

- PN-ABB-843 ~~CONFIDENTIAL~~ -

**URBANIZATION IN THE LDCs: THE CHALLENGES AND THE OPPORTUNITIES  
IN THE 1990s AND BEYOND**

Narrative and Statistics on Urbanization Prepared For  
The November Task Force  
By  
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20 September 1988

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## URBANIZATION IN THE LDCs: THE CHALLENGES AND THE OPPORTUNITIES IN THE 1990s AND BEYOND

### KEY ISSUES AND MAGNITUDE OF CONCERN:

Urbanization in the developing countries must now be recognized as a massive and irreversible phenomenon that demands the attention of LDC governments and donors in the 1990s and beyond.

Analysis and forecasts of urbanization in LDCs indicate that more than ten times the amount of urban population (and corresponding labor force) growth will occur in the next 30 years than has occurred in the past 30. Furthermore, between 1987 and the year 2025, the urban population in USAID-eligible countries will increase from 743 million to 2.4 billion -- an increase of more than 200 percent. Unfortunately, the burden of this urbanization will fall disproportionately on the least-urbanized and lowest-income countries. Over the same period, the percent of urban to total population will increase from about 34 percent to about 58 percent. As a corollary to the above, rural populations will decline in relative terms. Furthermore, while rural poverty alleviation will remain an issue of concern, it is noteworthy that rural poverty will actually decrease in absolute numbers for all places except East and West Africa, while there will be significant cumulative increases in urban poverty.

Between 1987 and 2025, for example, urban populations will increase by 1.8 billion while rural populations will increase by only 340 million. Interestingly, among AID-eligible countries, more than 80 percent of population growth will occur in urban areas. According to the World Bank, by the year 2000, there will be more households living in urban poverty than in rural poverty, and 20-25 percent of these urban households will be headed by women.

The United Nations projections indicate that the number of developing country cities with five million or more inhabitants will increase from 10 in 1975 to 43 in the year 2000.

The cities of the developing world are already deficit in the provision of urban jobs, shelter and infrastructure particularly for low-income groups. As urban services deficits increase, so will associated environmental, health, and socio-economic problems.

Health problems from open sewers, contaminated water, inadequate disposal of human waste, and inappropriate disposal of waste water and garbage will have a tendency to increase in concert with the amplitude of urban growth which is anticipated.

While it is estimated that about 80 percent of urban households are supplied water either by standpipes or house connections and 63 percent have access to some type of sanitation, these gains are often masked by problems of contamination, leakage and other service and maintenance problems.

These problems will tax the generally weak and inefficient abilities of both central and local governments to manage and finance needed improvements. Succinctly, the cities of the developing world will have to manage the accommodation of an average of about 140,000 new residents per day over the next two decades. Yet, their manpower

resources are very limited and cities have not successfully tapped their own wealth to finance these services.

According to a 1982 IMF survey, developing countries had a very low percentage of local versus central government employees. Africa had only six percent of government jobs at the local level, Latin America 21 percent, and Asia 37 percent. The average for the developed countries was 57 percent at the time.

Financial management assistance in many LDCs has met with considerable success, for example, in eight cities of Nepal a 69 percent increase in own-source revenues was made possible in just two years. On the other hand, even these improvements were inadequate to finance the large service deficits in these towns. In effect, existing revenue generating instruments did not sufficiently tap the "wealth" of these places. It was found that a property tax of less than two percent would have been sufficient to finance the needed improvements.

Just to maintain current conditions suggests that developing countries will have to increase existing management capacity in urban infrastructure, services and shelter by 65 percent through the end of this century.

Despite the magnitude of the problems, issues and the negative attributes which are associated with unmanaged urban growth, it should be noted that the urban centers of the developing countries currently generate more than 50 percent of GDP and this percentage is rising rapidly. According to the World Bank, by the year 2000 80 percent of developing countries' GDP will be generated in urban areas.

In the 1970s, urbanization was thought to be essentially a negative process and most governments and donors developed strategies to retard urban growth. Migrants were thought to be the cause of urban problems, social unrest, and of little economic value. Yet, strategies to keep rural households on the farm or engaged in off-farm labor have met with little success. Furthermore, a strong body of data suggests that migrants seek and find opportunities to improve their economic situation and gain better access to services for themselves and their children in urban places.

## OPPORTUNITIES

### The Urban Policy Context

Urban development is complementary to, and an integral component of, rural and national development. Urban places, whether major metropolises or market towns, represent nodes of a "settlement system" interconnected by roads, power, and other means of communication which are essential to development. Urban places play a fundamental role in servicing their rural hinterlands and as efficient centers of specialized and essential economic activities. Their efficiency in this regard is largely a function of their size and location though each type of settlement tends to fulfill specific economic and service functions in their own right.

Urbanization needs to be considered as an element of macro-economic development since urban places are major contributors to the national economy and productivity with critical relationships between rural producers and urban processing, servicing, and marketing agents.

Urbanization is part of the development transition to a modern economy which all countries experience. As Figure 1 illustrates, as countries become more urbanized a transformation takes place from primary production towards greater production in services and industry. This is accompanied by a parallel shift in the transformation of labor for these sectors. In addition, there is a strong correlation between increased urbanization, GDP, and income.

Since "urban" and/or the "settlement system" are spatial concepts, there is no such thing as an urban sector per se; rather, there is a set of activities that occur in urban places which are often treated in a sectoral context (industry, health, education, water supply, finance, etc.). What is often lacking is an understanding of how these themes interact with one another in an urban, regional, and national spatial context.

#### Framing an Urban Policy Response

There are numerous guiding policies with which AID and other donors should work with LDCs to implement:

1. Urbanization must be approached positively as a major "engine" for economic and social development. Urbanization should be viewed as a positive process which contributes to national economic development and a vehicle to improve the standard of living of the rural and urban poor.
2. The framework for urban strategies should be the entire range of settlements from the largest cities to the market towns and villages. The entire "settlement system" needs to be energized to accommodate the urban population growth expected through productive job generation, shelter and infrastructure development, and provision of urban services. This, in turn, will enhance the role of urban centers in supporting rural development.
3. Urbanization should not be financed by massive national subsidies, nor occur at the expense of the rural and urban poor. Rather, the "wealth" that is inherently created in urban places should be more effectively tapped to help bring about the desired improvements mentioned above.
4. The public sector will be unable to cope with urbanization alone. Nongovernmental resources need to be mobilized in the development effort and a series of "partnerships" among diverse groups: national and local governments, local and international private sectors, community and nongovernmental organizations, and donors must be found to effectively respond to the urban challenges that exist and lie ahead.

