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# AFD and intermediary cities

**Feedback  
and intervention principles**



#WorldInCommon

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# Introduction

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The global urban population is expected to grow from 58% in 2023 to 70% in 2050, driven primarily by demographic expansion in Asian and African cities. This rapid urbanization impacts all types of cities, with a significant rise in both megacities and regional towns. So why focus on “intermediary” cities?

These cities, defined as a “functional and demographic middle ground”, play a crucial role in connecting different territorial levels, from rural to urban, and local to regional. While they tend to receive less attention than major metropolises, these “in-between” cities have gradually become the focus of key territorial issues, especially on the economic, social and political levels. However, the diversity of these urban areas and the limited financial and human resources of local governments make it difficult to fully address their specific development challenges on an international scale.

For over 20 years, AFD has supported numerous governments and local authorities as part of its urban development mandate. This work encompasses around 15 countries and 40 intermediary cities, each with distinct challenges. The projects have focused on improving access to urban services, promoting employment and inclusive sustainable economic development, strengthening local governance and financial management, and enhancing climate resilience and biodiversity. These initiatives have utilized tailored operational strategies to support multi-level governance among stakeholders (local governments, state agencies, companies, communities, and public services), strengthen national financing mechanisms, and ensure compliance with the contractual obligations of public development aid, particularly regarding fiduciary and environmental and social risk management.

This publication aims to share lessons learned from these projects and provide actionable recommendations for AFD representatives and partners. Drawing on two decades of experience in financing, it reflects on intervention strategies in intermediary cities and suggests ways to maximize the impact of future investments to better support their development in AFD’s countries of operation.

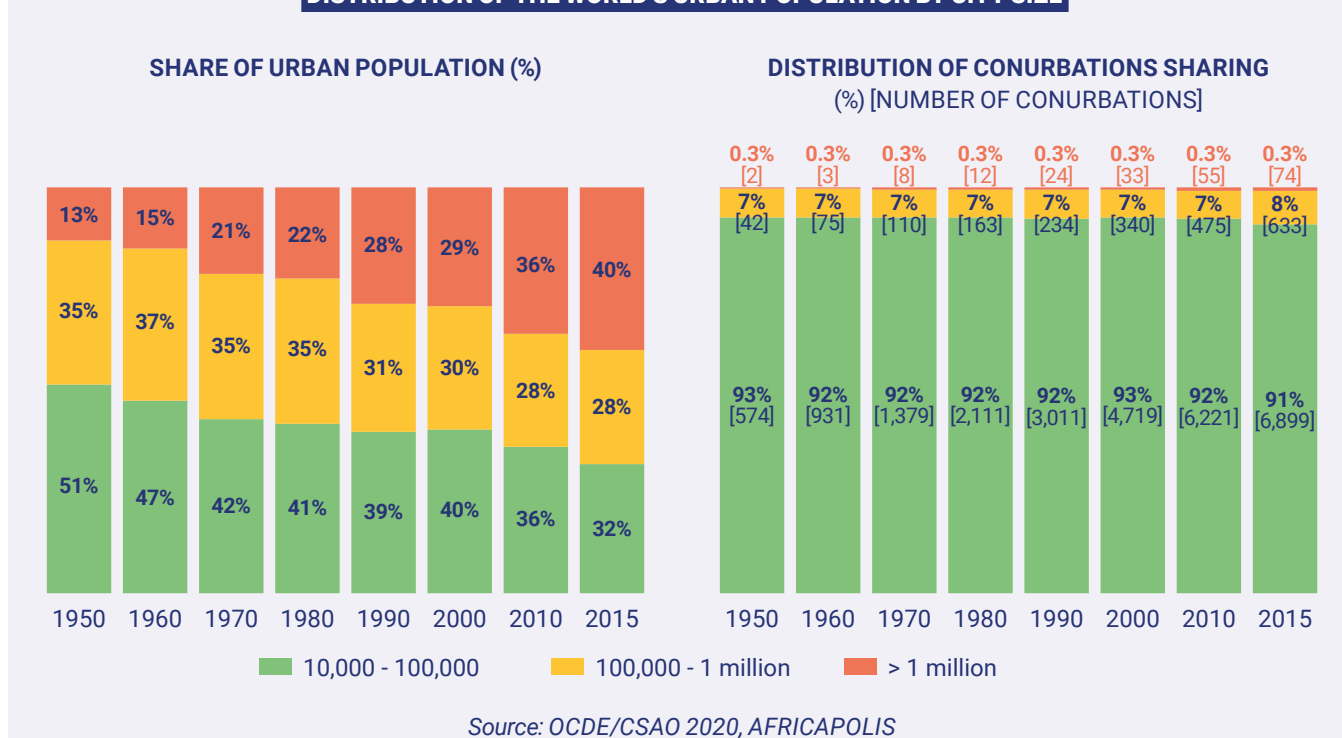
# Understanding intermediary cities

## WHY ARE THEY IMPORTANT?

In 2023, 58% of the world's population lives in urban areas. By 2050, this rate will have risen to 70% due to accelerated urbanization in Africa and Asia.

International attention is focused on the world's largest cities, which account for a growing share of the world's urban population (cities with more than one million inhabitants accounted for 40% of the urban population in 2015, compared with 29% 15 years earlier), creating substantial needs for urban facilities, amenities and services. Historically, policies and financing have been focused on these large metropolitan areas. The dearth of data and knowledge concerning intermediary cities, the lack of political clout of some of these cities, and the shortage of financial and human resources explain and perpetuate this trend.

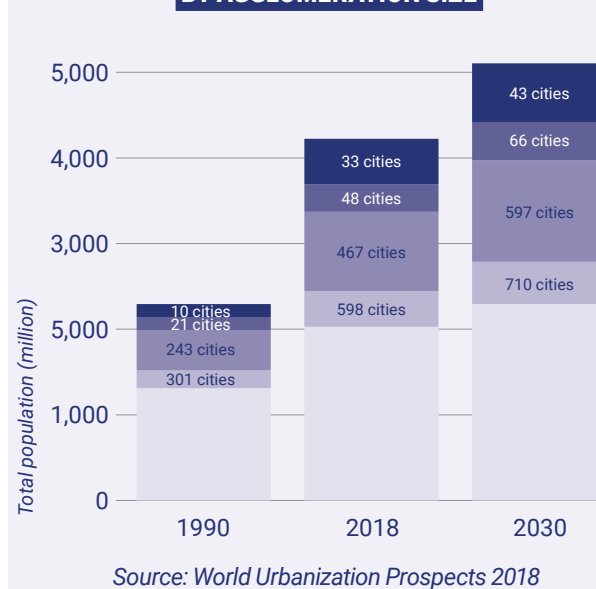
### DISTRIBUTION OF THE WORLD'S URBAN POPULATION BY CITY SIZE



Nonetheless, the growth of intermediary cities is a major facet of ongoing urbanization. Urban agglomerations with fewer than one million inhabitants accounted for 32% of the world's population in 2018 and 58% of the urban population with 2.4 billion inhabitants (UN DESA 2019).<sup>1</sup> The number of these cities is growing rapidly. The number of cities with 500,000 to one million inhabitants virtually doubled between 1990 and 2018, and this trend is set to continue.

- Megacities of 10 million or more
- Large cities of 5 to 10 million
- Medium cities of 1 to 5 million
- Cities of 500,000 to 1 million
- Urban settlements with fewer than 500,000

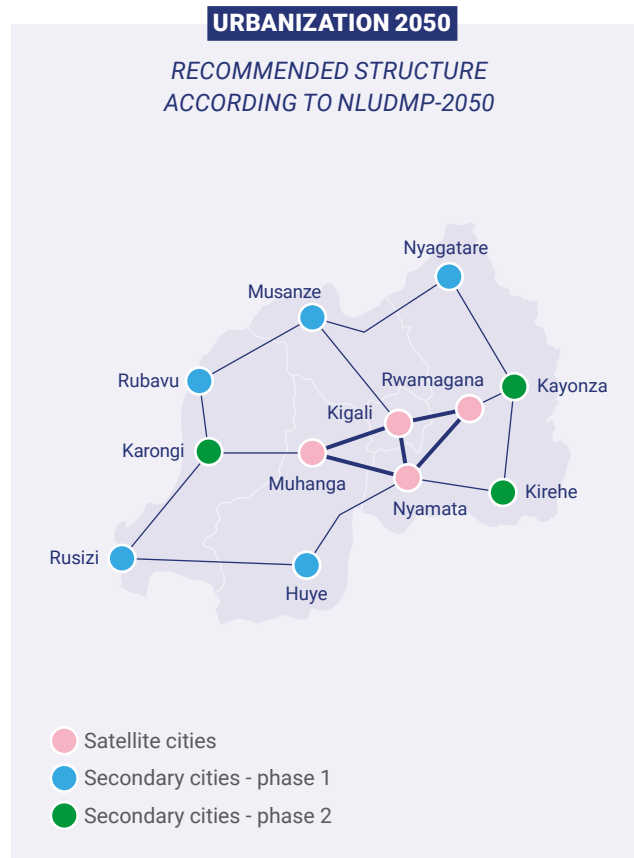
### CHANGE IN THE NUMBER OF CITIES WORLDWIDE, BY AGGLOMERATION SIZE



<sup>1</sup> United Nations Department of Economic and Social Affairs (UN-DESA)

In view of this situation, the key issues relating to intermediary cities and the need to take account of them have emerged on the international development policy agenda in recent years. This question is linked to the New Urban Agenda<sup>2</sup> and the monitoring of its implementation. It was discussed at the G20 summit in 2021 and included in the final communiqué of the meeting of Ministers for Development and International Cooperation. This political impetus reflects the advocacy activities of city networks on this theme, including those by United Cities and Local Governments (UCLG). It also enables dedicated technical work carried out by the OECD and UN-Habitat (Cities Connect program).<sup>3</sup>

At the same time, increasing attention is being paid to intermediary cities, not only in communications but also in regional planning strategies. Many regional development plans are now aiming to ensure more balanced urbanization across the territory, with a geographical distribution of activities. By way of example, Rwanda's 2050 National Land Use Master Plan envisions that by 2050, Kigali, the capital city, will be surrounded by three satellite cities, each with a specific major activity hub (Rwamagana as the agricultural hub, Bugesera as the focus of logistics and airport activities and Muhanga as the mining processing and trading center). Alongside them, eight intermediary metropolises will act as cross-border economic hubs.



## HOW CAN WE DEFINE THEM?

Prior to characterizing intermediary cities, and trying to assess their surface areas and population sizes, we first need to define what “urban” means at international level, as this definition varies from country to country. The United Nations, in its latest reference report, “World Urbanization Prospects”, published in 2018, relies on data provided by central governments for each country, both census data and the urban or non-urban qualification of the population.

