

951 0003

PN-674-824

ISN= 44681

**THE NATURE OF URBAN PROBLEM ISSUES  
AND URBAN POLICY RESPONSE OPTIONS**

**Prepared For:**

**Office of Housing and Urban Programs  
Agency for International Development**

**Prepared By:**

**PADCO Inc.  
1834 Jefferson Place, NW  
Washington, DC**

**January 11, 1983**

## PREFACE

This paper has been prepared in order to provide an overview of the urbanization issues likely to be of concern to developing countries and to outline the prerequisite steps for an appropriate response. The paper identifies the trade-offs among desirable urban policy objectives and summarizes the components of national development within which urban policy should operate. Finally, it identifies likely areas of intervention in the urban development process.

The wide coverage of the subject and its necessary generalizations are no substitute for specific urban development analysis in a given country situation. This paper should, therefore, be read as a companion piece to "Suggested Outline and Approach for Conducting Urban Development Assessments in Developing Countries," which recommends a specific approach for preparing country specific responses to urban problem issues.

## TABLE OF CONTENTS

	<u>Page</u>
PREFACE .....	iv
INTRODUCTION .....	1
<b>CHAPTER I</b>	
<b>THE URBAN ISSUES TO BE ADDRESSED .....</b>	<b>3</b>
I. The Physical Deficits In Existing Urban Centers .....	5
II. The Selection of Inappropriate Physical Standards.....	6
III. Urban Land Availability .....	7
IV. Urban Job Generation and Industrial Development .....	8
V. Recognition of the Informal Sector In Urbanization .....	9
VI. The Special Problems of Urban Poverty .....	9
VII. Lack of Government Revenue Mobilization.....	10
VIII. Urban Management and Administration .....	12
IX. The Central Problem of Political Will .....	13
 <b>CHAPTER II</b>	
<b>ORGANIZING THE APPROPRIATE RESPONSE TO URBAN PROBLEMS .....</b>	<b>15</b>
I. Estimates of the National Urban Population To Be Served .....	15
II. The Total Capital Resources Pool Available .....	15
III. Assessment of Government and Private Sector Capacities .....	15
IV. The Implications of the Time Factor On Urban Development .....	16

<b>CHAPTER III</b>	
<b>THE BASIC POLICY TRADE-OFFS LIKELY TO BE OF CONCERN IN COUNTRY URBAN DEVELOPMENT STRATEGIES . . . . .</b>	<b>17</b>
I. Economic Policy . . . . .	17
A. Efficiency versus Equity . . . . .	17
B. Scale and Balance between International and Domestic Private and Public Investment . . . . .	18
C. The Relationship between Investment for Export Production and Domestic Consumption . . . . .	18
II. Urban Spatial Policy . . . . .	18
A. Agglomeration Economies versus Diseconomies	18
B. Concentrated versus Dispersed National Urban Growth . . . . .	19
C. Upgrading and Maintenance of Existing Urban Structure versus New Development . . . . .	19
D. The Relationship between Physical and Spatial Standards and Individual and National Affordability . . . . .	19
III. Government Policy Issues . . . . .	20
A. Centralized versus Decentralized Administration . . . . .	20
B. Degree of Public Intervention in the Urban Land Market . . . . .	20
C. The Use of Urban Subsidies Related to Cost Recovery . . . . .	20
D. Definition of the Respective Roles of the Public and Private Sectors in the Economy . . . . .	20
IV. Conclusions . . . . .	21

<b>CHAPTER IV</b>	
<b>THE IMPORTANCE OF URBAN POLICY FORMULATION WITHIN THE NATIONAL DEVELOPMENT CONTEXT . . . . .</b>	<b>22</b>
I. National Spatial Policies . . . . .	22
A. Urban Policies . . . . .	22
B. Rural Policies . . . . .	25
C. The Relationship between Urban and Rural Policies . . . . .	25

