

URBAN DEVELOPMENT IN CENTRAL AMERICA

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URBAN DEVELOPMENT IN CENTRAL AMERICA

INTRODUCTION

The purpose of this paper is to examine the process of urbanization in Central America, discuss the problems and opportunities such urbanization raises, and suggest strategies for ensuring that the development of urban areas enhance the overall development of the region.

This paper argues that well-managed urbanization in Central America is essential to support national economic growth objectives and overcome potentially massive urban unemployment. The critical issue will be to stimulate the presently lagging manufacturing sector as most likely to lead the economy to higher levels of output. A parallel effort is needed to meet the needs of the rapidly growing urban population for shelter and infrastructure in order to achieve essential social equity objectives.

Available statistics suggest that the lack of both adequate and timely provision of urban shelter and infrastructure is contributing to serious deterioration of urban areas throughout Central America. When these poor living conditions are combined with a lagging urban employment base, particularly for low-income groups, it spells the recipe for urban unrest throughout the region.

Further, the statistics on access to urban infrastructure do not fully convey the conditions of urban areas. Water supply systems are subject to leaks and shut-downs. Continued expansion of the systems only exacerbates these problems as treatment plant and water-main capacities are exceeded, and lead to even more serious system failures.

Many Central American cities lack adequate sewerage treatment plants; thus, raw sewerage is dumped in watercourses creating potential health hazards and

environmental pollution. By the year 2000, between \$7.8 and \$10.8 billion will be required to reduce present deficits and service new urban population with water and sanitation.

Finally, shelter construction has not kept pace with population growth. In squatter and low-income settlements, densities are increasing as low-income households share already overcrowded housing with new urban migrants. By the year 2000, roughly \$16 billion will be required to meet the shelter needs of the urban population.

The paper seeks to identify the priorities, both technical and capital, that are required to support economic growth with social equity in Central America.

I. POPULATION AND URBANIZATION

Central America is in a stage of dynamic population growth. By the year 2000, the region's population will increase to about 39 million, about 16 million more people than 1981. The countries that will experience the most rapid population growth are the poorest in terms of GNP per capita and have had the lowest GNP per capita growth rates. In the absence of higher levels of investment, living conditions in these countries are likely to deteriorate under the pressures of rapid population expansion and slow economic growth.

Urban areas have been growing even faster than the region's total population. Roughly 42 percent of the region's population (9.7 million of the region's total 1981

population of 23 million) was located in urban areas by 1981.¹ (See Table I)

At current rates of urbanization and population growth projected by the World Bank in its 1981 World Development Report, the region's total urban population is estimated to increase to about 21.6 million, or 57 percent, of the region's total projected 2000 population. This increase will more than double the region's 1981 urban population. Even if urban areas increase at only the projected rates of natural increase, they will still reach 16 million by the year 2000.

TABLE I
TOTAL POPULATION AND URBAN POPULATION IN CENTRAL AMERICA
(millions)

Country	1960			1981			2000*		
	Popula- tion	Urban Popula- tion	Percent Urban	Popula- tion	Urban Popula- tion	Percent Urban	Popula- tion	Urban Popula- tion	Percent Urban
Honduras	1.94	0.45	23	3.8	1.37	23	7	3.9	56
El Salvador	2.58	0.98	38	4.7	1.9	38	8	3.6	45
Nicaragua	1.42	0.59	41	2.8	1.5	41	5	3.8	76
Guatemala	3.99	1.32	33	7.5	2.9	54	12	6.0	50
Costa Rica	1.30	0.48	37	2.3	1.0	39	3	2.0	67
Panama	1.11	0.46	41	1.9	1.05	44	3	2.3	77
Totals	12.34	4.26	35	23	9.67	42	38	21.6	57

Source: World Development Report, 1983; the World Bank, 1983.

*2000 total populations are from the World Development Report, 1983. Urban populations were projected from trends observed between 1970-1981; thus, they are possibly high.

The high rates of urbanization in Central American countries, however, could mean that significant urban unemployment will result unless the process of urban job creation

¹See World Development Report, 1983. World Bank. 1983. This definition of 'urban' uses the census definitions of individual countries.

accelerates significantly. At national rates of labor force participation, the potential urban labor force could well increase by almost 2.5 times between 1981 and 2000.

II. THE ROLE OF CITIES IN ECONOMIC DEVELOPMENT

One of the critical questions to be answered is whether or not urbanization is likely to hinder or help generate the needed internal economic growth.

