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**A Review of
"Urbanization in the Developing Countries:
Potentials for United States
Development Cooperation"**

by

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Urbanization in the Developing Countries:
Potentials for United States Development Cooperation

Alfred P. Van Huyck

OVERVIEW

Van Huyck makes a very strong case for US support of urbanization in developing countries. He sets forth the essential facts about urbanization as a process then lays a coherent framework for urban policies based on these facts. Finally, he defines America's interest in developing country cities, shows where America has comparative advantage in urban development cooperation, and recommends areas of potential urban programming concentration. The report stresses the linkages between urbanization and all aspects of economic and social development, and between all development sectors that need to be considered in urban places. Part Three (pp. 56-63) on the role of the US in support of urbanization in developing countries is well worth reading as a "bottom line" statement of a recommended strategy for AID.

HIGHLIGHTS OF PAPER

The development of national urban strategies must focus on two related but separate challenges if urban areas are to support national development objectives: (i) maximizing the urban contribution to national economic development; and (ii) the alleviation of urban poverty. These challenges are discussed in Part One (pp. 10-20).

Framing the Urban Policy Response

This section discusses the essential areas for urban policy change and urban program reorientation. "The agenda for governmental programming focuses on the provision of infrastructure services that use appropriate technology, are affordable and self-financing through user fees and taxes; and on the importance of improving the efficiency and capacity of urban management and urban service delivery institutions."

The Urban Economy, Jobs, and Productivity

While agriculture is a leading development investment priority in many countries, it is important to recognize the interdependence of the agricultural and urban economies.

The primary source of urban job generation will be in the private (non-governmental) sector. Yet macro-economic reforms in many developing countries have committed their respective governments to restricting the growth of employment in the public sector.

Van Huyck discusses a number of sectors of the urban economy and their roles in urban development: the formal industrial sector; small-scale industry and the informal sector; and the building materials and construction industry. He concludes that the major source of jobs will be found in the informal sector. However, there is a mutually reinforcing relationship between formal and informal economic activity that needs to be supported. The public sector's role in stimulating private urban job generation is also briefly discussed.

Residential Settlement: Shelter, Land, and Infrastructure

Shelter — Housing should be supplied by the private sector. There is a need to switch national housing policies from a concern about housing production outputs (numbers of units needed) to a focus on facilitating the provision of housing inputs (land, infrastructure, finance, building materials, and construction capacity).

Housing finance, a major constraint in many countries, should be directly linked into the national capital markets. The development of housing finance institutions in the public and private sector should be an objective of countries seeking to increase domestic savings pools and facilitate housing production. India's Housing Development Finance Corporation is a role model for such an institution.

Urban land policies and procedures — The availability of urban land at prices which allow for profitable investment in housing and enterprises is a prerequisite for efficient urban growth. This will be a difficult task given the enormous requirements for urban land and the present difficulties associated with tenure and land law in most countries. The strategy developed by AID's Office of Housing and Urban Programs for intervention in the urban land sector is reprinted on pp. 40-41.

Infrastructure services — Very large deficits currently exist in most cities and towns of the developing countries which seriously impact economic growth and the health and welfare of low-income households. In particular, Van Huyck discusses water supply and sanitation; solid waste collection; urban transportation; and urban energy supply.

Urban health and education — Preventive health care and community services must be given a higher priority than curative health care. In education, the priority must be given to primary and secondary education over expanding university education.

Urban Management and Finance

If cities and towns of developing countries are to play a positive role in national economic development, they will require a significant increase in the urban management capacity of the civil service. It will also be necessary to decentralize administrative systems: to "change the fundamental concept of urban management from one of 'control of urban development' to one that seeks to 'enable urban development'."

Framework for Urban Policies

There is no one national urban settlement system ideal for all nations. Nor is one national urban settlement system ideal for any one country for all time. Van Huyck presents the following guiding principles for urbanization strategies:

1. Urban population growth is inevitable. Therefore, urbanization should be viewed positively as an opportunity to contribute to national economic development and to improve the standard of living of the rural and urban poor;

2. Urban job generation should be the central objective of urban policy;
3. The physical development of cities will have to become a self-financing process;
4. The provision of housing stock should be viewed as a private sector responsibility for all target groups;
5. Urbanization will be primarily a spontaneous process. This requires a flexible system of development permission with the use of only limited controls;

The Role of the United States in Support of Urbanization in Developing Countries

America has many interests in ensuring the economic growth and stability of developing countries. The future of urbanization should be central to these interests. In particular, the author discusses US interests related to trade, private enterprise, humanitarian concerns, democracy and stability, and strategic considerations.

America's comparative advantage in urban development cooperation rests on the country's immense knowledge and experience with its own urban issues. Areas of urban development where America is in a world leadership position are listed on p. 58.

Van Huyck argues that it is now appropriate to expand the urban action agenda of of AID in the 1990s, listing his justifications for this assertion on p. 59. He then recommends the following areas of potential urban programming concentration:

- the urban economy, job generation and productivity
- urban land markets and policy
- support for non-capital urban infrastructure, especially water and sanitation
- shelter and housing finance
- urban management and finance mobilization.

In conclusion, the paper briefly discusses the significant differences in the mix and priority of urban issues to be addressed in different countries and indifferent regions of AID concern. In selecting aid instruments for urban programming support, AID's comparative advantage will rest more with the quality and value of the knowledge transfer potential rather than the quantity of the capital transfers.

(DRAFT - FOR DISCUSSION ONLY)

**URBANIZATION IN THE DEVELOPING COUNTRIES:
POTENTIALS FOR UNITED STATES DEVELOPMENT COOPERATION**

Prepared by
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PREFACE

1 :

This paper, when it is complete, will be a contribution by VPI&SU, College of Architecture and Urban Studies, to a conference to be held in May, 1988 on "Cooperation For International Development: U.S. Policies and Programs for the 1990's." The conference is sponsored by Michigan State University. The conference will be built around approximately 20 working papers on the central issues relevant to redefining the roll of development assistance. Recognized leaders in each issue or development sector have been identified to prepare the papers, and each institution is expected to hold a seminar workshop on their contribution prior to the May conference. These workshops are intended to incorporate the thinking about the issue from a wide audience of experienced persons in the respective fields.

Following the workshop the paper will be finalized to reflect the views of the workshop participants as well as the author.

VPI&SU wish to acknowledge the contribution of the Urban Work Group of the Society of International Development, Washington Chapter, which has dedicated its year-long program of meetings to the discussion of these issues.

Finally, it should be noted that this Michigan State University program is designed to produce an integrated and comprehensive statement on future directions for development assistance. This material will then be forwarded to the platform committees of the national political parties, and will be used to support positions in the coming Presidential campaigns; it will also be available to the incoming Administration in January, 1989. It is therefore an important effort which may have significant impact in the future.

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INTRODUCTION

Urbanization in the developing countries has now been recognized as a massive and irreversible phenomena that demands the attention of governments and donors in the 1990s. Historically, urban development has been viewed negatively by governments, which sought without success to retard urban growth, and has been avoided by donors, which viewed agriculture as the highest development priority.

These views are now changing as the evidence of urban population growth, the macro-economic conditions to be addressed, and the realization that urbanization and national development (including agricultural and rural development) are interlocked. To paraphrase a cliché, it is now recognized that urbanization is too important to be left to the city planners, engineers, and architects who have dominated the thinking about cities. The full range of development skills must be mobilized to address the emerging urban challenge.

This report sets forth the essential facts about urbanization as a process and so far as data is available, attempts to quantify the scale and issues to be addressed. The report stresses the linkages between urbanization and all aspects of economic and social development, and between all development sectors that need to be considered in urban places.

The major concepts which underlie all of the information presented include:

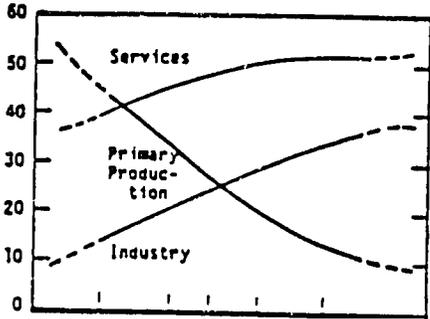
- There is no such thing as an "urban sector" per se; rather, there is a set of activities that takes place in urban locations. In this sense "urban" and "urban development" are spatial concepts that include the analytical, institutional, policy, and related aspects of urban development not included in describing traditional development sectors that impact urban areas.

- Urbanization must be approached positively as a "major engine for development," offering opportunities for improving the standard of living for the poor while recognizing that there are "negative" aspects of urbanization that should be minimized. As illustrated in Figure 1 and 2 urbanization is part of the natural process of development growth and transition.
- Urbanization is directly impacted by macro-economic issues and should be considered within this context.
- Urbanization is essentially a "wealth creating process" and should seek to be self-financing; without reliance on national capital resource subsidies at the expense of the rural and urban poor.
- Urbanization has outrun government's abilities to cope alone. The full mobilization of the private sector, both formal and informal, will be required to meet the needs for job generation and shelter. The critical role for the public sector will be to meet the major requirements for infrastructure and urban management efficiency and to provide an urban policy framework conducive to the mobilization of private sector investment and initiative.
- The framework for urban strategies is the entire national settlement system, 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, and services. This will require new approaches to decentralized urban management and local revenue

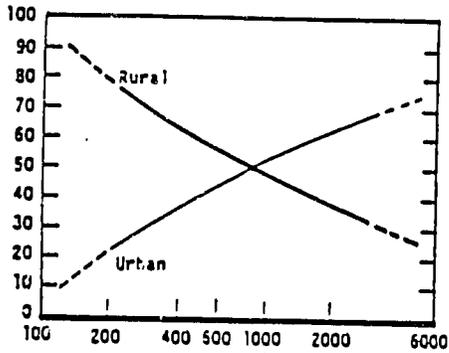
mobilization. It will require a concern with the rehabilitation and efficiency of national infrastructure networks. It will include a concern for the impact of urbanization on the environment.

The development of national urban strategies must focus on two related but separate challenges if urban areas are to support national development objectives.