**There is therefore no international definition of an intermediary city.** Nevertheless, some quantified data does exist on what different countries, institutions and even reports refer to as medium-sized, secondary or intermediary cities:

- In “World Urbanization Prospects”, medium-sized cities are defined as those with between one and five million inhabitants;
- For its part, the UCLG network, which frequently addresses the issue of intermediary cities, defines them as towns and cities with a population of between 50,000 and one million inhabitants. This population range is now regularly adopted, and is sometimes divided into sub-categories: i) between 50,000 and 100,000 inhabitants, ii) between 100,000 and 500,000 inhabitants and iii) 500,000 and one million inhabitants (OECD/UN-Habitat 2022).

At the current rate of urbanization, these thresholds are likely to keep changing over the coming years.

**While there is no universal definition of intermediary cities, it is recognized that they constitute a demographic and functional “middle ground”<sup>4</sup> between the main cities and the smaller towns and cities. The notion of intermediation refers to the question of territorial coverage and national urban systems: what is the city’s location in relation to the capital, and what is the city’s location in relation to the other urban and rural territories to which it is connected?**

In addition, a form of consensus is emerging to indicate that “above all, these cities act as an important interface with their rural hinterlands” (Quénot-Suarez, 2016). They are said to constitute an “urban middle ground” – a nodal point between the rural and

<sup>2</sup> The New Urban Agenda, adopted at the Third United Nations Conference on Housing and Sustainable Urban Development in 2016, transposes the 2030 Agenda to the context of cities and human settlements worldwide, and sets out a vision for sustainable urban development with cross-cutting themes such as inclusion, human rights and freedom from all forms of discrimination in cities.

<sup>3</sup> UN Habitat and the OECD Development Centre launched the “Cities Connect” alliance in 2018 to document the role of intermediary cities in development. In 2021, both organizations were mandated by the Italian presidency of the G20 to help intermediary cities meet the SDGs and tackle global warming. The first Cities Connect report – “Intermediary Cities and Climate Change” – was published in 2022.

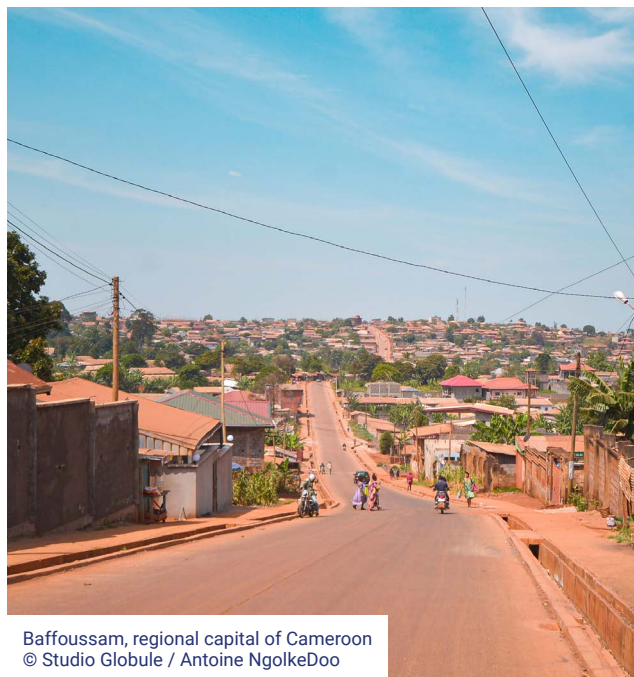
<sup>4</sup> Intermediary cities have political, institutional, economic, social and cultural functions of regional significance. Their degree of influence depends on their accessibility, the presence or absence of administrative and legal bodies, and major social and economic infrastructures such as hospitals and universities.

urban environment (Amman et al., 2017). For UN-Habitat, “these intermediary cities are hubs for provision of goods and services to the hinterland and are instrumental in structuring urban-rural linkages” (World Cities Report 2022), or “agglomerations which – for geographic, historical and political reasons – act as bridges between metropolitan and rural areas” (OECD/PSI 2020).

## UNDERSTANDING INTERMEDIARY CITIES

There is a wide diversity of intermediary cities. Brian Roberts (Cities Alliance, 2014) proposes a typology, which takes account of the **size, function and role of the city** within the national, sub-continental and/or global system of cities. Using an economic geography-based approach, he first identifies the zone of influence with which a city can be associated (regional or metropolitan), and proposes three main types of intermediary cities:

- **Subnational urban centers**, such as regional capitals;
- **Metropolitan clustered secondary cities** (such as new cities, or cities that have grown significantly due to their proximity to the metropolis),
- **Corridor secondary cities**, which develop as growth centers along trade corridors.



Baffoussam, regional capital of Cameroon  
© Studio Globule / Antoine NgolkeDoo

## WHAT ISSUES AND CHALLENGES DO THEY RAISE?

While their growth is the main focus of the attention to be paid to them, intermediary cities are also associated with a number of different issues, such as:

**1. Economic potential to be more effectively exploited.** As reiterated in the 2022 report on the power of African cities (OECD/SWAC),<sup>5</sup> urbanization represents an economic and social opportunity for countries and their inhabitants. While the largest cities and megacities have previously attracted the most attention, including from a national economic development perspective (UN Habitat, 2022), some analyses now suggest that intermediary cities now have greater economic development potential than megacities (Rodríguez-Pose et al., 2021), some of which are suffering from a decline in economic competitiveness and a higher cost of living for their inhabitants, which means that intermediary towns are becoming territorial growth drivers.

**2. A role in tackling climate disruption.** The OECD's research<sup>6</sup> shows that per capita emissions remain proportional to the level of economic development, and are therefore lower in intermediary cities than in large ones. Even so, intermediary cities remain vulnerable to the effects of climate change. Although the level of exposure and the degree of impact on economic activity differs from city to city, the weakness of infrastructure and governance, combined with the cascading effects of the impacts of global warming on rural areas, are making these cities more vulnerable. Therefore, the challenge is twofold: firstly to improve the resilience of the populations in cities already at risk, and secondly, to plan urban growth in advance to minimize the risk of other cities becoming exposed. The importance of this second challenge is illustrated by the fact that urban sprawl and declining population density are proportionally more pronounced in smaller cities (OECD/UN Habitat 2022 report).

**3. Particular emphasis on social issues.** As UN-Habitat and UNICEF point out, intermediary cities lag far behind megacities in terms of access to basic services, formal employment and formal housing.

<sup>5</sup> The Sahel and West Africa Club (SWAC) is a platform hosted by the Organisation for Economic Co-operation and Development (OECD) for the promotion of regional policies to improve the economic and social well-being of people in the Sahel and West Africa.

<sup>6</sup> See OECD/UN-Habitat (2022), *Intermediary Cities and Climate Change: An Opportunity for Sustainable Development*, p. 117, OECD Editions.

**4. The need for a better understanding of migratory flows.** Contrary to popular belief, recent work by the World Bank and AFD (Christiaensen et al., 2024) demonstrates that natural increase, rather than rural-urban and urban-urban migration flows, is the main driver of urban growth in intermediary cities. Yet migrant populations are still perceived as a burden on cities and the labor market, whereas the study finds that migrants – often younger and better educated – strengthen the resident workforce, boost economic productivity and contribute to urban well-being. The challenge for intermediary cities is therefore to adopt a more holistic approach to policy that is no longer limited to the labor market, by improving urban planning to better exploit the positive effects of migration on the living conditions of all inhabitants.

**These cities face many challenges.** The *Ateliers de Cergy*, running the Urban Prospective Lab training course for AFD Campus, list them as:

- a lack of human resources and administrative services;
- an absence of planning and programming;
- difficulties in feeding the population of intermediary cities despite the surrounding agricultural and pastoral potential;
- delays in the construction and emergence of intermediary cities;
- difficulties in providing basic services;
- lack of maintenance of infrastructure and services;
- weak governance;
- inadequate environmental policies;
- a lack of social inclusion and gender equality.

UN-Habitat (WCR 2022) provides a complementary overview with greater emphasis on economic development issues:



**The lack of financial and human resources in these local governments has also been identified as a major issue.** The World Observatory on Subnational Government Finance and Investment report (SNGWOFI 2022) shows the correlation between the human development index and the level of local spending relative to GDP. This phenomenon is more pronounced in poorer countries, particularly in Africa. This is all the more important given that human resources are generally the largest expenditure item for local governments.

Lastly, while the attention paid to intermediary cities is increasingly being incorporated into territorial planning strategies, their implementation is still problematic. It is clear that policies and financing are focused on large metropolitan areas with more than one million inhabitants (UN Habitat, 2023). This situation is due to the following factors in particular:

- **a lack of knowledge and data**, which makes it difficult to identify risks and opportunities (Bolay, 2021) and formulate appropriate development policies (Roberts, 2014);
- **a political factor, with power relations between intermediary cities and the capital having a decisive impact on their development;**
- **limited decentralization of decision-making, which poses a problem in many contexts** where a lack of technical and financial resources at local level leads to data on cities being kept in the capital where decisions concerning them are also made.

In conclusion, it is important to stress that the “intermediary city” notion encompasses a wide variety of situations, depending on the national context (income level, total population and urbanization rate, state of the decentralization process) and the type of intermediary city concerned.

Gaining a better understanding of these cities, their key characteristics and issues, is an essential first step in preparing them for growth, in response to the multiple challenges (socioeconomic, climatic, security) they face. Many international organizations are optimistic about the future of these cities in countries experiencing rapid urban growth:<sup>7</sup> their size means that action can still be taken to avoid reproducing the development patterns of larger cities. To this end, however, their potential, and above all their role in driving regional socioeconomic development and tackling climate change, must first be developed.

AFD, notably through its Urban Development Division, has contributed to this effort through a number of initiatives in favor of intermediary cities, presented in the following section.



