



Summary Report of the:  
Cities Development Initiative for Asia (CDIA)  
High-level Urban Policy Roundtable:  
Incentivizing Asia's Urban Future

November 14, 2011

Manila, Philippines



**CDIA**

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Cities Development Initiative for Asia

## INTRODUCTION

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The CDIA<sup>1</sup> supported High-Level Urban Policy Roundtable held at the Asian Development Bank (ADB), Manila, Philippines on 14 November, 2011 saw an eminent group of twenty political leaders, leading urban specialists and concerned civic leaders deliberating on the role of Asian cities in the world economy and what Asian cities should do in order to maintain and enhance their competitive edge, while ensuring that their development is inclusive and sustainable (see Annex 1 for list of participants to the Roundtable). The group called upon Asian countries to make urbanization (and urban infrastructure development in particular) a key instrument for enhancing growth, combating poverty, addressing climate change, and serving as a stabilizing factor in the regional and global economic system. The focus of the Roundtable was on the need to develop institutional mechanisms providing adequate incentives to make this happen. The Roundtable discussions led into the formulation of a Manila declaration on incentivizing Asia's urban future. A Background Paper had been prepared and circulated as the basis to facilitate discussion among participants to the High-level Roundtable (attached as Annex 2).

## BACKGROUND TO THE ISSUES

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In 2010 1.7 billion people (or 42% of Asia's population) lived in urban areas in Asia. By 2020 this will be 2.2 billion people (or 52% of Asia's population). The increase in Asia's urban population in the current decade will amount to 60% of the world's urban population growth. This dynamics is not surprising as urbanization is the spatial translation of the structural socio-economic change leading to productivity gains and thus economic growth. Over the past decades Asian cities have made a very significant contribution to the region's economic growth, – structural development and – stability, and this contribution itself is changing in its nature: Asian cities have capitalized on the opportunities provided by the forces of globalization. Many Asian cities are moving away from serving as factories of the world to turning into providers of financial and knowledge-based services. Asian cities have also helped to contain the recent financial meltdown.

However, while urban-based economic activities may account for some 80% of the economic value added, cities also generate significant environmental footprints, including contamination of air and water, as well as an estimated 75% of greenhouse gas emissions, and, with urbanization, poverty also urbanizes. Asian cities are short of basic infrastructure and services. The proportion of the urban population without access to basic services is large – 40 percent without adequate sanitation; 20 percent without water. Most cities have no public transport system.

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<sup>1</sup> CDIA is a regional initiative established in 2007 by the Asian Development Bank and the Government of Germany, with additional core funding support of the governments of Sweden, Austria and Spain and the Shanghai Municipal Government. The Initiative provides assistance to medium-sized Asian cities to bridge the gap between their development plans and the implementation of their infrastructure investments. CDIA uses a demand driven approach to support the identification and development of urban investment projects in the framework of existing city development plans that emphasize environmental sustainability, pro-poor development, good governance, and climate change.

The economic cost of inadequate infrastructure is not only high, but is beginning to threaten the competitiveness and productivity of Asian cities (and of national economies in consequence). For example, India needs to invest US\$1.2 trillion to wipe out the deficits in urban infrastructure, to meet the requirements of the urban population likely to be added over the next twenty years, and to enhance national economic growth – a related estimate is that the current urban infrastructure deficit deprives India of 20% of its potential economic growth. Some governments in Asia have recognized this and have attempted to meet the infrastructure challenge by establishing new mechanisms to invest in urban infrastructure, both as a step to maintaining domestic growth and also to enhancing their position in the global marketplace.

Maintaining Asia's growth trajectory and its contribution to the world's economic system is a formidable challenge. As Asia moves towards closer integration with the world economy, it will need to make a major reassessment of its infrastructure needs and of the 'qualitative' shifts that such an integration call for in the preparation of infrastructure investments, as well as in the design and operationalisation of institutional mechanisms to bring this about.

CDIA's and ADB's rationale for the roundtable was to assist in consolidating a response to the need to "ring some alarm bells, loudly and clearly", about these deficiencies, identify what can be done to incentivize urban development in Asia better, and how this can best be done. It was seen as opportune to conduct the Roundtable as a precursor to, and in conjunction with, ADB's Asia Urban Forum 2011 on "Financing Future Cities" held November 15-17, 2011.

## **FOCUS QUESTIONS**

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After the presentation on the core issues raised by the Background Paper, the moderator opened the discussion. To help facilitate the exchange, a number of suggested focus questions were presented to the participants initially regarding key issues and subsequently on possible recommendations and ways forward.

### Gaps and the implications on urban development:

1. Given the importance of Asian cities to the global and national economies, why aren't governments allocating sufficient resources to their urban areas?
2. Why has there been a failure to create workable structures for metropolitan governance?
3. Why are people reluctant to pay higher local taxes and charges, and governments hesitant to levy?
4. Why do governments say so much about helping the poor and improving informal settlements but they seem to have so little impact?

### Recommendations and possible ways forward:

1. Strengthen mechanisms and resources for project development, research and capacity building.
2. Substantially increase financial investment to address the challenges of urbanization.
3. Initiate a high level dialogue on urban challenges and policy initiatives.

4. Transform CDIA into a sustainable regional institution to further the above agenda

## **PRIORITY AREAS DISCUSSED AT THE ROUNDTABLE**

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While the above focus questions were used to stimulate an exchange among participants, the ensuing discussion did not cover the complete range of issues, but focused on a select number of core priority areas as outlined under the following four general headings:

### **Managing growth**

It was generally agreed that urban development must be a priority across the region. However, in a number of countries growth has preceded infrastructure development leading to inefficiencies in growth patterns and the related infrastructure investment deficiencies. The issue becomes one of not only catching up with the infrastructure investments to serve growth, but more importantly, to get to the point to use these investments to start to lead and guide the growth and development process.