FIGURE 1
TRANSFORMATION OF PRODUCTION AND URBANIZATION



TRANSFORMATION OF PRODUCTION
(Percentage Shares of GDP at 1977 prices)

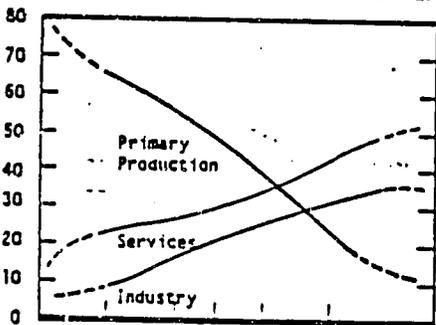


URBANIZATION
(Percentage Shares of Population)

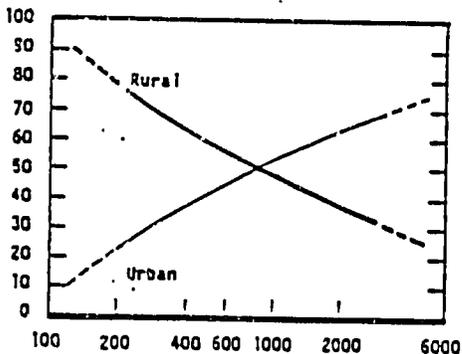
Gross National Product Per Capita, in 1977 US Dollars
(Semi-log scale)

Source: World Development Report, 1979; The World Bank, Washington, DC, August 1979

FIGURE 2
TRANSFORMATION OF LABOR AND URBANIZATION



TRANSFORMATION OF LABOR
(Percentage Shares of Labor Force)



URBANIZATION
(Percentage Shares of Population)

Gross National Product Per Capita, in 1977 US Dollars
(Semi-log scale)

Source: World Development Report, 1979; The World Bank, Washington, DC, August 1979

1. Maximizing the Urban Contribution to National Economic Development

The economic future of all countries both domestically and internationally, will depend on the expansion of the modern sectors of the economy. The ability to compete globally and grow rapidly will depend on the efficiency and productivity of their cities.

This means a concern with world trade, macro-economic policy, support for the modern, formal private sector of the economy, expansion of registered wage employment, mobilization of capital from domestic and international capital markets for productive investment, and the enhancement of public and private management efficiency and productivity.

It also requires a concern for the provision of high-standard infrastructure, telecommunications, and energy supply in order to support the modern sector. Additionally, it requires an appropriate response to the demands of the emerging managerial groups for housing finance, quality education and health care.

The critical issue for programming the modern sector urban strategy is that investments must be proven to yield high rates of economic growth, generate surplus for reinvestment, and be self-financing without subsidy.

2. The Alleviation of Urban Poverty

Regardless of the success of countries in stimulating the urban formal economy, it is equally necessary to recognize that a substantial majority of a nation's low-income urban population will not benefit directly.

Urban poverty alleviation starts with the recognition that government policies must provide an environment in which the urban poor can help themselves. This

requires facilitation of the informal, micro- and small-enterprise sectors of the economy, access to land tenure, support for informal shelter construction, and to affordable infrastructure, primary education and preventive health care. It includes a response to the special issues of women-headed households and the role of women in the economy.

As part of the strategy for the alleviation of urban poverty, there must be a direct concern for the establishment of policies and procedures which will facilitate the transition of people and enterprises from the informal (often illegal) sector to the modern formal sector. This effort should start with a thorough review of all the laws, rules, regulations, and procedures which currently constrain the productivity of the poor and raise their transaction costs with government.

3. Macro-Economic Policy and Urbanization

When the IMF, AID, the World Bank, and the commercial banks intervene in the macro-economic policy discussion with respective developing countries they deal with these issues in purely economic terms. The result of the structural adjustment lending coupled with policy change has been to impact in very significant ways on the relationships between rural producers and urban consumers and on both urban and rural poverty level populations. Yet, these aspects of macro-economic policy dialogue have often been ignored.

The role of urban centers is extremely important to national economies. The World Bank estimates that more than 80 percent of the GDP of developing countries will be produced in urban places by the year 2000. The economic

importance of some of the urban areas in the developing countries is presented in Figure 3.

What macro-economic policy dialogue is all about is the freeing up of markets (capital, labor, and goods), the establishment of realistic prices for goods and services, the mobilization of domestic savings, and improvement in management and efficiency. The collective effect is a massive change on how governments, enterprises, and households (particularly low-income households) can function.

Recent research by the World Bank¹ has demonstrated the importance of housing investment as a key part of macro-economic policy reform. Housing is a significant part of any nation's real wealth often larger than the entire GDP. The macro-economic study of housing in Argentina, Colombia, and Poland found, in each case, that the poor selection of housing policies has had major negative effects on the economic performance of the respective countries.

In urban areas the net result of macro-economic policy changes are likely to be the reduction of urban subsidies, restrictions on public sector employment growth, increased food prices, and lower levels of public expenditure for services. Conversely, the climate for improvement in formal sector private enterprise development is likely to be enhanced with a strong contribution to GNP growth, export trade, and access of capital.

¹Mayo, Stephen; and Buckley, Robert; "Housing, Macro Policies: Tracing the Links;" Urban Edge, Vol.12, No.3, April 1988.

Figure 3

Indicators of the economic importance of some urban areas in developing countries		
Urban area	Population share	Output measure (in percent)
Brazil: Greater São Paulo (1970)	8.6	36.0 of net domestic product
China: Shanghai (1980)	1.2	12.5 of gross industrial production
Haiti: All urban (1976)	24.2	57.6 of national income
Port-au-Prince (1976)	15.0	38.7 of national income
India: All urban (1970/71)	19.9	38.9 of net domestic product
Kenya: All urban (1976)	11.9	30.3 of national income
Nairobi (1976)	5.2	20.0 of national income
Mexico: All urban (1970)	60.0	79.7 of personal income
Federal District (1970)	14.2	33.6 of personal income
Pakistan: Karachi (1974/75)	6.1	16.1 of GDP
Peru: Lima (1980)	28.0	43.0 of GDP
Philippines: Metro-Manila (1970)	12.0	25.0 of GNP
Thailand: Metro-Bangkok (1972)	10.9	37.4 of GDP
Turkey: All urban (1981)	47.0	70.0 of GNP

Source: World Bank.

Kahnert, Friedrich; "Re-Examining Urban Poverty and Employment, Finance and Development, March 1986

However, the full benefits of this more favorable macro-economic climate for private enterprise will not be realized unless there is also an improvement in the management and efficiency of urban government which expands and maintains the essential infrastructure, sets the policy framework for land markets, and establishes the rules and regulations that control the development of the physical urban structure.

In addition, the impact on the urban poor of macro-economic reforms can only be ignored at the risk of urban social instability as has been discovered in Zambia, Egypt, and many other countries in recent years. Unless there is a concurrent freeing up of the legal restrictions on the settlement and small-scale enterprises of the urban poor, the impact of macro-economic reforms will have a disastrous effect. Realistic standards of provision of shelter and infrastructure that are affordable to the urban poor are essential. The transaction costs of small-scale enterprise (licenses, permits, taxes, etc.) must be kept to a minimum. Above all, as governments realize their limitations to respond to the needs of the urban poor through direct action, there must be the provision of freedom for the poor to take care of themselves without harassment.

PART ONE THE URBAN CHALLENGE

The challenge of urbanization facing the developing countries is driven by the massive increase in total population growth and the expanding share of that population which will be located in cities. Low-income households make up the majority of the urban population increase which comes into national settlement systems already seriously deficit in job opportunities, shelter, infrastructure, public health and education services. It comes at a time when the urban management capacity of government is weak and urban service delivery institutions are inefficient and decapitalizing. In many cases unacceptably low rates of national economic growth, poor agricultural performance, and inappropriate macro-economic policies further constrain government's capacity to respond to the demographics of the urban challenge and the special issues of urban poverty which are outlined in this section of the report.

THE DEMOGRAPHICS OF THE URBAN CHALLENGE

Much of the thinking about urbanization in the developing countries has been motivated by the fear of massive growth of low-income population requiring enormous expenditure on shelter, infrastructure, facilities and services. There has also been a fear of "mega-cities" growing to unmanageable proportions, with levels of population, congestion, and economic diseconomies sufficient to endanger the health and safety of the population.

There is no question that rapid urbanization, primarily among low-income population groups within cities already seriously deficit in jobs, shelter, and services, and with low levels of per capita GNP, presents a serious challenge.

By the year 2025, the world's urban population could reach 4.9 billion persons, which is 3.2 billion more than in 1950. (See Tables 1 and 2)

Table 1 The growth of world and urban population, 1950-2025.

	World population (millions)	Urban population (millions)	Urban population as % of total
1950	2,516	734	29.2
1960	3,019	1,032	34.2
1970	3,593	1,371	37.1
1980	4,450	1,764	39.5
1990	5,246	2,234	42.5
2000	6,122	2,854	46.6
2010	6,929	3,623	51.9
2020	7,322	4,489	57.4
2025	8,305	4,932	60.1

Table 2 Urban population in developed and developing countries, 1950-2025

	Developed countries		Developing countries	
	Urban population (millions)	% of total	Urban population (millions)	% of total
1950	447	53.9	237	17.0
1960	571	60.5	460	22.2
1970	699	65.6	673	25.4
1980	798	70.2	956	29.2
1990	877	72.5	1,357	33.5
2000	950	74.4	1,904	39.3
2010	1,011	76.0	2,512	46.2
2020	1,063	77.2	3,423	53.1
2025	1,037	77.3	3,845	55.5

Source: United Nations, Urban and Rural Population Projections, 1950-2025: The 1984 Assessment (New York 1986); cited in: Global Report on Human Settlements - 1986, United Nations Centre for Human Settlements (HABITAT).

This means that the developing countries will have to accommodate 140,000 new urban persons every day. They will have to accomplish this within national settlement systems that today hold an estimated 300 million persons without productive employment and an estimated 700 million persons living in urban poverty.

Table 3 summarizes the growth of the urban population in AID eligible countries. Globally, the shift from rural to urban population is clear. While the percentage of total urban population is estimated to increase from 33.2 percent in 1985 to 48.8 percent in the year 2010, the absolute numbers are dramatic. Urban population will increase by 1.2 billion people during the 25 year period while rural areas will increase by 450 million persons. This means that 73 percent of the total population growth of AID eligible countries will be in urban areas.

The world's rural population is also expected to reach its peak in the year 2010. It is then estimated to begin a slow decline in absolute numbers.

URBAN, RURAL AND TOTAL POPULATION ESTIMATES AND PROJECTIONS - 1985 & 2010

(in thousands)

BY A.I.D. REGIONS AND SUB REGIONS

	1985				2010			
	URBAN	PERCENT URBAN	RURAL	TOTAL	URBAN	PERCENT URBAN	RURAL	TOTAL
AFRICA	117,310	25.9%	336,208	453,518	421,912	42.7%	566,723	988,635
Eastern Africa	34,610	18.4%	153,344	187,954	146,723	35.3%	268,371	415,099
Middle Africa	21,171	35.6%	38,367	59,538	67,157	55.0%	54,956	122,013
Southern Africa	19,530	52.5%	17,888	37,218	45,474	66.1%	23,329	68,803
Western Africa	41,999	24.9%	125,909	168,908	162,553	42.5%	220,167	382,720
ASIA & NEAR EAST	477,306	29.6%	1,191,309	1,669,715	1,154,362	45.0%	1,408,399	2,563,861
Northern Africa	47,266	46.6%	54,144	101,410	106,084	62.3%	62,309	168,393
Western Asia	57,956	53.7%	50,064	108,020	138,640	68.6%	63,454	202,094
Southern Asia	266,531	25.2%	769,361	1,035,892	651,839	40.9%	939,968	1,591,807
Southeastern Asia	105,090	26.3%	294,536	399,626	255,755	43.1%	337,351	593,106
Oceania	963	20.2%	3,304	4,267	2,544	32.0%	5,397	7,941
LATIN AMER & CARIB	218,808	66.0%	112,539	331,397	420,482	78.3%	116,453	536,935
Caribbean	8,415	45.6%	10,055	18,470	18,505	60.9%	11,888	30,393
Central America	66,486	63.3%	38,613	105,099	133,830	74.6%	45,466	179,296
Temperate So Amer	2,549	84.6%	463	3,012	3,196	89.2%	385	3,581
Tropical So Amer	141,358	69.0%	63,453	204,816	264,951	81.9%	59,714	323,665
TOTAL	813,924	33.2%	1,640,706	2,454,630	1,997,256	48.3%	2,092,173	4,089,431

Source: The Prospects of World Urbanization, United Nations 1987
 Analysis by A.I.D. S/T POP

Table 4 extends this data by individual AID eligible country to the year 2025. It highlights the rapid transition which will occur between urban and rural population splits. However, the central demographic issue that must be of concern to governments and donors alike is the reality that the vast proportion of urban growth will take place in the future.