II.	The Range of Sectoral Policies to be Considered .....	26
	A. Economic Policies .....	26
	B. National Network and Nodal Policies .....	27
	C. National Public Services .....	27
	D. Shelter and Settlement .....	28
III.	The Essential Features of Policy Formulation .....	28
IV.	The Danger of Unrealistic Policy Formulation .....	29
 <b>CHAPTER V</b>		
<b>OPTIONS FOR INTERVENTION IN URBAN DEVELOPMENT .....</b>		<b>31</b>
I.	Selection of Countries With An Urbanization Priority .....	31
II.	The Importance of Urban Policy Intervention .....	32
III.	The Importance of Institutional Development Support .....	33
IV.	Support For Private Sector Development In Urban Areas .....	33
V.	Support of Capital Mobilization for Urban Development .....	34
<b>Appendix I .....</b>		<b>36</b>

## INTRODUCTION

The process of urbanization (whereby population growth, through migration and natural increase, creates ever increasing demands in settlements for land, services, facilities, shelter, and jobs) is a relatively recent phenomenon in the developing countries. Rapid urbanization mainly dates from World War II when a set of irreversible forces was set in motion. This includes vastly improved public health leading to declining mortality rates contributing to rapid population expansion; the national independence movement which brought into existence more than 50 new countries each with a need and desire for economic growth, self-esteem, and modernization; the creation of new political forces and local elites; efforts at industrialization; and an awakening of the rural and urban poor majorities, through enhanced communications, to seek an improved standard of living and a better economic future.

Inevitably these forces have led to increasing rates of urbanization, frequently in the primary or capital cities. Overpopulation in rural areas in terms of the man/land relationship has provided the push of migration to the cities. The cities have provided the pull for migration in the form of access to a better standard of living and to much higher paying urban employment, if not immediately, at least with a promise for the future. At the same time the city has become the center of political power and wealth and the symbol of modernization of the nation.

This process has resulted in the rapid accumulation of the urban problem issues discussed in this paper. These issues have now reached a critical mass which in certain countries has begun to affect their very social stability and potential for achievement of economic growth.

Unfortunately, the response of governments has been largely negative on the one hand (i.e. a basic but futile desire to keep people out of the cities and in their rural areas) and counterproductive on the other (i.e. providing large urban subsidies and sometimes a disproportionate share of investment resources to cities).

Until recently, increasing urbanization was generally considered undesirable per se both by LDC governments and the international assistance agencies. Even today these attitudes are widely held by significant elements of both groups in spite of the statistical evidence which shows an extremely high correlation between national levels of urbanization and economic development.

Based on urbanization trends observed between 1970 and 1980 and projected population growth to the year 2000, roughly 2.9 billion of the world's population or almost half will live in urban places by the year 2000. This represents an annual growth rate of urban populations of 2.6 percent between 1980 and 2000. At the same time, the world population itself is only projected to increase at an average annual rate of 1.7 percent. Furthermore, the number of countries having 50 percent or more of their populations in urban areas will increase from 56 countries in 1980 to 79 in 2000 or approximately 63 percent of the world's nations.

**TABLE I**  
**PROJECTED TOTAL AND URBAN POPULATIONS IN 2000**

<u>Country Category</u>	<u>1980 Populations (Millions)</u>	<u>1980 Urban Populations (Millions)</u>	<u>2000 Total Populations (Millions)</u>	<u>2000 Urban Populations (Millions)</u>
Low Income	2,160.9	371.3	3,090	759
Middle Income	1,138.8	555.6	1,790	1,087
High Income	14.4	9.5	23	23
Industrialized Market Economies	714.4	556.8	787	699
Industrialized Non-Market Economies	353.3	210.5	409	304
Totals	4,381.8	1,703.7	6,099	2,872

**Source:** 1980 populations and 2000 projected populations are from projections in the 1982 World Development Report. IBRD. 1982. Tables I - 20.

