

# AFD AND URBAN DEVELOPMENT



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## URBANIZATION ACROSS THE WORLD...

The growth of cities is one of the major phenomena marking the beginning of this millennium. Every week nearly one million people become city dwellers. By the year 2030, the world population will reach 8 billion, with 5 billion being urban dwellers. Most of these new inhabitants will find their way into countries dependant upon development assistance: their city populations will grow by 2 billion over the next 25 years.

## ... AND ITS EFFECTS

Cities are essential to economic and cultural development. Growth in the secondary and tertiary sectors is closely linked to urban development. Employee productivity is nearly 5 times higher in urban areas than in rural areas. Cities also constitute a choice environment for disseminating information and knowledge, learning, research, arts and political life.

However, the benefits to economic and cultural development often coexist with negative consequences related to physical organization and social equity. Urban poverty is grossly underestimated. Indeed, over one billion people currently live in vulnerable or unhealthy areas and this figure is ever increasing.

Cities also breed more environmental tensions as urban growth leads to the increased production of waste, water and energy consumption as well as water and air pollution. These aftermaths in turn affect the health and quality of life of urban dwellers. Moreover, many are avoidable. In some cities, up to 60 percent of potable water is lost through leakage and illegal connections.

## COTONOU METROPOLITAN AREA PROJECT

AFD is supporting the city of Cotonou through financing dedicated to the realization of primary infrastructure (drainage, roads) and the setting of a land and tax register, as well as strengthening the urban management of the capital. The project is also benefiting from parallel funding from the World Bank. An intercommunal pooling of means covering three cities of the metropolitan area will be drawn up with support from the urban community of Lille.

The « zemdjan » component of the project financed by FFEM includes a real environmental dimension. The only means of public transportation is the numerous motorbike taxis (over 100,000 have been registered), that are the main source of air pollution in the city. Tax incentives have been instituted to replace highly polluting 2 stroke engines with 4 stroke motorbike engines.



## MOROCCO: SUPPORT FOR THE NATIONAL PROGRAM « CITIES WITHOUT SLUMS »



In Morocco, more than 3 million people live in slums. The national program « Cities Without Slums » co-financed by the Moroccan government, AFD and the World Bank required major reforms and the establishment of a new national implementation entity. The Moroccan State provides the funding in the form of a loan guarantee to the public works corporation «  *Holding d'Aménagement AL OMRANE* » whose primary function is to develop and service plots of land for housing purposes.

A contracting authority has been set up to ensure that household living conditions are taken into account. The project will enable 50,000 families (300,000 inhabitants) to benefit from a housing unit and better living conditions.

## AFD AND URBAN DEVELOPMENT TODAY

AFD is currently financing about one hundred projects in thirty countries and prepares each year between twelve and fifteen new projects valued, on the average, at 150 to 200 million euros in yearly commitments. Considering the importance of urban development, the share of this sector in AFD's portfolio is expected to increase gradually.

These projects are financed through grants to the Least Developed Countries (LDCs) and subsidized loans in middle-income countries where cities are expected to eventually finance their own investments. Projects have varied scales: they may involve interventions in one or more suburbs, in a city or metropolitan area or in support of a national policy or program.



## AFD'S STRATEGIC PILLARS

### ■ Alleviating poverty and helping vulnerable urban areas

The inhabitants of vulnerable urban areas experience various forms of economic and social exclusion. Given their low income, the cost of living is particularly high. The cost of water, for instance, can be five times higher in vulnerable areas than that of residential areas. They are effectively excluded from public life: they do not have access to information; they lack opportunities to express their views and the right to own land. They are often the victims of brutal evictions. These living conditions lead to the spread of disease, illiteracy and deviant social behavior that come with significant economic costs.

AFD projects support a wide range of activities in vulnerable urban areas (relieving isolation, bringing essential services, regularizing land ownership, promoting social development...), which aim to set off a virtuous cycle promoting increased participation in these areas in the city's economic and social life. In Haiti, AFD has been fighting the causes of poverty since 1996 in about 40 shantytowns. Improving the tariff recovery rate and installing neighborhood water meters have built capacity for the public water authority. Appropriate social and financial mechanisms have added additional value.



## ■ Improving the economic environment and attractiveness of cities

A well functioning urban structure is essential to the productivity of economic operators, whether individuals or businesses. One of the major responsibilities that lie within the purview of elected officials and city managers is improving the comparative advantages of cities for operators and investors. This objective underlies many urban projects financed by AFD in the areas of infrastructure development (waste management, drainage, sanitation, energy), public transport and traffic management, market equipment (markets, transport terminals...) and the protection of national heritage.

Key conditions for project intervention are private sector participation and securing resources on a sustainable basis to maintain infrastructure and equipment.

## ■ Strengthening local authorities' independence and resources

Over the last ten years or so, decentralization programs have been drawn up in developing countries especially with support from the French Ministry of Foreign Affairs. Their aim is to ensure greater efficiency in the transfer of skills from State Departments to local governments, better management of equipment, more effective local taxation and efficient financial administration especially through better training for municipal personnel.

AFD-financed projects are in line with this approach. All aim to promote contracting ownership by municipalities and focusing on intercommunal pooling of competence and means as well as management of metropolitan areas. AFD funding is mostly granted to local authorities either directly (sub-sovereign finance) or through specialized financial institutions.