Urban planning and setting clear development directions for cities becomes crucial in this context to set the framework for defining the infrastructure investment patterns that will both attract and guide investors. However, no one is promoting to return to conventional master planning approaches. Integrated investment planning processes backed by appropriate tax and other incentives are likely to be more responsive to highly dynamic and rapidly changing Asian urban areas. While such processes must take a long-term view to the development horizon, it must also be able to yield short-term impacts in order to get political and civil society support.

It was further recognized that if properly managed, urban growth promotes more efficient rural development. However, this realization does not always translate into a considered political process. Decision-makers in some countries are politically challenged to try and balance urban and agricultural development, rather than seek to embrace and accommodate urban growth. Governments must come to terms with finding a political balance regarding resources allocation – one that recognizes that growth is inherently unbalanced against the political necessity to address non-urban dwellers' perception that cities get too large a share of government resources – and urban managers must start considering how their rural peripheries can benefit from the city and how adverse impacts of the city on these areas can be minimized.

When considering urban development policies, it must be recognized that the urban area has often grown well beyond the boundary of the core city. In this context, when only looking at distinct jurisdictional units within a metro area, investment decisions are often fragmented and un-integrated, resulting in significant inefficiencies. Strategic investment decisions must consider the wider urban/ metro areas where projects need to be formulated with a holistic view of the city and supported with a sound technical basis.

### **Financing infrastructure**

It was agreed that, typically, the issue is not one of whether there are enough potential investment funds available, but rather one of how to attract it to urban investments in the face of competing opportunities, for finance will generally chase good projects. On the

demand side, once this is obtained, the issue becomes one on how to ensure that it is not 'wasted' by those implementing the projects.

In terms of mobilizing local resources, significant efforts are still needed in some countries to provide an enabling framework for mobilizing local capital market funds and to monetize land as a core component to raising such resources for financing urban infrastructure. However, a uniform model does not exist, as different modalities are needed according to the specific country context and development patterns.

To attract the private sector and make its funds available, cities must be able to clearly demonstrate the opportunity for such investors to make a profit. In order to be able to realize a rate of return, the private sector also requires a qualified, responsive and predictable public sector as a counter-part to make the investment work.

### Participation of civil society

The role of civil society was raised as being critically important. The focus on financing infrastructure can at times overshadow the purpose of the infrastructure and who it is intended to serve. New ways and means should be elaborated that create additional space for participation by civil society in key decisions on urban infrastructure investments. More creative approaches are also required on how such infrastructure investments are financed. If understandable incentives are given, citizens will typically not only support the initiatives, but often will be willing to make contributions.

Within cities across Asia, informal areas are increasingly being recognized as important sources of growth that contribute to the economy. However, to capture this opportunity, challenges remain on how to formalize the informal sector within the city's overall development context so that synergies can be built and full potential recognized.

### Building capacities

It was agreed that institutional capacity remains a major constraint to local governments being able to seize the full opportunities that the development process can offer. While having access to innovative tools and approaches is part of the answer, they won't be effective until obsolete administrative systems are revamped to address the modern city context and better respond to the needs for a more competitive and responsive development approach. To change these systems, there must be incentives that encourage changing mind-sets and behavior leading to significant policy and operational change.

Concurrent to the systems and processes that need revamping, there is a parallel need to upgrade and update the skill sets of city administrations. It can no longer be business as usual as cities must increasingly compete within a globalizing framework. These actions are all geared to more responsive government and ensuring that the role and use of scarce government resources are refined to meet evolving priorities and changing frame conditions.

To support these objectives, incentives can take various forms. Performance-based incentives can help accelerate the implementation of supporting policies, system change, as well as helping changing mind sets and basic skills. It was also recognized that the traditionally low wages for government workers is preventing the introduction of new

approaches and systems, while also presenting a barrier to bringing in the innovators and skilled talent to move cities forward.

To support this change process, there is a need for initiatives such as CDIA to help cities better address their infrastructure project preparation processes. The challenge is very substantial and such initiatives must find ways and means of addressing the needs of not only the demand side needs, but continually facilitate matching them with the needs of those providing the finance and other supply-side components of the infrastructure development process.

## **DISCUSSION ON THE MANILA DECLARATION**

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Based on the initial set of key issues and way forward, a “draft Manila declaration” was presented for consideration. This advocacy document was drafted to promote the urban development agenda as one of the cornerstones not only for national economic growth, but also as a means for driving poverty reduction. It recognized and prioritized a number of challenges and actions that not only the cities and their respective national governments must follow-up on, but in which the international development community can contribute especially in relation to urban infrastructure investments.

Based on the Roundtable discussions, the declaration was further refined to better reflect the views of the roundtable participants, and the language enhanced to correct possible misperceptions. It was accordingly adopted. The amended version (attached as Annex 3) was presented the following day during the High-level Opening Session of ADB’s Urban Forum on green, competitive and inclusive cities, which reviewed ADB’s Bank-wide draft Urban Operational Plan, one of the major building blocks to implement its medium term development strategy, Strategy 2020.

The declaration offered an excellent opportunity to move the policy debate constructively forward at a high level, with the objective of enlisting the support of ADB, other development banks, UN agencies, and other members of the international development community to set a major milestone to enhance the economic power of cities in the interest of all. Within this context, the institutionalization of CDIA can serve as an important step towards advancing and sustaining progress on this agenda.



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