2000 urban populations were projected using urbanization growth rates observed between 1970 - 1980 weighted by projected changes in total population growth rates between 1980 and 2000.

This paper reviews the complex interactive urban issues, relates urbanization to the national development process, and outlines the basic policy trade-offs which can be considered in various country situations. It closes with a discussion of possible options for intervention.

## CHAPTER I

### THE URBAN ISSUES TO BE ADDRESSED

Most discussions of the problems of urbanization start with a summary of the demographic indicators which highlight the massive population growth expected in cities and urban settlements over the next twenty to twenty-five years. The magnitude of these aggregate numbers is frightening to governments and international development agencies alike.

Figure 1 illustrates graphically the strong interaction between increasing rates of urbanization and national income growth by plotting 1980 rates of urbanization against GNP per capita. Significantly, there are a large number of low income countries which have low rates of urbanization; however, practically all countries that have higher per capita incomes have rates of urbanization greater than 50 percent.

This "tyranny of demography" is the underlying cause of so much inappropriate and ineffective national urban and rural planning. Plans and policies based on where governments desire their population to live rather than where they will live (given rates of natural increase and existing migration patterns, real resources available, real economic opportunities, existing standards of living, and the time constraints affecting rates of changes) are doomed to failure. The actual damage done by such plans is largely determined by how seriously governments attempt to implement them.

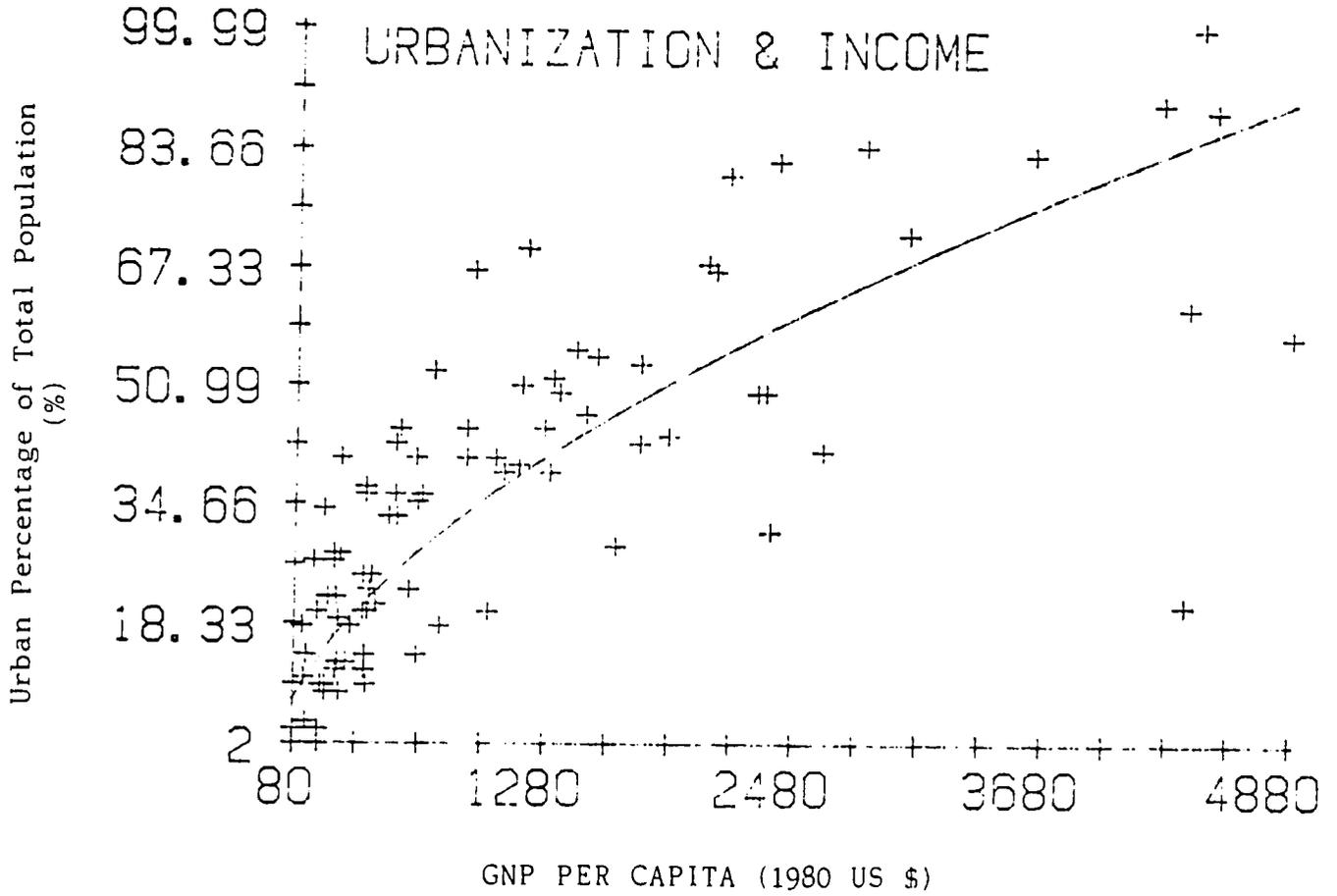
Prerequisite to dealing effectively with national urban problems is to understand that governments will have, at best, a limited effect on where the bulk of the population will live particularly in the short-term horizon of a single generation (unless extreme police power methods are employed with efficiency). Therefore, the start of an effective response to urbanization problems comes through a clear understanding of where the urban population will in fact be located within the national settlement system. Only then can the prioritization of response be undertaken with confidence. At that point, programs to mobilize that portion of the population which can be influenced in their locational decisions can be instituted with a high probability for success.