The organization of an expanded manufacturing base is more likely to be successful in urban locations and, within the urban system, in the relatively larger cities. Such places provide both the potential markets for locally-manufactured import substitutes and purely domestic goods and the proximity of a labor force able to man the enterprises. Thus, considerable economies of scale can be achieved. Similarly, the largest cities generally provide sufficient associated activities or the potential to develop them to be sources of economies of agglomeration that lead to growth surpluses.

The prospects for increased income per capita in virtually all developing countries are enhanced by the transformation of the economic base away from reliance on agriculture and other primary resources in the direction of productive industry and services. This transformation is underway in the Central America countries.

Nonetheless, substantial and growing urbanization presents significant management problems as well as different social and community service requirements from those associated with predominantly rural, agricultural societies—hence, the caveat that urbanization needs to be well-managed to reap the potential rewards.

In particular, it is essential that urban shelter, physical and social infrastructure keep pace with both the requirements of new industrial enterprises and urban households. In the case of enterprises, requirements for labor force availability, ease of acquiring and transporting inputs, and distributing outputs to both domestic and export markets result in new shelter and infrastructure demands. Similarly, new urban households—either those created as a result of the natural increase of urban population or migrants from rural areas—require services.

A. MAJOR METROPOLITAN CENTERS

Urbanization in Central America is different from that of much of the developing world in that the major cities have grown less rapidly than other urban areas. In fact, in percentage terms, there has been a very gradual shift from concentration in the capital cities to other urban areas. (See Table II)

TABLE II
MAJOR METROPOLITAN AREAS IN CENTRAL AMERICA
1960 and 1981

Major Metro- politan Area	1960			1981		
	Popula- tion (millions)	Percent Of Total Popula- tion	Urban Popula- tion	Popula- tion (millions)	Percent Of Total Popula- tion	Urban Popula- tion
Tegucigalpa	0.14	7	31	0.45	12	33
San Salvador	0.25	10	26	0.42	9	22
Managua	0.54	17	41	1.04	14	36
Guatemala City	0.54	14	41	1.04	14	36
San Jose	0.32	25	67	0.64	28	64
Panama City	0.28	25	62	0.69	36	66
Totals	1.78	14	42	3.95	17	41

Source: World Development Report, 1983; the World Bank, 1983

Note: Urban populations and city populations are based on official sources and thus definitions may vary from one country to another.

Panama City has been growing at a rate of 4.4 percent, between 1960 and 1981, while Panama's urban population as a whole has grown at only 3.6 percent. Tegucigalpa, the region's most rapidly growing urban area, has outpaced even the Honduras' high urban growth rate of 5.5 percent. Due to civil unrest, San Salvador experienced slower growth than any other major urban area in the region. Its growth between 1960 and 1981 averaged only 2.5 percent per year, while El Salvador's national urban growth was in the range of 3.2 percent over the same period.

B. URBAN POVERTY

There is no doubt that increased urbanization results in a relative increase in the proportion of a country's poor who reside in cities. However, it is equally clear

that, in most country's, the incidence of poverty (that is the percent of the relevant population which is poor) is lower in urban than in rural areas. In Central America, the incidence of poverty in urban areas is less (and in most cases, considerably less) than in rural areas.

Perhaps more importantly, however, the potential of industrialization as a means of generating economic growth provides a basis for generating a sufficient growth increment to finance real equity improvements for the urban poor. In short, the fact that the number of urban poor will undoubtedly rise with more urbanization is not an argument that urbanization should be discouraged. Rather, efforts to productively employ the urban labor force in relatively high value-added urban economic activities and efficiently provide needed urban shelter, social and physical infrastructure should result, also, in an increased capacity to improve the condition of the worst-off segments of the society.

C. SHELTER

1. Existing Conditions

Estimates vary considerably about the proportion of the urban population in Central American cities which is housed in squatter settlements or slums. Several sources suggest that existing housing construction is not keeping pace with household formation. For example in Honduras between 1974 and 1978, about 33,000 new households were formed. During the same period, private builders constructed only 11,240 units while the government constructed about 5,200 units, a shortfall of 16,560 units in total requirements.

However, for those countries where data exists, slums constitute a large component of low-income shelter solutions. For example, in Guatemala City roughly 30 percent of its population is housed in slums while in Tegucigalpa about 25 percent are in squatter settlements.² More recent studies conducted for the AID Office of Housing and Urban Programs in Panama indicate that roughly 27.7 percent of Panama City population is housed in slum settlements, or in units with significant structural defects.³

2. Future Shelter Requirements

Estimates of housing requirements vary considerably. Recent estimates of new shelter requirements suggest that roughly 1.5 million new units (or 2.8 million if upgrading existing slum housing areas are included) will need to be added to existing housing in Central American cities between 1980 and 2000.⁴ However, this will still result in overcrowding in urban shelter as this estimate assumes roughly 6.9 persons will occupy a single unit.

