector through Municipal PPPs
2. ***Linkage***: Establish real and virtual platforms, such as crowd sourcing, to forge partnership with the private sector and social groups	• GIS for Smart City monitoring (identify problems and monitor results) • Ensure *participatory* approaches in urban planning
3. ***Competency***: Build human resource management capacity, align with strategic areas of interest, develop performance incentives, and provide training and coaching	• Foster joint capacity development programming with other MDBs, e.g. Marseille (WBG/AFD) • Provide direct support through existing national training institutions and/or programs
4. ***Funding:*** Explore alternative and innovative sources of funding to complement IDB own-funds, including Waqf funds, Islamic Solidarity Fund for Development and private equity/investments, and refine business model	• Explore options for Municipal PPPs • Explore options for Sukuk Municipal Bonds
5. ***Delivery***: Explore adaptation of Infrastructure Department experiment for rollout in Urban Development Sector using platforms and smartsheets to enhance monitoring	• Develop *ex ante* portfolio linkages to SDG and other IDB performance indicators in a database during project preparation phase and prior to BED operation approval
6. ***Reinforcement***: Set up integrated control framework and elaborate policies for management decision-making based on best global practices; delegate greater authority to sector departments, and streamline the number of committees and their role	• Prepare Urban Sector Policy for implementation in 2020 with management screening criteria for operations

IsDB Policy Development and Management Guidelines.

The IsDB Policy Development and Management Guidelines (PDMG) are provided for the structure and content of sector policies, strategies and related management issues for county and sector programs. The document distinguishes between a Policy Document and a Strategy Document as follows:

- Policy: A policy is a guiding principle to set direction and define a particular course of action in an organization. It is a higher level statement of objectives or goals of an organization over a medium to long term period that outlines non-discretionary governing principles and interventions.
- Difference between a Policy and a Strategy: A Policy is a set of common rules and regulations, while a Strategy is a game plan chosen to achieve the organizational goals and objectives.

The present exercise is aimed at developing an Urban Sector Policy, and, as such, will adhere to the prescriptions and guidance of the PDMG in its design and content.

D. Building Synergies Across IsDB Sector & Thematic Policies

This section is devoted to reviewing other relevant IsDB sector and thematic policies and identifying where synergies exist that can be exploited for the benefit of IsDB MCs. In addition, many of the complementary sectors and thematic policies and their respective global practices at IsDB have been identified as enabling elements in the USP, including ICT, Women's Empowerment, and Youth Development, among others. The aim will be to ensure consistency, avoid overlap and duplication, and help to rationalize any points of intersect so that management and staff have a clear line of sight regarding their role and competencies under each respective Sector and Thematic Policy.

Virtually every sector touches down in urban space in one way or another. Health and education services are provided there; economic production is concentrated there; transport, water, power and other infrastructure services vital to the functioning of cities are delivered there; and social disruptions resulting from high inequalities gestate and potentially explode there. While the Urban Practice Group (UPG) cannot be expected to have the skills, experience and human resources necessary to deliver all the support that IsDB-supported cities will need in these areas, it can focus on delivering in the five pillar core areas of its UPS and help integrate and build synergies with other Practice Groups within IsDB that bring complementary skills and resources that IsDB client cities need.

Going beyond alignment of sector and thematic policies, there will be an ever-present need to link these harmonized policy measures with investment operations and

development results. One way of achieving this is to collaborate between respective Practice Groups in the identification of SDGs for joint formulation and monitoring of indicators at both the design and implementation phases of the project cycle. Some suggested areas for collaboration are identified under relevant sector and thematic policies below.

Table 16: Urban Sector Policy Synergies with other IsDB Sector and Thematic Policies

Synergies with Transport Sector Policy (TSP)	The USP and TSP intersect most forthrightly in the domain of urban transport, which is set out as a key pillar (#2) of the USP. In addition to being aligned on global and corporate policies regarding promoting transit-led development in cities, promoting modal shifts to more sustainable and low carbon transport options, the two Policies align on road safety and the measures to be taken to improve outcomes in cities. The USP goes further in elaborating a responsibility matrix that sets out lead and supportive roles in different types of urban transport and mobility interventions in MCs.
Synergies with Water Sector Policy (WSP)	Like transport, water has very specific urban applications in cities and Pillar 4 of the USP is devoted to Urban Water and Sanitation. Both Policies advocate for improvements in water conservation, cost recovery, upgrading technical and feasibility studies for water and sanitation investments, and encouragement of treated wastewater reuse for agriculture. For improved sustainable development they advocate for measures to reduce non-revenue water (NRW), improving the targeting of subsidies, and reducing the high energy costs passed through to electricity suppliers but employing more energy efficient pumps and technologies. The USP goes further by advocating the expansion of pilots using pre-paid metering in selected SSA countries to direct application in IsDB-financed urban water and sanitation projects where there is MC interest. To ensure synergies are exploited on the operational level, the USP goes further by proposing a matrix of investment project typologies and the different engagement entry points for UPG and WPG.
Synergies with Energy Sector Policy (ESP)	The USP and ESP are harmonized and integrated across a number of key areas: Under Pillar 2 of the USP (Urban Mobility) Sustainable Urban Mobility Planning is advocated as an approach and a tool for urban transport investment planning and financing. This includes encouraging a shift from motorized transports with high CO2 emissions to public transit, pedestrianization, and developing bike paths wherever appropriate, all of which would reduce the load on the country's constrained electricity supplies. Under Pillar 3 (Urban Housing and Slum Upgrading), the UPS advocates and UPG teams will support measures to promote green buildings (updating and modernizing building codes), introduce and expand solar panels on residential housing and municipal buildings, among other measures. Pillar 4 of the USP is devoted to urban water and sanitation. It is widely known that water utility companies are major users of energy and often pass on liabilities for unpaid water utility bills to electricity providers in the form of mounting debts owed to electric companies (e.g. Lebanon and Jordan).

	Accordingly, the USP calls for both measures to shift pump-based to gravity-fed water supply systems to reduce energy demand and to utilize SCADA and other water utility management systems to identify and reduce water and energy losses and improvements for energy efficiency gains, among other measures. Finally, the USP advocates the use of TRACE (Tool for Rapid Assessment of City Energy) 2.0 as a city wide energy assessment tool to identify where cost savings and energy efficiency improvements can be made in municipal buildings, vehicle fleets, urban roads, water systems, and in other areas.
Synergies with Climate Change Policy (CCP)	As noted elsewhere in this study, cities are large consumers of energy, where most of the world's carbon emissions take place, and over 40 IsDB member countries lie in coastal areas subject to storm surges and water level rise. Accordingly, 113 of 164 NDCs or 69% have urban content, many with a dedicated section. Survey research shows that African and Asian countries factor urban into their NDCs most frequently and tend to focus on adaptation measures more than mitigation measures. The USP has several entry points for alignment and collaboration with the CCP: First, there is a dedicated pillar to Climate Action and Environmental Resilience that focuses on flood protection measures. The Urban Mobility and Urban Water and Sanitation Pillars also have elements with Climate Change co-benefits. To ensure accurate documentation of impacts, the USP calls for active collaboration between UPG and Climate Change teams on all projects using screening tools and other mechanisms that have been standardised for such monitoring purposes.
Synergies with Women's Empowerment Policy (WEP)	Many cities are designed without women and other socially disadvantaged groups in mind. Social norms, cultural practices, and economic realities put women in situations that often differ from men and require special consideration . The USP takes this into account in a number of ways. For instance, under the urban transport pillar (USP2), it is widely recognized that women often are reliant on public transport and alternative transport (pedestrian walkways) as the family car is taken by the male head of household to work. Women also highly prioritize urban roads as investments within neighborhoods, as unpaved roads result in heavy household cleaning burdens that women traditionally carry. Women therefore need to be consulted in the design of urban mobility investments bearing in mind their different circumstances. But the WEP calls for a higher order of women's integration into IsDB investment project planning, stressing the need to go beyond consulting women as beneficiaries, to ensuring that they have a role in decision-making. This is an important step forward. The USP calls for active women's involvement in any urban planning work that IsDB-finances (USP enabler) as part of the participatory process that is advocated. In such a capacity, women would not only be consulted, but also be in decision-making roles on city counterpart committees.