There is significant concern about urban problems which now exist in the developing countries in terms of deficits in jobs, housing, and infrastructure, but the overall pressure of urbanization has been relatively modest from 1950 - 1987 as shown in Table 4. There will be almost a five fold increase in the total urban population that must be accommodated in the period 1987 - 2025. Table 4 shows the percentage of urban population currently in place in 1987 and the percentage of urban population which must be accommodated between 1987 - 2025 to equal 100 percent of the total urban population to be in place in the year 2025.

For example, Kenya experienced an urban population growth of 4.5 million persons between 1950 - 1987, but can expect 38 million new urban persons to be added to the national settlement system between 1987 - 2025.

4

Total and Urban Population Estimates and Projections for 1987 and 2025, with Total Urban Increase for both 1950-1987 and 1987-2025
 For A.I.D. Eligible Countries in FY 87
 Countries ranked by percent of urban growth projected to occur 1987-2025

File: final.WK1

Page 1-

(Population figures in thousands)

	GNP/capita (\$) 1985	Urban Population 1950	Total Population 1987	Urban Population 1987	Total Population 2025	Urban Population 2025	Percent Urban 1987	Percent Urban 2025	Percentage of 1950-2025 Increase Occurring between	
									1950-87	1987-2025
AFRICA										
Awanda	260	38	6,488	448	20,212	5,176	6.9%	25.6%	8.0%	92.0%
Burkina Faso	150	139	7,310	616	20,106	5,490	8.4%	27.3%	8.9%	91.1%
Uganda	..	162	16,584	1,664	55,190	16,611	10.0%	30.1%	9.1%	90.9%
Malawi	170	101	7,415	988	21,855	8,676	13.3%	39.7%	10.3%	89.7%
Kenya	290	326	22,397	4,829	82,850	42,649	21.6%	51.5%	10.6%	89.4%
Botswana	840	1	1,193	254	4,151	2,199	21.3%	53.0%	11.5%	88.5%
Niger	250	141	6,489	1,153	18,940	8,786	17.3%	46.4%	11.7%	88.3%
Nigeria	800	3,458	101,992	24,989	338,105	179,300	24.5%	53.0%	12.2%	87.8%
Tanzania	290	284	24,186	6,182	83,805	47,127	25.6%	56.2%	12.6%	87.4%
Zimbabwe	680	256	9,430	2,457	32,658	17,653	26.1%	54.1%	12.7%	87.3%
Mali	150	327	8,569	1,593	24,142	10,064	18.6%	41.7%	13.0%	87.0%
Togo	230	96	3,146	750	8,923	4,733	23.3%	53.0%	14.1%	85.9%
Burundi	230	54	4,999	496	11,817	3,045	9.9%	25.3%	14.8%	85.2%
Madagascar	240	345	10,605	2,476	28,120	14,658	23.3%	52.1%	14.9%	85.1%
Ghana	380	615	14,523	4,682	47,020	26,595	32.2%	56.6%	15.7%	84.3%
Lesotho	470	7	1,600	295	3,877	1,844	18.4%	47.6%	15.7%	84.3%
Mozambique	160	137	14,724	3,250	37,154	19,537	21.9%	52.6%	15.9%	84.1%
Guinea	320	178	6,380	1,521	15,561	8,224	23.3%	52.9%	16.7%	83.3%
Congo	1,110	254	1,836	750	3,902	3,145	40.8%	80.6%	17.2%	82.8%
Liberia	470	111	2,336	974	7,517	5,138	41.7%	68.4%	17.2%	82.8%
Sudan	300	579	22,828	4,860	55,379	25,197	21.3%	45.5%	17.4%	82.6%
Zaire	170	2,383	31,796	12,090	90,097	57,717	38.0%	64.1%	17.5%	82.5%
Benin	260	135	4,307	1,656	12,701	8,753	38.4%	68.9%	17.6%	82.4%
Mauritania	420	24	2,007	766	5,780	4,016	33.2%	69.5%	18.6%	81.4%
Zambia	390	217	7,135	3,743	23,799	18,549	52.5%	77.9%	19.2%	80.8%
Chad	..	112	5,265	1,579	12,356	7,717	30.0%	62.5%	19.3%	80.7%
Somalia	280	229	4,862	1,752	12,191	7,793	36.0%	63.9%	20.1%	79.9%
Cote d'Ivoire	660	428	10,529	4,658	29,978	21,030	44.2%	70.2%	20.5%	79.5%
Cameroon	810	444	10,438	4,777	27,763	20,515	45.3%	73.9%	21.6%	78.4%
Senegal	370	88	6,795	2,549	17,972	11,198	37.5%	62.6%	22.2%	77.8%
Sierra Leone	350	202	3,741	1,129	7,416	4,383	30.2%	59.1%	22.2%	77.8%
Cent. Af. Rep.	260	227	2,701	1,201	6,339	4,445	44.5%	70.1%	23.1%	76.9%
Egypt	3,670	93	1,195	517	2,607	1,814	43.3%	69.6%	24.7%	75.3%
Morocco	610	8,701	49,143	23,385	90,399	64,033	47.6%	70.3%	26.5%	73.5%
Tunisia	560	2,346	23,014	10,718	40,062	28,447	46.6%	71.0%	32.1%	67.9%
Tunisia	1,190	1,101	7,395	4,346	12,860	10,169	59.3%	79.1%	35.8%	64.2%
Mauritius	1,090	140	1,087	459	1,606	1,007	42.2%	62.7%	36.7%	63.3%
Total		24,479	466,438	140,541	1,315,110	727,423	30.1%	55.3%	16.5%	85.5%

Page 2

(Population figures in thousands)

	GNP/capita (\$) 1985	Urban Population 1950	Total Population 1987	Urban Population 1987	Total Population 2025	Urban Population 2025	Percent Urban 1987	Percent Urban 2025	Percentage of 1950-2025 Increase Occurring between	
									1950-87	1987-2025
SOUTH AMERICA, CENTRAL AMER										
Haiti	310	378	6,936	1,991	18,312	10,337	28.7%	56.4%	16.2%	83.3%
Bolivia	470	1,046	6,730	3,336	18,294	13,359	49.6%	72.9%	19.6%	91.4%
El Salvador	820	708	5,706	2,330	15,048	9,215	39.5%	61.2%	19.1%	80.9%
Honduras	720	247	4,657	1,354	13,293	9,034	42.0%	68.3%	19.3%	80.7%
Guatemala	1,250	906	8,434	3,457	21,668	13,986	41.0%	64.5%	19.5%	80.5%
Ecuador	1,160	937	9,923	5,413	22,910	17,742	54.6%	77.4%	26.6%	73.4%
Costa Rica	1,300	287	2,733	1,412	5,099	3,803	51.7%	74.6%	32.0%	68.0%
Panama	2,100	320	2,274	1,219	3,362	2,868	53.6%	74.3%	35.3%	64.7%
Dom. Rep.	790	571	6,531	3,788	12,154	9,679	58.0%	79.6%	35.3%	64.7%
Peru	1,010	2,694	20,727	14,257	41,006	34,440	68.3%	84.0%	36.4%	63.6%
Jamaica	940	376	2,409	1,341	3,704	2,845	55.7%	76.8%	39.1%	60.9%
Colombia	1,320	4,302	29,945	20,611	51,718	43,407	68.8%	83.9%	41.7%	58.3%
Brazil	1,640	18,438	141,459	105,769	245,809	218,789	74.8%	89.0%	43.6%	56.4%
Trinidad & Tobago	6,020	146	1,224	813	1,897	1,590	66.4%	83.8%	46.2%	53.3%
Uruguay	1,650	1,746	3,058	2,601	3,875	3,552	85.1%	91.7%	47.3%	52.7%
Puerto Rico	..	901	3,554	2,569	5,121	4,419	72.3%	86.3%	47.4%	52.6%
Argentina	2,130	11,199	31,500	26,900	47,421	43,952	85.4%	92.7%	47.9%	52.1%
Chile	1,430	3,557	12,416	10,503	18,301	16,957	84.6%	92.7%	51.8%	49.2%
Total		48,758	300,414	210,264	549,492	460,004	70.0%	83.7%	39.3%	60.7%
ASIA										
Oman	6,730	10	1,331	129	3,495	1,105	9.7%	31.6%	10.9%	89.1%
Nepal	160	188	17,253	1,483	33,946	10,380	8.6%	30.6%	12.7%	87.3%
Yemen	550	63	7,251	1,621	20,773	11,023	22.4%	53.1%	14.2%	85.3%
Bangladesh	150	1,860	106,651	13,568	219,383	78,757	12.7%	35.9%	15.2%	84.8%
Jordan	1,560	429	3,804	2,519	13,611	11,323	66.2%	83.2%	19.2%	80.8%
Thailand	800	2,134	53,150	11,243	85,929	42,239	21.2%	49.2%	22.7%	77.3%
Pakistan	380	7,005	105,195	32,485	209,976	119,004	30.9%	56.7%	22.7%	77.3%
Burma	190	2,871	38,603	9,360	65,960	31,046	24.2%	47.1%	23.0%	77.0%
India	270	61,858	786,300	210,104	1,228,829	658,218	26.7%	53.6%	24.9%	75.1%
Indonesia	530	9,863	172,474	46,562	272,744	152,381	27.0%	55.9%	25.8%	74.2%
Sri Lanka	380	1,106	16,725	3,554	24,443	10,410	21.2%	42.6%	25.3%	73.7%
Philippines	580	5,570	57,060	23,381	102,787	67,929	41.0%	66.1%	28.6%	71.4%
Turkey	1,000	4,432	51,390	24,222	91,925	64,135	47.1%	69.8%	33.1%	66.9%
Lebanon	..	328	2,762	2,257	5,221	4,795	81.7%	91.8%	43.2%	56.8%
Israel	4,990	813	4,399	3,399	6,865	6,561	90.9%	95.6%	55.4%	44.6%
United Arab Em.	19,270	18	1,437	1,097	2,699	1,760	76.3%	65.2%	62.0%	38.0%
Total		98,547	1,425,805	387,534	2,338,536	1,271,066	27.2%	53.2%	24.7%	75.3%
EUROPE										
Ireland	4,850	1,220	3,700	2,147	5,326	4,068	58.0%	76.4%	32.5%	67.5%
Portugal	1,970	1,236	10,341	3,333	12,334	7,150	32.2%	57.8%	35.6%	64.4%
Total		2,456	14,041	5,480	17,660	11,198	39.0%	63.4%	34.6%	65.4%

Source: The Prospects of World Urbanization, United Nations, NY 1987. GNP/capita data from World Development Report, World Bank, 1987.
Analysis by Robert Fox and PADCO.