The full mobilization of the private sector, both formal and informal, and the redefinition of the public sector role will be required to meet the needs of urban job generation, basic services and shelter. The crucial role of the public sector should be to facilitate, via public and private means, meeting job and infrastructure requirements and to develop an efficient policy and management framework which is conducive to private sector investment and initiative.

5. Current urban policy and practices in many LDCs tend to reflect inappropriate western models. New approaches are required which reflect the low per capita GNP, the rapid rates of urbanization, and the large aggregate numbers of persons that need to be accommodated during the next 25 years.

In each case, urban policies should be guided by two underlying principles: the need to maximize the contribution of urban development to national economic growth and the need to alleviate poverty.

## GUIDELINES FOR URBAN PROGRAMMATIC SUPPORT

In the decades ahead, AID and other donors will be called upon to assist developing countries respond to the rapidly accelerating urban challenge...What follows are broad areas of intervention and some of the key operational responses that are appropriate.

### 1. Urban Economy, Jobs, and Productivity

A most critical need is the provision of productive jobs for the rapidly growing urban labor force. Interventions in urban, rural, and national economies need to be mutually reinforcing. The formal sector of the urban economy needs to be supported through a variety of policy reforms, credit programs, infrastructure and improved management efficiency. Yet, it alone will generate only a fraction of the national and urban jobs required.

It is essential to support micro- and small-scale enterprise in the informal sector including more freedom from government constraints, lowered cost of enterprise formation, stimulation of entrepreneurship, access to credit, foreign exchange and affordable infrastructure at appropriate standards. The importance of the informal sector cannot be overstressed. In Bolivian cities, for example, 80 percent of all households have at least one member engaged in the informal sector.

Barriers to the entry of the private sector to new markets and domestic capital need to be reduced. Tax structures should provide incentives for production and job creation. For informal enterprises, in particular, regulations concerning business operations, licensing, standards for facilities, labor laws, taxes, and other obligations need to be simplified and kept to a minimum.

### 2. Shelter, Land, and Infrastructure

Shelter, land, and infrastructure are necessary elements for improved quality of life and economic development.

Housing should be viewed as an economic as well as a social sector. Governments should be encouraged to supply needed inputs (land, services, trunk infrastructure, finance) for private formal and informal enterprises and households to develop land and construct housing. Publicly executed housing programs have not effectively responded to demand. Housing finance institutions should be part of national capital markets.

Revisions in land policy are needed to free up land markets and housing supply, bring about more efficient land use, secure tenure, and streamlined and affordable land registration systems.

Hernando de Soto in his work in Peru, for example, states that it takes 207 steps in a variety of Ministries to acquire full legal title to a piece of land. Such systems obviously must be reformed.

Traditional western models for land laws, registration, zoning, development control, building standards, data collection and management are generally too costly and unwieldy for most LDCs. Technological advances in base mapping, and geographical information systems and other computerized techniques as well as streamlined systems for these purposes can help to make these functions more manageable.

Infrastructure service standards (including health and education) which have been implemented in most LDC cities have often not corresponded well to local needs, affordability, and cost recovery techniques. Solutions tailored to local conditions will be increasingly needed. Essential and affordable infrastructure systems, particularly power, are also needed to sustain economic and social improvements. Improvements in infrastructure are by nature capital intensive. However, less costly interventions with respect to policy, management, tariff structures and cost recovery, and new technology are also needed.

The effects of urbanization on the environment will become an increasingly important problem. Assistance will be required to help conserve non-renewable resources and to minimize the vulnerability of urban populations from environmental problems and disasters. The United States is probably the most advanced country in this regard and can provide the leadership which is required.

## URBAN MANAGEMENT, FINANCE, AND PLANNING

The cities of LDCs will increasingly need assistance to augment the efficiency of planning, service delivery, local resource mobilization, and the productive utilization of central government grants and loans. It will be necessary to continue to assist LDCs decentralize their administrative systems and to help bring about more efficient systems for recordkeeping, accounting, tax assessments and collection. At the same time, more improvements are required in financial management of recurrent and capital costs, budgeting, training and providing the necessary legal tools for the enforcement of revenue collection.

In accomplishing these objectives, it will be necessary for urban managers and planners to view their role not as passive administrators of rules and regulations but as active facilitators of desirable urban economic growth and assistance for the urban poor.

### GENERIC INTERVENTIONS:

#### Assistance for Technology and Change

There is a significant demand for technology and management transfer for a variety of urban and management applications. To a greater extent, advances in technology are appropriate for application in LDCs. The United States is clearly a leader in this regard. What is needed is more research to determine which technologies are most appropriate and how they can be most effectively implemented.

#### Technical Assistance for Institutional Development

New approaches will be required within a proposed urban policy context that deal with internal management, finance, budgetary and accounting procedures, manpower, and training. Once again, the United States has been a leader in developing management and financial systems and decentralized governments, and systems of public and private cooperation. It is becoming increasingly clear in LDCs that "centralized planning

approaches to development do not work effectively so means must be found to more effectively tap U.S. experience and know-how in this regard.

#### Capital Assistance

There will be limitations on the capital assistance the U.S. can provide through AID. Yet, opportunities exist to use those resources which are available to facilitate macro economic policy dialogue and innovative program goals in selected situations. On the other hand, as the United States is a major contributor and influential partner in multi-lateral programs, it has the needed leverage to influence policy reforms in the above areas. In addition, further advances in tapping the large U.S. capital market exist for utilizing such mechanisms as loan guaranty and insurance for U.S. private investment. Currently, LDCs account for about 40 percent of U.S. exports, more than enough to justify well-articulated interventions in these areas.

#### Agency Considerations

AID must retool itself to provide support in urban policy reform, institutional development, adoption of appropriate urban technologies and standards and to facilitate the public-private cooperation necessary for meeting the urban challenge. No doubt this will require enhancing and focusing the urban program content of existing programs and bureaus, shifts in human and budgetary resources and the identification of innovative means to stimulate capital outside of the appropriations process.