Significant upgrading of squatter and slum areas will also be necessary if the living conditions of Central American cities are to be improved. Rough

²Policies for Efficient and Equitable Growth, in World Housing Survey. Orville Grimes.

³"Censos Nacionales de 1980 - Octavo Censo de Poblacion, Cuarto Censo de Vivienda, 11 de Mayo 1980. Resultados Avanzados por Muestra, Vol. , Vivienda y Hogares." as quoted in "The State of Urban Planning in Panama: Investigations Towards the Development of Project Paper HG-012", for the Office of Housing and Urban Program, Agency for International Development, by PADCO 1983.

⁴Abeles, Schwartz, et al, October 1980

estimates of upgrading requirements suggest that approximately 1.3 million households live in deteriorated housing which represents severe public health risks. Significantly, a large proportion of these households live outside metropolitan urban areas. These areas have received less economic growth and have fewer resources to cope with the needs to rehabilitate housing stock.

These two shelter requirements taken together represent a total shelter need of approximately 2.8 million new shelter solutions which should be provided in Central American cities between 1981 and 2000. Although investment requirements vary considerably by country, taken together, this suggests a total investment requirement in shelter of \$690 million per year between 1981 and 2000. It is among lower-income groups, unable to afford high land costs and rapidly increasing building material prices, where shelter requirements will be the most critical. In addition, \$106 million will be required annually to address shelter needs of upper income groups.

D. URBAN WATER SUPPLY AND SANITATION

Urban areas need to provide critical services in addition to shelter such as water supply, sanitation, power supplies, transport and communications. These services serve both residential and non-residential areas of the city. Thus, their provision significantly affects both the social and economic well-being of urban areas. The lack of water supply or good communications for example affects urban areas both through lowered quality of life, and a reduced potential for expansion of the employment base.

Statistics vary as to the condition of urban infrastructure in Central American cities. The regional urban population with access to potable water supplies has increased from 4.6 million in 1970 to 6.4 million in 1980, while the urban population having access to sanitation systems has increased from 4.1 to 4.9 million over the same period.

While these increases have been significant, particularly in the case of potable water, they have not been sufficient to keep pace with urban population growth. During the same period, the region's urban population increased from 6.3 million to 9.7 million. Thus in percentage terms, the population served by municipal water and sanitation systems has actually dropped.

The costs of meeting both these unmet demands for infrastructure plus new population growth vary by country. As a first crude estimate, the total financial requirements of making up existing deficits and for supplying new urban population with infrastructure, range from between \$7.8 to 10.8 billion between 1981 and 2000. Annually, this would require an expenditure of between \$413 to \$567 million. Other estimates furnished to AID suggest that a capital investment of \$2.2 billion is required to remedy existing deficiencies in basic municipal services in the region (at realistic standards) by 1990.⁵

Thus together, both shelter and infrastructure could require annual expenditures in the range of \$1.1 to 1.5 billion if existing deficits are to be reduced and new urban population supported with adequate living conditions.

⁵Water supply is estimated at \$1.1 billion, sewer systems at \$1 billion, and solid waste disposal at \$200 million.

E. OTHER URBAN SERVICES

The provision of other urban services must also be addressed. Health and education services for urban populations are essential. Electricity will be required for both economic development and urban households. Improved urban bus services will be a concern.

In addition, future analysis and consideration will need to be given to the inter-urban networks that link the national and regional settlement systems (transportation, power, and telecommunications).

Unfortunately, the data base is not readily available to make estimates of the future requirements in these areas.

III. PROPOSED URBAN DEVELOPMENT STRATEGIES

Urbanization will be a key problem in the future economic growth of all the Central American countries.

Capital resources will undoubtedly be scarce and therefore the prioritization of investment will be a critical determinant of the rate of economic growth that can be achieved, the number and kinds of jobs created, and the standard-of-living that can be supported amongst the middle- and lower-income households.

Foreign investment from international donors and private sources must be a significant part of the total investment pool available for both urban and rural development even if substantial improvement is made in domestic savings rates.

This is underscored by the present realities of Central America that must be addressed, such as:

- The implications of the world recession;
- The loss of confidence in political stability and the attendant capital flight;
- The difficulties in developing export markets and the limitations on potential import substitution industries because of small domestic markets;
- High rates of population growth nationally and rapid urban population growth;
- In some countries, the scarcity of arable land, the inequitable distribution of rural land, and in urban areas the high cost of land which precludes low-income groups from ownership;
- The generally weak institutional base that limits the capacity and efficiency of the public sector to manage urban growth, deliver urban services, and mobilize public finance;
- The present array of urban policies that tend toward limiting private sector initiative, inappropriate levels of subsidization of urban population at the expense of the rural producers (and often subsidization of the rich by the poor), and inequitable access to land and urban services.