There is a tremendous variation in the scale of urban problems and their likely effects on rural development, economic growth, and the achievable standards of living country by country. Each country must develop its effective response within its own economic, political, cultural, and physical constraints. Nonetheless, the typology of urban problems which needs to be addressed can be generalized while noting there will be exceptions.

It can be shown that these issues for the most part apply to the developed countries as well as the developing countries. It is the rates and scales of urbanization in LDC's which are without recent precedent in the Western world. This LDC urban growth is occurring on an extremely weak national economic base which is not supported by a vibrant and self-motivated private sector or an effective functioning public sector. There are extreme shortages in skilled and managerial manpower in all areas.

Figure 1

RATES OF URBANIZATION AND GNP PER CAPITA  
FOR LOW AND MIDDLE INCOME COUNTRIES



Source: PADCO analysis from data in 1982 World Development Report.  
Tables 1 and 20.

## I. The Physical Deficits In Existing Urban Centers

A major reason for the concern about massive new urban growth is the serious deficits already found in cities. Almost all LDC cities presently have deficits in water supply, sanitation, electric power, telecommunications, health and education facilities, transportation, and shelter. Coupled with the problem of deficits is the problem of inadequate and underfunded maintenance which accelerates the depreciation of the capital stock and shortens its useful life.

Safe water is one of the basic requirements of life. Without at least minimal supplies of water, life cannot be sustained. Detailed estimates of access to safe water supplies are not available. However, WHO estimates that in 1975, only 25 percent of the 2000 million people living in developing countries had access to safe water supplies. Within urban areas, between 300 and 400 million or between one-half and two-thirds of the developing world's urban population had water supplies from shallow wells or natural surface water which were of unreliable quality. At least two-thirds of those without safe water supply were found in South and Southeast Asia.

An illustration of the severity of the problem is shown in Table 2 which estimates the amount of financial resources needed to simply provide poverty households with basic shelter. Although the figures used are for 1975, they suggest that almost 70 percent of the projected \$170 billion required for both urban and rural households will be required for urban households alone.