THE SPECIAL ISSUE OF MEGA CITIES

Beyond the implications of the absolute total urban population growth there is the issue of "mega-cities." Table 6 presents a list of the cities expected to hold over five million persons by the year 2000. The large majority of these cities will be found in the developing countries.

The concentration of a large percentage of the population in one city, often called the primate city or more recently a "mega-city," has been thought to be an inherently bad phenomenon that should be addressed through public policy. The visual impact of vast areas of poverty level households, the huge problems associated with the provision of infrastructure, and the immense difficulties in providing efficient urban management have generated a real fear in governments of their mega-cities and a "morbid" fascination in the media and among urbanists.

The former planning director of Sao Paulo, Brazil, one of Latin America's mega-cities, calculates the "social debt" (i.e., the combined deficits in schools, health facilities, jobs, housing, water, sanitation, and street paving) that has accumulated over 15 years of neglected maintenance and population explosion at US\$16.8 billion (1984 value). This represents the equivalent of 30 annual Sao Paulo municipal budgets.¹

¹Perlman, Janice E.; "Mega-Cities & Innovative Technologies", unpublished paper, 1988.

6

Cities and Metropolitan Areas Projected Over Five Million Inhabitants in 2000

City and Country	1950	2000	City and Country	1950	2000
ASIA			LATIN AMERICA		
Ahmedabad, India	.9	5.3	Belo Horizonte, Brazil	.5	5.1
Ankara, Turkey	.3	5.2	Bogota, Colombia	.7	6.5
Bagdad, Iraq	.6	7.4	Buenos Aires, Argentina	5.3	13.2
Bangalore, India	.8	8.0	Caracas, Venezuela	.7	5.0
Bangkok, Thailand	1.4	10.7	Lima, Peru	1.1	9.1
Beijing, China	6.7	10.4	Mexico City, Mexico	3.1	25.8
Bombay, India	2.9	16.0	Rio de Janeiro, Brazil	3.5	13.3
Calcutta, India	4.4	16.5	Santiago, Chile	1.4	5.3
Hong Kong	1.7	6.4	Sao Paulo, Brazil	2.8	24.0
Dacca, Bangladesh	.4	11.2	AFRICA		
Hyderabad, India	1.1	5.1	Algiers, Algeria	.4	5.1
Jakarta, Indonesia	1.8	13.2	Cairo, Egypt	2.5	11.7
Karachi, Pakistan	1.0	12.0	Kinshasa, Zaire	.2	5.0
Lahore, Pakistan	.8	6.2	Lagos, Nigeria	.4	8.3
Madras, India	1.4	8.1	NORTH AMERICA		
Manila, Philippines	1.8	11.1	Chicago, U.S.A.	5.0	7.0
Medan, Indonesia	.4	5.4	Los Angeles, U.S.A.	4.1	11.0
New Delhi, India	1.4	13.2	New York City, U.S.A.	12.4	15.8
Osaka, Japan	3.8	10.5	EUROPE		
Pusan, Rep. of Korea	1.0	6.2	London, United Kingdom	10.4	10.5
Seoul, Rep. of Korea	1.1	13.8	Madrid, Spain	1.7	5.4
Shanghai, China	10.3	13.3	Milan, Italy	3.8	8.1
Shenyang, China	2.2	5.2	Paris, France	5.5	8.7
Teheran, Islamic Rep. of Iran	.9	13.6			
Tianjin, China	5.4	9.1			
Tokyo, Japan	6.7	20.2			
USSR					
Leningrad	2.8	5.9			
Moscow	4.8	10.4			

Source: Population Division of the United Nations,
1984 Assessment.

United Nations Fund for Population Activities,
"Population Images," 1987

However, many urban analysts have concluded that there is no "optimum city size." Evidence is accumulating that in many countries secondary cities are now growing at rates equal or higher than the primate cities. In part this secondary city growth reflects a natural process of recognizing that the primate city no longer holds all of the advantages. The process has been called "reverse polarization."

It is not likely that public policy that attempts to redirect urban growth away from the primate cities is likely to be successful unless it directly deals with the pricing policy issues which often favor primate cities through subsidies.

For example, India has, for many years, attempted to reduce the growth rates of its mega-cities and encourage development in rural areas and low-income regions. These efforts mainly sought to control industrial location by the regulation of licenses, the selection of locations for public sector enterprises, the equalization of delivered prices of basic products nationally, the creation of industrial estates, the use of master plan and zoning controls, and the application of direct incentives and subsidies. Yet, as a recent book concludes, "despite some three decades of effort, Indian governments have had no measurable effect on the city size distribution."²

²Mills, Edwin; and Becker, Charles; "Studies in Indian Urban Development," Oxford University Press, July 1986, p.139.

URBAN POVERTY

The World Bank prepared estimates of the growth of rural and urban poverty level populations between 1980 - 2000. (See Table 7) The significant finding was that rural poverty will decline in absolute numbers. South Asia will account for 70 percent of the decline, but only Eastern Africa will show an increase in the number of rural poverty level households. Urban poverty is expected to increase in all developing country regions. By the year 2000 the World Bank estimates that 74.3 million households will be living in urban poverty as compared to 56.5 million rural households.

It is important to note that approximately 20 percent of the urban poverty level households are headed by women. In Latin America and Africa the percentages are even higher. The role of women in shelter and income generation will need to be a major theme of future urban strategies.

While urban poverty is a serious issue, research has shown that the decision to migrate from rural to urban places has been an economically logical one. The urban poor do, in fact, contribute to the urban economy and most do find employment (though productivity is an issue). Informal shelter areas, in spite of their deficiencies in infrastructure, provide affordable housing and are socially well organized with a range of income groups represented.

TABLE 7

PROJECTED GROWTH IN THE NUMBER OF HOUSEHOLDS
IN POVERTY, RURAL AND URBAN, 1975-2000 @

<u>REGION</u>	<u>1975</u>	<u>INCREASE OR DECREASE</u>	<u>1980</u>	<u>INCREASE OR DECREASE</u>	<u>1990</u>	<u>INCREASE OR DECREASE</u>	<u>2000</u>	
Urban Poor Households (thousands)								
Eastern Africa	1,039	+330.5	1,369	+1,175	2,544.5	+2,158.5	4,703	6.2
Western Africa	1,072	+333	1,405	+861	2,266	+961	3,227	4.5
East Asia and the Pacific	2,664	+1,491	4,155	+956	5,111	+633	5,744	3.1
South Asia	10,213	+3,757	13,970	+7,285	21,255	+11,300	32,555	4.7
Europe, the Middle East, and North Africa	5,581	+699	6,250	+1,324	7,574	+1,169	8,743	1.8
Latin America and the Caribbean	12,945	+1,078	14,023	+2,775	16,798	+2,530	19,328	1.6
Total	33,514	+7,658.5	41,173	+14,376	55,548.5	+18,751.5	74,300	3.2
Rural Poor Households (thousands)								
Eastern Africa	5,902.5	+555.5	6,458	+1,100	7,558	+1,067	8,625	1.5
Western Africa	2,670	+268	2,938	-450	2,488	-250	2,238	-1.0
East Asia and the Pacific	14,327	-1,774	12,553	-834	11,719	-1,847	9,872	-1.5
South Asia	49,677	-878	48,799	-7,763	41,036	-8,327	32,709	-1.7
Europe, the Middle East and North Africa	4,563	-802	3,761	-1,428	2,333	-930	1,403	-4.6
Latin America and the Caribbean	6,040	-1,108	4,932	-1,904	3,028	-1,407	1,621	-5.1
Total	83,279.5	-3,738.5	79,441	-11,279	68,162	-11,694	56,468	-1.5

@ Based on estimates of real per capita incomes through the year 2000, using United Nations medium-variant rates of growth of population and World Bank projections of real growth of national income. Poor households in 1975 are here defined as those living in absolute poverty in 1975 in all rural areas except those in El Salvador and Jamaica and in all urban areas in East Asia, Malawi, Zambia, and Egypt. In all other instances the numbers of those in absolute poverty are small in comparison to the numbers of those in relative poverty, which indicates that the relatively poor are the appropriate target group. In determining movements in and out of poverty in the course of time, the thresholds of both absolute and relative poverty are held constant in 1975 dollars. The accuracy of the projected figures is dependent upon a fairly stable distribution of income.

Source: "Poverty." Poverty and Basic Needs Series, World Bank, September 1980, P.3.

PART TWO FRAMING THE URBAN POLICY RESPONSE

If governments are to respond successfully to the urban challenge represented by massive population growth, increasing urban poverty, and the need for urban economic growth, there will have to be a major reorientation of urban policies. The role of AID and other donors in assisting in this process will be an important catalyst for reform and implementation. The essential areas for urban policy change and urban program reorientation are discussed in Part Two. While the recommended urban action agenda is formidable, it is recognized that it essentially requires adoption of macro and micro policy reforms that enable the private formal and informal sectors to expand their contribution to urban economic growth and to improve their own standards of living through their own initiative. The agenda for governmental programming focuses on the provision of infrastructure services that use appropriate technology, are affordable and self-financing through user fees and taxes; and on the importance of improving the efficiency and capacity of urban management and urban service delivery institutions.

THE URBAN ECONOMY, JOBS, AND PRODUCTIVITY

This report agrees that agriculture is a leading development investment priority in many countries, but stresses two points that have been overlooked in the discussion about agricultural development:

- Agricultural development requires urban markets and urban consumers to generate cash incomes, consumer goods for rural households, and inputs to the agricultural economy. This involves the entire national settlement system from the central city to the market towns and villages.
- There is a rapidly growing overpopulation in rural areas, and it cannot be absorbed productively by increased agricultural production strategies alone. If

these persons are not to be a permanent economic drain on the economy, they need to be employed in off-farm jobs that can be provided most efficiently, at the scale required in urban places throughout the national settlement system.

The primary source of urban job generation will be in the private sector (defined as all non-governmental sources of employment).¹ Macro-economic reforms in many developing countries have committed their respective governments to restricting the growth of employment in the public sector.