	Beyond these specific examples, as called for in the WEP, there should be gender mainstreaming across all urban operations and, importantly, disaggregated data by gender on key development indicators to enable detection of any disparities between women and other segments of society. Women and Youth Empowerment is specifically identified as an Enabling element of the USP, and its scope is specified further earlier in this Section.
Synergies with Reverse Linkage Policy (RLP)	Reverse Linkage refers to technical cooperation between IsDB MCs and Muslim communities in non-member countries to exchange knowledge, expertise, technology and resources. In order to align with the RLP, the USP has, as one of its guiding principles, Capacity Building and Knowledge Sharing and the aim is to utilize the RLDP to inform UPG project design in accordance with this USP guiding principle. One specific way of doing that with Muslim communities in non-member countries is by fostering Sister City Agreements between cities within IsDB MCs and Muslim community host cities in non-IsDB member countries. The aim would be to foster collaboration in monitoring progress against the SDGs, NDCs, and other global commitments, and sharing knowledge and tools.
Synergies with the Youth Development Strategy (YDS)	Many of the IsDB MCs are experiencing a demographic youth bulge that is translating into greater voice and desire for involvement in decision making. Nowhere is this felt more than in IsDB MC cities where youth unemployment is high on the policy agenda, particularly in MENA (Morocco and Tunisia) and across several countries in SSA. The USP provides an entry point for the YDS at the city level where its advocacy of youth taking on a more active role in decision making can be addressed through policy dialogue and investment project design. Youth also have a prominent role to play in the application of advanced ICT applications, which feature prominently in the USP through the advocacy of the use of cellphones, crowd-sourcing, social media platforms, and other emerging technologies to solicit city-wide and district level feedback on municipal service provision. Pillar 1 (Urban Economy) also advocates for pursuing more interventions that support the expansion of nascent manufacturing capacity in IsDB cities that would generate the jobs that youth and new urban migrants are seeking to improve their lives and livelihoods in IsDB MC cities.
Synergies with the Information and Communication Technology Sector Policy (ICTSP)	Advanced technologies have transformed the ways cities function today. From day-to-day applications in computerized systems in municipal administrations, including municipal financial information systems, procurement, systems, digitized land records, and the like. Cities with sound urban planning systems rely on GIS based software to plan and deliver services. So integrated is ICT to the way a city operates today that some cities have adopted the title of "Smart Cities," which emphasizes their ability to use data to drive decision-making and facilitate fulfillment of many of a city's functions. ICT is therefore prominently

	featured in the USP to support IsDB MC cities in a variety of ways, including traffic management systems, complex financial management software, water utility efficiency management systems to name just a few. These all come with complex technical and functional specifications, the need for in-depth market knowledge of software applications and efficient providers of services upon which the ICT Team will be relied upon by the UPG in preparing urban operations with ICT applications.

E. Urban Development Global Practice Staffing and Resources

IsDB Urban Global Practice will need to be equipped to deliver on the new Urban Sector Development Policy over the period ahead. Accordingly, it will be important to review its current operational set up, skills levels and the key challenges it is facing to determine any adjustments that may be needed. Two key factors that emerge immediately are adequacy of staffing and project preparation budgets.

The Urban Global Practice has delivered an average of eight operations a year, which is impressive and just below the World Bank Urban Practice (9.6) on a global scale, but has had to do so with only a fraction of the staff (i.e. 15 compared to 210) and with half the average project preparation budget ($200,000 as compared to $400,000 for the World Bank), as presented in Table 17 below. This comparison suggests that IsDB UGP is under-resourced in trying to meet the growing demands of IsDB MCs for urban development support.

Table 17: Benchmarking IsDB UGP Project and Budget Performance to the World Bank

Urban Project Portfolio	IsDB (2005-19)	World Bank (2013-19)
Average Annual Number of Project Approvals	8	9.6
Average Annual Aggregate Financing Amount	$400 million	$1.5 billion
Average Financing per Project	$60 million	$ 157 million
Urban Practice Group Staff	15	210
Average Project Preparation Cost (excluding Trust Funds)	$200,000	$400,000

Source: Main coefficients presented are reported by IsDB and World Bank staff with Author calculations

On the demand side, the vast majority of the Urban Global Practice's financing to date has been for water and sanitation, as it represents (72%) of the portfolio (although many projects classified as water/sanitation investments are integrated with urban roads and other urban investments that are not coded and thus not captured). This is a likely

indicator of demand and thus urban water and sanitation is likely to have a large share of the portfolio going forward. However, diversifying the portfolio in order to meet new areas for urban development financing needs of MCs, and to better align with IsDB corporate goals and global urban trends (i.e. the New Urban Agenda and SDG Agenda 2030) will require a different skill mix at IsDB in the years ahead.

These resource needs could be addressed in whole or part by (i) developing an HR plan with future recruitments that align with emerging needs and enable fulfillment of and support for implementing the five pillars of the USP; (ii) providing additional budget for project preparation that would enable existing UPG staff to contract consultants with complementary urban skills or specializations to effectively respond to emerging demands; and/or (iii) defining areas within the five pillars where IsDB will have a dedicated team of professionals with requisite skills to deliver operations, while reserving other areas for support only in cases where IsDB is co-financing operations of another MDB, where the other MDB has the appropriate skills mix drawing on its own staff. These various avenues of "retooling" will be further explored by the UPG management and lead officers to find a solution that is both responsive to MC demands and needs while being a financially sustainable business model and cost-effective for IsDB.

Other areas that are being considered for portfolio diversification include: (i) identifying Trust Funds and other sources of concessional financing from bilateral donors that could be used to complement IsDB urban preparation budgets with project preparation facilities (PPFs) that would support low income countries in particular with sufficient financing to carry out the due diligence necessary for more thorough project appraisals; (ii) entering into collaborative relationships with development partners that have comparative advantages in areas where IsDB could contribute or benefit from undertaking joint actions, participating in knowledge exchanges, provision of training to update the skills of UPG staff, among other means; (iii) considering initiating pilots that are explicitly design on a trial and experimental basis, with a plan for careful monitoring and review and decision-making regarding mainstreaming and rolling out new product lines in areas more responsive to the evolving demands of IsDB MCs.

F. Development Partner Collaboration

UPG has already taken measures to underscore its engagement on the New Urban Agenda and to further its efforts at working collaboratively with partner organizations in the Urban Development arena. These corporate signals are important both within and outside the IsDB in that they communicate a seriousness of commitment and an interest in prioritizing and promoting the urban development program (See Box 4 below). Such

actions are also consistent with the P5P, which emphasizes IsDB fostering new partnerships and working collaboratively with other partner organizations.

Box 4: IsDB Collaboration and Partnership with other MDBs on the New Urban Agenda– Habitat III Conference, 2016

IsDB confirmed its intention of collaborating with other Multilateral Development Banks (MDBs) when it participated in a "Joint Statement" at the conclusion of the Habitat III Conference in Quito, Ecuador on October 16, 2016. The aim was to put the Agenda "into action" by expressing their joint commitment to promote equitable, inclusive, sustainable, and productive urbanization and urban communities spanning a spectrum of local settlements, including small towns, villages, secondary cities and metropolises. IsDB was joined by the Asian Development Bank (ADB), African Development Bank (AfDB), the Development Bank of Latin America (CAF), the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), the

G. Assessing the UPG's Strengths, Weaknesses, Opportunities & Threats

The forgoing analysis identified strengths, weaknesses, opportunities and threats to the UPS and UPG in the coming period. These are now summarized in the matrix below.

