

ORGANISATION FOR ECONOMIC  
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*Raymond  
OECD*

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RESPONSE  
NEEDED*

PREPARATIONS FOR THE DAC MEETING SCHEDULED FOR

7TH-8TH OCTOBER 1986 ON URBAN DEVELOPMENT

(Note by the Secretariat.)

This Note is intended to launch preparations for the forthcoming DAC meeting on Urban Development by suggesting Agenda items for discussion. Members are invited to communicate to the Secretariat, by 25th June 1986 their reactions to the planned content and format of the meeting, their suggestions as to how the discussion might best be focussed, and whether they would wish to make any specific inputs.

*Howard*

*I was given the by a Danish representative to our session. He wanted it delivered to appropriate person in our office -  
\* What do you want to do with this?  
Who gets it?*

PREPARATIONS FOR THE DAC MEETING SCHEDULED FOR  
7TH-8TH OCTOBER 1986 ON URBAN DEVELOPMENT

1. Perceptions of urban problems and views on the effective utilisation of external assistance in the sector are changing as the scale and intensity of urban needs is becoming more apparent. Demand for urban services, already severely overstrained in many countries, will continue to expand at a rapid pace, while governments' capacity to meet these growing needs remains limited. With the rapid increase and continued concentration of population in Third World cities will come a dramatic shift in the incidence of poverty from rural to urban areas. Furthermore, the urgency of coming to grips with urban issues has been heightened by the severe economic and financial strains now affecting many developing countries, and the scarcity of resources available for development.

2. The need at this juncture to evaluate experience and to identify ways of improving the effectiveness of urban assistance has given rise to suggestions for the DAC to hold a special meeting on urban development in 1986. Solutions to the urban problems will require innovative and cost-effective approaches.

3. An information note on which an Annotated Agenda for the meeting will be based is attached. The main focus of the DAC meeting on urban development would be on:

- Reviewing the nature and characteristics of the urbanisation process and urban problems in the developing countries and assessing their implications for developing countries' development;
- Assessing the key policy issues and lessons of recent experience in managing urbanisation;
- Identifying strategies for improving external assistance in the sector.

4. Several international conferences and meetings focusing on major issues of relevance to the sector have recently been held or are scheduled to take place in the coming months: e.g. the World Bank Conference on Urban Assistance (December 1985); the recent DAC meetings on Drinking Water Supply and Sanitation (May 1985), on Reassessing the Role of Technical Assistance in Strengthening Public Management Capacities in Low-income Countries (March 1986), and on Adapting Aid in Support of Policy Reform and Related Issues of Aid Co-ordination (May 1986); a U.N. Habitat meeting on international strategies for human settlements training (June 1986); the Second International Shelter Conference which will focus on ways to facilitate private sector responses to the shelter problems (September 1986); to cite but a few. The conclusions stemming from these gatherings will form important inputs to the DAC meeting. The meeting could also constitute an important contribution to the International Year of Shelter for the Homeless (IYSH),

designated by the UN for 1987, to coincide with the tenth anniversary of the Vancouver Habitat Conference. The purpose of the IYSH is, inter alia, to secure a renewed commitment by the international community to the improvement of shelter and neighbourhoods of the poor, consolidate and share knowledge and experience gained since the Vancouver Conference, and develop/demonstrate new approaches in this field.

5. The UN Habitat Commission, the International Union of Local Authorities (IULA) which also acts as Secretariat to the Habitat International Council, a federation of some one hundred national and international NGOs concerned with human settlements, and plays an important role in the training of local administrations, and Ms. Ingrid Munro, Director of the International Year of Shelter for the Homeless (IYSH), will be invited to contribute and attend. The regional development banks would also be invited. The World Bank, the leading aid agency in the sector, has indicated its readiness to provide a major contribution for the meeting.

6. In the light of reactions from Members, and drawing on their contributions, a revised annotated agenda would be issued subsequently.