The United States has a strategic interest in maintaining secure, stable, and productive urban centers in developing countries. It also has a humanitarian obligation to concern itself with the welfare of the world's increasing urban poor. At the same time, it is in our own interest to build stronger LDC partnerships based on economic and technical cooperation with the world's increasingly important majority.

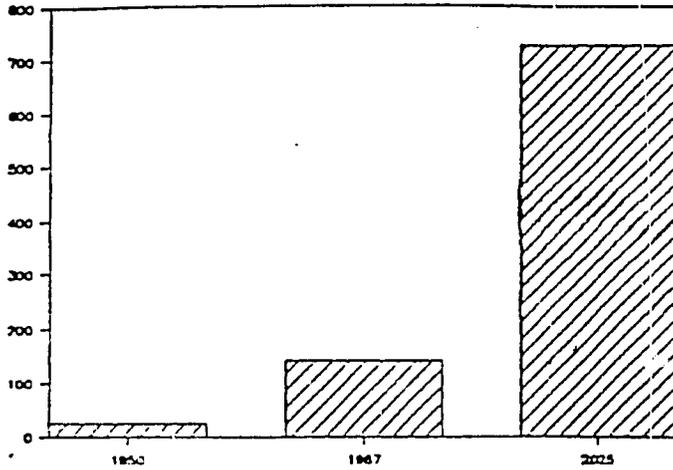
#### URBANIZATION DATA

The proceeding Charts, Table, and Figure present the regional urbanization trends for Africa, Asia, and Central and South America. Charts 1 and 2 show the urbanization trends for each region. Individual country level data for each AID-eligible country are shown in Table 1.

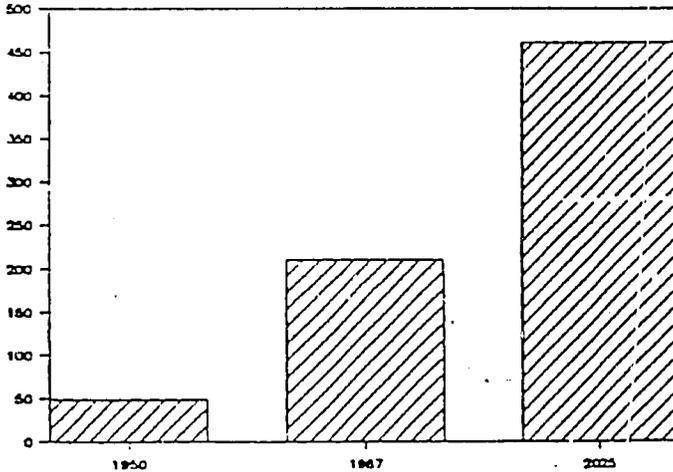
Charts 3, 4, and 5 provide an example of infrastructure service deficits and revenue generation. Chart 6 provides brief descriptions of urban primacy within national economies. Figure 1 illustrates the transitional change of production and labor with respect to urbanization and increased levels of GNP per capita.

# Chart 1

### Africa Urban Population in Millions



### Central & South America in Millions



### Asia Urban Population in Millions

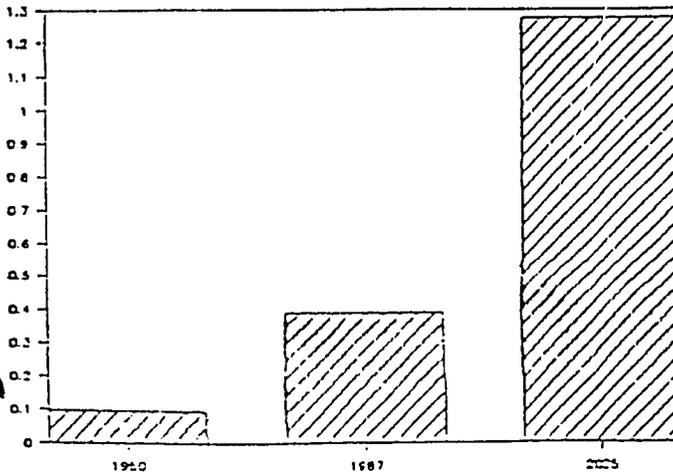
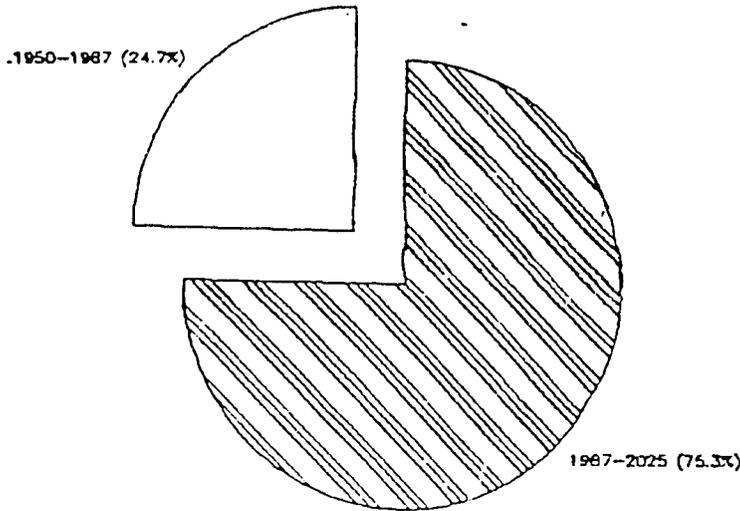


Chart 1 shows the urbanization trends for Africa, Central and South America, and Asia from 1950 to 2025. Projections to 2025 represent the mid-range variant used by the United Nations.