Table -18 SWOT Analysis for the USP and UPG

Strengths	Weaknesses
• Strong track record of urban project relevance and alignment with MC priorities & country strategies • Islamic Finance Products that are the preferred choice of MCs • South-South Cooperation Model that fosters trusted partnerships • Demonstrated ability to collaborate and forge solid cooperation with development partners • Demonstrated ability to innovate and adapt to MC needs • Sizable share of the IsDB portfolio, particularly for water/sanitation operations	• Limited country sector work to understand, document and communicate UPG country sector knowledge and convey technical guidance • Project readiness weak due to implementation problems, cost overruns and delays • UPG staffing and resources too weak to deliver on growing demand • Insufficient portfolio engagement on some critical MC urban development needs: e.g. housing, local economic development • Insufficient deployment and use of off-the-shelf tools for urban assessments and capacity building

Opportunities	Threats
• Urbanisation is creating high MC demand for UPG urban infrastructure financing and technical know-how • Municipal PPPs and other opportunities for mobilizing private sector finance for MC cities • Expansion of partnerships with Development Partners to increase effectiveness while remaining cost effective • New USP Framework, aligned to corporate strategies and global urban development agenda, to guide UPG engagements • Well-positioned to support MC cities in contributing to GVC • Potential for developing new financial instruments with fewer transaction costs and greater focus on outcomes/results • Exploring ways to promote local economic development and linkages to the Global Value Chain	• UPG staffing and resource constraints potentially limit capacity to deliver on growing demand • Sustainability of UPG operations due to weak capacity of beneficiary institutions • Potential erosion of portfolio quality due to inconsistent Quality at Entry (QAE) • Potential for becoming marginal development player in sector without further expansion/ leverage of partnerships and co-financing • Inadequate or underutilized financial instruments for policy/institutional-based lending to incentivize municipal performance improvements

IV. POLICY FRAMEWORK FOR IsDB URBAN DEVELOPMENT OPERATIONS

A. Urban Sector Policy Overarching Theme and Orientation

Overarching Theme of the Urban Sector Policy. The overarching theme of the Urban Sector Policy (USP) is to promote *Sustainable and Inclusive Urban Development.* Sustainable development, addressed earlier in Chapter 1, refers to "development that meets the needs of present without compromising the ability of future generations to meet their own needs." (Brundtland Commission, Our Common Future, 1987). The relevance of urban policy for sustainability is readily apparent. Cities generate economic activity that accounts for about 80 percent of a country's GDP and are thus vital to sustaining economic prosperity and meeting the needs of present day society. However, they are also substantial consumers of energy, water resources, land and a range of other resources, and contribute significantly to carbon emissions, as well as environmental degradation. Accordingly, sound urban management is one of the most important ways that contemporary society can promote sustainability.

Inclusive urban development focuses on the need to ensure that all benefit from economic growth and prosperity that cities can generate. Of particular concern are disparities in access to services, affordability of services, security of tenure that often rise during early periods of urbanisation. In addition, women, youth and other disadvantaged segments of the population are often not consulted, or in positions to make policy decisions, so inclusion addresses both their need to be heard and to participate in urban development with special consideration for their needs as they arise.

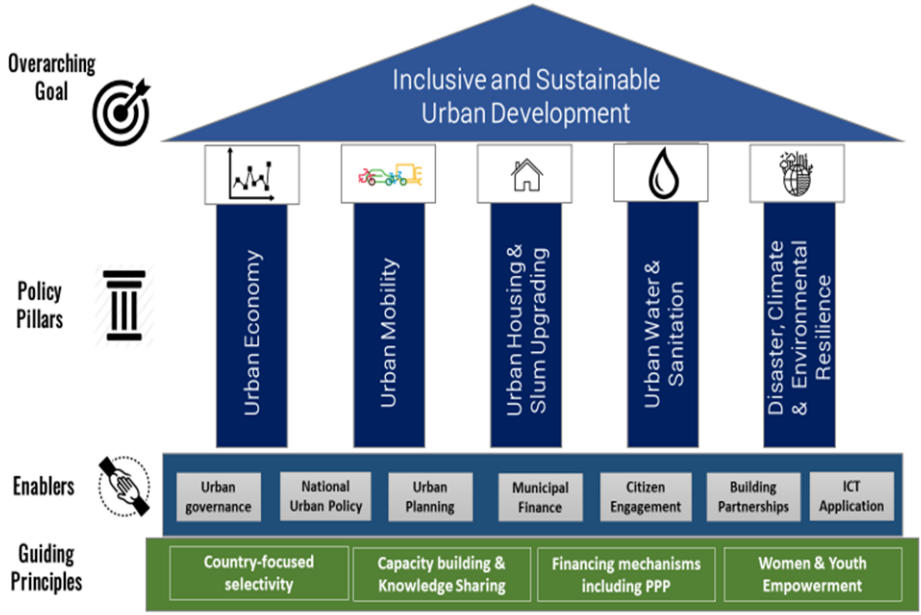
Sustainability and *Inclusion* resonate strongly with the global development agenda and orientation, particularly Agenda 2030, which aims to promote sustainable and inclusive development, the Climate Change Agenda and Paris Agreement, and the New Urban Agenda (NUA), which was embraced at the Habitat III Conference in 2016 and included apex level objectives of sustainability and inclusion.

Sustainability and *Inclusion* in the UPS also carries forward from corporate policies and themes in the IsDB 10 Year Strategy, the President's 5 Year Plan (P5P), and in a range of IsDB sector and thematic policies, including Energy, Transport, Water, and Climate Change, among several others.

The Five Pillars of the USP. The USP is designed with five pillars to support and advance the overarching theme of sustainable and inclusive development. (See Graphic 1 below.) The five pillars serve as an organizing framework for financing and operational interventions to promote urban development, including (i) Urban Economy; (ii) Urban Mobility; (iii) Urban Housing & Slum Upgrading; (iv) Urban Water and Sanitation; and (v)

Climate Action and Environmental Resilience. A note on the pillars: Each effectively serves as a "business line," meaning that it not only serves to hold up and contribute to promoting sustainable and inclusive cities, but also forms a cohesive operational vehicle for doing so, including infrastructure and related technical assistance and advisory services to IsDB MCs. Each of the five pillars is elaborated below in terms of its rationale, orientation, and scope for financing and technical assistance.

Figure 15: IsDB Urban Sector Policy Structure and Orientation



B. Urban Sector Policy Pillars

Pillar 1: Urban Economy

Urban economies are essential to sustainable and inclusive cities. In the context of rapid urbanisation, cities need to ensure they keep pace with the influx of rural migrants, where it is now advancing at an unprecedented scale, particularly across Africa, by creating jobs and the enabling environment to attract and retain businesses.

Many rural migrants come to cities as economic migrants looking for improvement in their living conditions either to find employment or improve their compensation. This is referred to as the "pull" factor that cities can generate when they are performing well economically, which is much better than cases when rural migrants are being "pushed" from their rural villages because of unemployment or an inability to meet the economic needs of their households. But as shown in Section 1, what explains these processes in theory does not always apply in practice. Particularly in the SSA region, but also in other IsDB MCs, many cities have not been able to deliver on their promise of fostering economic growth, causing the phenomenon that is called "urbanisation without growth."

There are a variety of binding constraints that can hold back urban economies, ranging from lack of serviced industrial land to attract investment and create jobs; underutilized urban cultural assets to promote tourism; or congestion costs in central business districts (CBDs) and other commercial districts that undermine firm productivity and discourage new investment, among a number of other factors. The USP advocates for expanding in all three areas, particularly in low and lower-middle income countries in SSA that are urbanizing rapidly, creating large labor pools in urban areas, but without employment opportunities.

To address these binding constraints, the Urban Economy Pillar will: (i) support the establishment and expansion of municipal enterprise or industrial parks or zones; (ii) help to restore cultural heritage assets and leverage them for tourism-led development; and (iii) improve the productivity of commercial districts and make them attractive for new investment.