PROPOSED STRUCTURE FOR ANNOTATED AGENDA

Item 1: Urban Population Growth: The Scale of the Problem and Major Development Implications

7. Over the period 1975-2000, the population in developing countries is projected to grow by almost 2 billion. Many countries have seen a demographic shift, with natural population increase supplementing migration as a major source of urban population growth. It is reported that if present trends continue, between 60 and 70 per cent of the population increase will take place in urban areas, mostly among the urban poor, where by the year 2000, over 40 per cent of the population from the developing world (i.e. over 2 billion people) will be located. The number of cities in developing countries with more than 10 million inhabitants may increase from four in 1980 to perhaps as many as seventeen. Some forty cities could have populations of 5 million or more, and almost three hundred above one million. Not only these results, but the pace of change will pose enormous challenges that developing countries will be hard pressed to keep up with. As the stakes are becoming larger, the need to manage cities and provide services effectively is becoming more evident than ever before. Action needs to be taken before the ramifications of present urbanisation trends become overwhelming.

8. Efficiently-run cities are vital to the economies of developing countries: if cities and towns are inefficient, productivity will suffer with serious consequences for national economic development. Cities can be key "engines of growth", incubators for innovation and private sector development, and crucial sources of new employment. In most developing countries, at least 50 per cent of GNP is produced in cities and towns. Reportedly, by the year 2000, cities will generate over two-thirds of GNP and 80 per cent of the annual increment.

9. Through their links to rural areas (urban centres provide markets and processing facilities for agricultural products, non-traditional inputs and incentive consumer goods and services, and an important source of remittances to rural areas), efficient secondary cities and rural towns can have a major impact on agricultural development and food production. The development of efficient urban centers is thus complementary to rural development. Correct relative prices are not enough. Farmers react to a whole package of incentives, many of which are linked to the adequacy of urban-based services. A recent CEC study on secondary towns in Africa notes that approaching urban and rural policy separately may seriously limit their effectiveness and result in weak rural-urban linkages, the fragility of urban development and poor performance in agriculture.

10. There are considerable differences in urbanisation trends and patterns among developing countries. The 1979 World Bank Development Report identified the following broad regional groupings:

- The predominantly rural economies of Sub-Saharan Africa, where urban growth is a relatively recent phenomenon but is now very rapid, because of very high natural population growth and massive rural-urban migration;

- The countries of low-income Asia, where the absolute size of urban populations is already very large and which possess some of the largest cities, but where the economies are still predominantly rural;
  - The highly urbanised middle-income countries of Latin America, where more than half of the population lives in urban areas (three quarters are expected to do so by year 2000), and where cities will continue to grow rapidly as long as current policies persist and natural population growth is not curtailed;
  - The countries of North Africa and East Asia which lie somewhere between the trends noted in Latin America and those of Sub-Saharan Africa and low-income Asia. Most of the countries of these three regions will be predominantly urban by the turn of the century, with rural-urban migration continuing to play a major role in the transformation process.
11. The purpose of the discussion of this item will be to:
- Identify the main elements of the urban problem including specific regional characteristics and assess the plausibility of current estimates of future urban population growth;
  - Review the principal implications of urbanisation for developing countries' development, including opportunities for increasing national economic growth and reducing the incidence of poverty by setting out to create effective and dynamic urban-rural linkages;
  - Assess the likely impact, cost-effectiveness and priority of measures aimed at slowing down the urbanisation process and ensuring a more balanced development between urban and rural areas (e.g. population policies, rural development, removal of national policies which bias development in favour of larger urban centres).

Item 2: Managing Urbanisation: Key Policy Issues and Lessons of Recent Experience

12. Concerns about the rapid rates of urbanisation in developing countries have centred on its excessively rapid pace, the concentration of economic activity and wealth in a few regions, the high costs of urban infrastructure, the concentration of poverty within cities and their inefficiency. The purpose of discussion under this agenda item will be to identify ways by which the urbanisation process can be rendered more efficient and its contribution to economic development strengthened. Some of the major issues arising in this context are outlined in the following paragraphs. They are important in determining appropriate development co-operation strategies in the sector and to the conduct of policy dialogue with recipient governments (ref. agenda item 3).

13. Traditional approaches to urban development often have not worked because of a frequent lack of clarity in thinking and policies in such key areas as: urban management and planning; the division of responsibilities

between national and municipal authorities; employment; spatial decentralisation and optimal city size; municipal finance including pricing of urban services; appropriate technology; the respective roles of the public versus the private sectors; shelter policy including land tenure and markets; and urban transport policy.