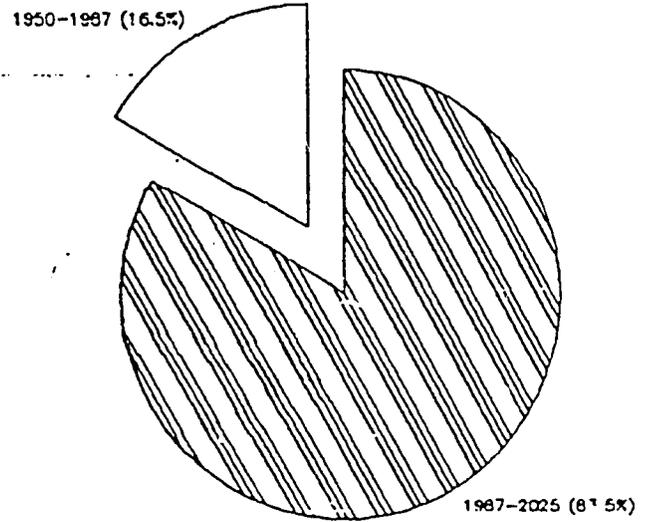
Africa will experience the greatest relative increase in its urban population in the next 38 years (1967 to 2025), more than a 400 percent increase. During the same period, Asia and Central and South America will experience increases of 228 and 119 percent respectively.

Chart 2

Share of Asian Urbanization  
Between 1950 and 2025



Share of African Urbanization Between  
1950 and 1987



Share of Latin American Urbanization  
Between 1950 and 2025

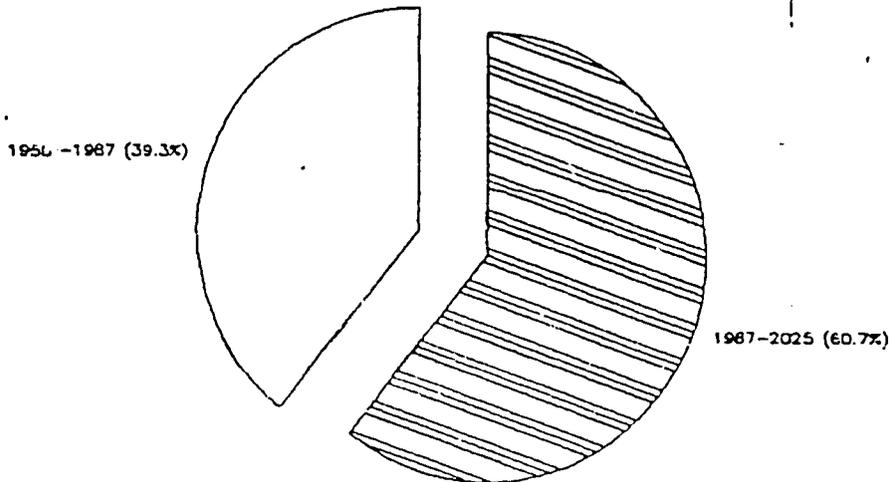


Chart 2 shows the relative shares of overall urbanization occurring in each of the regions between 1950 and 2025. The portion of urban growth that has yet to occur is represented by the darkened section of the charts. For Africa, this means that 83 percent of its urban growth will occur in the next 38 years. The percentage for Latin America (Central and South America) and Asia are 60 and 75 percent, respectively, for the same periods.

Table 1 provides urbanization statistics for all AID-eligible countries in FY87. These data include estimates of urban population for 1950 and 1987, as well as 1985 GNP per capita. Projections are made for the year 2025. Additionally, the Table shows 1) the share of urban growth that has already occurred and the share that has yet to occur for each country, and 2) the percentage share of projected total population growth that will occur in urban areas.

Total and Urban Population Estimates and Projections for 1987 and 2025, with Total Urban Increase for the 1950-1987 and 1987-2025 Periods in 100 Countries in FY 87. Countries ranked by percent of urban growth projected for 1987-2025.

	GNP/capita (\$) 1985	(Population figures in thousands)				Percent Urban 1987	Percent Urban 2025	(1) Percentage of 1950-2025 Urban Increase Occurring between		(2) Percentage of Projected Total Population Growth Occurring in Urban Areas 1987 to 2025	
		Urban Population 1950	Total Population 1987	Urban Population 1987	Total Population 2025			Urban Population 2025	1950-87		1987-2025
AFRICA											
Rwanda	290	38	6,468	448	20,212	5,176	6.9%	25.6%	8.0%	92.0%	34.5%
Burkina Faso	150	139	7,310	616	20,106	5,420	8.4%	27.3%	9.9%	91.1%	38.1%
Uganda	162	162	16,584	1,664	55,170	16,611	10.0%	30.1%	9.1%	90.9%	38.7%
Malawi	170	101	7,415	938	21,855	8,676	13.3%	39.7%	10.3%	89.7%	53.2%
Kenya	290	326	22,397	4,829	82,850	42,649	21.6%	51.5%	10.6%	89.4%	62.6%
Botswana	840	1	1,193	254	4,151	2,199	21.3%	53.0%	11.5%	88.5%	65.8%
Niger	250	141	6,489	1,153	18,940	8,786	17.8%	46.4%	11.7%	88.3%	61.3%
Nigeria	800	3,458	101,992	24,989	338,105	179,300	24.5%	53.0%	12.2%	87.8%	65.4%
Tanzania	290	284	24,186	6,182	83,805	47,127	25.6%	56.2%	12.6%	87.4%	68.7%
Zimbabwe	680	256	9,430	2,457	32,658	17,653	26.1%	54.1%	12.7%	87.3%	65.4%
Mali	150	327	8,569	1,593	24,142	10,064	18.6%	41.7%	13.0%	87.0%	54.4%
Togo	230	96	3,146	750	8,923	4,733	23.8%	53.0%	14.1%	85.9%	68.9%
Burundi	230	54	4,999	496	11,817	3,045	9.9%	25.8%	14.8%	85.2%	37.4%
Madagascar	240	345	10,605	2,476	28,120	14,658	23.3%	52.1%	14.9%	85.1%	69.6%
Ghana	380	615	14,523	4,682	47,020	26,595	32.2%	56.6%	15.7%	84.3%	67.4%
Lesotho	470	7	1,600	295	3,877	1,844	18.4%	47.6%	15.7%	84.3%	68.0%
Mozambique	160	137	14,724	3,230	37,154	19,537	21.9%	52.6%	15.9%	84.1%	72.7%
Guinea	320	178	6,380	1,521	15,561	8,224	23.8%	52.9%	16.7%	83.3%	73.0%
Congo	1,110	254	1,836	750	3,902	3,145	40.8%	80.6%	17.2%	82.8%	115.9%
Liberia	470	111	2,334	974	7,517	5,138	41.7%	68.4%	17.2%	82.8%	80.4%
Sudan	300	579	22,828	4,860	55,379	25,197	21.3%	45.5%	17.4%	82.6%	62.5%
Zaire	170	2,383	31,796	12,090	90,097	57,717	38.0%	64.1%	17.5%	82.5%	78.5%
Benin	260	135	4,307	1,656	12,701	8,753	38.4%	68.9%	17.6%	82.4%	84.5%
Mauritania	420	24	2,007	766	5,780	4,016	38.2%	69.5%	18.6%	91.4%	86.1%
Zambia	390	217	7,135	3,743	23,799	18,549	52.5%	77.9%	19.2%	80.8%	88.9%
Chad	280	112	5,265	1,579	12,356	7,717	30.0%	62.5%	19.3%	80.7%	86.6%
Somalia	280	229	4,862	1,752	12,191	7,793	36.0%	63.9%	20.1%	79.9%	82.4%
Cote d'Ivoire	660	428	10,529	4,658	29,978	21,030	44.2%	70.2%	20.5%	79.5%	84.2%
Cameroon	810	444	10,438	4,777	27,763	20,515	45.8%	73.9%	21.6%	78.4%	90.8%
Senegal	370	38	6,793	2,548	17,872	11,188	37.5%	62.6%	22.2%	77.8%	78.0%
Sierra Leone	350	202	3,741	1,129	7,416	4,383	30.2%	59.1%	22.2%	77.8%	88.5%
Cent. Af. Rep.	260	227	2,701	1,201	6,339	4,445	44.5%	70.1%	23.1%	76.9%	82.2%
Gabon	3,670	93	1,195	517	2,607	1,814	43.3%	69.6%	24.7%	75.3%	91.9%
Egypt	610	8,701	49,143	23,395	90,399	64,033	47.6%	70.8%	26.5%	73.5%	93.5%
Morocco	560	2,346	23,014	10,728	40,062	28,447	46.6%	71.0%	32.1%	67.9%	103.9%
Tunisia	1,190	1,101	7,395	4,346	12,860	10,169	58.8%	79.1%	35.8%	64.2%	106.6%
Mauritius	1,090	140	1,087	459	1,606	1,007	42.2%	62.7%	36.7%	63.3%	105.6%
Total		24,479	466,438	140,541	1,315,110	727,423	30.1%	55.3%	16.5%	83.5%	69.2%