Fianarantsoa,  
Madagascar  
© Sylvain Joachim / AFD

7 OECD/UN ECA/AfDB (2022) Africa's Urbanisation Dynamics 2022: The economic power of Africa's cities, West African Studies, OECD Publishing, Paris

# Activity review: 20 years of support for intermediary cities

## HISTORICAL CONTEXT OF INTERVENTION

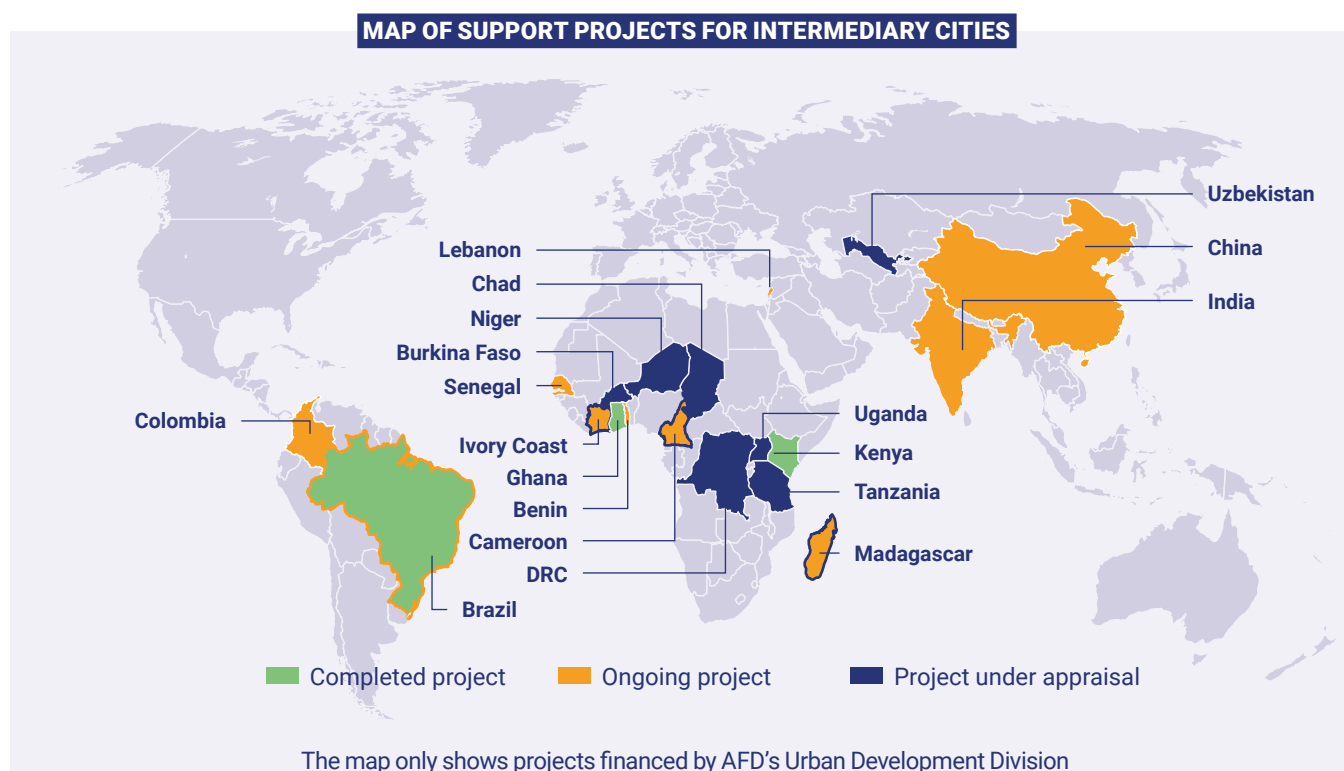
The 1990s saw the acceleration of decentralization processes in developing countries, a trend seen as a driver of growth and economic development. In many countries, urban planning powers have been transferred to the local level, but the legal and regulatory framework, financial capacity and human capital needed to exercise them are often lacking. AFD therefore seeks to support local development by entering into renewed partnerships with cities and providing increasing technical and financial support for emerging local project owners in partner countries. AFD also helps central authorities to formulate their urban development policies.

Supporting the development of intermediary cities is therefore an opportunity to help reinforce the local players in charge of these cities, while improving access to services and infrastructure as part of more balanced and sustainable land-use planning policies. To this end, AFD has rolled out a wide range of financing and support tools.

## A SUBSTANTIAL AND EXPANDING PORTFOLIO, DEMONSTRATING THE GROWING INTEREST OF CENTRAL GOVERNMENTS AND DEVELOPMENT FINANCE INSTITUTES (DFI) IN THESE CITIES

Over the past 20 years, AFD has financed a growing number of projects in intermediary cities. Within the Urban Development Division, this commitment has led to the implementation of **22 projects since 2003**, amounting to **€1,165 million** in total financing.<sup>8</sup>

These projects are mainly located in Africa (10 projects, more than half of the total volume undertaken since 2003), in cities of varying size, but which are all considered driving forces for regional development. Growing involvement in intermediary cities (nine projects currently under appraisal in sub-Saharan Africa) is proof of the recognition by central governments and donors of the importance of investing in these cities.



<sup>8</sup> This data relates solely to the AFD Urban Development Division's activities promoting the development of intermediary cities, on the understanding that these cities have also benefited from other support, notably sectoral, provided by the same Division or other AFD Group entities, including for asset improvement and access to water, sanitation, energy, education and healthcare.

## DIVERSE CONTEXTS AND CHALLENGES REFLECTING THE VARIETY OF “INTERMEDIARY CITIES”

AFD has forged partnerships with cities of all sizes, from those with fewer than 300,000 inhabitants (Benin, Cameroon, Madagascar) to those with several million inhabitants in middle-income countries (Brazil, India).

These may be:

- **Regional capitals:** main administrative, university, hospital and service centers for their hinterland. These cities are the driving forces behind sometimes isolated territories. This is the case of the “Regional Capitals” program in Cameroon (illustrated on page 16).
- **Cities with regional influence and strong economic potential:** Kisumu, Kenya’s third-largest city, located at the intersection of major trade flows, being a prime example (page 23).
- **Towns on the outskirts of megacities,** whose development is linked to metropolization processes. One example is the PAVICC program in Benin, which supports the city of Sèmè-Podji (population 225,000), located on the outskirts of Cotonou.
- **Smaller towns:** such as Comè (33,500 inhabitants) in Benin, also part of the PAVICC program.

This diverse range of cities thus encompasses a variety of issues as presented above (see Part 1), including:

- **strong demographic growth, combined with a significant lack of infrastructure and basic services;**
- **insufficient human and financial resources to ensure the development of their territory;**

For example, at the time of the appraisal of the Ghana Urban Management Pilot Programme (GUMPP), transfers from central government accounted for 85% of the revenue of the cities involved in the program. In the absence of sufficient resources, they invested only US\$2.7 per inhabitant/per year, compared with the estimated need of US\$80.

- **extreme vulnerability of target cities to the effects of climate change,** given their significant exposure to extreme weather events and the paucity of infrastructure adapted to these risks;
- **a key role in regional socioeconomic development,** notably through their potential as centers for trade and the production of goods and services.

*In the case of multi-city programs, the choice of target cities is often a complex decision, taken and assumed by the central government. AFD has generally supported the process, based on the identification of cities within an existing typology (as in the case of the “regional capitals” identified in the national nomenclature), or by applying an analysis that cross-references various objective criteria (needs, vulnerabilities, local capacities, local and national development strategies, coordination with other interventions), or via a competitive process such as a national call for projects (e.g., the Smart Cities Mission in India).*



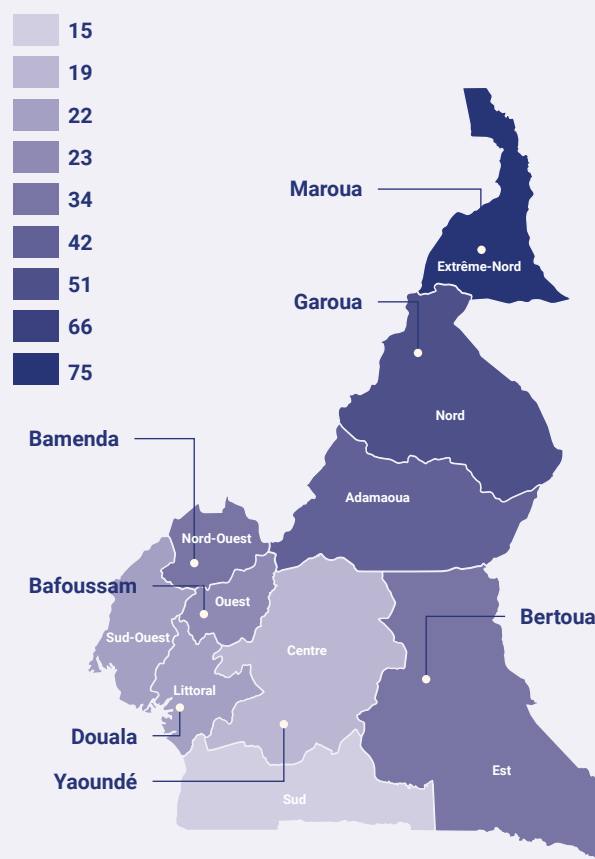
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## ONE EXAMPLE IS THE “REGIONAL CAPITALS” PROGRAM IN CAMEROON:

This program was launched in 2014 to consolidate the country's regional capitals and ensure more balanced territorial development. The five cities supported by the program – Bafoussam, Bertoua and Garoua (Regional Capitals 1), followed by Bamenda and Maroua (Regional Capitals 2) – share common challenges:

- Substantial growth in population and urban area, combined with a significant lack of infrastructure (the main networks built in the 1980s and 1990s fall short of the current population's needs).
- Very limited financial resources, either own resources or those transferred by the central government, preventing them from making significant investments or ensuring proper maintenance of urban infrastructures.
- The vulnerability of these cities to the effects of climate change: the country is highly exposed to urban flooding, and northern cities such as Garoua are subject to increasingly intense heat waves.
- A major economic role in trade between their region and the rest of the country. All five cities are located in regions where the economy is dominated by agriculture, livestock and fishing. The primary sector employs the vast majority of the population, including in towns and cities where most city dwellers have cultivable fields. These cities are therefore the main vectors for promoting and distributing local produce. Revitalizing the marketing sector to improve delivery circuits to the cities and thereby strengthen urban/rural links is a key issue.

### GEOGRAPHICAL INEQUALITIES IN CAMEROON



Percentage of "Bottom 40" households by region

The regions in the north and far north, where the cities of Garoua and Maroua are located, are home to over 50% of the "Bottom 40" households (those in the bottom two wealth quintiles of the country, i.e., the poorest 40% of the population), which have poorer access to essential services (in Cameroon, for example, 41% of B40 households have access to electricity, compared with a national average of 62%) and are more vulnerable to climatic risks.

Because of Cameroon's great agricultural and ecological diversity, climate change varies in nature from one region to another, and its effects differ. Territorial inequalities also have an impact on household exposure to environmental risks. A study led by AFD<sup>9</sup> (calculation of an environmental inequality index by region, based on a database covering the 2007-2014 period), highlights that, on average, households in the cities of Yaoundé and Douala are less exposed to environmental risks and have easier access to basic social services. Throughout the entire period, the far northern, north-western and western regions recorded the worst results.

<sup>9</sup> Kobou, G., BINDOP, K. M. M., Wounang, R., & Fontep, E. R. (2021). *Développement urbain, économie informelle et inégalités au Cameroun*. EU-AFD research facility on inequalities.

## VARIED PROJECT AMBITIONS AND OPERATIONAL CONFIGURATIONS

AFD's Urban Development Division's portfolio is divided into financing for projects benefiting a single city ("single-city" projects): **eight projects for a total of €373 million**, and projects benefiting several cities ("multi-city" projects, from two to 12 cities depending on the country): **10 projects for a total of €579 million**.

