

## Executive Summary

The urban age is upon us. For the first time in history, more people now live in cities than in the countryside. Virtually all world population growth for at least the next fifty years will be in cities, and the cities of the developing world will absorb most of this increase. This phenomenon should be viewed positively because there is general agreement that urbanization is fundamental to sustained national economic growth — indeed no country has achieved higher income status without greater urbanization. However, rapid urbanization is often an overwhelming management and financial challenge for developing country governments.

The increasingly concentrated poverty in urban slums is a consequence of urbanization. One billion people now live in slums in the developing world and that number is sure to increase. The promise and challenges of 21st century urbanization combine to offer an unprecedented opportunity to leverage U.S. foreign assistance in order to alleviate poverty and generate economic growth. To do so adequately, the U.S. will need a better foreign assistance structure with an increased urban development focus. Urban programs are a proven, effective, and efficient use of limited foreign assistance resources.

### Urbanization: Opportunities and Challenges

U.S. foreign aid can help the developing world cope with the challenges and take advantage of the opportunities presented by urbanization.

- **Economic Growth.** Cities can be engines of economic growth for developing countries. The population density and economies of scale characteristic of urban areas attract entrepreneurs, facilitate business and investment, and provide markets. In slums, vibrant informal economies offer a springboard for future development. Urban growth, in turn, drives rural development by way of remittances and demand for rural products.
- **Urban Poverty and Slums.** Slum dwellers contend with horrifically crowded and sub-standard housing, unsafe drinking water, a lack of basic sanitation, insecure tenure, and a lack of access to education and health services. Targeted, comprehensive urban assistance programs can greatly improve these conditions and help the urban poor lift themselves out of poverty.
- **Urban Investment.** The rapid growth of cities is overwhelming urban infrastructure and service systems, undermining potential for efficiency and growth to the jeopardy of inhabitants both poor and otherwise. Better development planning and urban management, increased infrastructure investment, and improved service provision are needed to make cities more efficient for businesses and better places to live.
- **Global Threats.** Improving slum conditions is in the U.S. national interest because it can help prevent and control the spread of disease and lower the probability of social instability. Urban investments and effective planning can mitigate the effects of climate change on developing country cities and prevent a dramatic future increase in their greenhouse gas emissions.



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Habitat for Humanity International/Mikel Flamm

*The global financial crisis affects both urban and rural populations, but the urban poor are particularly vulnerable given their heavy reliance on the informal economy, inability to rely on their own food production, and vulnerability to a sudden drop in income without a social safety net for protection.*

## Successful Urban Assistance

Comprehensive urban programs are urgently needed. They can build on current, successful programs and the roots of a new U.S. foreign assistance direction that is already emerging.

■ **Urgently Needed.** Now is the time to shape urbanization while it is occurring and before existing conditions deteriorate and new slums are established. Further, the impact of a global recession combined with the global youth bulge, has the power to generate huge numbers of disaffected, unemployed urban youth. Urban development programs can mitigate these risks.

■ **Tested Best Practices.** Assistance programs are most successful when they address the challenges of urbanization through a carefully coordinated, multi-sector approach. Many of the most successful programs share three essential characteristics, they: involve

citizens substantively; utilize economic incentives to shape behavior effectively; and tackle urban challenges comprehensively.

■ **Increased Recognition.** The U.S. Congress, the American people, donors, private foundations and developing countries themselves are giving increased attention to urbanization and slums. Urban assistance, like all American foreign assistance, has been handicapped by outdated legislation, the lack of an overall strategy, and restrictive funding mechanisms that stovepipe programs into specific sectors; but that may be changing. Urbanization should be a prime consideration in restructuring U.S. foreign assistance.

## An Approach that Will Work

U.S. Government leadership is essential to foster effective, coordinated urban assistance.

■ **Leadership.** The United States should build a larger, multi-sector urban assistance program. USAID can play a leadership role within the U.S. government by developing an urban strategy, refocusing resources on urban investments, as well as strengthening its cadre of urban development experts.

■ **An Effective Assistance Strategy.** Four complementary building blocks should be the foundation of a new long-term urban development strategy that reaches across sectors, facilitates donor coordination, and engages the private sector:

**1. Policy Reform.** Key elements include decentralization of authorities and resources from national to municipal governments and reform of national policies and regulations. Donors should help build the technical capacity of national and local

governments to strengthen policy development and implementation.

**2. Urban Planning.** Comprehensive city development plans should be developed, with technical assistance when necessary, and serve as a means to coordinate donor- and private sector-funded projects.

**3. Host Country Ownership.** Development strategies should be demand driven with full national government support, municipal leadership, and substantial community participation.

**4. Mobilization of Resources and Collaboration.** Raising adequate resources will require investments by developing country governments, the private sector, and international donors, and collaboration in their design and implementation.



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