	GHP/capita (\$) 1985	(Population figures: '05)				Migration 2025	Percent Urban 1987	Percent Urban 2025	Percentage of 1950-2025 Urban Increase Occurring between		Percentage of Pr Population Occurring 1987 to 2025
		Urban Population 1950	Total Population 1987	Urban Population 1987	Total Population 2025				1950-87	1987-2025	
<b>SOUTH AMERICA, CENTRAL AMER</b>											
Haiti	310	378	6,936	1,991	18,312	10,337	28.7%	56.4%	16.2%	83.8%	73.4%
Bolivia	470	1,046	6,730	3,336	19,294	13,339	49.6%	72.9%	19.6%	81.4%	86.5%
El Salvador	820	708	5,906	2,330	15,046	9,215	39.5%	61.2%	19.1%	80.9%	75.3%
Honduras	720	247	4,657	1,954	13,293	9,084	42.0%	69.3%	19.3%	80.7%	82.6%
Guatemala	1,250	906	8,434	3,457	21,666	13,966	41.0%	64.5%	19.5%	80.5%	79.6%
Ecuador	1,160	937	9,923	5,413	22,910	17,742	54.6%	77.4%	26.6%	73.4%	94.9%
Costa Rica	1,300	287	2,733	1,412	5,099	3,603	51.7%	74.6%	32.0%	68.0%	101.1%
Panama	2,100	320	2,274	1,219	3,862	2,869	53.6%	74.3%	35.3%	64.7%	103.8%
Dom. Rep.	790	571	6,531	3,788	12,154	9,679	58.0%	79.6%	35.3%	64.7%	104.8%
Peru	1,010	2,674	20,727	14,257	41,006	34,440	68.8%	84.0%	36.4%	63.6%	99.5%
Jamaica	940	376	2,409	1,341	3,704	2,645	55.7%	76.8%	39.1%	69.9%	116.1%
Colombia	1,320	4,302	29,943	20,611	51,710	43,407	68.8%	83.9%	41.7%	58.3%	104.7%
Brazil	1,640	18,438	141,459	105,769	245,609	218,769	74.8%	89.0%	43.6%	56.4%	108.3%
Trinidad & Tobago	6,020	146	1,224	813	1,897	1,590	66.4%	83.9%	46.2%	53.8%	115.5%
Uruguay	1,650	1,746	3,058	2,601	3,873	3,552	85.1%	91.7%	47.3%	52.7%	116.4%
Puerto Rico	..	901	3,554	2,569	5,121	4,419	72.3%	86.3%	47.4%	52.6%	118.1%
Argentina	2,130	11,199	31,500	26,900	47,421	43,952	85.4%	92.7%	47.9%	52.1%	107.1%
Chile	1,430	3,557	12,416	10,503	18,301	16,957	64.6%	92.7%	51.8%	48.2%	109.7%
<b>Total</b>		<b>48,758</b>	<b>300,414</b>	<b>210,264</b>	<b>549,492</b>	<b>460,004</b>	<b>70.0%</b>	<b>83.7%</b>	<b>39.3%</b>	<b>60.7%</b>	<b>100.3%</b>
<b>ASIA</b>											
Oman	6,730	10	1,331	129	3,495	1,195	9.7%	31.6%	10.9%	89.1%	45.1%
Nepal	160	188	17,253	1,483	33,946	10,380	8.6%	30.6%	12.7%	87.3%	53.3%
Yemen	550	63	7,251	1,621	29,773	11,023	22.4%	53.1%	14.2%	85.8%	69.5%
Bangladesh	150	1,860	106,651	13,568	219,383	78,757	12.7%	35.9%	15.2%	84.8%	57.8%
Jordan	1,560	429	3,804	2,519	13,611	11,323	66.2%	83.2%	19.2%	80.8%	89.8%
Thailand	800	2,134	53,150	11,243	85,929	42,239	21.2%	49.2%	22.7%	77.3%	94.6%
Pakistan	360	7,005	105,195	32,485	209,976	119,004	30.9%	56.7%	22.7%	77.3%	82.6%
Burma	190	2,871	38,603	9,360	65,900	31,046	24.2%	47.1%	23.0%	77.0%	79.3%
India	270	61,858	786,300	210,104	1,228,819	658,218	26.7%	53.6%	24.9%	75.1%	101.3%
Indonesia	530	9,863	172,494	46,562	272,744	152,381	27.0%	55.9%	25.8%	74.2%	105.6%
Sri Lanka	360	1,106	16,725	3,554	24,443	10,410	21.2%	42.6%	26.3%	73.7%	88.8%
Philippines	580	5,570	57,060	23,381	102,767	67,929	41.0%	66.1%	28.6%	71.4%	97.4%
Turkey	1,060	4,432	51,390	24,222	91,925	64,135	47.1%	69.8%	33.1%	66.9%	98.5%
Lebanon	..	328	2,762	2,257	5,211	4,795	81.7%	91.8%	43.2%	56.8%	103.2%
Israel	4,990	813	4,399	3,999	6,815	6,561	90.9%	95.6%	55.4%	44.6%	103.9%
United Arab Em.	19,270	18	1,437	1,097	2,619	1,760	76.3%	65.2%	62.0%	38.0%	52.5%
<b>Total</b>		<b>98,547</b>	<b>1,425,805</b>	<b>387,584</b>	<b>2,388,586</b>	<b>1,271,066</b>	<b>27.2%</b>	<b>53.2%</b>	<b>24.7%</b>	<b>75.3%</b>	<b>91.8%</b>
<b>EUROPE</b>											
Ireland	4,850	1,220	3,700	2,147	5,326	4,068	58.0%	76.4%	32.5%	67.5%	118.1%
Portugal	1,970	1,236	10,341	3,733	12,334	7,130	32.2%	57.8%	35.6%	64.4%	190.5%
<b>Total</b>		<b>2,456</b>	<b>14,041</b>	<b>5,480</b>	<b>17,650</b>	<b>11,198</b>	<b>39.0%</b>	<b>63.4%</b>	<b>34.6%</b>	<b>65.4%</b>	<b>158.0%</b>
<b>TOTAL FOR ALL AID ELIGIBLE COUNTRIES</b>		<b>174,241</b>	<b>2,206,698</b>	<b>743,869</b>	<b>4,270,848</b>	<b>2,469,691</b>	<b>33.7%</b>	<b>57.8%</b>	<b>24.8%</b>	<b>75.2%</b>	<b>83.6%</b>