### THE PROJECTS AND PROGRAMS FORM PART OF TWO MAJOR NATIONAL POLICIES:



**Land-use planning policy**, which aims to strike a territorial balance and promote cohesion and/or economic performance by improving the distribution of services and economic activities (e.g., Cameroon and Madagascar), or promote best practices in urban development (e.g., India)



**Decentralization support policy**, which is specifically intended to support the transfer of powers to local governments and improve their performance in service provision and economic development (e.g., Ghana).

### MORE SPECIFICALLY, THE FOLLOWING OBJECTIVES MAY BE SET:



**Improve access to essential urban infrastructure and services** (roads, water and sanitation, solid waste collection and management, energy and street lighting, public spaces):

- with the aim of closing the gap with capital cities;
- by aiming to reduce inequalities and improve social cohesion, particularly in crisis areas.



**Support economic development and employment:**

- by assisting with strategic thinking on the economic attractiveness of cities and their integration at regional, national and even international levels
- by investing in strategic economic sectors for the territory, notably: (i) bolstering the commercial fabric to optimize the exploitation of local agricultural, craft and industrial production; (ii) developing tourism and rehabilitating/promoting heritage.



**Support climate change adaptation and biodiversity protection/enhancement objectives:**

- by supporting urban planning processes that take account of climate risks and the links between cities and their rural hinterland (prior funding of support to gain a better understanding of the impacts of climate disruption);
- by investing in the construction/rehabilitation of infrastructure to increase the resilience of territories to climate change (e.g., drainage infrastructure to reduce the impact of flooding and combat erosion);
- by paying particular attention to the resilience of infrastructure in response to climatic risks, through the choice of their location and the adoption of a bioclimatic approach (focusing on the thermal comfort of built and unbuilt spaces, greening, etc.)

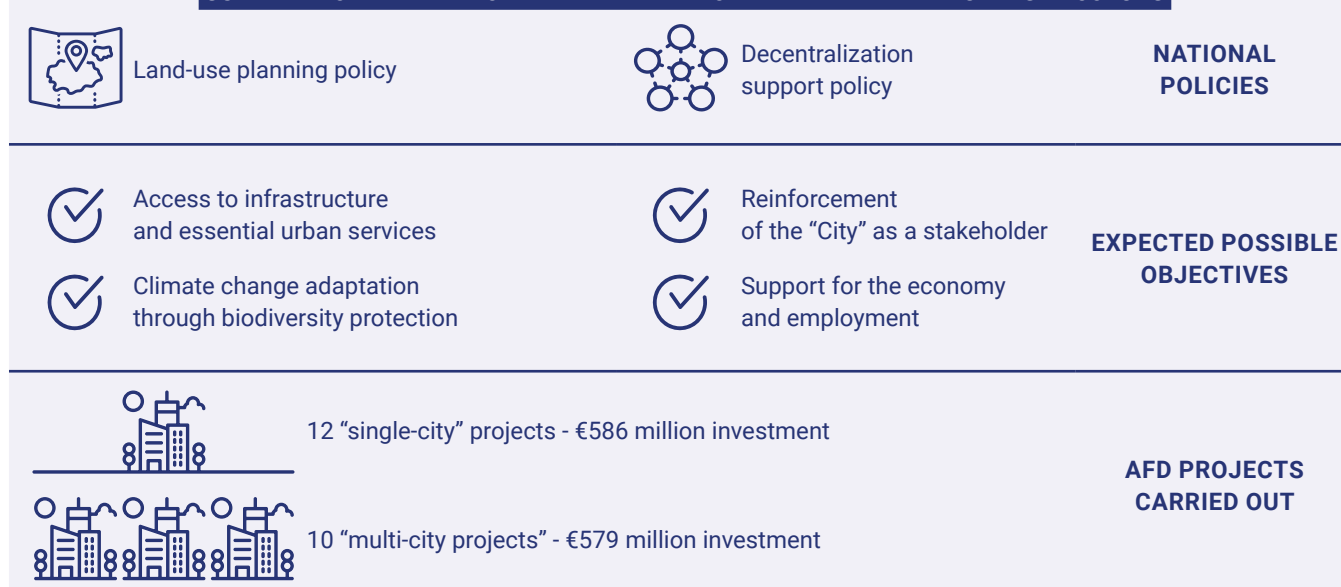


**Assist with strengthening the role of the city as a stakeholder:**

- by supporting decentralization processes and city-central government relations;
- by helping to improve the organizational structure, technical and financial capacities of local governments (boosting the mobilization of their own resources, local financial management, urban planning, steering investment projects, managing urban infrastructure and services).

*It should be noted that capacity building is always an objective of projects, albeit with different aims and fields of operation.*

## SUMMARY OF THE TYPE OF AFD INTERVENTION IN INTERMEDIARY CITIES PROJECTS



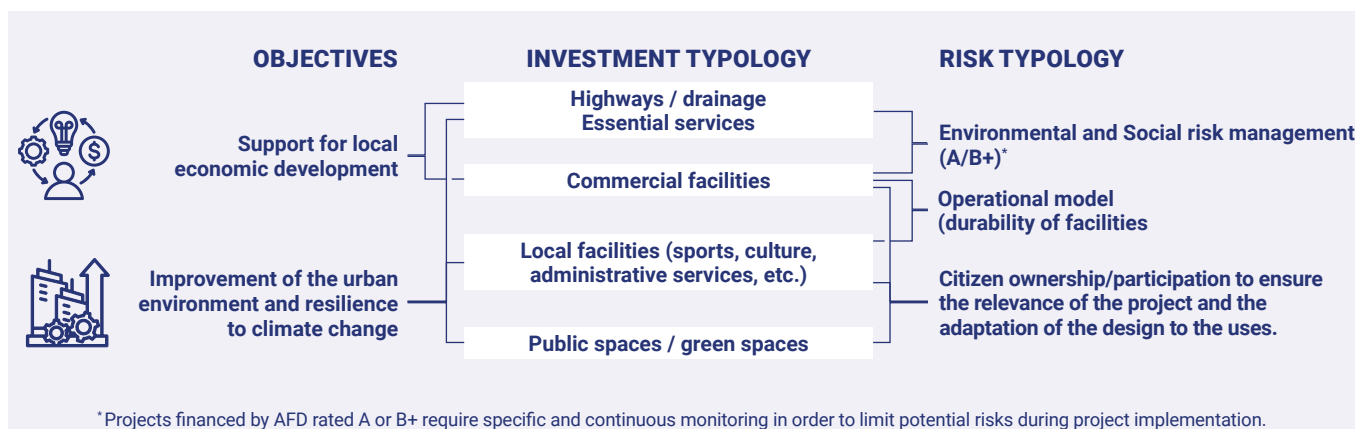
## A MIX OF INVESTMENT AND INSTITUTION-BUILDING INITIATIVES

AFD-financed projects generally have two main components:

- **a priority investment program** to address the shortfall in urban facilities and services in intermediary cities;
- **a capacity-building program** to help improve the expertise of local governments (local financial management, urban planning, procurement, etc.).

Support projects for intermediary cities cover wide range of operations, including road and drainage infrastructure, commercial facilities, local facilities and public spaces. These projects therefore combine different types of investments, each with their own characteristics.

- Local facilities require close collaboration between local players from the design stage through to the management of structures. In some cases, socio-institutional support is needed to ensure the proper use of these facilities.
- Road infrastructure and commercial facilities present other types of environmental and social challenges (compensation for people affected by the project, management of roadside areas, etc.).



Selecting investments in intermediary cities is often a complex process, given the absence or limitations of planning and investment documents, which are often reduced to a list of interventions with no real coherence or vision. Consequently, extensive feasibility studies are required, which must be conducted in conjunction with local and national stakeholders, in order to analyze the city's profile, identify local needs, and analyze/prioritize proposed projects on the basis of a rigorous selection methodology, paying particular attention to the technical and financial feasibility of projects, their relevance to the urban context, and the environmental and social risks associated with them.

### 3 EXAMPLES OF INVESTMENT TYPOLOGIES



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Cameroon

## Cameroon regional capitals 1 and 2

### CITIES

**5 cities:** Garoua (500,000 inhabitants), Bertoua (115,000), Bafoussam (300,000) in addition to Maroua (280,000) and Bamenda (480,000)

### BUDGET PER CITY

**Infrastructure:** Bafoussam – €37 M; Bertoua – €33 M; Garoua - €45 M; Bamenda - €37 M; Maroua - €39 M

**Capacity building** (4% of total budget): €1.7 million

### PROJECT CONTENT

#### INVESTMENTS

Road and drainage infrastructure (64% of investments), commercial facilities (25%), green spaces (8%), community facilities (3%)<sup>10</sup>.

#### CAPACITY BUILDING

training modules on various topics (local finance, procurement, project design and management).

#### PROCEDURE

Production of a Priority Investment Program (PIP) for each city, in a participatory manner. The first field missions for the feasibility study gave rise to household surveys to highlight people's expectations of the program and their priority needs. In addition, the PIPs were presented to Local Consultation Committees (Comités Locaux de Concertation) bringing together both local governments and the most representative elements of civil society in each city.

<sup>10</sup> Budget by sector for the Regional Capitals Program 1 Program



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Kenya

# Kisumu Urban Project (KUP)

## CITIE

**One city:** Kisumu (450,000 inhabitants)

## BUDGET PER CITY

**Infrastructure:** €36 M

**Capacity building** (10% of total budget): €4 M

## PROJECT CONTENT

### INVESTMENTS

- Multi-sector investment program: waste management, slum housing rehabilitation, commercial facilities, public infrastructure/facilities;
- Capacity-building program, designed to enable rapid project implementation while improving the management of urban services.

### PROCEDURE

- Selection of investments based on the municipality's priorities, in consultation with AFD, and on studies already carried out;
- Development of a short-term action plan comprising initial high-impact actions that can be carried out at the start of the project (including the drafting of an Urban Reference Plan, a strategic planning tool) and a medium-term action plan.



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Madagascar

# Programme d'Appui et de Développement des Villes d'Equilibre (PADEVE - support and development program for balanced cities)

## CITIES

**Infrastructure:** Antsiranana (260,000 inhabitants), Fianarantsoa (200,480), Toliara (200,000)

**Capacity building:** Antsirabe (226,000), Mahajanga (210,000), Toamasina (300,000)

## BUDGET PER CITY

**Infrastructure :** Antsiranana: €6.8 M; Fianarantsoa: €3 M; Toliara: €6 M

**Capacity building** (18% of total budget): €0.8 K

## PROJECT CONTENT

### INVESTMENTS

- Roads (42% of investments), commercial facilities (37%), drainage (14%), public spaces (7%);
- Administrative, technical and financial capacity building for cities and support for the national urban development policy.

### PROCEDURE

- Development of an integrated urban project followed by a priority investment program for each city, with the municipalities at the heart of the process. Investments (roads, commercial facilities, drainage infrastructure, public spaces) in the cities of Antsiranana, Fianarantsoa and Toliara.
- Capacity building for the six cities in the program: planning process integrating vulnerability to climate change, training modules on various topics (development of IT skills, local finance, management and maintenance).