Municipal enterprise or industrial parks have a number of inherent advantages. They can supply firms with the necessary bundle of infrastructure services that would otherwise make investment by a stand-alone business prohibitive if it had to drill its own wells for water supply, invest in its own generator for power supply, and provide the ancillary roads and supportive infrastructure necessary to be competitive (which many of them do at high cost to the firm). Co-location of firms in a common production area, like an enterprise or industrial park benefits firms and cities in a number of ways.

Firms in the same industry can learn from one another, innovate, and establish strong trade networks; dedicated infrastructure services for power and water can be concentrated rather than trying to deliver high standard, reliable infrastructure city-wide, which is beyond the financial capability of many IsDB MCs; and environmental services can be enhanced to deal not only with solid waste, but also hazardous waste and its disposal in an environmentally sound manner. In sum, municipal enterprise or industrial parks provide a range of bundled services that are more cost-effective to deliver, save firms the cost of developing adequate infrastructure services on their own, enable efficient management and disposal of waste, and can help to foster innovation, the building of networks, and sharing of spare parts among firms through the benefits of co-location.

Many cities also have managed to establish One-Stop-Shops at such enterprise parks to facilitate issuance of building permits, licensing, and minimize a range of other transaction costs that would otherwise deter new investment.

Municipal enterprise parks would also enable IsDB MC cities to link to Global Value Chains (GVC), a prominent approach to development advocated by the President's 5-year Programme(P5P). GVCs imply a shift from the export of pure raw materials (where cities only play a marginal role) to rising up the value chain by entering into processing and production of intermediate goods and finished goods (where cities and the infrastructure services they offer can play a critical role). This is a key economic function, but IsDB MC cities will need to have infrastructure appropriate for GVC and other manufacturing activities to be successful. As advocated in a recent report by the IMF on GVCs, "for countries with limited manufacturing or service export capacity and a large labor pool, such as SSA, GVCs could provide a golden opportunity." (IMF 2016).

Tourism is a fast-growing industry globally and many IsDB cities have managed to effectively promote the tourism industry through tourism-led development. Doing so requires preservation of historic city areas, old cities, historic buildings and other attractions that can be developed to promote a city as a destination. But many cities have not taken advantage of their cultural heritage assets due to inadequate financing. IsDB's USP will enable them to do so with financing and technical assistance under the Urban Economy Pillar.

A third and most common way of helping urban economies is through improvements and upgrading to commercial districts in a city by reducing congestion costs, upgrading amenities in public and green spaces, developing alternative transit options, and a range of other interventions for which IsDB financing is urgently needed.

Table 19 below provides a matrix that outlines the development needs, potential targeting investments and technical assistance and potential economic impact.

Table 19: Urban Economy: Intervention Rationale, Scope and Potential Impact

Urban Economy Development Need	Potential Targeted Investments	Potential TA	Potential Impact
• Congestion, unsafe, inefficient , unattractive CBD and other commercial districts of city	• Urban Regeneration: integrated upgrading of urban roads, street lighting, tree-planting, intersections, way-finding signage, bus stops, public facilities or amenities in commercial district • Upgraded green spaces and public parks	• Support for mobilizing municipal PPPs • Tools for Land Value Capture • Urban planning	• Attraction of private investment • Job creation • Reduced congestion, improved commuting times • Improved efficiency and productivity of businesses in commercial district

	• Integrated complementary infrastructure, e.g. water/sanitation		• Improved municipal Own-Source-Revenue (OSR) generation
• Deteriorating and underutilized Cultural Heritage Assets/Historic Buildings	• Restoration of historic buildings and cultural assets • Stone paving and restoration of building facades in old city • Provision of public amenities	• Potential collaboration with UNESCO, Agha Khan Foundation	• Attraction of international or domestic tourism • Attraction of private investment • Job creation
• Inadequate serviced industrial land for municipal enterprises	• Create or expand municipal enterprise or industrial park or area	• Support mechanisms for city private sector engagement, e.g. Chambers of Commerce • Municipal One-Stop-Shop for commercial permits and other business facilitation services	• Expand area and utility services for manufacturing tenants • Attraction of private investment • Retain and expand new businesses • Deepen GVC integration • Job creation

Prioritization across regional groups. While most high income economies concentrated in MENA and Brunei in ASIA would likely need less support in this area, because they already passed through rapid urbanisation long ago and have the facilities and infrastructure necessary for urban economies, cities in low, low-middle, and upper-middle income countries in the SSA region should be prioritized to position them for urbanisation that is ongoing, make up for weak infrastructure capacity country-wide, help address the problem of youth unemployment, and improve the efficiency and productivity of their enterprises. Mega-cities like Lagos with "thick" labor markets would be especially promising for support in helping to diversity and promote urban economies. It is also cited, along with Cote d'Ivoire and Senegal as trade sub-region hubs that could form the backbone of manufacturing sector growth fostered through cities. Many of the upper-middle income countries in MENA have already undertaken numerous cultural heritage projects (e.g. Morocco, Tunisia, Turkey, Egypt, Lebanon), restoring historic old cities and other cultural heritage endowments, and have developed municipal enterprise zones, but others in the lower middle income group would be strong candidates, especially those experiencing high rates of youth unemployment (e.g. Yemen, Djibouti, Mauritania, Pakistan and Afghanistan). In Asia, Bangladesh has already established highly successful industrial zones, but Indonesia could be a strong candidate. Municipal enterprise park development

will depend on availability of public land that is well-situated with access to commuting routes and housing concentrations to be effectively implemented.

Pillar 2: Urban Mobility

Urban mobility has become a justifiable concern for many developing country cities experiencing rapid urbanisation. Congestion costs reduce the quality of life of city residents, impose transaction costs that undermine firm efficiency and overall city productivity, contribute to high road injury and fatality rates, and usually disproportionately impact the urban poor, women, and other disadvantaged groups.

Interventions under this pillar would promote urban sustainability by reducing carbon emissions and energy consumption, while advancing inclusivity by provisioning for urban transport and alternative mobility needs for women and other disadvantaged groups that have inadequate access to affordable and safe urban transport.

Prioritisation should focus on improving urban road safety in the MENA region, targeting MCs with high road injury and fatality rates (e.g. all Gulf countries), and selected SSA and ASIA countries where road injuries and fatalities among pedestrians, bicyclists, and 2/3 wheel vehicles is highest.

All other interventions to promote mobility would be relevant and potentially a priority for low, lower-middle, and upper-middle income countries across all regions, particularly in MNA and ASIA where there are large mega cities, as well as Lagos in SSA.

Table 20 below identifies the development needs identified within IsDB MCs, potential investment targeting, as well as technical assistance, and intended impact.

Table 20: Urban Mobility: Intervention Rationale, Scope and Potential Impact

Urban Mobility Development Need	Potential Targeted Investments	Potential TA	Potential Impact
• Inadequate alternative transit options in underserved areas	• Expand pedestrian walkways • Expand/develop bike paths	• Sustainable Urban Mobility Planning (SUMP) Tool	• More affordable commuting options for low income households • Reduced congestion • Encourage modal shift • Higher productivity with reduced commuting times

• Inadequate low-carbon public transit options	• Supply of public buses • Construction/upgrading of bus stops/stations • Construction of bus terminals	• SUMP, transit-led urban development spatial planning	• Improved access to public transit by the poor • Facilitate modal shift • Reduced carbon emissions
• High urban road accidents and fatalities	• Upgrading of urban roads, sidewalks and parking areas in main transit corridors • Upgrading of traffic intersections/rotaries in high-traffic areas, including road signage and signaling • Develop or upgrade traffic management system with facilities and ICT technologies	• SUMP • Traffic management assessments and planning	• Reduced urban road injuries/fatalities • Improved off-street parking options •
• High congestion in CBD and other business districts	• Provisioning for off-street parking • Development of bus terminals and feeder routers at periphery of city • Upgrading of BRT or other public transit system • Development or upgrade of Traffic Management Systems • Urban road paving, street lighting, traffic lights	• Mechanisms for PPP for fee based services • Strengthening urban planning	• Encourage modal shift • Reduce congestion • Improved pedestrian and bicyclist safety • Reduce carbon emissions