### SERVICE DEFICITS AND REVENUE GENERATION

Local governments must begin to accommodate the increasing numbers of urban population. For instance, in a 1981 International Union of Local Authorities review of 54 development plans, not one explicitly considered the role of local government in the promotion of economic growth. However, the need for urban economic and fiscal reform must increasingly receive the attention of government policymakers. Economic growth, fiscal reform and service delivery are intimately linked. The key issue is how can LDC cities pay for their own expansion and improvement?

The following Charts present data from a 1986 study for eight cities in Nepal. Chart 3 represents a comparison between the deficits for water supply, waste disposal, drainage and electricity. Note the high deficits based on assumed minimal standards.

Chart 3

COMPARISON OF DEFICITS IN EIGHT CITIES

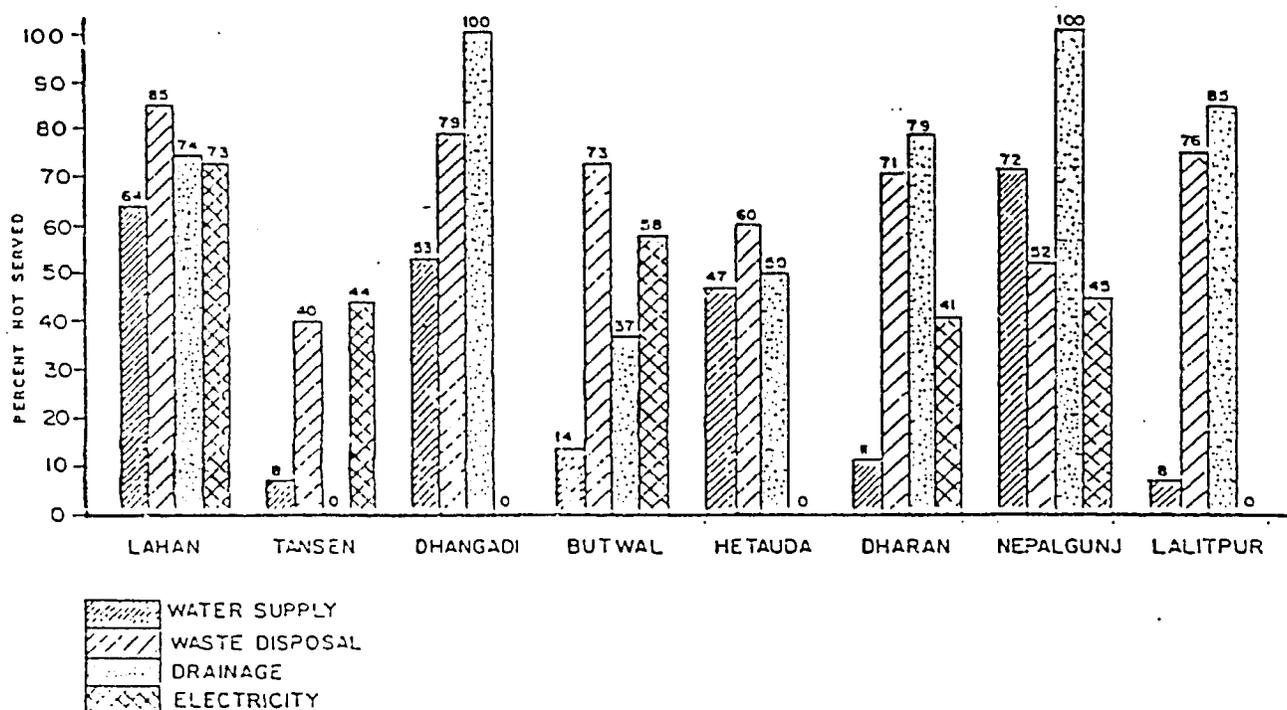
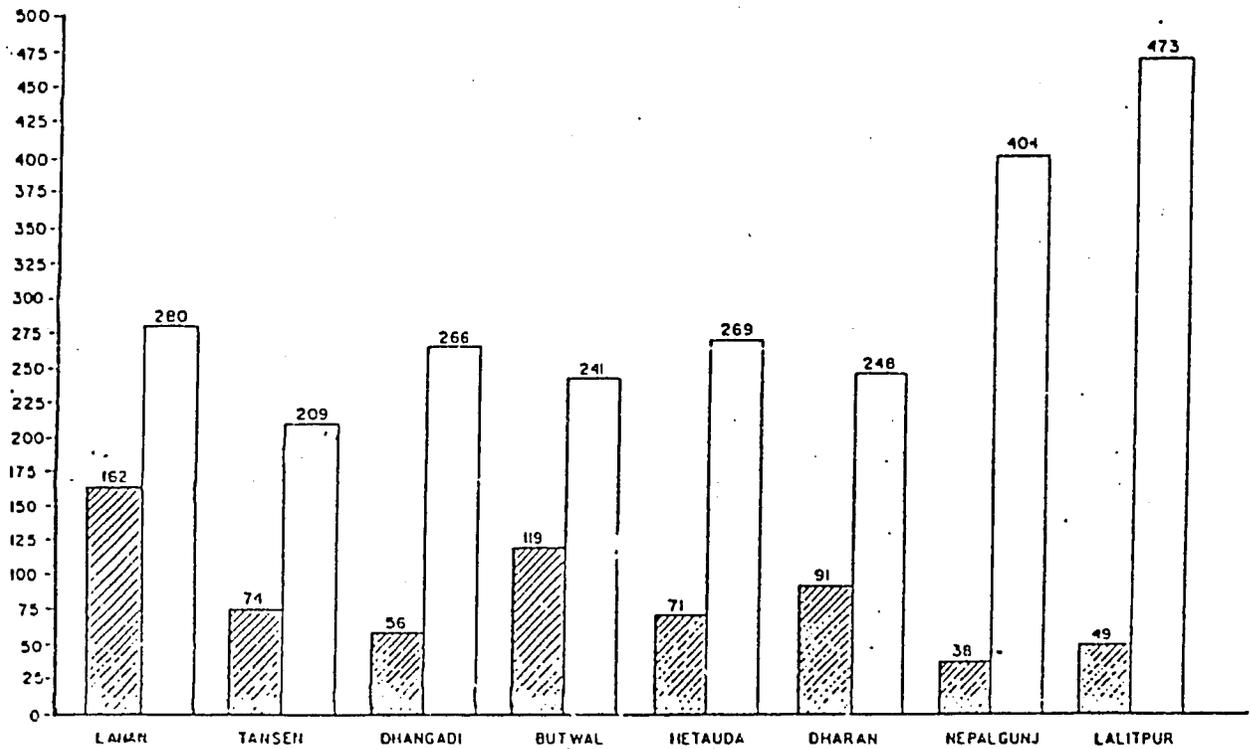