## A WIDE VARIETY OF INSTITUTIONAL ARRANGEMENTS

AFD's project portfolio is characterized by a wide variety of institutional arrangements for project management and implementation. The organizations are heterogeneous, but all involve local government authorities and central government to varying extents.

Three main models stand out:

|                                    | "CENTRALIZED MODEL"                                                                                                                                                                                    | "HYBRID MODEL"*                                                                                                                                                                                                                                      | "DECENTRALIZED MODEL"                                                                                                                                     |
|------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>CENTRAL GOVERNMENT</b>          | <ul style="list-style-type: none"> <li>• Program supervision and coordination</li> <li>• Contracting authority for investments</li> <li>• Fiduciary and Environmental and Social management</li> </ul> | <ul style="list-style-type: none"> <li>• Program supervision and coordination</li> <li>• Contracting authority for large-scale investments</li> <li>• Fiduciary and Environmental and Social management</li> </ul>                                   | <ul style="list-style-type: none"> <li>• Program supervision and coordination</li> </ul>                                                                  |
| <b>CITIES</b>                      | <ul style="list-style-type: none"> <li>• Local government associated with technical monitoring and Environmental and Social management</li> </ul>                                                      | <ul style="list-style-type: none"> <li>• Contracting authority for projects involving small investments**</li> <li>• Local government associated with technical monitoring and with Environmental and Social management for the remainder</li> </ul> | <ul style="list-style-type: none"> <li>• Contracting authority for investments (procurement, Environmental and Social monitoring and payments)</li> </ul> |
| <b>TECHNICAL ASSISTANCE SCHEME</b> | Technical Assistance at two levels with priority given to the national level                                                                                                                           | Creation of a central monitoring unit backed by contracting authority support +local monitoring units in each local government body for resident Technical Assistance within each local monitoring unit                                              | Technical Assistance at two levels with priority given to the local level                                                                                 |

*\*Note that the hybrid model is not exhaustive. The responsibilities of central government, local government and technical assistance may vary according to the projects. \*\*The level of the amount of contracts and fiduciary management must be defined on a case-by-case basis. Project management can remain at national level*

The choice of institutional arrangements is undoubtedly the central stage in project preparation, especially in the case of intermediary city programs, which involve a multitude of players at different levels of governance (central, local and sometimes regional), in cities that are often geographically remote and lacking in technical capacity.

It is therefore based on an analysis of the context during project appraisal stage, in order to clarify the distribution of roles and responsibilities between central and local levels, as well as the technical support system at both levels:

- What is the project's priority objective (capacity building for local authorities or rapid implementation of investments)?
- What are the regulatory constraints linked to the degree of decentralization (the allocation of powers within levels of government)?
- What are the technical and financial capacities of the players involved in exercising their responsibilities?
- Are any other urban programs underway in the cities in question?

# PREDOMINANCE OF PROJECT FINANCING AMONG PROPOSED FINANCIAL INSTRUMENTS

## PROJECT FINANCING OR BUDGETARY SUPPORT?

Two financing tools are used for supporting intermediary cities, depending on the context and the needs of AFD's partners:

- **project financing**, in support of a multi-city investment program or a single-city project, granted to the central government in the form of a sovereign loan, is **the most frequently used method in the portfolio**;
- **budgetary support for national public programs** (i.e. in support of a national program run by a central government or municipality), **or policies** has been mobilized more recently in the portfolio to support players who have demonstrated proven political and technical capabilities.

|                                  | PROJECT FINANCING                                                                                                                                                                                                                  | BUDGETARY SUPPORT                                                                                                                                                                                        |
|----------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| TYPE OF FINANCING                | Financing of a specific project (or set of sub-projects)                                                                                                                                                                           | Funds earmarked for and directed toward specific projects, decided jointly with the counterpart entity (public policy dialog)                                                                            |
| FIDUCIARY CIRCUIT AND PROCEDURES | Distinction between the fiduciary circuit and public circuits (e.g., project accounts opened in commercial banks) and ad-hoc procedures (e.g., budgeting outside the Finance Act, specific procurement rules, parallel accounting) | Financing of the budget of a public counterpart entity, which is part of national public finance management systems, from the perspective of both implementation procedures and the disbursement circuit |

*Comparison of intervention methods: the project approach and program budget financing*

When AFD deems national capacities or procedures to be unsatisfactory, project aid helps control the risks associated with project implementation. In addition, this type of intervention enables counterpart entities and local authorities to be benchmarked against international standards and helps them improve their practices.

Non-sovereign financing is marginal, and concerns partners with well-developed technical and financial capacities due to sufficiently mature decentralization contexts which give local authorities the regulatory and financial capacity to take on debt (one example being Baranquilla in Colombia: at the end of 2020, public policy budget financing was granted to the city in support of its territorial development plan).



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Ghana

# GUMPP Program

## CITIES

4 cities (Kumasi, Tamale, Sekondi-Takoradi, Ho)

## AMOUNT

€40.5 M

## FINANCIAL INSTRUMENT

€40 M sovereign loan and €0.5 M grant

## CONTRACTING AUTHORITY

### 2-TIER CONTRACTING AUTHORITY STRUCTURE

the 4 chosen cities (Metropolitan and Municipal Districts) and the **Ministry of Local Government and Rural Development** (MLGRD)



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## OBJECTIVES

- Job creation and intensification of commercial activities
- Reduction of flood risks, stagnant water and associated diseases
- Improvement of the population's living conditions
- Increased financial autonomy of the cities in question



## CONTENT

- Physical investments identified as priorities by the cities (markets, waste-processing sites, highways, drains, etc.)
- Capacity building for administrative and financial management
- Institutional reinforcement of the Urban Unit at the Ministry of Local Government and Rural Development (MLGRD)

# CITIIS Program

**Example of programme budget funding:** funding for the CITIIS programme (City investments to Innovate, Integrate and Sustain) in support of the 'Smart Cities Mission', the Indian Government's urban development programme.

## CITIES

**12 cities** (CITIIS 1) followed by **15 cities** (CITIIS 2)

## AMOUNT

**€218 M**

## FINANCIAL INSTRUMENT

**€100 M sovereign loan and €6 M EU grant** (CITIIS 1); **€100 M sovereign loan and €12 M EU grant** (CITIIS 2)

## CONTRACTING AUTHORITY

**National Institute of Urban Affairs (NIUA), an autonomous institute attached to the Ministry of Housing and Urban Affairs (MoHUA)**



## OBJECTIVES

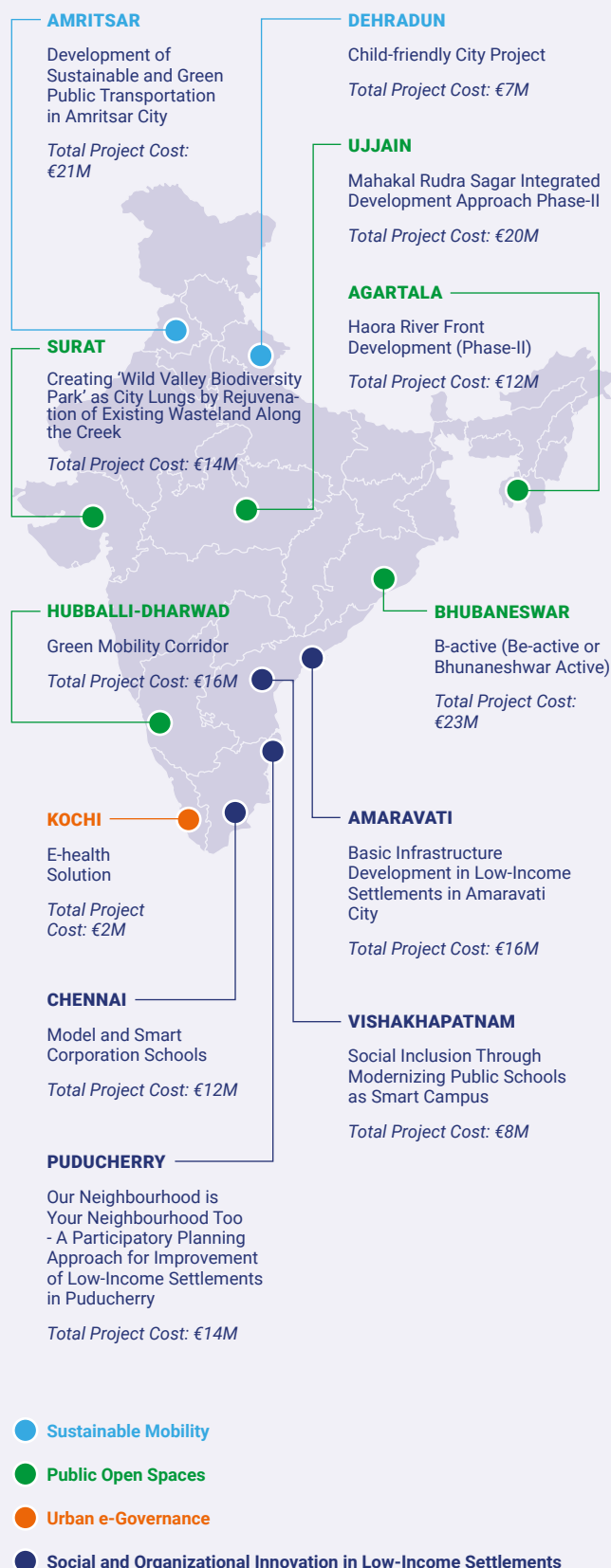
- Promotion of urban development demonstrator projects on sustainable development
- Capacity building for local contracting authorities in the management of integrated projects driving urban innovation
- Reinforcement of Environmental and Social systems and capitalization on the national mission



## CONTENT

- Multi-tier support process covering all territorial levels
- Component 1 (cities): call for projects to finance 12 cities amongst the 100 cities in the "Smart Cities Mission" program launched in 2015 by the Indian Ministry of Urban Development (followed by 15 cities for CITIIS 2)
- Component 2 (state government): technical support for 1 state to develop the capacities of its "smart cities"
- Component 3 (central government): support for the NIUA in the management of CITIIS and the "Smart City Mission"

## MAPPING OF PROJECTS SELECTED AS PART OF CITIIS 1



# SUPPORT FOR UPSTREAM FINANCING PHASES VIA A PROJECT PREPARATION FUND: THE CASE OF THE CICLIA FACILITY

AFD has also supported intermediary cities via project **preparation funds, such as the CICLIA facility**. Launched in 2017, CICLIA is a facility for the preparation of low-carbon and resilient urban projects in Africa, co-financed by the European Union, the Swiss Ministry of the Economy and AFD, which is the direct project owner. This facility has already supported 29 African intermediary cities.