Some recent projects have lent themselves to hybrid financing made up of grants and direct loans to municipalities.

Strengthening and equipping local governments in Senegal is a concrete example of this type of approach at the national level. This program is co-financed by Senegal, AFD and the World Bank, and implemented by a Municipal Development Agency. It uses hybrid financing through grants and loans for provinces and the introduction of City contracts as a tool for managing and regulating relations between the State and local governments.



## ■ Decentralized cooperation

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Many AFD-financed projects have already benefited from partnerships between local governments. Some of the concrete examples are Phnom Penh and Paris, Gaza and the Urban Community of Dunkirk, Hanoi and Ile de France (Paris region), Ouagadougou and the Urban community of Lyon, N'Djamena and Toulouse, Mahajanga and Mulhouse, Jacmel and Strasbourg, etc.

The experience between AFD, the French City of Chinon and Luang-Prabang City in Laos is also a case in point. The old royal capital of Laos, which is part of the world heritage was threatened by tourism and urban growth. Projects financed by AFD with the support of Chinon were implemented in partnership with UNESCO. They helped to safeguard the city's heritage, rehabilitating the entire urban setting, improving the living conditions of the people and creating jobs.





## EXTENSION OF THE TUNIS SUBWAY

The Tunisian government, together with the European Investment Bank, has received a loan of 40 million euros to finance the extension of the Tunis subway. Public transport is used extensively in the cities, however, this services is still inadequate. There is also congestion on the roads. The aim of the program is to extend and modernize the light subway network to meet the needs of users in order to restore the balance between public and individual means of transport. It is a social challenge as 200,000 people will benefit directly from the extension of the network, especially low income earners who depend mostly on public transport. Besides, by reducing the emission of greenhouse gases and urban pollution, the project will have a significant positive impact on the environment.

### ■ Protecting the environment

Environmental protection and the fight against pollution are at the center of the AFD group's concerns in partner countries and overseas French territories. Most urban development projects include at least a component which gives priority to the environmental effects of drainage, individual or collective sanitation as well as air pollution reduction both in emerging countries (China, India) and overseas France. For example, AFD is financing a public transport improvement program in the metropolitan area of Fort de France (CACEM). Finally, there is an increasing number of solid waste projects involving various aspects of the sector namely, pre-collection, collection, transportation, sorting and treatment.

AFD often works with the support of *Fonds Francais pour l'Environnement Mondial* (FFEM) (French World Environment Fund), a public fund established in 1994 by the French government after the Rio Summit. FFEM, which seeks innovative or model approaches, has provided technical and financial support for several urban development projects financed by AFD.



## ALGERIA: POST-EARTHQUAKE PROGRAM

AFD is participating in the reconstruction program drawn up by the Algerian authorities following the earthquake, which occurred in Boumerdes on May 21, 2003. Through the reconstruction of infrastructure and rehabilitation of essential services, the project is contributing to the restoration of decent and secured living conditions. However, the area's inhabitants are still living in areas prone to earthquakes. The project involves the development of sites for the construction of 20,000 residential housing units to replace those that were completely destroyed.

The reconstruction of urban infrastructure (highways and other networks) damaged by the earthquake, refinancing of the rehabilitation of public buildings initiated by the Algerian government during the emergency phase are other critical parts of the project. Finally, various studies and services are being carried out to complement this projects whose components are being monitored by a project unit at the Ministry of Housing and Urban Development of Algeria.

The French Development Agency (AFD) is a public institution serving the general interest by providing development financing.

As a specialized financial institution, the Agency works on five continents, with special focus on Africa and French overseas territories, which account for two-thirds of its commitments. It finances economic and social projects being implemented by local authorities, public entities or the private or voluntary sectors. These projects cover urban and infrastructure development, rural development, industry, financial systems, education and health.

To address each situation, the Agency provides an array of financial instruments ranging from grants to guarantees and participation through concessional loans and loans under market conditions.



## AGENCE FRANÇAISE DE DÉVELOPPEMENT

5 rue Roland Barthes

75598 Paris cedex 12

France

Tél. : +33 1 53 44 31 31

Fax : +33 1 44 87 99 39

[www.afd.fr](http://www.afd.fr)

Infrastructure and Urban  
Development Department

Director: **Alain Henry**

[henrya@afd.fr](mailto:henrya@afd.fr)

Urban Development Division

Officer: **Thierry Paulais**

[paulaist@afd.fr](mailto:paulaist@afd.fr)

Heads of projects:

**Adeline Aleyat-Dupuis**

[aleyat-dupuisa@afd.fr](mailto:aleyat-dupuisa@afd.fr)

**Irène Alvarez-Viguié**

[alvarez-viguiei@afd.fr](mailto:alvarez-viguiei@afd.fr)

**Hervé Breton** (Bangkok)

[bretonh@afd.fr](mailto:bretonh@afd.fr)

**Freddy Filippi**

[filippif@afd.fr](mailto:filippif@afd.fr)

**Xavier Hoang**

[hoangx@afd.fr](mailto:hoangx@afd.fr)

**Guillaume Josse**

[josseg@afd.fr](mailto:josseg@afd.fr)

**Pierre-Alain Pacaud**

[pacaudpa@afd.fr](mailto:pacaudpa@afd.fr)



GRUPE AGENCE  
FRANÇAISE DE  
DÉVELOPPEMENT