Chart 4 shows a comparison between the annualized costs of meeting these service deficits and the municipal revenues per capita available to finance them. In each case, the improvement programs are unaffordable based on the current tax structure.

Chart 4

COMPARISON OF CURRENT MUNICIPAL REVENUES  
AND COSTS OF PROVIDING SERVICES - 1986



LEGEND:

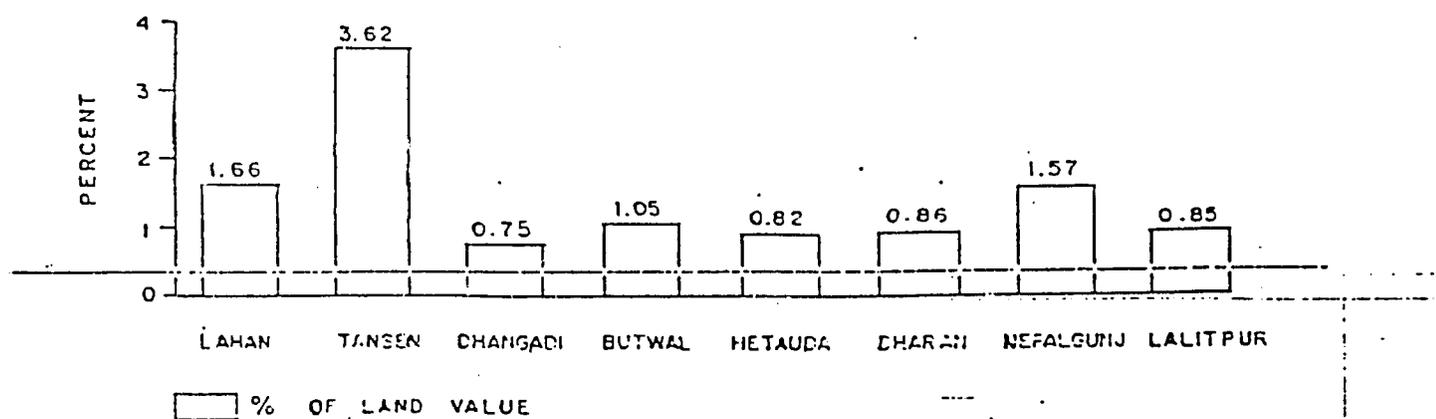
- EXISTING MUNICIPAL REVENUES PER CAPITA
- ANNUAL COSTS OF URBAN DRAINAGE, ROADS AND SOLID WASTE PER CAPITA

SOURCE - PADCO

Chart 5 indicates that if a property tax of less than two percent (of land value) was implemented it would be sufficient to finance all city service deficits with the exception of one town. The purpose of this exercise was to demonstrate that means must be found to better tap the "wealth" of cities in order to finance needed service improvements.

Chart 5

PERCENT OF URBAN LAND VALUE WHICH  
WOULD RECOVER NAGAR PANCHAYAT SERVICE COSTS



## Chart 6

## City Primacy within National Economies

**Abidjan (Ivory Coast):** In 1978, some 70 percent of all economic and commercial transactions were said to take place in Abidjan, which contained around 15 percent of the national population.