¹The term "private sector" will be used throughout this paper. However, it is important to recognize that many countries following socialist or "non-market" approaches to development may be wary of the motives of the private sector. It might be more useful, therefore, to consider the "private sector" as used here, to mean the "non-governmental sector." The "non-governmental" or "private" sector, as used in this paper, covers the development roles of many potential contributors to the development process such as: The "formal" private sector (private, profitmaking entities that are formally constituted in law); The "informal" private sector (private, profitmaking entities that are not formally constituted in law); The "non-profit" private sector (private voluntary organizations that provide goods and services); Private associations (community groups and others that participate in the local development process); Cooperatives; Individual households that often act as economic entities in agriculture and urban enterprises.

1. The Formal Industrial Sector

While the formal industrial sector holds promise in much of Asia and Latin America, prospects in Africa are not good. In Asia the emphasis has been on export industry, but elsewhere it has tended to be import substitution oriented which is dependent on continued import of inputs.

The history of public sector industrial development efforts has been disappointing. For example, public sector enterprises in Zimbabwe between 1981 - 1984 contributed losses equal to 57 percent of the economy's net savings during the period. Where government policies and regulations favor public enterprise to private there are market distortions and inefficiencies. Public sector enterprises are in need of major reforms to increase their efficiency or seek their closure or privatization. Asian countries such as Pakistan and Thailand have such programs underway and Latin American and Africa can learn from their experience.

The World Bank has shown that those countries that have allocated the highest share of available credit to the private sector have substantially out-performed those that did not. (See Table 8)

TABLE 8
CREDIT AND GROWTH

Countries	Average Annual Growth of GNP Per Head (%)	Share of Private Sector in Domestic Credit (%)		Private Domestic Credit (% of GNP)		External Public Debt (% of GNP)	
	1966-82	1962	1982	1962	1982	1972	1982
High Growth	4.5	65	85	13	41	14	22
Medium Growth	2.3	92	65	13	29	22	46
Low Growth	0.9	89	31	13	16	29	47
Negative Growth	-0.9	68	26	8	13	22	51

Sources: IMF International Financial Statistics Yearbook, 1984 and Supplement on Output Statistics, No. 8, 1984; World Bank, World Development Report, 1984.

"Private Enterprise Boosts Growth," Journal of Economic Growth, Vol.1, No.1, 1986.

A lagging industrial sector will ultimately pose a serious constraint on the provision of formal sector urban job generation. For example, in Bolivia manufacturing makes up 8 percent of GDP and only 12-14 percent of the jobs.²

Industrial development is desirable because it deepens the economy, generates employment, and produces goods and services for domestic consumption and for export. It is essential, however, that the industries developed be inherently profitable. If a potential industrial opportunity is profitable, it will be undertaken without the need for subsidy or incentives.

The economic growth of formal sector enterprise is important to the nation's GDP. Its rate of growth can be much higher than agriculture or services. Nonetheless, it will not provide more than 20 - 25 percent of the urban jobs required. For example, in Zimbabwe manufacturing contributes 23 percent to GDP, but employs only 6 percent of the labor force. The major source of jobs will be found in the informal sector.

2. Small-Scale Industry and the Informal Sector

Most of the economic activity in developing country cities is provided by the informal sector (those economic activities and enterprises which are carried on outside of government rules and regulations and are not registered officially in government records). The informal sector is much more than "petty traders" and "hawkers." It contains substantial numbers of light manufacturing, repair ser-

²Peterson, George et al; "Bolivia Urban Development Assessment," Urban Institute, USAID, March 1988.

vices, transportation, and other value-added enterprises. There is a mutually reinforcing relationship between formal and informal economic activity that needs to be supported.

In Bolivian cities, 80 percent of the households were found to have at least one member working in the informal sector. As shown in Figure 4, the informal enterprise sector is very important to women.

The advantages of the informal sector are: ease of entry; more efficient use of capital; low-cost job generation; mobilization of domestic savings; development of domestic entrepreneurs, managers, and semi-skilled workers; more equitable income distribution; and production oriented toward basic consumer needs of lower- and middle-income groups. Small-scale enterprises are also more readily adaptable to small urban centers where they can provide goods and services to rural populations.

Figure 4 Characteristics of Small/ Micro-Enterprises and Implications for Women					
	Structure	Barriers	Skills/ knowledge	Location	Hiring practices
Characteristics of SME	Flexible Loosely structured	Less educa- tion, training and experience are required Lower level of capitalization required Use of family labor rather than wage labor	Can use already exist- ing skills	Street location home-based	Women pre- dominate as owners of certain businesses
Implications for women	Enables women to divide their time between domestic responsibilities and economically productive activities	Because there are few barriers to entry into the micro and small enterprise sector, women can actively participate	Traditional activities such as garment making, food processing can be turned into businesses	Women can be involved in several activities at a time and overhead cost is low	Women entrepre- neurs tend to hire female employees

Otero, Maria, "Gender Issues In Small-Scale Enterprise," USAID, July 1987.

Experience has shown that it is difficult for the public sector to assist small-scale enterprise directly. It is most important to ensure that the regulatory and legal climate is conducive to developing small-scale enterprises. Hernando de Soto in his book "The Other Path: The Informal Revolution," claims that it requires 289 days and US\$1,231 in lost wages, fees, and bribes to register a small business in Lima, Peru. The availability of infrastructure has been shown to be a stimulus as well as access to small amounts of credit at full-market rates and foreign exchange.

3. The Building Materials and Construction Industry

Building materials and the construction industry are an obvious, but often overlooked input in the urbanization process. Experience has shown that the building materials industry will operate most efficiently when it is relatively free of government regulation and relies on private sector suppliers. It lends itself to a variety of scales of production. Many types of materials can be supplied by the informal sector. This provides easy entry for new businesses and is a significant source of job generation.

In most developing countries construction represents approximately one-half of gross fixed capital formation. When it is recalled that most developing countries will need to triple their total urban structure in the next 25 years all of which will require building materials and construction capacity, the case for ensuring efficiency and growth in the sector becomes overwhelming. Yet donors have not provided significant support.

There are widespread common problems that exist in construction industries including inadequate management, lack of skilled labor, constraining laws and regulations, price distortions, non-competitive practices, inadequate access to credit and foreign exchange, and building material bottlenecks. Substantial reductions in construction costs can be achieved by solving these problems.

4. The Public Sector Role in Stimulating Private Urban Job Generation

The huge projected growth in the urban labor force means that high priority must be given to job generation in the private sector. The public sector's role is pri-

marily concerned with adopting sound macro-economic policies; freeing up markets; allowing access to credit; improving urban management efficiency; providing access to land and infrastructure.

A special dimension of small-scale enterprise is that it is frequently located in the houses of the owners. Dr. Strassmann in a survey taken in Lima, Peru showed the importance of the home location for small-scale enterprise (See Table 9) to income generation in all classes of residential settlement. It is important that governments recognize this and encourage it.

9

Table 9: Major Neighborhood Types and the Distribution of Households, Home Businesses, Incomes, and Dwelling Values

	Conventional	Substandard	Subdivided	Jovenes	All
1. Percent of Households	45.5	16.7	10.2	27.6	100.0
2. Percent of Home Businesses	26.2	20.2	12.3	41.3	100.0
3. 2 ÷ 1	.58	1.21	1.21	1.50	1.0
4. Monthly Total Income, dollars	216.0	204.8	156.0	142.5	176.1
5. Home Business Income	89.3	85.2	60.4	53.9	70.3
6. Share of Business Income in total (5 ÷ 4)	.41	.42	.39	.38	.40
7. Value of Owner Occupied Dwelling, dollars	10,500	6,714	2,926	2,919	5,600
8. Ratio, Value to Annual Total Income [#7 - 12 (#4)]	4.05	2.73	1.56	1.71	2.65
9. Non-home Business Income	126.7	119.6	95.6	88.6	105.8

Source: Survey of 1,706 home businesses, October 27 - December 10, 1983.

Note: Substandard, subdivided includes quintas, callejones, corralones, and rancheria. Category 1 includes luxury, conventional, and standard urbanization.

Strossmann, W. Paul; "Types of Neighborhoods and Home-Based Businesses: Evidence from Lima, Peru," Unpublished paper, 1986

RESIDENTIAL SETTLEMENT: SHELTER, LAND, AND INFRASTRUCTURE

The massive urban population growth will place enormous strain on cities to develop residential settlement areas which are essential to the productivity and efficiency of the urban economy and can provide affordable residence for low-income groups.

1. Shelter

Housing is an economic sector (not a social sector). Some of the major contributions of housing to the economy are: an economic multiplier of approximately two; strong backward linkages to building materials and construction; forward linkages to household furniture, fixtures, and equipment; strong direct and indirect employment generation particularly among unskilled labor ; it can be counter-cyclical investment to stimulate lagging economies; and provides a strong effect on domestic saving mobilization as housing is highly desired by households.

Housing should be supplied by the private sector since public housing efforts have been consistently disappointing (required massive subsidies, poor cost recovery, and slow production) even the much more appropriate sites and services projects of the 1970s and 1980s have not overcome these problems.

There is a need to switch national housing policies from a concern about housing production outputs (numbers of units needed) to a focus on facilitating the provision of housing inputs (land, infrastructure, finance, building materials, and construction capacity).³

Informal housing makes up a significant percentage of the total housing stock in most cities and should be recognized as a legitimate source of supply. (See Table 10)

³The United Nations Centre for Human Settlements recently has stated that more than one billion persons have shelter "unfit for habitation." Many countries have published figures of their "housing deficit." For example, India has stated that its housing deficit has increased from 14.5 million units in 1970 to 20.7 million units in 1980.

While it is clear that housing remains a serious development challenge to all, these deficit numbers have little true meaning. The "deficit" results from a calculation as to what is the "minimum adequate" house and then adding up all of the dwelling units which fall below this number plus a factor for overcrowding. The results are always monstrously large numbers which have no relationship to actual effective demand or relationship to actual housing markets. If by some miracle India were to overnight produce 20.7 million dwelling units, their housing problems would not be solved because the location would not be appropriate and cost of "minimum adequate housing" would not be affordable. What would result would be a very large amount of vacant housing.