The following table sets out ways of coordinating interventions in the area of urban mobility with the TPG. Generally, in the case of regional transport and highly complex metro and light rail systems, TPG should take the lead, as further detailed below:

Table 21: Urban Practice Group/Transport Practice Group Synergy Matrix

Need/Intervention	Scale	MC Counterpart Institution	IsDB UPG/TPG Unit in Lead/Support Role
Intercity Road Connectivity & Transport System to other cities/towns and airports/ seaports	Region	Ministry of Transport	Lead: TPG Support: UPG - link with urban plan to ensure consistency with city spatial development
Public Transit Metro System	City-wide System	Ministry of Transport or City Government	Lead: TPG Support: UPG - link with urban plan to ensure consistency with city spatial development

Public Transit Light Rail	City-wide System	Ministry of Transport or City Government	Lead: TPG Support: UPG - link with urban plan to ensure consistency with city spatial development
Bus Rapid Transit (BRT System)	City-wide System or Transit Corridor	Ministry of Transport or City Government	Lead: TPG (City wide) Lead: UPG (Transit Corridor or Extension) Support: UPG/TPG
Urban roads, traffic signals, intersection improvements, bus terminals, sidewalks, pedestrian walkways, street lighting	District	City Government	Lead: UPG Support: TPG - to ensure consistency with national transport system standards

Pillar 3: Urban Housing and Slum Upgrading

IsDB has a limited portfolio in urban housing and slum upgrading, but seeks to expand this engagement with MCs, recognizing its critical importance in contributing to positive development outcomes. Support for urban housing and slum upgrading can contribute to a country's development in a myriad of ways, ranging from improvements in tenure security (which in turn can lead to improvements in access to credit and encourage housing self-improvement measures by residents), improvements in health outcomes and in livelihoods, as well as contributing to an economic sector (housing production) that is vital to any emerging market economy in terms of creating construction jobs and employment in the manufacturing sector for building materials. Often these spillover effects into the wider economy are overlooked or not sufficiently quantified to understand the broader benefits of having a vibrant housing market and improved urban living conditions for the urban poor.

Approaches to addressing urban housing and slum upgrading challenges have both supply-side and demand-side dimensions, both of which need to be factored into housing market analysis and interventions to avoid creating distortions. Such distortions could take place on the supply side, for instance, if project-induced demand-side subsidies create sharp increases in demand that overwhelm supply-side responses and has the ultimate effect of driving housing costs even higher, making housing less affordable. Similarly, interventions intended to increase housing supply should take into account the often uneven market supply in many country housing markets, often with a substantial oversupply of housing at the upper end of the income spectrum and severe shortages down market. Supply side responses, therefore, should be specifically aimed at addressing housing needs down market where income levels are low and where affordable housing is an urgent need.

When focusing on supply-side housing market improvements, supply of various tenure types should be considered, including rental housing, which in many markets is more affordable to low income households. The over-arching objective on the supply side is to take policy actions to reduce the cost of housing supply, by increasing access to and affordability of serviced land, reducing housing development costs, making standards more flexible to account for low income households, and reducing costs associated with land titling, among other measures. A focus on all of these areas enabling housing markets to function more effectively and can stimulate supply-side improvements, including going down market with housing supply, ultimately requiring little or no subsidies.

Under this pillar, IsDB, along with its development partners, will need to support countries in developing sound housing market fundamentals to improve the overall functioning of the market. But interventions in the form of subsidies are still likely to be needed to address clear cases of market failure. Such interventions should be targeted carefully to ensure that they are benefitting low income households by making housing more affordable or improving access to services and tenure security for residents of informal settlements. Security of tenure and active community engagement have been shown time and again across all regions of the developing world to be key elements of successful slum upgrading programs. Box 5 below illustrates how Indonesia is doing so with IsDB and other development partner support.

Box 5: IsDB's National Slum Upgrading Project in Indonesia

Indonesia's Kampung Improvement Programme (KIP) in Jakarta was launched in 1969 and is often cited as one of the world's first urban slum upgrading projects. One of the hallmarks of this innovative program was the way it served to transform *kampungs* -- densely populated, unserviced, low income urban shelters scattered around the city -- otherwise known as slums from illegal settlements into integrated parts of Jakarta's urban fabric. Successive generations of slum upgrading projects in Indonesia have served to refine and improve the program gradually over time. Community involvement has been a critical element from the beginning but became a central feature as the program evolved.

The IsDB-financed ***National Slum Upgrading Project*** in Indonesia, launched in May 2016, builds upon this valuable experience, bringing nearly US$330 million in financing to support infrastructure and economic/livelihood development in 4,900 urban wards across 115 cities. The program is ambitious in geographical coverage and scope, as it provides resources and support to communities that plan, manage, and construct small urban roads, bridges, waste treatment, potable water wells, and rehabilitates community health posts and small schools using Community-Driven Development (CDD) techniques. , which represents the largest housing finance operation ever by IsDB. The project is expected to close in 2020, but, based on its successful achievements and impact, signal a way forward in scaling up IsDB's urban housing and slum upgrading engagement in both Indonesia and in other regions where it operates.

Sources: UN-Habitat, " The World's First Slum Upgrading Programme", conference note by Dodo Juliman, Habitat Programme Manager in Indonesia, World Urban Forum III, June 2006, Vancouver, Canada; and IsDB News Release on Indonesia National Slum Upgrading Project (3 October 2019).

Access to affordable housing and eradication of urban slums is a high level Sustainable Development Goal, and IsDB accordingly has formulated its Urban Sector Policy with urban housing and slum upgrading as its central pillar. This pillar will support slum upgrading, as well as interventions that improve the functioning of the urban housing market, including housing policy and institutional development, as well as targeted subsidies to make housing more affordable. Intervention areas, including both infrastructure financing and technical assistance, are set out in the table below.

Table 22: Urban Housing and Slum Upgrading: Intervention Rationale, Scope and Potential Impact

Urban Housing & Slum Upgrading Development Need	Potential Targeted Investments	Potential TA	Potential Impact
• High slum population and growing informality	• Slum upgrading (with appropriate mix of housing, infrastructure service upgrades as appropriate in country context) • Concessional financing/ grants for incremental housing improvements at household level	• Collaborate with UN-Habitat on slum assessments • Plan and regularize informal settlement areas • Regulate private providers of off-network services, e.g. water	• Improved security of tenure • Improved access of poor to municipal services • Reduced population living in slums
• Lack of affordable housing	• Provide targeted infrastructure services to planned residential areas for housing development • Establish and fund mechanisms for targeted subsidies to low income households • Construct housing in cases of extreme market failure in partnership with private sector	• Housing market assessments • Release public land for affordable housing • Provision of policy and institutional support to develop sustainable housing markets and better targeted subsidies • PPPs with affordable housing developers	• Increase supply of affordable housing • Reduce costs to end-users • Lower development costs for developers • Increase demand for construction materials industry and contractors • Improved targeting of the poor with subsidies

Pillar 4: Urban Water and Sanitation

This pillar addresses the largest portion of IsDB's UPG in prior years relating to urban water and sanitation networks, extraction of groundwater or surface water for urban water supply, quality of urban water supply, and wastewater and Fecal Sludge (FS) treatment and potential reuse. It would apply good practice principles in promoting safely-managed water and sanitation services and facilities. It would do so by supporting urban water supply and sanitation providers at the national, regional or local level, including ministries of water or environment on water policy, water authorities, water utilities to promote safely-managed water and sanitation services and facilities, particularly through an enhanced focus on hand hygiene, improved water supply quality and networks and facilities, promoting sustainability of water and sanitation operations based aimed at cost recovery and appropriate tariff pricing, while ensuring inclusion through improved targeting of subsidies to low income households and the urban poor.