The general outlines of an urban development strategy which responds to these issues and the overall constraints set forth in the first part of this paper would include the following elements.

A. OVERALL URBAN DEVELOPMENT OBJECTIVES

The overall development objectives to be sought by Central American countries should include:

1. Support for the Economic Base of Urban Centers

The urban economy must be strengthened throughout Central America if sustained

rates of national economic growth are to be achieved. Only with growth in the urban economy will it be possible to provide the resource pool sufficient to address the issues of urban poverty on a comprehensive basis.

The operational elements to be supported are:

a. Policy Reforms

Policy changes are required in the areas of exchange rates, tariffs, credit markets, and agricultural pricing (to make relative prices of labor and capital more reflective of existing scarcities, and both increase the rate of investment, and decrease the capital intensity of existing and new firms). Tax policies that discourage employment and encourage the use of capital intensive technology need to be changed.

b. Private Sector Development

The private sector is most likely to generate jobs and should be encouraged to take the lead in economic development. The informal sector will remain the largest employer in the foreseeable future. Petty commerce, manufacturing, and construction are all areas of potential employment growth which should be encouraged.

c. Construction Industry

The construction industry will be needed to support a sustained economic development effort. It has the additional advantage of rapidly creating jobs for unskilled labor.

2. Support for Moderation of Population Growth

The overall rate of natural increase of the population of Central American countries makes the achievement of sustained increases in per capita incomes difficult under the present economic circumstances; therefore, family planning should be an important dimension of an overall urban development effort.

3. Support For Access to Serviced Land and Shelter Credit

Economic development must go hand-in-hand with increased standards-of-living for the low- and middle-income urban households. In Central America, the critical issue is to obtain access to serviced land plots at affordable prices and credit with which to build shelter units largely through the individual initiative of the household. Special consideration should be given to the requirements of women-headed households.

4. Support for Urban Governments and Improved Delivery of Municipal Services

Improvements in the capacity and efficiency of urban institutions to deliver urban services to support economic growth and social equity must be a part of the overall urban development strategy.

The operational elements to be supported include:

- a. Policy reforms to ensure cost recovery by water, electricity and other infrastructure entities. Efficient operation will be needed if such services are to be available at affordable rates to households and enterprises. Some cross-subsidization may be needed to assure access by low-income groups.
- b. Institutional support for enhancement of capacity and efficiency in urban management, finance, and delivery of services.
- c. Assistance in the mobilization of finance for bulk water, sanitation systems, electricity, solid waste disposal, roads and bus transportation, and telecommunications.

B. GUIDING URBAN DEVELOPMENT PRINCIPLES

In seeking to achieve the overall urban development objectives outlined, certain guiding principles need to be recognized in the design of specific urban strategies.

1. Efficient location of industry is not possible everywhere. The choice of urban centers for investment in industry is critical. The selection of economically unattractive locations will result in wasting resources, fewer jobs created, and potential failures. Therefore, productive private investments in industry and job creation should be encouraged in those urban areas with comparative advantage. Governments should ensure that no disincentives are continued or created by inappropriate policy choices.
2. Supporting investments in shelter, infrastructure, and social facilities must be a part of an overall urban economic development strategy. Urban migration will follow job creation in urban centers and the ability to meet the demands for residential services and shelter is critical in maintaining the quality of life and social stability.
3. Both industrial investment and investment in housing, infrastructure, and facilities should be made on the basis of conserving the amount of public investment required and supporting private savings efforts. Priority should be given to policies which encourage the maximum feasible private investment in job creation and housing. Public investment should be made in essential supporting infrastructure at standards which facilitate nearly full cost recovery.

4. It should be recognized that it would not be possible to make drastic changes in the urban settlement system in a short period of time through government action even if capital were not a major constraint. Therefore, development planning should recognize existing growth trends and work to ameliorate their negative aspects in the short run, while stimulating the maximum economic growth with social equity.

5. Agriculture and rural development need to be considered as linked to urban development in overall economic and social planning. The rural/urban linkages within Central American countries are important as agro-industry, markets, ports, and transportation are urban functions which are important to agriculture and rural development. Conversely, rural areas represent markets for urban generated consumer goods and urban services activities.