## EXAMPLE OF CICLIA SUPPORT FOR AN INTERMEDIARY CITY PROJECT:

As part of the PADEVE (Support and Development Program for Balanced Cities) in Madagascar, CICLIA (Cities and Climate in Africa) support has accompanied reforms of land-use planning and construction and the adoption of development methods that are more resilient to the effects of climate change, through (i) the production of climate change vulnerability profiles for four Madagascar cities, including flood risk management, and (ii) the provision of training for a guide entitled “Madagascar – Adaptation aux changements climatiques dans la planification urbaine” (“Madagascar - Adapting to Climate Change in Urban Planning”) (intended for representatives of Madagascar government authorities and central government departments).



## FOCUS

### FINANCING TOOLS TO PROMOTE DECENTRALIZATION AND STRENGTHEN LOCAL GOVERNMENTS

AFD's Urban Development Division supports projects to decentralize and reinforce local governments. Several financing methods have been used for this purpose:

- Program budget financing to support decentralization reforms: In Senegal, for example, the “PACASEN” support program for municipalities and agglomerations supports Act III of the country's decentralization and helps to develop the governance and financing capacities of local governments.
- Lines of credit with public financial institutions specializing in financing local governments: In Morocco, a €100 million loan was granted in 2018 and again in 2023 to the Fonds d'Équipement Communal (FEC – municipal structuring fund) to finance strategic investments in local governments, as well as a €1 million subsidy to support capacity-building in environmental and social due diligence by the FEC and Moroccan local governments. This financing accompanies the “Advanced Regionalization” reform, which was enshrined in the Constitution in 2011. This reform has three main objectives: promoting balanced territorial development, reinforcing local democracy and improving the effectiveness of administrative action.
- Financing of municipal development funds: since 2009, AFD has been supporting the “Municipal Development Program” (MDP) in Palestine, alongside other donors. The Municipal Development Fund (MDLF), a project implementation agency, manages municipal infrastructure projects while helping municipalities to develop their urban management capabilities.

## PORTFOLIO ANALYSIS: A VALUABLE LEARNING EXPERIENCE

### AN EVOLVING PORTFOLIO INFLUENCED BY TWO GENERATIONS OF PROJECTS

**The first generation of projects** (2005-2015) supported the acceleration of African decentralization and the emergence of urban policies for intermediary cities:

- AFD identified opportunities to support intermediary cities at a time of accelerating decentralization processes. The central concern of these projects was to reinforce local governments, which became the contracting authorities for the investments and benefited from a plan to build their urban management capacities. The flagship projects during this period included the Ghana Urban Management Pilot Programme (GUMPP), the Kisumu Urban Project (KUP) in Kenya, and the Saint Louis du Sénégal development project in Senegal.
- These projects encountered a number of operational difficulties, due to their complexity (multi-sector, multi-city investments) and the shortcomings of local contracting authorities.

**The second generation of projects** (since 2015) has been carried out within the framework of more structured urban policies in certain countries:

- AFD's support has been gradually incorporated into urban development programs and policies launched at national level. One example is the CITIIS program in India (part of the Indian government's "Smart Cities Mission") and the Regional Capitals program in Cameroon (the "Document Stratégique pour la Croissance et l'Emploi" ("Strategic Document for Growth and Employment") drawn up by the Cameroonian authorities highlights the need to build the institutional capacities of the urban sector and develop urban infrastructures).
- In some cases, AFD intervenes after an initial donor program on decentralization and municipal reinforcement. AFD can then build on the program's achievements (increasing the authorities' expertise in donor procedures and practices, notably in terms of procurement, environmental and social issues and reporting) and coordinate with its partner to create synergies between programs (joint financing arrangements, complementarity of financed investments and/or capacity-building actions).

### A "FIRST-GENERATION" PROJECT

## INVESTMENT IN ESSENTIAL URBAN INFRASTRUCTURE AND SERVICES IN KISUMU, KENYA

### A "CATCHING UP" EXERCISE FOLLOWING A PERIOD OF UNDERINVESTMENT, ACCOMPANIED BY MUNICIPAL CAPACITY BUILDING

With an estimated population of 450,000, Kisumu is the country's third-largest city. At the time of the project appraisal phase in 2008, the city had a high poverty rate (48% of the population below the poverty line), the result of strong urban growth coupled with underinvestment in essential infrastructure and services.

### THE KISUMU URBAN PROGRAM (KUP) WAS DESIGNED TO IMPROVE LIVING CONDITIONS FOR THE PEOPLE OF KISUMU AND BUILD MUNICIPAL CAPACITIES.

The project was divided into five components: (i) capacity building for the municipality (drafting a reference urban development plan, increasing own resources, staff training), (ii) solid waste management, (iii) slum upgrading, (iv) rehabilitation of commercial facilities, (v) improvement of public infrastructure/amenities.

### THIS WAS AN INNOVATIVE PILOT PROJECT FOR KENYA

- It contributed to creating a global and integrated vision rather than a sectoral vision. The first stage in the project was to design an Integrated Strategic Urban Plan, which set out to establish a strategic framework for improving public policies and financing priority investments.
- The municipality was the contracting authority for the investments, with the financing (a €40 million concessional loan to the Kenyan Ministry of Finance) being reallocated in the form of a grant to the municipality of Kisumu. The project was implemented by the municipal services, without recourse to an external project unit.



Kisumu market, Kenya, 2018 © Gautier Kohler, AFD

### LESSONS LEARNED:

This project is emblematic of "first-generation" intermediary city projects: operations in situations characterized by the lack of a structured national urban policy, chronic underinvestment in urban infrastructures and services, and limited technical and organizational capacities within the municipality. The choices made during the project preparation phase (multi-sector investment with a local contracting authority and a short implementation period) took insufficient account of the municipality's capacity to absorb such a project (budget of €40 million, equivalent to the last 50 years of municipal investment). The project was also hindered by a change in the political framework, with municipal powers being transferred to another level of government, the county). Initially scheduled to last six years, the project was eventually staggered over a 12-year period.

## A “SECOND-GENERATION” INTERMEDIARY CITY PROJECT

### A “SECOND-GENERATION” INTERMEDIARY CITY PROJECT IN PREPARATION IN UGANDA:

This program is incorporated into a national policy to develop intermediary cities. As part of its “Uganda Vision 2040” plan, the Ugandan government has identified five regional cities (Arua, Gulu, Kampala, Mbale, Mbarara) and five strategic cities that will play a key role in the country’s development. Regional cities are urban centers that provide general services to a large catchment area. Strategic cities have significant economic development potential in key sectors: Hoima (oil), Nakasongola (industry), Fort Portal (tourism), Moroto (mining) and Jinja (industry).

In addition, the World Bank has been working with the country’s intermediary cities since 2013 through the USMID municipal infrastructure development support program.

AFD was asked by the Ugandan government to help set up and finance an intermediary cities program targeting three to five cities and aiming to support local economic development and provide responses to climate change mitigation and adaptation challenges.

AFD therefore mobilized funds, via the CICLIA facility, to finance the preparatory phase of the program. Four of the intermediary cities – Arua, Mbarara, Soroti and Fort Portal – identified by the government were selected on the basis of a set of predefined criteria (potential impact, consistency with national strategies, complementarity with other initiatives, assessment of local institutions).



Kabondeire market, citie of FortPortal, Ouganda, 2023 ©  
Jjjumba Martin / AFD

### PROJECT FINANCING, A HALLMARK OF AFD’S APPROACH AND ITS DESIRE TO SUPPORT BENEFICIARY CITIES AS CLOSELY AS POSSIBLE

The predominance of project aid as a financing arrangement, implying close definition and monitoring of the financed activities, is a hallmark of AFD’s support for intermediary cities. It reflects a commitment to providing close support to cities with opportunities for dialog and close monitoring of the impacts and risks of interventions, which are highly appreciated by beneficiaries. This approach promotes greater consideration of cross-cutting issues such as adaptation to the effects of climate change and citizens’ participation in projects. However, it does not seem to be fully compatible with the desire to adopt a holistic remedial strategy to meet the various needs of intermediary cities.

### COMPLEX ARRANGEMENTS OF QUESTIONABLE EFFECTIVENESS

Portfolio evaluations show that the implementation of intermediary cities programs is often deemed unsatisfactory in terms of progress, the effectiveness of the arrangements, and efficiency. These evaluations reflect the main operational challenges encountered, namely:

- delays in decision-making processes;
- sometimes substantial delays in awarding implementation contracts;
- extremely long validation and processing times for supplier invoices in various cases.

These difficulties are explained by the unusual complexity of these programs due to the involvement of two levels of stakeholders – central government and local authorities – whose project management and monitoring capacities are sometimes limited, and whose interests may be divergent. The implementation of these programs has also mobilized significant financial resources on support (technical assistance, capacity building). Portfolio analysis does not identify one specific model as being more effective than the others, while being replicable. Such a model requires ad-hoc compromises to reconcile compliance with the regulatory provisions, especially in terms of procurement, operational efficiency – by favoring short decision-making processes – and risk mitigation, particularly on the fiduciary, environmental and social levels.

However, the changes in the portfolio show that while the first intermediary city support projects encouraged the empowerment of the city as a stakeholder (design of locally developed investment programs and the appointment of local entities as contracting authorities for investments, a significant component of capacity-building support activities), this focus was subsequently mitigated by the **requirement for efficient implementation of urban infrastructures and services**. A change can be observed over the course of the projects, from a process focused on strengthening local players (first generation of projects) to a more pragmatic approach, adapted to the local context and to the primary objective (building the capacities of the city as a stakeholder, or speeding up investment program implementation).

## OVERLY AMBITIOUS PROJECTS EXCEEDING ABSORPTION CAPACITIES

Over and above the implementation time frames and the challenges associated with the operational arrangements, the first generation of projects was hampered by the **sheer number of activities and investments** to be carried out in order to contribute to the objectives of upgrading basic services and closing the gap in terms of economic development, while developing the expertise of local governments. This trend may also have been accentuated by the **allocation of financial envelopes that were excessively high in relation to the actual absorption capacities** of local governments. This situation may have given the impression of a dispersion of the resources and impacts of projects, with a heavy burden being placed on the teams in charge of monitoring, and even cancellations of activities initially planned, or cases of poor implementation due to insufficient monitoring. Achieving these different objectives within a single project requires substantial planning, management and monitoring capacities at all levels, which remain underdeveloped in most of the countries of intervention.

## PERCEIVED “STANDARDIZATION”: RAISING CONCERNS WITH REGARD TO ADDRESSING EACH TERRITORY’S SPECIFICITIES

Portfolio analysis reveals an investment typology common to a large number of multi-city projects, divided into highways and drainage, public spaces and local amenities, and commercial facilities. While it is clear that these investments are meeting a need, feedback nevertheless highlights the **difficulty of taking the specific needs of each city’s territories into account**. This complexity may stem from a variety of factors, such as an inadequate understanding of the specificities and potentials of different areas due to a lack of sufficiently detailed analysis, notably of urban/rural links and the role of cities in the national or sub-regional urban fabric, or difficulty in implementing the appropriate means, and above all the human resources, required to meet the specific demands of each city, when they have insufficient capacities.