**Bangkok (Thailand):** The metropolitan area contained 86 percent of gross national product (GNP) in banking, insurance, and real estate, 74 percent of manufacturing, 61 percent of government expenditures in administration and defense, and one-third of national gross domestic product (GDP) in the early seventies. At that time, it had 10 percent of the national population.

**Lagos (Nigeria):** In 1981, the metropolitan area handled over 40 percent of the nation's external trade, accounted for over 57 percent of total value added in manufacturing, and contained over 40 percent of highly skilled manpower. It contains about 5 percent of the national population.

**Lima (Peru):** The metropolitan area accounts for 43 percent of GDP, four-fifths of bank credit and consumer goods production, and more than 90 percent of capital goods production in Peru. It contained about 27 percent of the national population in 1981.

**Managua (Nicaragua):** A report in 1983 suggests that enterprises in Managua account for 38 percent of the nation's GDP. It

contains about 25 percent of the national population.

**Manila (Philippines):** The metropolitan area produces one-third of the nation's GNP, handles 70 percent of all imports, and contains 60 percent of all manufacturing establishments. In 1981, it contained about 13 percent of the national population.

**Mexico City (Mexico):** In 1970, it contained 30 percent of total employment in manufacturing, 28 percent of employment in commerce, 38 percent of employment in services, 69 percent of employment in national government, 62 percent of national investment in higher education, and 80 percent of research activities. In 1965, it contained 44 percent of national bank deposits and 61 percent of national credits. In 1970, it contained about 24 percent of the national population.

**Nairobi (Kenya):** In 1975, it contained 57 percent of all Kenya's manufacturing employment and, in 1974, 67 percent of its industrial plants. By 1975, Nairobi and its industrial satellite, Thika, contained 61 percent of all industrial wage employment. In 1979, Nairobi contained 5 percent of the national population.

**Port au Prince (Haiti):** Approximately 40 percent of the national income is produced

within Port au Prince. It monopolizes all urban economic activities. The centralized political and administrative system and development policies geared to the manufacturing sector have contributed to this situation. Only some 14 percent of the national population lives there.

**Rangoon (Burma):** Located at the center of the national transport and communications network, Rangoon is the economic, political, and administrative heart of Burma. It is the dominant tertiary service center, and virtually all the import and export trade passes through its port. More than half the national manufacturing industry is said to be located there. In 1981, it contained 6 percent of the national population.

**São Paulo (Brazil):** In 1980, Greater São Paulo contributed over 40 percent of Brazil's industrial value-added manufacturing and one-quarter of net national product. In that same year, it contained about one-tenth of the national population.

**Source:** Adapted from Table 2 in J.E. Hardoy and D. Satterthwaite, "Government Policies and Small and Intermediate Urban Centres," in *Small and Intermediate Urban Centres: Their Role in Regional and National Development in the Third World*, J.E. Hardoy and D. Satterthwaite, Eds. (Hodder and Stoughton, London, 1986). *WRI, 1987*

Figure 1

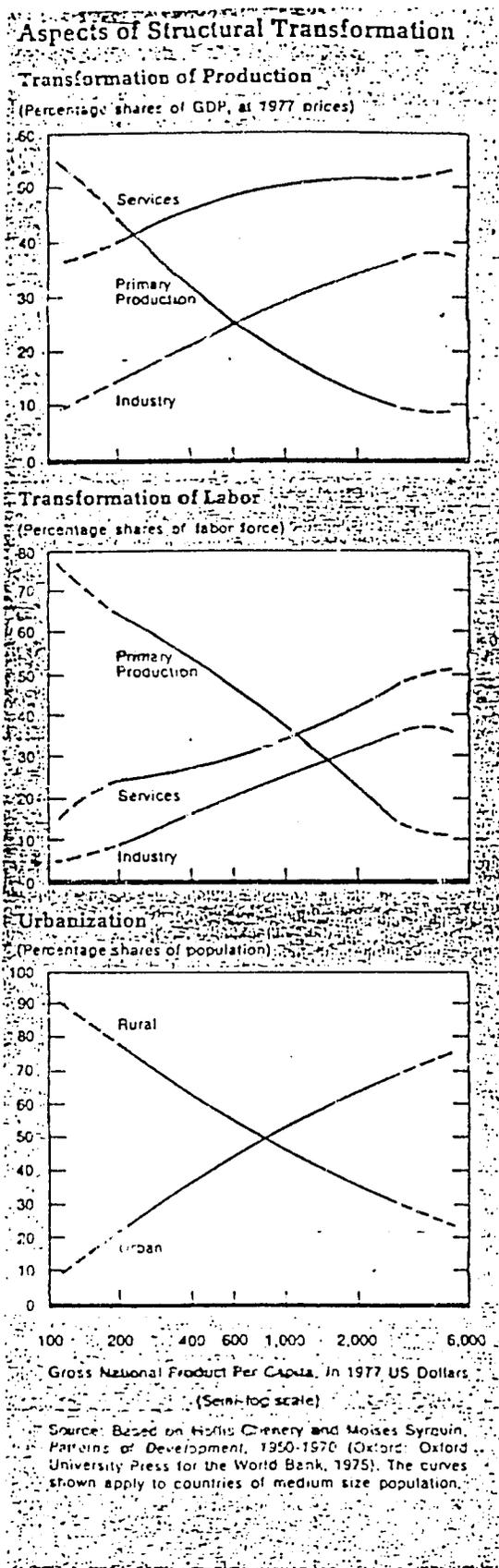


Figure 1 illustrates average patterns of change for the transformation of production as per capita income and urbanization increases. Note the increase in the share of industry in total output and the decline in the share of primary production as countries develop.

Least-developed countries are presently in this early stage of the transformation process. Such processes are the result of mutually interacting changes in supply and demand that accompany economic development. On the supply side, the accumulation of capital and skills augments the productive assets of an economy. Resulting increases in per capita income bring about important shifts in the composition of aggregate demand which, in turn, facilitate the sectoral composition of incremental output.

The evolving deployment of productive factors also reflects similar changes in the composition of the demand for labor. As development and urbanization proceed, the work force moves from agricultural to non-agricultural occupations. Congruently, within each sector, productivity is increased by new technologies, greater division of labor and accumulation of capital and skills. Unfortunately, the unprecedented growth of the labor force has far exceeded industry's capacity to absorb labor. Result: growth of the informal sector.