14. Cities absorb a large proportion of national resources. The efficiency with which cities allocate and manage these resources is therefore of crucial importance. Many cities, however, are currently not fulfilling this role effectively. Inadequate emphasis has been given in past interventions in the sector to institutional strengthening of municipal governments. The management and skills gap of city administrations has in many cases reached dramatic proportions. Future institutional reform programmes also need to address the efficient and effective functioning of central government institutions involved in the sector and the strengthening of institutional co-ordination. They will have to be accompanied by efforts to decentralise authority, ensure greater accountability and improve community participation, including that of women. Without excessively burdening urban planning and management capacities, punctual sector interventions (e.g. urban transport, water and sanitation, shelter, training and institutional building) should to the extent possible form part of minimally coherent urban development strategies.

15. The urban employment problem is principally one of low productivity (rather than unemployment). Current views in this area have evolved considerably: cities and urban policies must encourage, not constrain economic activity; cities lacking basic water supplies, sanitation, solid waste management, electricity or adequate transport, or experiencing severe environmental degradation, make it more expensive for enterprises to be productive, generate incomes and create jobs; national and urban policies and programmes often stand in the way of faster advances in productivity, employment and income levels, and hamper the alleviation of poverty; poverty alleviation should be seen as a question of growth through efficiency in resource use, rather than large-scale programmes of poverty alleviation, and should be coupled with improved education, health, shelter and infrastructure interventions targetted on poor households; policies can be designed to simultaneously improve the efficiency and equity of the development of cities; structural adjustment programmes are likely to have a considerable impact on the efficiency of cities and urban development.

16. The employment issue needs to be addressed through co-ordinated action at the national level and through the elimination of the physical and legislative constraints to economic activity at the city level, including those applying to the informal sector (e.g. hawkers, sidewalk shoe repairers, road-side mechanics, seamstresses, small machine shops workers, food vendors) which employs a large percentage of the urban labour force in developing countries. The traditional portrait of the labour market, which viewed the informal sector as producing little of value, is inaccurate, but the informal sector often operates under severe constraints including lack of access to regular sources of credit. Studies have also shown that migrants from rural areas tend to be well educated and motivated relative to those who stay behind, and that within cities they are not represented disproportionately among the poor or the unemployed. The urban poor are also found in various other activities than the informal sector, i.e. government, large and small-scale manufacturing, trade activities, etc.

17. Efforts to decentralise urban growth have in many cases not been effective, because spatial development programmes have been based on a notion of territorial equity, rather than upon the potential of a town and region for growth. The construction of new towns has virtually always resulted in failure. To counterbalance the growth of the largest cities effectively, it is necessary to support the development of urban centers that show comparative advantages for expansion and economic growth. Investments in inter-city transport infrastructure are a key element in determining the pattern of regional development. The best approaches to encouraging the growth of secondary cities consist of a good macro-economic framework, improved sectoral policies (e.g. pricing in the agricultural sector), and a good inter-city transport network. Other essential elements are the increased reliance on initiatives by local authorities, greater emphasis on defining the economic vocation and priorities of secondary cities by the introduction of competition among local governments for participation in centrally-funded development programmes, the use of incentives to encourage increased efficiency and greater reliance on local tax capacity and cost recovery, and the provision of enhanced technical assistance, including training support. It has also been argued that bilateral aid agencies, in view of their limited resources, could perhaps use their resources most effectively by giving particular emphasis in their programmes to those cities in which basic growth patterns are emerging, in which services are in early stages of development, and in which it is still possible to influence the patterns of urbanisation at an early stage in the process.

18. An important issue being debated is the paradox that while it is important to realise the economies resulting from agglomeration, one usually ends up having to face the high cost of congestion. Some have argued that if policies allow producers to choose their production decisions so as to minimise the "scarcity" costs of producing the desired goods and services, then the resulting cities will approach their efficient size, whatever that might be.

19. Although urbanisation imposes additional financial burdens on public services, these burdens could be alleviated if the services were more appropriately priced and if unrealistic standards were avoided in urban investment projects, thereby also improving the replicability of projects in the sector. In practice the ability of cities to raise revenues has not kept up with urban population growth and the demand for urban services. As a consequence, infrastructure is often poorly maintained, service expansion is constrained, and people become more reluctant to pay taxes as services become more inadequate. Solutions to this problem will require, inter alia, a willingness to consider innovations in the structure of funding arrangements between local and national governments. Furthermore, while most developing countries are unable to afford high cost solutions such as water-borne sewerage, available low-cost alternatives have yet to be implemented on a large scale. The costs of providing essential services may not necessarily be higher in urban than in rural areas.