## SIGNIFICANT SUSTAINABLE DEVELOPMENT IMPACTS REQUIRING CLOSER ALIGNMENT WITH RESILIENT TERRITORIAL DEVELOPMENT STRATEGIES

The main positive impacts of support projects for intermediary cities concern their contribution to the following issues: **inclusion and territorial cohesion, gender equality, reinforcement of effective governance mechanisms and support for economic development**, particularly at national level. **However, the impacts on issues relating to the protection of the planet still seem relatively limited**, due to the lack of data and vulnerability analyses available at the intermediary city level, and the failure to prioritize this subject. The use of dedicated financing tools for project preparation, such as the CICLIA facility, is already helping to improve this situation, which nonetheless shows that these issues are insufficiently addressed in any development strategies for these cities.

## CONCLUSION

The hindsight and feedback obtained call for a **renewed approach to AFD’s provision of financing for intermediary cities**, in order to rationalize the targeting of projects and maximize their impact, optimize their operational arrangements by taking better account of the actual absorption capacities of local governments, and enhance the location of impacts in favor of the sustainable development of these cities.

A new generation of financing could therefore be put in place, by more effectively combining **a more “thematic” approach to intermediary cities** with interventions targeting the performance of local governments. Seven strategic recommendations are presented in the following section to implement this approach.

# 3 Strategic recommendations for “intermediary cities”

## 1. SUPPORT THE CENTRAL GOVERNMENT IN DEFINING AN INTERVENTION RATIONALE BY CITY TYPOLOGIES

A **thematic approach** to investing in intermediary cities should be integrated into a broader urban development strategy. However, local planning documents often fail to clearly outline the development priorities for rapidly expanding cities, and their integration into regional or national development plans is limited. Besides routine allocations, these plans seldom incentivize central governments to finance investment projects beyond connectivity or resource access issues (e.g., water, energy).

In the absence of comprehensive strategic documents, a preliminary analysis of intermediary cities can **identify the strategic objectives the project aims to address and define an investment typology**. Tools can be employed to categorize intermediary cities based on functions (administrative, economic, educational, etc.), governance systems, demographic and migratory trends, service and infrastructure levels, or resilience to climate or security-related crises.

A **common analysis framework**, developed in collaboration with the relevant Ministry, could be used to propose tailored investment strategies and institutional support actions for different city typologies, aligning with selected strategies. This framework may also support the justification of specific sovereign financing for projects considered of “national interest.” Such tools are crucial for fostering a public policy dialogue on national planning strategies, as demonstrated by Rwanda. Rwanda’s Development Master Plan envisions a structured urban framework featuring a densely populated capital, satellite cities based on their economic functions, and secondary towns and cities, all aligned with its socioeconomic development objectives.

## 2. CONDUCTING DETAILED THEMATIC ANALYSES TO ENHANCE AND CLARIFY PROJECT RESULTS

Increasing the impacts of “intermediary city” projects means **delving deeper into the chosen themes**. Specific analyses need to be carried out to establish a strategic framework for the future project. This could be a tourism-led economic development strategy, a blue economy plan, or a territorial resilience strategy. The aim is to help the city to produce thematic roadmaps and identify specific performance indicators. In addition to investment projects, the measures may also involve institutional and regulatory support, or capacity-building measures for local players (public- or private-sector), some of which could extend beyond the mandate of local authorities, in order to facilitate the mobilization of other players. The project will draw on these elements to develop a result-based intervention strategy.

**Three major themes could be prioritized:**

- **Local economic development**, widely regarded by local authorities as the most important territorial issue. Devising an economic development strategy requires an analysis of territorial attractiveness. The ability of cities to attract capital, economic activity, talented people and visitors must be considered in the light of the impact of the development of intercity transport infrastructures. These analyses should help to identify endogenous growth drivers and detect competitive advantages. By way of example, the intervention rationales for cities located along regional economic corridors could aim to foster the development of industrial and commercial hubs and encourage opportunities for collaboration to promote local products and services with high added value, linked to intercity trade.
- **Resilience in response to natural disasters**. Resilience to natural disasters requires multi-hazard climate vulnerability analyses to define action plans and prioritize investments. These approaches may be based on climate energy plans – where they exist – or on existing screening tools (such as City Scan, WRI tool and PRCA). Approaches will be specific to the type and degree of risk exposure, with differentiated intervention rationales for cities facing a scarcity of water resources, a risk of marine submersion, and riverine or pluvial flooding. The activities will then focus on stormwater management, critical infrastructure resilience, preserving and enhancing ecosystem services, incorporating climate risks into urban planning documents, and improving crisis management measures. They can be applied at the watershed level, or even on the scale of natural ecosystems, thereby covering several urban areas.
- **Remedying problems of access to basic services, notably for displaced persons**. A specific approach can also be adopted for migration issues, in order to bolster the reception capacities of host cities and improve access to basic services, whether for forced or voluntary displacements. Such approaches are designed to support the emergence and growth of intermediary cities, by proposing remedial programs for urban services (water, sanitation, local health and school facilities) in line with the

intervention rationales specific to the improvement of underprivileged neighborhoods. They may also include activities linked to vocational training, access to employment and decent housing.

### 3. STRENGTHENING URBAN-RURAL INTERFACES THROUGH URBAN FOOD SUPPLY AND RISK MANAGEMENT STRATEGIES

The fact that intermediary cities serve as an interface with their surrounding rural areas is widely recognized. These cities provide a market for local value chains, offer commercial and financial services, and facilitate access to administrative services and knowledge/training centers. Moreover, urban areas are intrinsically dependent on the ecosystem services provided by adjacent, less anthropogenic territories, relating to both natural resource management and climate risks. Nevertheless, insufficient attention is paid to these relationships in municipal infrastructure projects.

**The operational recommendations set out in the studies on urban food supplies provide food for thought in this regard. Analyzing the commercial fabric of cities, reducing post-harvest losses (cold chain, storage capacity), improving access to transport infrastructures, and supporting urban/peri-urban agriculture are all avenues to be explored with a view to improving support for trade between cities and their hinterlands.** Last but not least, reinforcing sustainable practices in local production and processing chains – particularly in the meat and fish sectors – helps to improve the sustainability of food systems in fast-growing cities and reduce the risk of malnutrition for the most vulnerable people.

In this respect, in its book, entitled *L'alimentation des villes - quels rôles des collectivités du Sud?* (Food for Cities – What Roles for Local Governments in the Global South?) (AFD, 2017), AFD's Urban development, town planning, housing Division presents a set of intervention tools to be mobilized for the sustainable development of food security policies, with a strong focus on examples from intermediary cities. Bouaké in Côte d'Ivoire, for example, has drawn up a master plan for all the city's markets with a view to understanding their importance and respective interactions in order to propose strategies for restoring the balance of commercial offerings throughout the city. In 2019, an AFD sovereign loan of €90 million was subsequently allocated for the rebuilding of Bouaké's large central market, which is due to open at the end of 2024.

A risk-management-based approach can also help protect and strengthen the interdependencies between cities and rural areas. Flood management and prevention on a watershed scale is one example, including measures to increase retention and infiltration capacities upstream, improve the resilience of infrastructures in urban environments, and protect the regulating functions of natural environments in peri-urban areas, all of which bolster the resilience of territories undergoing anthropization. However, these activities require capacity building among local stakeholders to help them fully understand the key issues facing their territories at regional level.

### 4. ENCOURAGING FINANCIAL MOBILIZATION TO BOOST IMPACT

The main regional cities benefit from an increase in national programs and DFI funding, particularly through decentralization and local finance policies. **Unlike first-generation projects, which were based on an "integrated" catch-up rationale, the new financing must be more reliant on other programs to define complementary approaches, contribute to a holistic approach to territorial development, and maximize the added value of "thematic" projects.**

In countries benefiting from a "decentralization" program (such as program budget support or community investment funds), investments may focus on strategic infrastructure requiring effective control of environmental and social risks, and in-depth support for urban service management. This could potentially include projects for "commercial facilities", "solid waste management" or "sports and cultural infrastructure".

For local economic development projects, the improvement of commercial/industrial infrastructure and the management capacities of urban operators must be accompanied by a support component for the private sector. The creation of a coalition strategy with other stakeholders is strongly recommended in order to address environmental issues in a manner that is conducive to economic development. For example, the project to strengthen Tanzania's commercial infrastructure (TASUFIP) is supported by a project run by ENABEL to improve financial, commercial and administrative services for private project initiators. It also includes a support component for vocational training centers and small business support organizations. These mobilization strategies may be facilitated by an "AFD group"<sup>11</sup> or Team Europe approach, as in Tanzania.

<sup>11</sup> The "AFD Group" approach aims to mobilize AFD Group entities (AFD, Expertise France, Proparco). The "Team Europe" approach is a coordinated approach between the European Union, its Member States (and their implementing agencies and public development banks), as well as the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD).

## 5. REINFORCING PUBLIC PARTICIPATION AND SUPPORT FOR YOUNG PEOPLE

Public participation processes are essential to improving the transparency of local governance systems and the accountability of local public policies in intermediary cities. They are also necessary for maximizing the usefulness and impacts of intervention rationales and priority investments.

**These public participation processes need to be adapted to the economics of intermediary cities, paying particular attention to young people and women, social categories that are poorly represented in institutional and customary decision-making bodies.**

However, analysis of population pyramids shows a significant concentration of young people between 20 and 35 years of age, which is higher than the national average. These young people make up the majority of the working population, mainly in the trade, crafts and logistics sectors, with a high proportion of women in local commerce and primary food-processing chains (e.g., fish drying and community catering). It is therefore advisable to ensure a clear understanding of local labor market dynamics in order to propose measures designed to maximize job creation and vocational training. To this end, AFD's "Job & Cities" approach aims to promote drivers of local economic development, with an emphasis on support for employment and its measurement.

In addition, the urbanization processes triggered by the development of trade and economic activities have exacerbated the lack of local social infrastructure, especially for young adults and above all mothers (mother-child healthcare, childcare systems, nursery schools). Similarly, the design, operation and maintenance of sports and cultural infrastructures also suffer from a lack of support, despite significant demand from the population and the attendant socioeconomic benefits.

Lastly, incorporating existing uses into the design and management of financed facilities must be a central principle of any project support scheme. Recurrent iterations with users throughout the project are one of the key conditions for ensuring the sustainability of facilities and the adequacy of urban services in relation to the needs. This requires close support for project owners and their implementing agencies, to avoid replicating standard designs that are ill-suited to local contexts.

## 6. ENHANCING URBAN PLANNING PRACTICES

The implementation of urbanization policies has enabled many intermediary cities to develop relatively effective urban planning tools. Continued efforts are needed to enhance the quality of these tools, such as incorporating natural hazard considerations and adjusting land-use coefficients along key road axes

Despite the progress made, intermediary cities continue to sprawl, significantly diminishing the benefits of agglomeration effects. Poor land management and limited capacity to enforce existing regulations currently leave local authorities with limited resources for organizing the necessary increase in development density or for protecting natural assets providing ecosystem services, such as wetlands and green and blue belt networks. This has led to the need to assist local authorities with the implementation of their master plans. Such support might include strengthening departments responsible for issuing building permits and monitoring construction sites, or introducing incentives to promote urban densification. Additionally, small investments can enhance the physical demarcation and protection of critical undeveloped areas, such as funding for "green barriers".