TABLE 2

THE TOTAL INVESTMENT REQUIRED IN ORDER TO PROVIDE  
EACH HOUSEHOLD LIVING IN POVERTY IN 2000  
WITH A BASIC UNIT OF SHELTER

(billions of 1975 U.S. dollars)

<u>REGION</u>	<u>IN URBAN AREAS</u>	<u>IN RURAL AREAS</u>	<u>TOTAL</u>
Latin America and the Caribbean	62.0	7.0	69.0
Europe, the Middle East, and North Africa	11.0	3.0	14.0
Eastern Africa	6.0	5.5	11.5
Western Africa	4.0	2.0	6.0
South Asia	25.0	20.0	45.0
East Asia and the Pacific	8.0	8.0	16.0
Total	116.0	45.5	161.5

---

Source: "Poverty". Poverty and Basic Needs Series. World Bank. 1980. P. 28.

---

<sup>1</sup> Water Supply and Waste Disposal. Prepared by the Transport, Water and Telecommunications Department of the World Bank. September 1980. P.9.

Urban centers are, therefore, presented with major dilemmas in choosing between upgrading existing urban structures or building new urban structures in the face of accelerating growth.

Most LDC's are also seriously deficit in interurban infrastructure. A critical element in national economic development is the interrelationships among urban centers within the settlement system. Any efforts at a decentralized urban policy or even a secondary city (growth pole) approach is not going to succeed if the interurban networks do not function adequately. In all cases, transportation, telecommunications, and power must be adequate to support decentralized urban growth. In some cases, bulk water supply may also be a prerequisite for an interurban network. It should be recognized that improvements in the interurban network frequently have the immediate effect of reinforcing concentration, but the reverse forces for decentralization begin to establish themselves soon thereafter. Furthermore, in many cases it is necessary to achieve a certain level of growth in major urban centers to support the costs of a decentralization policy.

## **II. Selection of Inappropriate Physical Standards**

Most LDC's compound the problems of severe physical deficits in urban structure by the utilization of physical development standards which are not affordable by the nation as a whole. The adherence to inappropriately high standards is a combination of historical and current circumstances.

Many developing countries inherited very high physical standards from their previous colonial administrations. This occurred because the cities were the centers of European power and the high standards were enforced to satisfy the colonialists while keeping the indigenous population out of urban centers and were quite independent of the local development requirements which were then largely rural based. These standards have tended to be preserved after independence in spite of vastly changed social and economic circumstances. The reasons for this are the desire for self-esteem and modernization. A professional architect from a newly independent African country stated it this way: "I understand the economic reasons for lowering standards. But how can we politically do so when it will be thought by the people to be an admission that we cannot run the country as well as the whites?"

High standards with resulting high costs mean that fewer facilities can be provided to meet population requirements given a limited capital resource pool, than could be provided with lower standards. In addition, since construction at higher standards takes longer (water bourne sewer system versus alternative lower standard systems for example), the benefit stream from a given investment is delayed. In some cases where full funding cannot be sustained, the returns on investment may be delayed for years or may never materialize. Unfinished walkup and highrise housing projects throughout the world give testimony to this reality.

The fact is that urban problems will continue to worsen as long as the physical standards attempted are not affordable to the nation and are not at the scale of development required to meet the needs of the existing and new urban populations.

### III. Urban Land Availability

Urbanization is a wealth-creating process. As national populations increase and migration to larger urban centers occurs, the land requirements for settlement, social facilities, industry and commerce increase. However, the amount of land available for urbanization (particularly land with urban services) is limited. Thus, an enormous demand is created for a very limited supply, forcing dramatic increases in prices. The problem is further compounded by imperfect urban land markets in which the high demand for land cannot be met due to lags in servicing land, speculative withholding of land in expectation of even higher prices, bureaucratic delays on the part of public authorities in granting development permits, and in some cases, clouded titles and outmoded recording systems which constrict supply by making transfer of ownership difficult or impossible.