Table 10 Estimates of the percentage of city populations residing in informal settlements

City	Population in 1980 (thousands)	Estimated population in informal settlements	
		Number (thousands)	Per- centage
Addis Ababa, Ethiopia	1668	1418	85
Luanda, Angola	959	671	70
Dar es Salaam, Tanzania	1075	645	60
Bogotá, Colombia	5493	3241	59
Ankara, Turkey	2164	1104	51
Lusaka, Zambia	791	396	50
Tunis, Tunisia	1046	471	45
Manila, Philippines	5664	2266	40
Mexico City, Mexico	15032	6013	40
Karachi, Pakistan	5005	1852	37
Caracas, Venezuela	3093	1052	34
Nairobi, Kenya	1275	421	33
Lima, Peru	4682	1545	33
Sao Paulo, Brazil	13541	4333	32

Source: U.N. CHS (1984), p. 9

Lim, Gill-Chin; "Housing Policies for the Urban Poor in Developing Countries, APA Journal, Spring 1987

The Office of Housing and Urban Programs has had the primary responsibility for AID's shelter sector programs. The Office has undertaken 152 projects in 44 countries and is the largest bilateral assistance program in the shelter sector. It has been a significant leader in the worldwide shelter dialogue. The objectives of the Office of Housing and Urban Programs are relevant to the issues discussed above:

- To ensure that low-income households have access to secure land tenure, appropriate types of dwelling units, and financial credit to obtain shelter solutions they can afford.
- To achieve sustainable shelter sector delivery systems sufficient to meet the needs of the urban population with special emphasis on the urban poor.
- To create appropriate shelter sector finance systems sufficient to fund the required shelter programs without public subsidy.
- To encourage and facilitate an increased role for the private sector in low-income shelter production and finance.
- To seek the preparation and implementation of national housing policies whether formally written or de facto which reflect these objectives and provide an internally consistent, comprehensive framework for future action.

2. Housing Finance

Housing finance is a major constraint in many countries. Housing finance should be directly linked into the national capital markets. If housing finance is kept separate through public policies that cap savings deposits and lending interest

rates for housing below capital market rates, the overall financial sector is less efficient because capital is less readily shifted where the highest return is possible.

The World Bank has reached the conclusion that in housing finance there should not be an "exclusive" focus on the needs of the urban poor. It is necessary to expand the total supply of credit for all income groups as part of a total financial system.

In general, directed credit systems should be avoided. But where public policy has determined that special funding sources should be generated for housing such as "social housing funds" created by taxes on wages as has been used in several Latin American countries, or social security funds, or pension funds, then they should not be used as a source of "low interest rate," subsidized finance. Such policies create government liabilities, distort markets, and often actually "tax" the persons they are intended to assist. If directed credit is utilized it should be through well designed mortgage investments that provide adequate returns and avoid decapitalization.

More often national planners and ministries of finance have attempted to allocate credit away from housing finance to other sectors believed to be more productive. When this occurs, the housing sector is placed at a disadvantage. This may result in a lower level of savings being mobilized nationally, as the desire for home ownership is a high priority to households, one for which they are willing to save. If this savings effort can be channelled through housing finance insti-

tutions (as opposed to unproductive assets such as gold or jewelry), the entire capital market can be deepened and the pool of national savings increased.

Savings can be mobilized even among low-income groups. A study undertaken in India in 1982 showed that households with incomes of \$38 per month were able to make downpayments on housing by using their own savings.⁴ The study concluded that only the opportunity to obtain housing could have mobilized the savings and transfers among friends and relatives.

The development of housing finance institutions in the public and private sector should be an objective of countries seeking to increase domestic savings pools and facilitate housing production. Governments should provide the regulatory climate that will encourage the development of housing finance. In low-income countries the development of viable housing finance systems will take a long time; therefore, the informal finance systems that exist in many countries should be encouraged and supported in providing loans for housing.

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⁴Renaud, Bertrand, "Housing and Financial Institutions in Developing Countries, "International Union of Building Societies and Savings Associations, Chicago, Illinois, 1984.

~~fore, the informal finance systems that exist in many countries should be encouraged and supported in providing loans for housing.~~

A role model for a housing finance institution is the Housing Development Finance Corporation (HDFC) in India. This organization was formed in 1978 with capital paid in from the public and private sectors. The management from the start was provided by the private sector. HDFC has mobilized international financial resources from The Housing Guaranty Program of AID and the World Bank. In eight years, HDFC has made loan disbursements of approximately \$422 million and reported a gross profits sufficient to pay a dividend of 15 percent on share capital in 1987. This remarkable performance has been accomplished while servicing the needs of low- and low-middle income households. Over 150,000 households have obtained loans with an average loan per unit of \$4,600.

In 1988 HDFC has actually been instrumental in spinning of two new and independent housing finance institutions in India which will model themselves after the successful experience. There is considerable scope for transfer of this Indian experience to other country situations.

3. Urban Land Policies and Procedures

The availability of urban land at prices that allow for profitable investment in housing and enterprises is a prerequisite for efficient urban growth. This will be a difficult task given the enormous requirements for urban land and the present difficulties associated with tenure and land law in most countries. (See Table 11)

Table 11

Projected Land Needs for Third World Cities

City	Population (000's)	Land		2000 Projection (000's)	Trend Projection (Km ²)	Land Need at Differing Densities (Km ²)		
		Area (Km ²)	Density (P/Km ²)			Low (70)	Midale (145)	High (252)
<i>Cities with High Growth Rates, Small Populations, and Low Densities</i>								
Abidjan	1,730	135	130	5,730	370	566	337	190
Bagdad	2,250	139	163	10,907	460	1,041	517	298
Caracas	1,800	112	161	5,963	205	436	227	131
Cotonou	111	47	24	825	223	73	36	21
Freetown	128	35	37	1,320	253	134	66	38
Kampala	332	258	12	2,536	1,347	225	132	76
Kinsasa	1,323	202	65	9,112	1,073	591	487	230
Nairobi	509	509	10	3,371	2,630	363	181	104
Cuagacougou	125	30	45	787	119	74	37	21
Rangoon	1,627	120	161	7,372	307	685	340	196
Mean	1,023		81		723	474	236	136
Standard dev.	865		65		810	358	178	102
<i>Cities with Medium Growth Rates, Populations, and Densities</i>								
Ahmedabad	1,568	93	171	5,302	201	477	237	136
Algiers	943	210	45	2,351	373	224	116	67
Bangkok	2,050	291	70	11,030	1,101	1,070	532	305
Bogota	2,373	131	275	9,527	234	643	421	242
Casablanca	1,791	113	158	5,242	274	470	253	134
Caracas	4,000	237	169	15,362	673	1,534	787	433
Macras	2,470	128	193	10,373	343	919	457	263
Rio de Janeiro	1,305	130	139	19,333	796	1,537	763	439
Mean	2,133		145	9,973	499	893	443	255
Standard dev.	925		59	5,276	323	495	246	141
<i>Cities with Low Growth Rates, Large Populations, and High Densities</i>								
Alexandria	2,313	193	120	5,399	252	437	277	125
Bombay	3,340	68	565	19,053	272	1,563	825	473
Buenos Aires	2,972	200	149	13,973	313	646	327	185
Cairo	7,000	297	236	16,398	402	1,316	653	376
Calcutta	4,200	127	331	19,663	350	1,508	793	459
Lima	3,600	164	220	12,130	373	1,143	568	327
Santiago	3,700	250	148	5,179	139	256	142	82
Mean	3,947		252	13,136	293	1,014	504	290
Standard dev.	1,432		153	5,353	94	550	273	160

Source: Prepared for the author by PACCO Inc.

Source: Michael G. Kitay, Land Acquisition in Developing Countries: Policies and Procedures of the Public Sector, Lincoln Institute of Land Policy (1986).

The existing land laws and procedures in various countries tend to reflect their previous colonial period, frequently superimposed on traditional forms of land tenure.

There is often a gap between the existing legal framework and the willingness of countries to use the laws they have. There is a political reluctance to use the public powers in some cases. Also, many laws are procedurally very difficult to implement. For example, in India a study concluded that "the Urban Land Ceiling Act," which limits the amount of land that can be owned by one person, has in effect frozen in litigation about 300,000 hectares of land that is urgently needed for development around cities.⁵

There are many similar land problems in developing countries that are of concern. The lack of secure land tenure discourages investment and denies access to credit. Many governments are not able to create and maintain adequate land records, land transfer procedures are difficult and often expensive thereby discouraging owners from seeking legal status for their land holdings. For example, Hernando de Soto in his work in Peru states that it takes 207 steps in a variety of Ministries to acquire full legal title to a piece of land. Governments have been reluctant to use taxes or other means to create incentive to land holders to develop their holdings. All of these issues combine to distort land markets, artificially raise land prices, and therefore create diseconomies into the urbanization process.

⁵World Bank/United Nations Centre for Human Settlements, "Urban Development Strategies Project," Annex II, 1986, p.67.

The transfer of real property is often dominated, as a result, by small real estate brokers working informally in small geographic areas of the city. Studies in Nepal, Thailand, and Colombia have shown this process to be very efficient, but public authorities have little knowledge of the process and the negative aspects of the process (such as increasing future costs of infrastructure) will last for a long time. It is appropriate to develop a public/private partnership approach with these informal sector land brokers to improve the result.

The Office of Housing and Urban Programs, AID, has developed a strategy for intervention in the urban land sector which has the following objectives:

- The establishment of secure land tenure (both freehold and leasehold) for all households and enterprises, with special emphasis on low-income groups.
- The creation of efficient land markets which respond to effective demand, and accommodate the special requirements of low-income groups.
- The establishment of efficient governmental procedures which are convenient and affordable to private enterprises and households to facilitate land registration, land transfer, and cadastral recordkeeping.
- The modernization of land use standards to reflect cost minimization, affordability, and efficiency.
- The adoption of effective policies and incentives by governments to ensure the timely supply of serviced land for urbanization to meet the needs of households and private sector enterprises.
- The encouragement of the efficient management of public land resources to

support national economic and social development objectives.

- The encouragement of public/private partnerships in land development for low-income groups.

4. Infrastructure Services

The provision of urban infrastructure is another key input into efficient urbanization. Very large deficits currently exist in most cities and towns of the developing countries which seriously impact economic growth and the health and welfare of low-income households.

- **Water Supply and Sanitation**

Urban water supply is essential for public health. Waterborne disease is a serious problem. The World Health Organization estimated that 80 percent of all diseases in African countries are related to water quality. People realize the importance of water and are usually willing to pay for it (if required to do so). Sewerage systems, however, are not as well appreciated, as the benefits usually are not directly realized by individual households, but are more of a community health issue; therefore, on-site disposal systems and low-cost technologies should be used wherever possible.

For the rapidly growing urban populations in low-income countries, however, it is going to be very difficult to meet the requirements for expansion to service new populations and support economic development. The reasons for this are: the large capital investments required; inadequate cost recovery from previous investments; inappropriately high standards and technologies; and poor maintenance and operations.

Water supply and sanitation should be coordinated with existing urban development trends to ensure capital investment is fully utilized. Pricing policies should seek full cost recovery to avoid waste and overconsumption. Appropriate technologies, standards, and incremental upgrading approaches are required to achieve broad levels of service coverage at affordable cost. Priority should be given to infrastructure agency management efficiency and development.

- **Solid Waste Collection**

The failure to efficiently collect solid waste creates unhealthy living conditions. Effective solid waste collection can lead to recycling to conserve resources and to feeding programs for animals. Considerable potential exists for the privatization of solid waste collection services.