While this pillar is tied to SDG 6 and its focus on safely-managed water and sanitation services and facilities (including through lessons learned and recommendations of the OED water operations review), greater emphasis will be placed under the new USP on improving sanitation outcomes. This orientation is based on strong MC demand but also prevailing concerns about insufficient efforts and impacts to date across the sanitation service chain. Weak or missing sanitation authority mandates, lack of accountability for services, inadequate regulation and monitoring of sanitation services has constrained efforts to formalize and improve them.

The IsDB USP will embrace the citywide inclusive sanitation (CWIS) concept, informed by the principles that: Everyone benefits from adequate sanitation service delivery outcomes; human waste is safely managed along the whole sanitation service chain; effective resource recovery and re-use are considered; a diversity of technical solutions is embraced for adaptive, mixed and incremental approaches; and onsite and sewerage solutions are combined, in either centralized or decentralized systems to better respond to the realities found in developing country cities. (BMGF 2016)

Infrastructure financing and technical assistance that would be supported under this pillar are set out in the table below, including adaptations and inclusion of innovative methods developed jointly with or independently from other development partners working in the sector.

Table 23: Urban Water and Sanitation: Intervention Rationale, Scope and Potential Impact

Urban Water & Sanitation Development Need	Potential Investment Typologies	Potential Technical Assistance (Tools, Training, Systems Development)	Potential Impact
• Inadequate access to safely-managed water supply and sanitation	• pumping stations • new water and sanitation networks and/or extension • water supply tanks • pre-paid or conventional meter installation • water treatment plants	• Support for water utilities to improve water and electric system efficiency (e.g. SCADA) • Tariff studies, targeted subsidies to improve cost recovery • Support to end-users to form water user associations • Support private sector for treated WW and FS reuse	• Improved access to water and sanitation by targeted communities • Improved water quality • Improved water conservation • Improved cost recovery • Better targeted subsidies • Reduced burden on electricity suppliers
• Increased environmental degradation due to low % of treated WW effluent and unsafe disposal of FS	• wastewater and FS treatment plants (potentially with biogas function to reduce energy costs, depending on institutional capacity)	• Training for operations and maintenance of WWTPs and FSTPs • Capacity building of stakeholders on City-wide Inclusive Sanitation approach including FSM • Promotion of innovative and transformative sanitation technologies.	• Reduced environmental degradation • Improved drinking water quality • Improved water quality of water bodies such as rivers, coastal beaches and in land beaches, inland lakes and ponds • Revenues from sale of treated WW effluent and treated FS by products. • Reduced energy consumption due to sludge fueling biogas operation

The following table sets out ways of coordinating interventions in the area of urban water supply and sanitation with the WPG. Generally, the UPG is expected to undertake all urban-based water supply and sanitation projects and take the lead/coordinate with the WPG on

any water supply extraction to ensure effective planning and water balance, as further detailed below:

Table 24: Urban Practice Group/Water Practice Group Synergy Matrix

Need/Intervention	Scale	MC Counterpart Institution(s)	IsDB UPG/WPG Unit in Lead/Support Role
Regional Water Resource Management & Production and Wastewater Treatment Plants	Regional	National or Regional Institution	Lead: WPG Support: UPG (providing data and institutional background on city institutions and end-users)
Water for Agricultural Uses	Regional/ Rural	Ministry of Agriculture/Ministry of Water, Rural End-Users	Lead: WPG
Water production wells, transmission mains, water reservoirs/storage tanks, water and wastewater networks, pumping stations, metering, city end-user services and billing systems	City or District Level	National Water Authority/ Ministry of Water, City/Municipality /Water Utility	Lead: UPG Support: WPG (providing guidance on water extraction, maintaining water balance, etc.)

Pillar 5: Disaster, Climate and Environmental Resilience

This pillar will support IsDB MC cities in responding to the NDCs of the country (both mitigation and adaptation), in addition to measures provisioned under the pillars promoting urban mobility and urban water and sanitation. Its scope covers IsDB-financed operations that contribution to climate change mitigation and adaptation, as well as dealing with routine storm water drainage and flood protection, and environmental management, including solid waste management and landfills.

Renewable energy and energy efficiency applications are increasingly finding uptake in IsDB MCs and will be supported under this pillar. This will include use of newly-developed tools, such as TRACE (Tool for Rapid Assessment of City Energy) developed by ESMAP, to help cities gauge their energy consumption across utilities (e.g. water and sanitation), housing, municipal buildings, transportation systems, among other areas and prioritize intervention strategies where IsDB can support on the financing side. Infrastructure might include solar-panels installed on municipal buildings to lower city energy costs, solar street and public lighting, conversion of wastewater treatment plants to biogas generators using wastewater sludge, and a myriad of other applications. There are also opportunities to crowd-in the private sector through involvement of ESCOs (Energy Service Companies) that can invest in energy efficient infrastructure (e.g. solar lighting) and recover their investment plus a margin over a 7 to 10 year investment period

before transferring the asset back to the municipality. This arrangement allows municipalities to avoid the upfront investment cost, bring in the technological know-how through a private sector partner, while ultimately owning the asset after the cost has been recovered by the investor.

Table 25: Disaster, Climate and Environmental Resilience Intervention Rationale, Scope and Potential Impact

Climate Action & Environmental Resilience Development Need	Potential Targeted Investments	Potential TA	Potential Impact
• Energy inefficient and unsafe municipal buildings	• Retrofitting of public buildings, with provisioning for EE, RE and resilient building provisions •	• TRACE Assessment Tool (ESMAP) • Update national building codes, including Green buildings	• Demonstration effect for the private sector • Improved safety of municipal buildings • Decreased public building energy consumption • Increased RE
• Solid waste landfill overcapacity, uncontrolled dump sites, no separation at source to reduce waste volume	• Construction of new or expansion of existing landfills • Consolidation and closing of municipal dump sites • Supply of waste collection vehicles and containers	• Waste separation programmes • Support for waste recycling with PPPs • Explore waste to energy options	• Improve efficiency of waste collection services • Cleaner, more hygienic cities • Revenues from waste recycling • Reduced waste to landfills • Reduced land requirement for waste
• City flooding posing risks to population, damaging residential and commercial properties	• Integrate storm water drainage into road networks • Infrastructure to utilize public spaces as water catchment systems for watering of public green areas	• Land use planning	• Capturing and utilizing rain waters for public green spaces • Reduced water demand in water stressed countries • Reduction in injuries, deaths, and financial losses due to damages of residential and commercial property • Improved adaptation to climate change risks
• Inefficient and unsafe residential buildings	• Retrofitting of private/public housing, with provisioning for EE, RE applications	• TRACE 2.0 Tool	• Improve safety of public buildings • Lower energy consumption • Increase renewable energy generation

C. Urban Sector Policy Enablers

Table 26: USP Enablers and Institutional Partners: Purpose and Applications

USP Enablers & Institutional Partners	Purpose & Applications
Urban Governance External: National Government, City Government, UN-Habitat & MDBs	Urban governance is recognized as one of the most vital elements of the New Urban Agenda (NUA). It touches on the following: • Legal/regulatory framework for urban development; • Phasing and sequencing of decentralisation; • 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; • Relations with civil society organizations and the private sector Potential Applications: • MC Urban Sector Notes: Highlights critical urban governance issues and scopes areas for policy dialogue • Citizen Report-Cards integrated into operations to enhance downward accountability • ICT Applications integrated into operations to promote efficiency, accountability and transparency
National Urban Policy Internal: Potentially TPG, WPG, and others, depending on the scope of the NUP External: UN-Habitat- for assistance in developing and monitoring the NUP, which it is doing in many countries	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 • They can help to monitor progress against SDG, NUP and other global, national or project level goals and objectives Potential Applications: • Provision in each operation a review of an MC's NUP and technical assistance in areas where it can be strengthened, expanded or updated
Urban Planning Internal: TPG, WPG, Women & Youth Empowerment,	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/tools and their implementers; (iii) lack of a willingness or ability to enforce and apply urban planning guidelines; (iv) too inflexible to implement in conditions of rapid urbanisation when land use changes annually; (v) inadequate funding and/or human resources to plan in work

