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DEVELOPMENT ASSISTANCE FOR SECONDARY CITIES

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BACKGROUND

Urban areas in the developing world, both primary and secondary cities, will bear a special burden of population growth during the last 15 years of this century, with urban populations projected to increase at more than three times the rate of rural populations. As a result, most developing countries have focused attention on urban policy, with a recurring theme being that of secondary city development. These cities, which have advanced beyond the village level but are part of a major metropolitan complex, may offer opportunities for efficient urban investment and for improving the quality of life of residents who might otherwise look to the primate city for economic and social advancement.

Decisions about investing in secondary cities are rarely unambiguous, however. There are social and economic costs and benefits associated with questions of directing resources to secondary cities, and considerations must be given both to efficiency and equity issues. The purpose of this background paper is to examine various aspects of secondary city development. It is intended to stimulate discussion of the substantive and technical issues. Much of the material is based on the project experience of the US Agency for International Development (AID), as well as on AID-supported research on the roles and functions of secondary cities .

Although a few cross-country and within-country generalizations are possible, secondary cities are diverse in terms of their economic functions, administrative capabilities, social structure, and potential for growth. The economic functions of any small or intermediate center will reflect or be influenced by a mix of factors: Its natural and human resources, population size and social structure; its links with the national and subnational economies; any links it has with the world market; and the country's political and administrative structure.

Despite these differences, secondary cities share several common features. First, they are often agroprocessing and supply centers that have a high proportion of their economic activity in agriculturally based manufacturing, marketing, services, and wholesaling. Secondly, their local economies tend to be reliant on commerce and personal services, with manufacturing limited to small scale enterprises. Finally, secondary cities are usually located on subnational or national transport and communication routes.

Secondary cities contain a large and growing portion of the population in AID-assisted countries. Table 1 displays the distribution of populations between primate and non-primate cities, and indicates a clear relationship between national income and urbanization patterns. Whereas 17 percent of the population in poor countries live in urban areas, 45 percent of the population of middle-income countries is urbanized. In low-income countries 88 percent of the urban population is concentrated in secondary cities compared to seventy-one percent of urban residents in middle-income countries.

Of necessity, growth must be accompanied by public investment in order to assure adequate servicing of urban populations. This need is particularly

pressing in secondary cities, which lag far behind primate cities in their infrastructure and services. The lag often results, in part, from inappropriate subsidies for services in primate cities.

DEVELOPMENT ISSUES

Rapid urbanization has forced almost all developing countries to examine the pattern of city growth. Most have expressed concern at the continued high rates of internal migration to the largest urban agglomerations. Some of the most obvious policies to slow internal migration have been tried and found to fail, including efforts to limit big-city growth by land-use restrictions, by charging recently arrived migrants extra fees for schooling and other services, or by decisions not to provide subsidized housing. Even direct controls on household movement have met with only limited success, achieved at a very high cost in terms of lost personal freedom.

This experience, although frustrating, has led to a better appreciation of the dynamics of urban growth and the role of secondary cities. Very little of the employment growth comes from movement by firms away from the largest metropolitan regions. Rather, the job base of these secondary cities most often grows through the efforts of local entrepreneurs who discover latent regional demand for new activities; or through public sector actions that assign new responsibilities to the city, such as designating it a university or regional administration center.

The mere discouragement of productive investment in large urban areas will not strengthen secondary locations automatically, and is more likely to sacrifice job and development opportunities for the nation at large. Similarly, discouragement of migration to the large urban centers at most appears to have marginal impact on migration streams and will not by itself promote sound growth of secondary cities. At the other extreme, nations' efforts to create new growth poles, by locating industrial activities in new locations in the expectation that these would become regional centers and divert population movement from the largest cities, have been equally unsuccessful.

Secondary cities have the best chance for self-sustaining growth and contribute most to national development if they naturally grow out of the existing market needs of a region. They have no uniform economic role to play; their development opportunities are rooted in the region's opportunities. These may include market support for small-scale agriculture, regional agroprocessing, export of local production, or performance of administrative functions.