20. Many projects are not replicable since they require too large a subsidy or place demands on administrative services of the public sector that are excessive. The limitations of the public sector suggest the need to find new ways of delivery and maintaining services that place minimal burdens on public administrations, and greater reliance on built-in incentives. New efforts are needed to involve grass-roots groups, NGOs and the private sector in urban development. Developing countries' governments should concentrate on the

provision of roads, water, electric power, education, safety, health and other basic services, as well as the introduction of appropriate land registration, land development and housing standard policies. Housing (the shelter package, including on-site infrastructure), transportation and solid waste disposal are often best left to the private sector.

21. Shelter development has often been seen as an unproductive investment. Shelter, however, is a basic human need (third in priority after food and clothing). It represents a basic aspiration of low-income households. It also constitutes their largest capital asset and is a major stimulus to individual savings. Shelter contributes to national economic growth directly, through its stimulation of the construction and building materials sector, and related industries. It provides jobs for large numbers of unskilled labour. Priorities issues in the sub-sector include low-cost building codes and standards so as to better tailor costs to the financial possibilities of the poor, emphasis on the provision of serviced sites, secure land tenure, increased reliance on self-help measures, and the provision of appropriate housing finance.

22. Most of the cities in developing countries face severe transport problems. Road congestion is spreading and transport costs are escalating, thereby seriously undermining productivity and city efficiency. While rapidly increasing demands for transport have led to pressures for investments in costly infrastructure, there are alternative measures which can reduce substantially the need for such investments, e.g. traffic and demand management, greater involvement by the private sector in public transportation, improved attention to maintenance, and more generally the strengthening of urban transport institutions.

### Item 3: Development Co-operation and Urban Development

23. The majority of bilateral donors have yet to formulate assistance strategies to guide their interventions in the sector. Many interventions in the sector are still undertaken on an ad hoc basis: there is a need to better conceptualise and co-ordinate the role of aid agencies in the sector. Multilateral support is substantial and appears to be growing.

24. Preliminary estimates indicate that the total DAC bilateral and multilateral external assistance commitments to programmes having a direct impact on urban development, i.e. shelter (including slum upgrading, and sites and services projects), urban transport, integrated urban development, and regional development (secondary cities), but excluding drinking water supply and sanitation, averaged approximately \$1 billion annually over the period 1980-1984, with DAC bilateral agencies providing 25 per cent of this amount (these data exclude most urban road infrastructure and inter-city transportation projects). If drinking water supply and sanitation is added, the total for the sector will at least double. In addition, support for large scale infrastructure projects, such as mass transit, is provided through export credits.

25. It is proposed that under this agenda item, the meeting should attempt to clarify the role of development assistance in helping to confront the looming problems of massive urbanisation in developing countries. To what extent will experience in developed countries apply to urban units whose scale is beyond that of all but a few cities in the donor countries? The meeting should also review and recommend the types and modalities for optimal external assistance interventions in the urban sector. Clearly, urban development problems will generally not be addressed through large amounts of money. Particular emphasis needs to be given to high pay-off and cost-effective interventions, improved co-ordination of external interventions and policy dialogue. External assistance strategies would be examined in the following areas:

- a) Technical assistance for improved institutional development (with particular emphasis on cities' management and improving resource allocation), including training and new forms such as twinning arrangements;
- b) Assistance to shelter programmes;
- c) Investments in infrastructure, principally transport and drinking water supply and sanitation, including issues of effective operation and maintenance, rehabilitation and low-cost alternatives to large scale and costly investments;
- d) Assistance to secondary and tertiary urban centres, including the strengthening of rural development through urban-rural linkages;
- e) The role and comparative advantages of NGOs in urban development (e.g. income generation activities, the provision of social services);
- f) Aid co-ordination in the sector, including approaches and mechanisms to ensure effective policy dialogue on major sector issues.

Item 4: Conclusions and Follow-up:

26. It is proposed that the conclusions of the meeting should be organised in a form which provides a useful reference document for donor policy-makers and administrators.

27. Since urban development and related sector strategies deal with a wide spectrum of issues and activities, the October meeting, being the first of its kind in the DAC, will be able to address some of the issues only in a preliminary way. Given that this topic is certain to become increasingly central to development concerns, Members may wish to consider whether and how a follow-up process should be set in train.