Increasing the supply of urban land by extending transportation lines and servicing new areas with water, sanitation, electricity, etc., is costly and slow. In almost all countries, governments have not been able to increase the supply of urban land at a rate equivalent to the demand created by migration and natural population increase. Thus, the supply has always lagged behind and the price has continued to increase much more rapidly than the costs of most other goods. This has resulted in large profits for speculators particularly in newly serviced areas. On the other hand, due to inadequate mechanisms for cost recovery, governments are generally unable to fully recover their investment and to share in the added value caused by these investments.

Countries which have constraints on the amount of arable land available for agricultural uses (and most countries do have arable land constraints) frequently experience major conflicts between use of that land for urban purposes (which tend in most cases to be substantially higher value uses) and for agriculture (particularly when food security is a national priority). Many urban settlements are located in the prime agricultural areas of a country for the simple reason that the cities grew in response to their agricultural hinterland. When this problem of land use conflict occurs, such as in Egypt, it requires a careful response.

The result is that the urban land market works with major distortions which usually result in inefficient location of urban uses, additional costs for the provision of infrastructure, and the denial of low-income households from land ownership in suitable locations at prices they can afford.

Real progress on solving urban problems will be difficult until the basic problem of urban land supply and markets is effectively dealt with by governments. The solution rests in the appropriate exercise of public will, as the technical concepts for intervening in the land market are well established and cover a very broad spectrum of options. Mobilizing public will is frequently a formidable task requiring careful, sustained efforts over a long period of time.

#### IV. Urban Job Generation and Industrial Development

Many urban areas are faced with high levels of unemployment and what is called "underemployment" (employment in low productivity activities and marginal jobs). This has presented policy makers with a dilemma as governments seeking to respond to the unemployment have frequently resorted to overstaffing not only government offices, but public sector enterprises as well, resulting in massive low wage employment and often in inefficiency in government and the public sector. This in turn has had negative effects on economic growth. Low wages in turn limit the attractiveness of the public sector as a competitor for scarce management skill.

Public sector enterprise has also distorted markets by special subsidies in pricing (which make it impossible for the private sector to compete even if allowed to do so), low quality of products (making imported goods sought after and thereby raising foreign exchange deficits), artificially protected markets, inefficient allocation of capital investment, and poor locational decisions made for non-economic reasons.

The private sector, while traditionally much more efficient than the public, nonetheless presents a number of problem areas which need to be dealt with in the urban context. Private enterprise often is stifled in its growth from the lack of investment capital. At the same time, however, it often resorts to capital intensive rather than labor intensive technologies resulting in very high costs per job created. Since employment is a crucial urban problem, this tendency has negative effects on national development. One reason for this overreliance on capital intensive technology is a concern about the potentially disruptive effects of labor. A cigarette manufacturer in Asia installed imported automated machinery for cigarette production laying off a large segment of his work force. He explained the action by saying that even though his production costs were about equal, he no longer had to deal with as many labor problems.

Further complicating private enterprise development are negative constraints imposed by governments due to policies giving priorities to non-market solutions and resulting in distorted price structures. Other types of constraints on private sector growth are also imposed with varying degrees of severity (for example, overregulation, limits on needed foreign exchange, control of needed raw material inputs, limits on the provision of public services such as water and power, and restrictive labor laws). The private sector has also associated problems of limits on entrepreneurial skill, management capacity, and marketing.

The problems associated with industrial development need special attention because industrial employment (particularly manufacturing employment) is crucial for the successful response to broader urban problems. Internationally, there is a significant shift from agricultural employment to industrial employment in most LDC's. Whereas industrial employment may only provide 20-25 percent of total urban employment, it is a very important part because of its forward and backward linkages to the

rest of the economy including agriculture. Agro-industry is frequently a major employer in both urban and rural areas. It is the importance of these linkages which makes the agglomeration economies of large urban centers so attractive. Conversely, it is why it is often difficult to encourage efficient industrial growth in dispersed areas.