The obstacles to more efficient inclusion of secondary cities in national development strategies lie both in the management of the cities and in national and regional policies toward them. Most local governments in developing countries lack management and planning skills. Their revenue collections may be only a fraction of those authorized by law, while their ability to plan for infrastructure expansion, manage existing infrastructure facilities, or plan for public functions that would complement private markets is severely limited. Among the constraints on efficient secondary cities development, few are more important than public managerial capacity, which has a compounded effect because it often creates resistance to decentralization.

Expansion of the role of a secondary city may be frustrated by other physical or institutional limitations. Entrepreneurial experience may be lacking, or infrastructure capacity may be inadequate. In addition, credit institutions may not be sufficiently well-developed to reach this segment of the national market. Finally, the impact of national macroeconomic policies on secondary cities may overwhelm explicit spatial development policies or factors that local authorities have within their control. Import substitution policies often have been found to subsidize manufacturers located in the largest urban centers, while penalizing the nation's natural export activities, which are often centered on agricultural production or processing. For a country to try to promote development of a regional port, for example, while pursuing macroeconomic policies that discourage export production is as self-defeating as it is expensive.

With these issues in mind, it becomes clear that secondary cities investment projects can generate numerous potential benefits, including:

1. The enhancement of economic growth and support for the indigenous private sector.

2. The development of rural regions.

3. The promotion of a spatially and sectorally balanced pattern of development.

4. The provision of services to an underserved population.

5. The diversion of population and capital investment from the largest or primate cities.

6. A more cost-effective implementation of local projects.

7. Encouragement of government decentralization.

8. The opportunity to exploit undeveloped regions, further a land colonization scheme, or provide the work force for a major project.

EXPERIENCE OF AGENCY FOR INTERNATIONAL DEVELOPMENT

AID has been involved in urban development issues since the 1960's, and its concern with secondary cities has increased in recent years. AID has examined the spatial pattern of urban settlements in specific countries, the role of urban-rural linkages in national development, and the special needs of urban areas outside the major cities.

In the mid-1970's, the Office of Rural and Regional Development sponsored the Urban Functions in Rural Development (UFRD) project and applied it in six countries -- the Philippines, Upper Volta, Cameroon, Guatemala, Bolivia, and Ecuador. The UFRD methodology starts from the assumption that a critical component of rural development is the range of services offered by nearby urban centers. Assistance projects attempt to identify and promote the missing support functions that urban areas can provide, with an emphasis on urban development outside the primate city.

A successor to the UFRD project is the Human Settlement and Natural Resource Systems Analysis (SARSA) project, which supports research on the planning and management of regional development. The SARSA project emphasizes the potentials and problems of regional resources; development of rural-urban dynamics; river basin development; land settlement; and resettlement of displaced populations. In practice, many of the projects carried out under SARSA promote regional development by strengthening secondary cities.

The Office of Housing and Urban Programs also has responded to the growing interest in the spatial pattern of urban development with its Urban Development Assessment (UDA) methodology. UDAs are designed to provide insight into the process of urbanization in a country and to identify key urban problems programs. All UDAs include a description of the country's settlement pattern, an explanation of how it relates to the spatial distribution of economic activities, and an analysis of the government's principal spatial and economic policies as they affect urbanization. UDAs have been completed in Peru, Nepal, Senegal, Panama, Jordon, Morocco, and Somalia. A number of the completed UDAs stress the need to strengthen the countries' secondary cities or to decentralize selected government functions. They may also assist AID in targeting capital assistance projects.

The Office also has implemented a number of shelter projects in secondary cities under its Housing Guaranty (HG) program -- for example, in Kenya, Ecuador, Thailand, the Ivory Coast, Panama, and Peru. In some cases these loans targeted only designated secondary cities for investment, while in others a portion of the loan funds was set aside for use in secondary cities. AID also has pursued projects in Indonesia and Mexico to finance microlending in secondary cities.