- **Urban Transportation**

Inefficiencies in urban transport impact negatively on the urban economy (because of increased costs for goods and passenger movements). Governments have had the tendency to attempt to solve transportation problems through capital intensive solutions before considering less costly and more effective alternatives including: suppressing excessive demand for automobile ownership, traffic engineering within the existing street system, increased traffic police enforcement of laws and regulations, developing adequate private bus services and other vehicle modes of transport, and providing improved maintenance of roads and vehicles.

In the longer run the selection of land use standards and policies that guide urbanization will have an enormous cost impact on future transport expenditure.

- **Urban Energy Supply**

Urbanization is adding significantly to the demand for urban energy supply. Meeting the needs for energy in the developing countries has been estimated by AID to require \$1.5 trillion in investment by the year 2000. Much of this investment is to support urban service needs. The urban economy is highly dependent on reliable energy sources both for industrial production and to operate the infrastructure services.

The LDC governments need to develop national energy policies that support efficient and rational growth and rational use of resources. State of the art methods, including demand side management, proper tariff structures, equipment with higher efficiency ratings, use of renewable resources (including biomass), cogeneration, etc., make it possible to increase efficiencies in ways that will deliver the same energy services to consumers with little more than half as much energy produced, an immense savings in capital requirements and environmental emissions. Extensive foreign assistance in technology development, information provision, institution-building, and policy dialogue, will be needed to accomplish this.

The development of efficient energy management, pricing policy and cost recovery, and conservation measures will be critically important. AID has successfully

demonstrated the potentials for energy efficient urbanization through its MEREC project.

5. Urban Health and Education

Investment in human resource development is an important component of overall national development strategy. Health and education facilities are most likely to be located in cities and towns, but serve both urban and rural populations. Most developing countries have committed substantial public investment into health and education and substantial gains have been achieved, but rapid rates of total population increase now present a formidable challenge to maintain progress. In Africa, to achieve the objective of universal primary education and rudimentary health care would require as much as half of the total expected African governments revenues by the year 2000.

There will need to be a recognition that preventive health care and community services (including water and sanitation provision) must be given a higher priority than curative health care (particularly investments in sophisticated medical treatment facilities and equipment). Curative health services must seek to increase cost recovery from those able to pay. (See Table 12)

TABLE 12

Spending for Health Services		
Services	Percentage of total expenditure on health	Approximate cost per additional life saved
Direct services to patients:		
Curative:	70-85	\$500-\$5,000
Treatment and care of patients through health facilities and nongovernment providers, including traditional practitioners		
Retail sale of medicines		
Preventive:	10-20	\$100-\$600
Maternal and child health care (e.g., immunization, promotion of better breast feeding practices)		
Community services:	5-10	Less than \$250
Vector control programs (e.g., spraying for flies or mosquitoes)		
Educational programs on health and hygiene		
Monitoring disease patterns		

Source: *Financing Health Services in Developing Countries*, World Bank, 1987.

In education the priority must be given to primary education and secondary education over expanding university education. In fact, there is evidence that in many countries there is a growing problem of the educated unemployed. Special concerns to be addressed are the access of women to educational opportunity, improving the quality of teachers, relevance of the education content offered, the supply of teaching materials, and the management efficiency of the educational system. There needs to be a de-emphasis on the mere construction of facilities.

6. Managing the Urban Environment

The effect of urbanization on the environment, the efficient use of non-renewable resources, and the vulnerability of urban population concentrations to natural disasters must all be considered in the development of urban strategies. These issues are particularly complex because their effects may not be felt fully until it is too late to redress their impact. For poor countries concerned about essential economic growth and urban poverty there is a danger that these issues will not be given the priority required. It is only through the creation of a responsive policy climate, selection of appropriate technologies, and concern for spatial planning of potential high risk facilities that the negative impacts of urbanization on the environment can be minimized at affordable cost.

URBAN MANAGEMENT AND FINANCE

If the cities and towns of the developing countries are to play a positive role in national economic development and meet their responsibilities to the poor, they will require a significant increase in the urban management capacity of the civil service.

According to an 1982 IMF Survey, developing countries had a lower percentage of "local" rather than "central" government jobs than developed countries. Africa had only 6 percent of government jobs at the local level compared to 21 percent in Latin America and 37 percent in Asia. The average for the developed countries was 57 percent.

It will be necessary to decentralize administrative systems. The scale and velocity of the urbanization process in the decades ahead will preclude the reliance on a centralized administrative and urban service delivery systems. Many developing countries have stressed the importance of decentralization in their national development strategies, but few have made the major administrative reforms necessary to implement them. The tendency has been to control the mobilization of resources centrally and guide their allocation to decentralized capital development projects through central planning mechanisms.

Central governments should be encouraged to strengthen local government and provide incentives to increase local responsibility for development, concurrently with increased flexibility for local government revenue generation. For example, in Nepal a financial management consultancy resulted in a 69 percent increase in local revenue collections in eight small cities.

Urban settlement physical and economic planning should be conducted at the local level to ensure local knowledge and citizen participation. Local government should be assisted in taking on a larger responsibility for the operation and maintenance of infrastructure and facilities, and encouraged to have the user population pay an ever-increasing share of the cost.

Local governments should seek to establish public/private partnerships for the provision of housing, infrastructure, and economic development with job generation.

Emphasis should be placed on establishing effective local government operating procedures, the provision of adequate office and operating equipment, and sustained training for urban management officers. As part of this effort salary structures and career incentives for local government should be adopted sufficient to attract qualified personnel.

In accomplishing these objectives, it will be necessary to change the fundamental concept of urban management from one of "control of urban development" to one that seeks to "enable urban development." This change recognizes the scale of urban growth expected and the low-income levels of the majority of the urban population. It will mean reviewing all laws, regulations, and procedures in order to lower the costs of legal urban settlement and growth; maximize the opportunities for urban job generation through encouraging new enterprise formation in the informal sector; and recognizing that the physical standards of provision of infrastructure and facilities must be affordable to the people and self-financing.

THE FRAMEWORK FOR URBAN POLICIES

All countries have either explicit or implicit policies affecting urban areas. These policies can be useful if based on macro-economic conditions, on the availability of real resources within the public and private sectors, and on a realistic assessment of the ability of the public and private sectors to operate with efficiency and equity.

The existing national urban settlement system in any country reflects historical trends in population growth, in natural and man-made resource development, and in physical

features, climate, and culture as modified by accumulated public policies and political processes. Therefore, there is no one national urban settlement system ideal for all nations. Nor is one national urban settlement system ideal for any one country for all time. What is known is that the settlement system changes slowly and largely through millions of private decisions of households and businesses.

The fact that many governments and donors have ignored the cities and towns as a contributing part of national development strategies has allowed inappropriate urban policies to remain largely unquestioned. Among the central problems:

- Governments are heavily committed to preserving unrealistically high standards of physical quality in towns and cities. There is an inherent conflict between attempts to maintain high physical standards and the low incomes of rural and urban populations. High standards are unaffordable to nations in terms of capital at the scale required to meet needs and unaffordable to the people in terms of their ability to pay the economic costs of operations, maintenance, and debt service. The result has been the heavy use of subsidies, distortion of markets, and failure to mobilize fully the potential of urban centers in national development efforts.
- The creation of jobs in cities and towns has often not been a priority. Only jobs in the formal sector of commerce and industry have been welcomed in urban centers. These kinds of jobs have high capital costs per job created and cannot be generated on the required scale. As a result, unemployment and underemployment is rising among both low-income unskilled workers and educated school leavers who cannot find formal sector employment.

- Governments concerned with regional equity and stimulating lagging regions have attempted a variety of urban spatial strategies (counter-magnets, secondary cities, growth poles, or new towns) which have generally failed because of failure to understand the underlying economic conditions, premature investments in high standard infrastructure, investment in inappropriate "transplanted" industries, and subsidized housing. The result has been to deflect available capital from critical urban investments to support urban economic growth and meet the minimum essential needs of the urban poor.

1. Linking the Settlement System to National Development

The essential task is to energize urban development within the national settlement system as a whole. This cannot be accomplished through "planned" programs and central government investment alone. It requires encouraging all parts of the national settlement system to respond to its natural comparative advantages.

- **Urban Primacy:** The concern about the size of primate cities (usually the largest city with a population many times bigger than the next largest city) has been misplaced. Primate cities have many advantages: demonstrably higher returns on investment, higher productivity, external agglomeration economies, more efficient urban service provision, and a wider range of employment opportunities. What is important is to ensure that the primate city is not the beneficiary of unnecessary subsidies. As long as primate cities are heavily subsidized there can be no incentive to choose alternative locations for investment. It is appropriate for primate cities (often capitals) to maintain higher physical standards essential for the growth of the modern sec-

tor so long as this is not done with subsidies at the expense of the rural and urban poor.

- **Development of Primate City Regions:** Another way to take advantage of the economic dynamics of the primate city while avoiding some of the problems of rapid urban growth is to take a broader view of the primate city as the center of an urban/rural region. Stimulating the nearby towns to produce goods and services and encouraging food production within the rural areas for sale in the primate city can energize the entire regional economy.
- **Secondary Cities:** In most countries secondary cities are presently growing at rates higher than the primate cities. Cities along the main rail and road systems offer the best chances for supporting diversified urban development. Selected investments in infrastructure should follow the demonstration of spontaneous economic and population growth. The policy environment should seek to reduce the urban settlement costs to the minimum by keeping standards at affordable levels, eliminating all procedural "red-tape," and by ensuring that low-income people have access to land, with tenure, for settlement. The secondary city should encourage the maximum possible job generation through support for informal sector enterprise development.
- **Special Purpose Cities:** Many cities and towns exist because of a special purpose such as port cities, tourism, mining, a single agricultural commodity processing function, etc. These urban places are locationally specific to their purpose which often means that they are not strategically placed for a

broader, diversified urban economy. Therefore, the key issue is to make these cities and towns fulfill their central function as efficiently as possible, but not to artificially attempt to diversify their economies through subsidy incentives.

- **Avoiding the New Town Trap:** The history of new city development has not been a good one in low-income countries. They require massive "front-end" capital investment, highly skilled management, a long time to construct, and in the end their yield in terms of population accommodated and contribution to economic growth is very small in relation to national needs. They represent an unwise choice for developing countries.
- **Market Towns:** Market towns are an essential part of rural/agriculture based development. The development of market towns requires a favorable macro-economic policy environment which does not discriminate against rural producers, supports local development initiatives by local leadership, and local revenue mobilization. There are thousands of market towns in the developing countries so it is clear that specific "micro-managed" programs by the central government are unlikely to have any impact.

2. National Infrastructure Networks

National infrastructure networks such as transportation systems (road, rail, air, and waterways), electric power grids, and telecommunications are major determinants of national economic development. These networks tend to link cities and towns together as nodal points to form the national settlement system. Through

these networks there is the delivery of services to the rural hinterlands of the settlement system. The ability of governments to implement decentralization strategies is greatly affected by the quality and depth of the national infrastructure networks. The better the networks, the more feasible it is for enterprises and economic activities to locate outside the primary urban centers.