## 7. IMPROVING THE FINANCIAL PERFORMANCE OF LOCAL GOVERNMENTS

Efforts have recently been made to improve the financial management of local governments. Decentralization programs have resulted in enhancing the predictability and stability of state financial transfers and cities' own source revenue generation. Here too, constant efforts must be made to ensure the sustainability of existing mechanisms and increase fiscal transfers to local governments.

**A more thematic approach to interventions in «intermediary cities» can support these efforts by improving the management of urban services operated by local governments or their dedicated operators.** This is particularly relevant for commercial facilities, solid waste management, and sports and cultural infrastructures. Key issues include pricing, revenue collection from users, and cost optimization, all of which are crucial for implementing service management contracts (by public or private entities) that are often lacking in most intermediary cities. Support for management practices can enhance the accounting and financial analysis of these services and propose tangible solutions for reducing operating deficits. For example, digital technologies for fee collection has been shown to significantly increase municipal revenues, as evidenced by pilot projects funded by the African Smart Towns Network (ASToN) initiative, an AFD program.



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## Conclusion

Intermediary cities, often described as demographic and functional “middle grounds” that either serve as outposts or counterbalances to large metropolises, represent diverse urban realities shaped by their geographical contexts. These cities present unique challenges and opportunities for development, requiring increased support to address their specific needs.

Drawing on 20 years of project financing across 15 countries, this report aims to enhance the understanding of the complexities involved in supporting intermediary cities. Project goals have included improving access to urban infrastructure and services, promoting economic development and employment, adapting to climate change, protecting and enhancing biodiversity, and strengthening city governance. However, the preparation phase of these projects often reveals a range of complex issues, with varying levels of involvement from central government agencies. Achieving operational efficiency and effectiveness while aligning with sustainable development goals requires AFD to adopt a refreshed approach to support.

Seven key principles have been identified for intervention: (i) establish a clear rationale and investment framework for each type of city, (ii) conduct detailed thematic analyses to enhance project impacts, (iii) strengthen urban-rural connections through food supply chains and risk management, (iv) promote stakeholder mobilization to maximize project benefits, (v) support local democratic processes and youth engagement, (vi) improve urban planning processes, and (vii) continue enhancing the financial performance of local governments.

Successful implementation of these principles will require improving and sharing data on these cities, as well as utilizing appropriate tools to engage local stakeholders in territorial development strategies.

Overview of the AFD Urban development, town planning, housing Division's intermediary city projects:

| Country    | Cities                                | Project name                                                                                                       | Presentation                                                                                                                                                                                                                                                                             | Dates     | Amount (M€) | Financial instrument     | Contracting authority       |
|------------|---------------------------------------|--------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|-------------|--------------------------|-----------------------------|
| Lebanon    | Tyre, Tripoli                         | <i>Cultural Heritage and Urban Development – CHUD I</i>                                                            | Creating the conditions for economic development and improved living conditions in historic centers                                                                                                                                                                                      | 2003-2012 | 12.5        | Sovereign loan           | Central government          |
| Kenya      | Kisumu                                | <i>Kisumu Urban Project – KUP</i>                                                                                  | Engaging in “catching up” following a period of underinvestment in infrastructure and urban services in the city, and building the municipality's capacities                                                                                                                             | 2010-2022 | 40          | Sovereign loan           | Municipality of Kisumu      |
| Brazil     | Curitiba                              | Loans to the municipality of Curitiba                                                                              | Contributing to the maintenance of balanced urban development by supporting the municipality's sustainable development policy (municipal program for the environment and transport)                                                                                                      | 2011-2017 | 36          | Sovereign loan           | Municipality of Curitiba    |
| Lebanon    | Tyre, Tripoli                         | <i>Cultural Heritage and Urban Development – CHUD II</i>                                                           | Creating the conditions for economic development and improved living conditions in historic centers                                                                                                                                                                                      | 2011-2019 | 21          | Sovereign loan           | Central government          |
| Ghana      | Kumasi, Tamale, Sekondi-Takoradi, Ho  | <i>Ghana Urban Management Pilot Program - GUMPP</i>                                                                | Promoting better urban and local governance and improving inhabitants' living conditions by making priority investments in the 4 pilot cities                                                                                                                                            | 2011-2021 | 40.5        | Sovereign loan/grant mix | Central government          |
| Senegal    | Saint-Louis                           | Tourism development program for Saint-Louis and its region                                                         | Promoting the historic, cultural and natural heritage of Saint-Louis and its region, and improving the inhabitants' quality of life (development of public spaces, waste management)                                                                                                     |           |             | Sovereign loan/grant mix | Municipality of Saint-Louis |
| Cameroon   | Bertoua, Bafoussam and Garoua         | Regional Capitals I                                                                                                | Closing investment gaps in the country's regional capitals to improve inhabitants' living conditions and promote local economic development, local attractiveness, and the attractiveness of these cities at regional or even national level                                             | 2014-2024 | 125         | Sovereign loan/grant mix | Central government          |
| Madagascar | Antsiranana, Fianarantsoa, Toliara    | “Programme des villes d'équilibre de Madagascar” (PADEVE – Support and Development Program for Balanced Cities)    | Improving inhabitants' living conditions in Antsiranana, Fianarantsoa and Toliara (cities that have received very little investment in the past), and contributing to more balanced regional development                                                                                 | 2016-2024 | 27          | Sovereign loan/grant mix | Central government          |
| Cameroon   | Maroua and Bamenda                    | Capitales Régionales II, phase 1                                                                                   | Closing investment gaps in the country's regional capitals to improve inhabitants' living conditions and promote local economic development, local attractiveness, and the attractiveness of these cities at regional or even national level                                             | 2018-2026 | 30          | Grants                   | Central government          |
| India      | 12 cities                             | <i>City Investments to Innovate, Integrate and Sustain (CITIIS)</i>                                                | Providing financial and technical support for the most innovative smarty-city projects, developing local authorities' expertise in the management of urban development projects, and reinforcing systems for monitoring, assessing and capitalizing on the national Smart Cities Program | 2018-2024 | 106         | Sovereign loan/grant mix | Central government          |
| Benin      | Cotonou, Sèmè-Podji, Comè and Bohicon | “Programme d'adaption des villes au changement climatique” (PAVICC – Climate Change Adaptation Program for Cities) | Improving the living environment and resilience of territories and the people of Benin, taking account of climate change risks in urban planning                                                                                                                                         | 2018-2025 | 58          | Sovereign loan/grant mix | Central government          |

| Country              | Cities             | Project name                                                                     | Presentation                                                                                                                                                                                                                                                                                                                | Dates     | Amount (M€) | Financial instrument     | Contracting authority                    |
|----------------------|--------------------|----------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|-------------|--------------------------|------------------------------------------|
| <b>Côte d'Ivoire</b> | Bouaké             | Bouaké central market                                                            | Improving the living and working condition of people in Boaké by creating durable commercial infrastructures and assisting the municipality with project management and social support for the operations                                                                                                                   | 2019-2026 | 60          | Sovereign loan/grant mix | Gen. contracting authority: central govt |
| <b>Benin</b>         | Ganvié             | Protection and renovation of the lakeside city of Ganvié                         | Supporting the transformation of the lakeside city of Ganvié (improvement of access, resilience, tourism) and the living conditions of its inhabitants (essential urban services: drinking water supply, electrification, community facilities)                                                                             | 2019-2024 | 38          | Sovereign loan/grant mix | Central government                       |
| <b>Turkey</b>        | Izmir              | IZSU water and sanitation                                                        | Improving the living conditions of people in the municipality of Izmir by financing drinking water supply infrastructure                                                                                                                                                                                                    | 2020-2024 | 49.8        | Non-sovereign loan       | Municipality of Izmir                    |
| <b>India</b>         | 15 cities          | <i>City Investments to Innovate, Integrate and Sustain 2 (CITIIS 2)</i>          | Improving living conditions in Indian cities by providing specific support for climate-sensitive urban projects and initiatives, while improving institutional capacities at national and infra-national level for the implementation of a form of urban development that takes account of mitigation and adaptation issues | 2021-2028 | 112         | Program budget financing | Central government                       |
| <b>Colombia</b>      | Barranquilla       | PN municipality of Barranquilla                                                  | Contributing to biodiversity conservation, climate change adaptation (combating flooding, developing knowledge and responses to natural risks) and climate change mitigation (solar energy, calculation of the industrial sector's carbon footprint, improved sorting of solid waste)                                       | 2021-2024 | 120         | Non-sovereign loan       | Municipality of Barranquilla             |
| <b>Burkina Faso</b>  | Bobo-Dioulasso     | Funding for the Sustainable Local Economic Development project in Bobo-Dioulasso | Reinforcing the technical and financial resources of the municipality of Bobo-Dioulasso to sustainably revitalize the local economy of its region via commercial facilities                                                                                                                                                 | 2021-2026 | 18          | Sovereign loan/grant mix | Municipality of Bobo-Dioulasso           |
| <b>Cameroon</b>      | Maroua and Bamenda | Regional Capitals II, Phase 2                                                    | Closing investment gaps in the country's regional capitals to improve inhabitants' living conditions and promote local economic development, local attractiveness, and the attractiveness of these cities at regional or even national level                                                                                | 2022-2026 | 60          | Grants                   | Central government                       |
| <b>China</b>         | Mianyang           | Minyan sponge city                                                               | Supporting the municipality of Mianyang as a pilot of a "sponge city" by building innovative ecological infrastructures, financing water purification plant for an eco-neighborhood and carrying out a study of vulnerability to flooding.                                                                                  | 2018-2025 | 35          | Sovereign loan           | Central government                       |
| <b>China</b>         | Fengxiang          | Aménagement Fengxiang                                                            | development and enhancement project of the archaeological and natural site of Fengxiang (Shaanxi province)                                                                                                                                                                                                                  | 2019-2025 | 60          | Sovereign loan           | Central government                       |
| <b>China</b>         | Pingnan            | Pingnan                                                                          | Improve the ecological environment and the quality of life of residents by bringing nature and biodiversity back to the town of Pingnan, promoting ecological and landscape continuity and strengthening the area's resilience to the impacts of climate change.                                                            | 2020-2027 | 40          | Sovereign loan           | Central government                       |
| <b>China</b>         | Kaihua             | Aménagement Kaihua                                                               | Qianjiangyuan spring protection and Kaihua district development pilot project                                                                                                                                                                                                                                               | 2021-2024 | 65          | Sovereign loan           | Central government                       |

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## Towards a world in common

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