#### V. Recognition of the Informal Sector in Urbanization

Regardless of the success of efforts to develop the formal industrial sector and related activities, the employment generated will not be sufficient to occupy the potential labor force. The source of employment in most urban centers, therefore, will continue to be the informal private sector (small-scale industry and commerce). Unfortunately, many governments view the informal private sector as an embarrassment. As a result, the informal private sector often has little access to government services, or public or privately provided credit. It can be subjected to enormously damaging police power actions, such as the banning of hawkers and pedicab operators from the streets or the arbitrary relocation of informal markets or small scale industry centers (usually in the name of modernization).

Recently, the informal private sector has been receiving increased attention from the international development agencies because of its employment potential and relationship to low-income target groups. But governments have given very limited and often grudging support to specific programming initiatives.

Effective interventions to improve the informal private sector are still relatively untested. There are several major constraints to be addressed. Often small scale enterprise is informally controlled by "strong men" or "ethnic groups" which have significant vested interests. The very nature of the operations and personnel involved makes management, accounting, and marketing difficult, or non-existent. Finally, there is still some concern as to whether expansion of some types of small scale enterprise (particularly in the commercial services area) really adds to the overall national economy or merely redistributes the existing market share.

Clearly, however, the informal private sector will continue to be a very large share of the urban economy and its employment base. Positive strategies to effectively deal with the informal private sector are critical to an overall response to urban problem issues.

#### VI. The Special Problems of Urban Poverty

Undoubtedly, one of the major reasons for the great concern about urban population growth is the realization that most of this new increment of growth will be amongst poverty level households because of the special attraction which urban areas have for the poor. Obviously, this group represents special urban problems because of their low incomes, lack of useful skills, lower levels of education and poorer health conditions. Governments

are frequently concerned about this group as a potential threat to social stability, but usually do not develop an effective programmatic response to the problem.

As urban populations increase, urban poverty is likely to outstrip rural poverty in sheer magnitude. Table 3 indicates the composition of world poverty by region and by urban and rural areas. Due to the likely continued migration from rural to urban areas, urban poverty is projected to increase from 33.5 million households in 1975 to 74.3 million households by 2000 at an average annual growth rate of 3.2 percent. Simultaneously, rural poverty at least in quantitative terms will decline over the period shown.

The most severe urban poverty problems will occur in both East and West Africa and South Asia. East Asia and the Pacific will also experience severe urban poverty problems. The reason for these regions suffering problems of these magnitudes are suggested by Figure 1 which ranked low and middle income countries according to their degree of urbanization and GNP per capita. The bulk of the countries in these regions have urban areas that are relatively undeveloped or at least below the average rate of urbanization. Significantly, these countries are also relatively low-income countries, many of which have experienced very low or negative rates of growth in national income. Thus, as they urbanize, the likely severity of urban poverty will become more evident. The accuracy of the projected figures is dependent upon a fairly stable distribution of income.

The urban poor have consistently demonstrated an enormous capacity to cope with their urban environment. Marginal housing areas, frequently illegally occupied, have been improved by the people themselves over time. Social organization in slum areas develops and cultural and ethnic ties remain strong providing linkages with rural areas. In many cases remittances of small amounts of money by the urban poor to their families and villages in rural areas make significant contributions to the local rural economy. Unfortunately, many of the useful characteristics and potentials of the urban poor are not recognized by governments.

## **VII. Lack of Government Revenue Mobilization**

Many governments have taken the position that the main constraint to solving urban problems is the lack of capital resources. Obviously, capital is important, but, as discussed above, the priorities and kinds of expenditures are equally important. Nonetheless, the tendency of governments is to seek more funding rather than to address the imbalance between government revenues and expenditures. For the most part governments look for international sources rather than domestic financial resource generation as the easiest way to solve urban problems. While international private investment and international donor agency investment can play a significant role in national development, it can never substitute for resource generation as a long run solution.