The variety of recent AID projects clearly demonstrates the demand for secondary cities assistance by developing countries. Examples of recent and proposed work in this area include:

1. Zaire - A Rural-Urban Profile was undertaken in collaboration with the Regional Housing and Urban Development Office in West Africa to support a proposed secondary cities project in the Bandundu region. This project would include funding of training and management improvement, and interventions related to markets, credit, infrastructure, and transportation. Another effort is targeting secondary cities in the Shaba region for investments supportive of the regiona's food production base.

2. Nepal - An Urban Development Assessment showed that the most efficient development pattern for this country would focus on the secondary cities in the flat terai rather than on Katmandu and other crowded, prestigious cities in the mountains. This assessment has prompted a continuing reassessment of the country's development strategy.

3. Peru - A major, AID-funded, regional cities development project has just been completed in two Northern provinces. The project goal was to further the social and economic development of selected sierra and high jungle areas with an emphasis on increasing market cities serving rural areas. The specific purposes of the project were to

strengthen the decentralized planning capacity, establish mechanisms for financing small projects in market cities and surrounding rural areas, and provide technical assistance and training to municipalities.

4. Kenya and the Ivory Coast - The Regional Housing and Urban Development Offices have worked closely with the central ministries to provide selected small cities with technical assistance and training in municipal programming, planning, and budgeting.

5. Philippines, Tunisia, and Costa Rica - Extensive training and technical assistance were provided to upgrade local capabilities in budgeting, financial management, and tax administration.

6. Ecuador and Bolivia - Studies of rural-urban linkages have yielded insight into ways to improve the marketing systems in key agricultural regions.

7. Egypt - A provincial towns project has provided an extensive analysis of secondary city demographics, economics, and development priorities, in support of massive infrastructure investments.

LESSONS LEARNED

Through its past projects, AID has generated a number of important lessons about assistance efforts to stimulate secondary cities development. No single set of rigid rules will apply in all situations. The political, economic and social settings of every country must be considered, as must regional differences within countries. Nevertheless, following some basic, general principles can increase the likelihood of success. They must be applied with sensitivity to local needs and capabilities, but overall, they reflect AID's assessment of its experience in secondary cities development:

1. Cost-recovery is an essential element of a sound urban project.

2. Government cannot do the job alone. The private sector should be a full partner in development efforts. Projects need to be targeted to cities with strong private sector investment potential and administrative capability. The principal sources of growth in secondary cities are indigenous entrepreneurs.

3. Secondary cities projects will be most successful when they adopt a bottom-up approach. Projects should incorporate self-selection of cities that will receive assistance, rather than central government preselection. Local input in project development and planning builds political support and an institutional commitment to project implementation.

4. Rural economic development can be enhanced thorough the formation of stronger rural-urban linkages. In many countries, the most appropriate role for urban development in the medium term is to facilitate rural development.

6. Service-oriented investment decisions should be based on the willingness and ability of users to pay for rural-urban linkages.

7. Donors need to work more explicitly on public and private sector institutional development in order to realize the potential return from secondary cities projects.

TABLE 1

URBANIZATION AND CONCENTRATION, 1980

AID-Assisted Countries	Urban Population (Percentage of Total)	Percentage of Urban Population Outside Primate City
Asia	22	86
Caribbean	40	42
Central America	62	68
South America	66	79
East/Southern Africa	16	56
West Africa	24	71
N. Africa/Near East	44	68
All Low Income	17	88
All Middle Income	45	71
Overall	29	79

Source: The regional figures for the first column are from Newman and Hermunson Company, "Urbanization and Urban Growth as Development Indicators in AID-Assisted Countries," 1983. The Low and Middle Income figures are from the World Bank, "World Development Report, 1982", 1983. The second column is calculated from these figures as are the overall figures for AID-assisted Countries.