Sectoral planning for national infrastructure networks should be coordinated with and support national economic development and national spatial development strategies. The immediate priorities in most countries will be on the rehabilitation of existing infrastructure networks particularly road and rail systems, establishing user charges which lead to cost recovery, and improvement in the managing institutional capacity.

3. The Guiding Principles For Urbanization Strategies

The material presented suggests a set of basic principles that can be considered by developing countries to guide their urban policy development:

- There should be recognition of the massive urban population growth which must be accommodated within the national settlement systems, including the reality that primate cities will grow to multi-million populations. This means abandoning fruitless efforts to retard urban growth. Urbanization should be viewed positively as an opportunity to contribute to national economic development and to improve the standard of living of the rural and urban poor.
- Urban job generation should be the central objective of urban policy. This will require recognition of the importance of the informal enterprise sector as

a major generator of urban jobs, and adoption of policies which support private sector growth. It means the reduction of the transaction costs involved in new enterprise formation and expansion (licenses, building permits, land use controls, labor regulations etc.). It means increasing the access to credit for both formal and informal private sector enterprises at full market rates. The role of women in the small-scale enterprise sector should be recognized and supported.

- The physical development of cities will have to become a self-financing process. Urban subsidies which unnecessarily drain national resources and distort urban growth patterns and decrease efficiency must be curtailed. Urban centers need to expand their financial base through selected taxes that tap the wealth created in the urbanization process and through cost recovery for urban services.
- The provision of housing stock should be viewed as a private sector responsibility for all target groups. This will require recognition of the informal shelter sector as productive supplier. Special concerns will be the efficiency of land markets, provision of secure land tenure to the poor, provision of affordable infrastructure, and access to credit for shelter. The role of women headed households should be recognized explicitly in shelter policies.
- Recognition that the scale of urbanization requires that it will be primarily a spontaneous process and, therefore, the rigid town planning control process should be replaced with a flexible system of development permission with the

use of controls only in those areas of critical importance to urban efficiency, public safety, and protection of the environment.

- Spatial urban strategies should seek to energize the entire national settlement system by recognizing the economic contribution of cities to national development, supporting decentralization of urban management and local finance, deepening rural/urban linkages, and investing in those functions for which the city or town has some comparative advantage.

PART THREE
THE ROLE OF THE UNITED STATES IN SUPPORT OF URBANIZATION IN
DEVELOPING COUNTRIES

There is currently underway a major review of the role of the United States in supporting economic development and the alleviation of poverty within the developing countries. It is widely recognized that a period of relative scarcity of available funding for government-to-government assistance is at hand. It is therefore extremely important that foreign assistance priorities be reviewed to ensure efforts are precisely targeted, and yield a high value to recipient countries and are consistent with America's global interests.

Support for efficient and productive urbanization in the developing countries is consistent with current American objectives.

AMERICA'S INTEREST IN DEVELOPING COUNTRY CITIES

America has many interests in ensuring the economic growth and stability of the developing countries. The future of urbanization should be central to these interests.

1. **Trade:** Developing countries now take 40 percent of American exports. The demographics alone signal that developing countries will become ever more important to the export orientation of America. The ability of developing countries to maintain economic growth will ultimately determine the levels of increased exports. While statistics refer to trade between countries, in reality the vast majority of exports are to developing country cities, which are responsible for 50 percent or more of developing country GDP. This is true for agricultural exports as well as intermediate goods, machinery, equipment, and consumer products.

Therefore, the more efficient and productive developing country cities become, and the more urban per capita incomes increase, the more likely it is that American export trade will increase, creating more jobs for American workers.

2. **Private Enterprise:** America is committed to the private enterprise development model. While this includes the small holder farmer, it must also recognize the importance of developing the formal and informal private enterprise economy within cities and towns.
3. **Humanitarian Concerns:** America has always had a deep commitment to the welfare of the world's poor. Statistics show that there is a rapid transition in aggregate numbers of poor from rural to urban locations. Addressing urban poverty issues must now be a concern.
4. **Democracy and Stability:** America is committed to establishment of stable democratic governments in the developing countries. The achievement of democratic objectives depends on cities as the sources of knowledge, innovation, communication, and information. Therefore, the social and economic conditions of cities will in large measure determine the political environment within which democratic values can be nurtured and sustained.
5. **Strategic Considerations:** The security of developing countries from external or internal threats is consistent with American concern for democracy and stability. This strategic interest requires a concern with maintaining secure, stable and productive urban centers. It is the capital, ports, and provincial secondary cities which are the critical strategic elements in developing country policy.

AMERICA HAS COMPARATIVE ADVANTAGE IN URBAN DEVELOPMENT COOPERATION

It is recommended that a commitment be made to supporting urban development in the developing countries similar to that made in promoting family planning and agricultural production in the past.

It is recognized that the massive capital requirements cannot be met through American assistance. America's comparative advantage rests on the country's immense knowledge and experience with its own urban issues. America is in a world leadership position in many areas of urban development thinking, including:

- Effective forms of decentralized democratic government with local citizen participation.
- Modern, efficient urban management systems and procedures.
- Local fiscal responsibility and accountability that utilize innovative capital market instruments for urban development.
- Creative use of public/private partnerships for expansion of the urban economy, shelter provision, and delivery of urban services.
- Innovative approaches to meeting the complex problems of urban poverty.
- The tradition of open, private sector housing and land markets.

DEFINING THE AID ROLE IN URBAN PROGRAMMING SUPPORT

AID is supporting some urban programming in the developing countries. The most recent Agency urban policy statement was issued in 1984 and takes a positive approach consistent with the recommendations of this paper. The 1984 urban policy provides an adequate framework for Agency action.

It is argued in this paper that it is now appropriate to expand the urban action agenda of AID in the 1990s. The justification for expanded urban programming include:

- Recognition of the massive urban population growth which is occurring; and the rapid rise of urban poverty level households.
- Recognition of the critical importance of the urban economy to national development efforts; only through sustained economic growth can the welfare of the poor be improved.
- The need to understand the implication of macro-economic dialogue on the urban economy, and the urban poor.
- The growing interest in advancing developing countries that are experiencing a rapid transition from rural to urban based economies with strong international trade potentials.
- The success of past agricultural programming priority of the 1970s and 1980s in many countries that has allowed them to obtain food-security and therefore permit a shift of emphasis to neglected urban problems.
- The importance of creating urban markets and strengthening rural/urban linkages in those countries whose future agricultural production gains are limited by the lack of urban consumers for surpluses.
- The realization that the negative aspects of urbanization -- unemployment, lack of water and sanitation, shelter deficits, congestion, pollution, disease, and crime -- are problems now reaching critical proportions in some developing countries to the point that social and political stability can become a risk.

PRIORITIES FOR AID URBAN PROGRAMMING

This report has identified the range of urban development issues which need to be addressed, and identified possible urban policy responses. There is a wide potential for AID to build on its experience and respond to the urban challenge. The following areas of potential urban programming concentration are recommended:

- The urban economy, job generation and productivity.
- Urban land markets and policy.
- Urban infrastructure, especially water and sanitation, mainly in non-capital support.
- Shelter and ^{HOUSING} ~~housing~~ finance.
- Urban management and finance mobilization.

Cutting across these areas of concentration are a variety of areas where AID has particular expertise which can be applied in selected situations. These areas tend to be of concern in both rural and urban locations and, therefore, a more explicit consideration of their urban implications within the overall AID policies is required. These cross-cutting areas include:

- Population and family planning in urban areas.
- The role of women in urban shelter and enterprise.
- Rural/urban linkages and agricultural production.
- Private sector enterprise development.
- The efficiency and capacity of inter-urban networks for transportation, telecommunications, and electric power distribution.

- Urban preventive health care and urban primary education.
- The protection of the urban environment.
- The conservation and efficient use of energy in urban places.
- The planning for the reduction of potential urban natural disasters

It is assumed that these issues can best be addressed through the existing AID offices which have the experience and mandate for their provision.

REGIONAL AND COUNTRY DIFFERENCES IN URBAN PROGRAMMING

There are significant differences in the mix and priority of urban issues to be addressed in different countries and in different regions of AID concern.

1. **Country Differences:** The urban strategy for advancing developing countries will be concerned with policies which facilitate trade, formal private sector enterprise development, modernization, efficient urban management and mobilizing domestic resources, and facilitating the transition of informal shelter and enterprise to formal sector status. Low-income developing countries will require urban strategies that recognize the need to facilitate the informal sector, the adoption of affordable standards for infrastructure provision, and flexible urban management policies which respond to the rapid increase of the urban poor population.
2. **Regional Differences:** Regional differences will include recognition that the economic growth of Asia and the Near East will largely be urban based and require support for modernizing the urban structure, development of capital markets and

deepening financial institutions for industry, shelter, and infrastructure. Latin America will need support for the rehabilitation of urban economies and infrastructure, concern with urban poverty, and strengthening the efficiency of urban management. Africa presents the most difficult urban programming challenge given the continuing high priority of agricultural investment, weak urban institutions, and massive poverty problems. Urban strategies will need to be focused on building consensus around support for informal sector enterprise and shelter, affordable infrastructure, and development of an urban management policy which recognizes the limitations of government to control the urbanization process in a resource scarce situation.

SELECTING AID INSTRUMENTS FOR URBAN PROGRAMMING SUPPORT

The basic instruments for AID urban programming support are essentially the same as for other substantive areas of AID activity. In many developing countries AID will be one donor among many in the future in terms of resources to be transferred. This suggests the Agency's comparative advantage will rest more with the quality and value of the knowledge transfer potential rather than the quantity of the capital transfers.

- **Capital Assistance:** There is an important role to play for limited capital assistance to facilitate broader policy and program goals in selected situations. Among the uses of capital assistance are: "seed money" to initiate institutions and/or programs which are designed to become self-supporting; demonstration projects which are likely to lead to technological innovation at a large scale; provision of essential equipment to facilitate policy or procedural change in critical institutions; and initial capital to fund guaranty programs which can leverage capital mobilization from other sources.

- **Technical Assistance for Technological Change:** There is a significant demand for technology transfer for a variety of urban applications from construction to urban management systems.
- **Technical Assistance for Institutional Development:** Institutional development is critical, but difficult to achieve. New approaches will be required that are concerned with the broader policy context within which institutions operate, the internal policies and procedures of the institutions, as well as the development of staff capacity through training.
- **Macro-Economic Policy Dialogue:** The relationship of urbanization and housing finance to the on-going macro-policy dialogue will be important.
- **Participant Training and Urban Research.**

INTERNAL AID URBAN PROGRAMMING CAPACITY DEVELOPMENT

AID has limited staff with urban development programming and expertise. Only the Office of Housing and Urban Programs has significant staff strength, while some individual experience can be found in other offices and bureaus. There will need to be a major build-up of staff capacity through recruitment of new officers and the development of in-house training programs on managing urban oriented programming.