C. THE ELEMENTS OF AN URBAN STRATEGY

Critical to the success of any urban strategy in Central American countries will be the agreement by the national governments as to the basic objectives and policies to be used to implement those objectives. While the Central American countries have many intrinsic factors which have limited their economic growth, historically the adoption of inappropriate policies has contributed substantially to the difficulties they now face. The reform of these policies, therefore, will be essential to establish the

climate whereby capital investment will lead to sustained economic growth with social equity.

1. Suggested Areas of Capital Investment

Improved development policies, increased domestic savings, and enhanced urban management can make a substantial contribution in assisting the Central American countries to mobilize their own capital and human resources for urban development. There still will be a significant capital resource gap to support economic growth rates in excess of population growth along with essential supporting investments in housing, infrastructure, and facilities. This will have to be mobilized from foreign sources.

It is likely that capital investment will be required in the following areas:

- a. **Capital Investment In Private Enterprise and Job Generation Activities**
Access to credit will be essential in order to stimulate the private sector enterprises to achieve the economic growth rates required.
- b. **Selected Capital Investment In Urban Infrastructure**
In those high priority urban centers targeted for economic activity and population growth, selective investments in bulk water supply, citywide sewer systems, roads and bus transportation, electricity, and telecommunications will be required in order to achieve the development objectives. Here, a policy of assuring adequate tariffs to assure self-sufficiency is essential to the long-run capability to extend services to the growing urban populations.
- c. **Selected Capital Investment In Inter-Urban Infrastructure**
The national networks for roads, electricity, and telecommunications may require selective investment in order to achieve efficient inter-urban flows of economic activity particularly related to the rural/agriculture and urban/agro-industry linkages.
- d. **Capital Investment In Land, Shelter, and Supporting Infrastructure**
An appropriate percentage of the total capital available should be allocated to public and private sector institutions that adopt appropriate policies to encourage the development of shelter for low-and middle-income households in those locations of the highest economic growth potential. The present

shelter sector institutions in Central America do not have the capital resources necessary to meet the minimum requirements for new population growth and the upgrading of existing slum settlements. The overall urban development strategy requires the achievement in the near term of social equity objectives along with the emphasis on economic growth.

2. Suggested Priorities, Policy Planning, and Institutional Development

Capital investment, while essential, must be supported by improvements in policies, planning, and institutional development within the Central American countries.

a. Preparation of National Urban Policies For Central American Countries

Even though action projects need to be started immediately, it is important that comprehensive national urban policies be put in place as soon as possible. The preparation of National Urban Policies need not be elaborate or require substantial time to prepare. Rather, they should be focused on answering three basic questions:

- Which urban areas should be given priority attention?
- Which sectoral policies and programs should be given priority emphasis?
- Which institutions and decision makers within the country should be directly involved in policy and program initiatives to achieve implementation of the development strategy?

b. Urban Institutional Support

Ultimately, the success of urban development in Central America will depend on the efficiency and capacity of urban development institutions, both public and private, to deliver urban services such as water, sanitation, electricity,

transportation, health, and education. Ideally, during the urban policy preparation stage, key urban institutions will be identified that will have the major responsibilities for implementing urban investments and delivering urban services. These key institutions may well require improvements in their efficiency and capacity to execute their responsibilities. Amongst the kinds of issues which might be addressed are:

- Development of improved institutional policies to modify standards, improve cost recovery, achieve improved access to services for low-income target groups, etc.
- Development of relevant data bases and decision-making tools of the institution. Many institutions simply do not have adequate urban data or the methodologies for analyzing data to enable them to execute their responsibilities. Examples of this type of intervention might include development of cadastral records, aerial photography, map-making, computerization of data bases and municipal records, and institution of financial and tax-monitoring systems.
- Improvement of technical capacity through development of modern management procedures.
- Enhancement of individual skills through training. Training is most effective when part of a sustained effort at institutional development and not merely isolated programs for individuals. Such training should occur in-country, if possible, with out-of-country training used selectively for in-depth development of critical skills.

1. Direct Support to the Private Sector

There is considerable scope for supporting the private sector within urban areas. A distinction should be made between the scales of private enterprise (large-scale and small-scale) and between the types of enterprise (manufacturing, construction, commerce, etc.).

The kinds of technical assistance that can be considered include:

- Assessments of the Public/Private Context for stimulating job creation are important in defining the private sector role. This would include reviewing the legislation and regulations (including taxes and labor regulations) affecting the private sector to ensure that it has the desired stimulative effect.
- Assistance with the development of export markets.
- Support for improved private sector management practices and financial management.
- Support for improved quality control.
- Support for training institutions which serve private sector enterprises.
- Support for vocational training.