EPG, Climate Action Team External: National and Local Governments, UN-Habitat and other MDBs and development partners, civil society organizations and the private sector	programs, prepare and oversee implementation of urban plans; (vi) weak human resource capacity and lack of standards for urban planning and planners in the country. When urban planning is conducted well it can help to achieve many things in urban environments, including: • Help coordinate spatial planning across national, regional and local levels • Prevent or mitigate uncontrolled urban sprawl • Provision 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 adequacy of 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 • Provision for adequate green and other public space ratios, safe neighborhoods with building setbacks and transport corridors • Promote inclusion of disadvantaged groups through participatory consultative processes and inclusion of urban design features that respond to those needs Potential Applications: • Ensure identified investments for IsDB financing are consistent with the city urban plan • Support cities as an element of an investment operation in carrying out rapid participatory planning in beneficiary cities • Mobilize other development partners to support urban planning as a complement to IsDB interventions (e.g. UN-Habitat, WB, AfDB, ADB)
Municipal Finance Internal: Macro-Fiscal, and Country Economists External: Ministries of Finance and Urban Line Ministries, and Local Governments; WB (Credit-worthiness Academy)	Municipal Finance is so essential to cities and their residents and hence to UPS formulation and implementation that it would require an entire volume to cover it adequately. 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. Potential Applications: • Condition all IsDB urban financing on sound investment appraisal, provisioning for O&M costs of financed investments • Ensure IsDB urban investments are cost effective to construct and maintain • Provide ITC equipment and training to bolster MF management systems at municipalities and utilities benefitting from IsDB financing operations • Co-host with WB Credit-Worthiness Academies and other training opportunities
Citizen Engagement Internal: Women & Youth Empowerment, Social Development Practice	Citizen engagement is crucial to the Urban Program, because local governments are the front-line service providers to citizens and enable a government to reach out and respond to 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. Potential Applications:

External: Local governments, CSOs, city residents	• Many local governments, with support from development partners have introduced and used Citizen Report Cards to solicit feedback on municipal service performance, which could be included in some UPG operations when appropriate • Urban Planning is a critical area for citizen engagement and all planning exercises should have dedicated and multiple phases for soliciting citizen views and feedback • With the advent of advanced ITC tools and widespread use of cellphones, crowd-sourcing techniques have been used to identify where municipal services need to be enhanced or where roads, water system leaks and other network problems can be identified. This could be included in an urban operation design, as appropriate.
Building Partnerships Internal: Selected relevant sector global practice and thematic groups. External: Development partners, CSOs, private sector	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 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, eliminate or substantially reduce duplication of effort. Possible Applications: • Building on its existing relationship with UN-Habitat and given the complementarity of IsDB's financing with UN-Habitat's broad engagement on capacity building and technical assistance to cities, this is a natural partnership that has been enhanced recently through a cooperation agreement. • Co-financing is another opportunity to expand partnerships where IsDB is either taking the lead and seeking other donor co-financing or the reverse order. Either way, a programmatic approach tends to reduce frictions, harmonize interventions, and maximize impacts and results, which is what all development agencies strive for.
ICT Applications Internal: ICT team External: MC national and local governments	ICT is an essential element 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

D. Guiding Principles that Inform the IsDB Urban Sector Policy

In order to implement the IsDB Urban Sector Policy effectively and help IsDB MCs achieve sustainable and inclusive urban development , several 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 Urban Sector Policy.

- 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 and prioritizing them, and the 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. While all IsDB Practice Groups have valuable contributions to make the sequencing and phasing of that development support can often mean that one practice group or another would have less of a priority and thus a limited engagement in a country. This process must be driven at the country level to sustain strong client relationships, so that the formulation of investment and development programs are demand- not supply-driven. Accordingly, the USP calls for preparation of an Urban Sector Note by the UPG once every few years, with timing to coincide with preparation of a new MCPS. The note would both update IsDB UPG management and staff knowledge of the sector in the country, as well as present sector analysis, as well as policy and investment options for consideration of MC counterparts in discussions. Where there is strong MC demand, the UPG will be able to respond, grounded within its USP framework. Where urban development is less of a priority, and in the interest of selectivity, engagement will not be pursued in that country.
- 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 asset 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 UPG will analyze and assess human and institutional capacities in the areas where the UPG 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 ICT equipment, facilities, training, toolkits and operating manuals as appropriate. In doing so, UPG teams will first

ensure full exploitation of good practice off-the-shelf guides, manuals or toolkits that can be easily and cost effectively deployed. Working under its close collaboration framework with UN-Habitat and other development partners, this arrangement will help to avoid duplication while addressing any urgent capacity needs of an MC.

- 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 (ESCOs) 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 for by the ESCO 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. This financing mechanism helps municipalities by allowing them to avoid having to make the up-front capital investment, for which they often don't have the funds, while benefitting from the reduced costs of operating their street lights. The also benefit from the know-how and experience of the ESCO. On a wide-scale use across many cities, ESCOs can help reduce energy demand in a country and make it available for users that can't take advantage of alternative power sources.

  Another mechanism gaining currency in a number of developing countries 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. Other MDBs, such as the World Bank, have also begun using 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, the USP calls for UPG to explore and utilize innovative financing mechanisms to the extent possible and in line with MC demand.

- 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, the UPS has been designed to ensure the guiding principle of inclusion is mainstreamed into the work of the UPG. There are many tools and mechanisms to achieve this, as proposed in Table 27. They include: participatory planning that makes a dedicated commitment to ensure consultations of women and youth via their representative CSO 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 their active participation 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.

E. USP Management and Implementation Tools to be Mainstreamed or Piloted

In order that the USP is implemented effectively and helping to improve overall operations and delivery to IsDB MCs, and in response to some of the identified gaps and lessons learned from prior Urban Sector Guideline experience, several management tools and measures are proposed below:

(a) For Member Country Counterparts: The UPG commits to identifying and deploying cost-effective and tested urban development and management tools that are publicly available but potentially un-known or underutilized by MC cities, including a range of city assessment and diagnostic tools, such as TRACE 2.0 (City Energy Assessments), Resilience Assessment and Response Tools, Municipal Finance Guidebooks, SUMP (Sustainable Urban Mobility Planning); and a range of other tools useful to cities that have been implemented successfully by UN-Habitat and other development partners.

(b) For UGP management and staff: The table below outlines the management tools that will be developed.

Table 27: USP Management and Implementation Tools Proposed to be Introduced

TOOL	PURPOSE & USES
1. Portfolio Dashboard (PD)	Until such time as SAP is operational with an enterprise system and business warehouse, the UPG will prepare a spreadsheet that functions as a Portfolio Dashboard. Its design will enable immediate use to enhance portfolio management, while also serving as a means of communicating functional requirements for SAP system design. The Portfolio Dashboard would contain all vital operational information, including investment projects by Board decision and closing date, financing amount, disbursement data, disaggregated data on financing by component and USP Pillar to monitor programming against each of the pillars as business lines; data on the results framework; data on implementation status, among other variables. The PD will enable informed management decisions on portfolio operations, while providing valuable insights for future programming needs.
2. Urban Sector Note (USN)	A USN would be a standard way of maintaining knowledge of the urban sector in each IsDB MC where the UPG is engaged. The Note, of about 5-6 pages, is intended to be executive in format, highlighting key policy issues, the status of various aspects of urban development at the national policy and local level, and would identify key accomplishments and gaps that need to be addressed under the four pillars of the USP, among possibly other areas. It would be updated at the time or preparing a new operation, when UPG teams are engaged in policy dialogue with counterparts, and in conjunction with the preparation of a new MCPS, in which it would be an important input. It would also be used to brief incoming new staff, as well as management on the important and strategic issues of the urban development sector in an IsDB MC.
3. Project Readiness Filter (PRF)	The PRF would essentially be a checklist of items to review prior to proceeding to appraisal, addressing some of the deficiencies noted earlier in the project cycle at preparation stage. This would include, readiness of technical and feasibility studies for investments to be financed, confirmation of availability of IsDB MC Government counterpart funds, where cofinancing is involved, or availability of financing from other involved stakeholders (e.g. water utility, electric company), confirmation that the project implementation team on behalf of counterparts is in place and with the requisite skills and qualifications necessary for successful implementation; social and environmental safeguards requirements have been met; arrangements for meeting project effectiveness conditions; any land on which IsDB-financed infrastructure would be situated has been confirmed to be public land with relevant documentation, and so forth.

Table 28: Sustainable Development Goals and Linkages to IsDB Urban Sector Policy

SDG Indicator	IsDB Policy Pillar or Enabler	Potential Development Partners	Instrument & Project Cycle Phase	Analysis Tools	Design Feature
SDG 11: SUSTAINABLE CITIES AND COMMUNITIES					
11.1.1 Proportion of urban population living in slums, informal settlements or inadequate housing	Urban Housing and Slum Upgrading Pillar	External: UN-Habitat, MDBs (to/from co-financing)	Urban Housing and Slum Upgrading Lending or Grant Operations: Pre-Appraisal & M&E during implementation	Informal Settlement Survey to obtain baseline and identify target beneficiaries for upgrading under IsDB operation	Mandatory design feature of all slum upgrading operations
11.2.1 Proportion of population that has convenient access to public transport, by sex, age, and persons with disability	Urban Mobility Pillar	Internal: IsDB Transport Global Practice; Women & Youth Empowerment	Urban Mobility Lending or Grant Operations: Pre-Appraisal & M&E during implementation	Baseline survey to identify access constraints and target beneficiaries (disaggregated by gender. Monitoring in project results framework.	Mandatory design feature for all municipalities participating in urban transport projects
11.3.1 Ratio of urban land consumption rate to population growth rate	Urban Planning Enabler	External: UN-Habitat	N.A.	State of the Cities Report, Government official documents, city officially reported data	Mandatory design feature for all municipalities participating in IsDB urban operations
11.3.2 Proportion of cities with a direct participation structure of civil society in urban planning and management that	Urban Planning & Governance Enabler	Internal:	Any Urban operations supporting city planning	Urban planning tools (e.g. CDS, SMPs, etc.)	Mandatory design feature for all municipalities participating in IsDB urban operations with urban planning activities

operate regularly and democratically					
11.4.1 Total expenditure (public and private) per capita spent on the preservation, protection and conservation of all cultural and natural heritage	Urban Economy Pillar	External: UNESCO, Agha Khan Foundation	Any urban operations with cultural heritage components	N.A.	Mandatory design feature for all municipalities participating in IsDB Cultural Heritage Projects
11.6.1 Proportion of urban solid waste regularly collected and with adequate final discharge out of total urban solid waste generated, by cities	Climate Action & Environmental Resilience Pillar	Internal:	Any urban operations with solid waste management or landfill components	N.A.	Mandatory design feature for all solid waste operations or components
11.6.2 Annual mean levels of fine particulate matter (e.g. PM2.5 and PM10) in cities (population weighted)	Climate Action & Environmental Resilience	Internal: Climate Change Team	Any urban operations with climate change mitigation elements	IsDB Climate Risk Screening Tool	Mandatory design feature for all municipalities participating in IsDB urban projects with climate change mitigation
11.7.1 Average share of the built-up area of cities that is open space for public use for all, by sex, age and persons with disabilities	Urban Planning Enabler	Internal: Women and Youth Empowerment Team, Resilience & Social Development Division	Any urban operations providing support for urban planning	Any standard planning tools -- CDS, SMPs, Master Plans, etc.	Mandatory design feature for all municipalities participating in IsDB urban projects with a planning dimension

11.A.1 Proportion of population living in cities that implement urban and regional development plans integrating population projections and resource needs, by size of city	Urban Planning Enabler	Internal: Transport and Energy Global Practices and Women & Youth Empowerment Team	Any urban operations providing support for urban planning	Any standard planning tools -- CDS, SMPs, Master Plans, etc.	Mandatory design feature (M&E) for all municipalities participating in IsDB urban projects with a planning dimension
11.C.1 Proportion of financial support to the least developed countries that is allocated to the construction and retrofitting of sustainable, resilient and resource-efficient buildings utilizing local materials	Climate Action & Environmental Resilience	Internal: Energy Global Practice, Resilience & Social Development Division	Any urban operations providing support for municipal building retrofitting or construction of municipal buildings	ESMAP Tool for Rapid Assessment of City Energy (TRACE)version 2.0	Mandatory design feature of any operations providing support for municipal building retrofitting, energy efficiency applications or construction of new buildings
SDG 6: CLEAN WATER AND SANITATION					
6.1.1 Proportion of population using safely managed drinking water services	Urban Water & Sanitation Pillar	N.A.	Any urban water supply operations or component	N.A.	Mandatory design feature (M&E) of any urban water supply operation.
6.2.1 Proportion of population using safely managed sanitation services, including a	Urban Water & Sanitation Pillar	N.A.	Any urban water sanitation operations	N.A.	Mandatory design feature (M&E of any urban sanitation operation)

hand-washing facility with soap and water					
6.3.1 Proportion of wastewater safely treated	Urban Water & Sanitation Pillar	Internal: Water Resources & Environment Practice	Any urban water sanitation operations	N.A.	Mandatory design feature (M&E of any urban sanitation operation)
6.4.1 Change in water-use efficiency over time	Urban Water & Sanitation Pillar	N.A.	Any urban water supply operation	N.A.	Mandatory design feature of all urban water supply operations
6.4.2 Level of water stress: freshwater withdrawal as a proportion of available freshwater resources	Urban Water & Sanitation Pillar	Internal: Water Resources & Environment Practice	Any urban water operations that involve extraction of water from underground or surface water sources	N.A.	Mandatory design feature of all urban water operations with groundwater/surface water extraction
6.A.1 Amount of water- and sanitation-related official development assistance that is part of a government-coordinated spending plan	Urban Water and Sanitation Pillar	Internal: Water Resources & Environment Practice	Any urban operations with water and sanitation components	N.A.	Mandatory design feature of all urban water and sanitation operations
6.B.1 Proportion of local administrative units with established and operational policies and procedures for participation of local	Urban Water and Sanitation Pillar	Internal: Water Resources & Environment Practice	Any urban operations with water and sanitation network end-users	Guides for water utilities on forming water user associations	Mandatory design feature for urban water and sanitation operations benefitting end-users

communities in water and sanitation management					
SDG 7: AFFORDABLE AND CLEAN ENERGY					
7.A.1 International financial flows to developing countries in support of clean energy research and development and renewable energy production, including in hybrid systems	Climate Action & Environmental Resilience	Internal: Energy Global Practice	Any urban operations with renewable energy elements (solar lighting, solar panels on municipal buildings, etc.)	ESMAP TRACE 2.0	Mandatory design feature (financing amount) for municipal investments involving RE components
SDG 13: CLIMATE ACTION					
13.1.3 Proportion of local governments that adopt and implement local disaster risk reduction strategies in line with national disaster risk reduction strategies	Climate Action & Environmental Resilience	Internal: Resilience & Social Development Division External: UN-Habitat	Any urban operations with disaster risk reduction components (assessments or investments)	Disaster Resilience Score Card for Cities and Quick Risk Estimation (UNISDR)	Mandatory design feature (preparation, M&E) for any municipalities engaged in disaster risk reduction strategies or investments

ANNEX 1: SOURCES & REFERENCES

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