**TABLE 3**  
**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.

In many countries, the domestic rates of savings are very low. In part, this is because there are not sufficient institutions or savings instruments with attractive incentives to mobilize private savings. In fact, many banking policies actually discourage savings in formal banking institutions. This is frequently the case in the housing field which in many countries is almost entirely financed by informal mechanisms which operate outside formal banking systems. A second component of very low rates of domestic savings is the lack of public sector savings (the difference between public revenues and public expenditures). Many governments operate at large deficits due to an inadequate tax base and the lack of enforcement of existing tax structures combined with very ambitious development programs. These public deficits must be financed either through borrowing from the banking system either domestically or internationally which results in a shortage of credit for private investment or inflationary growth of the money supply.

In addition, governments largely rely on import/export tariffs and other forms of indirect taxation to raise local revenues. Since many countries have a primarily agricultural economic base, the result can be a disproportionate burden on rural producers and low-income groups in general. Urban areas often become subsidized in the process because of government's reluctance to charge adequate user fees on services such as water, sanitation, and transportation; charge market interest rates on government loans; and levy effective taxes on urban land and property.

The overall result is the failure to relate national level expenditures to national levels of affordability represented by governments' ability to generate adequate resources to finance those expenditures. This mismatch of expenditures and revenues is frequently worsened by programs with service levels which far exceed the capacity of the programs' beneficiaries to afford them. Thus, the total resources are depleted and crisis situations develop.

#### **VIII. Urban Management and Administration**

Local government in most developing countries is very weak and totally dependent on the national government for both funding and project implementation. Except in a few of the capital cities, local government often mobilizes no more than 20 percent of its revenues locally. It is dependent on the central government for the rest. This means that generally the central government determines what development will take place in a given urban area.

Given this funding situation, it is not surprising that urban management and administration is very weak in most cities. Technical and professional staff do not see local government employment as an attractive opportunity and would much rather be assigned in a central government ministry or agency.

There usually is an inadequate data base within the urban area (property records, tax records, vital statistics, maps, aerial photographs, etc.) upon which to take informed decisions because there is neither appropriate staff nor funds for the collection and maintenance of the data base. It is not

unusual to discover that cities have not even been given copies of planning and project documents for their city, which have been commissioned by a central government ministry or organization.

The reason for this unfortunate state of affairs in local government is that many central governments are concerned about the formation of local power bases in the various regions and cities which might confront the authority of the central government. Technically, the reasons offered usually refer to such things as an inadequate supply of trained manpower in the country to staff local government, efforts to establish regional equity or balance by controlling funding nationally, and the relative isolation of many regions or settlements which require a decentralization of central government units to the local level.

Beyond these reasons there is the general problem in most LDC's at all levels of government of obsolete administrative and management procedures. Most governments are still essentially working with systems established by colonial powers before World War II. Little attention or effort has been given to modern administrative or management practice, little funding has been provided for upgrading office equipment and machinery despite its relatively low cost in today's electronic era.

As a result, management and administrative practice in the LDC's simply cannot cope with the development demands they are now facing whether or not their policies are appropriate and capital is available.

#### **IX. The Central Problem of Political Will**

Determining when the policy environment in a country will be conducive to fruitful urban policy development is often as important as identifying physical deficits or resource constraints. When a country's policy makers or 'political will' are actively engaged in what are usually implicit programs which capitalize on short-term gains at the expense of long-term gains and which have overall negative impacts on the country's development potential, good technical analysis may not have the degree of success which it could otherwise have. Some manifestations of this problem are:

1. Seeking short-term political gain at the expense of long-term development efforts (i.e. the granting of urban subsidies which are not supportable by the national economy is a good example).
2. Committing major investments or incentives for locations or groups based on personal constituencies rather than economic advantage or social need. For example, in one Middle Eastern country a minister committed the construction of a port in his home town in spite of several technical studies demonstrating that it was unneeded.
3. Distorting investment priorities due to differences in individual political power in gaining access to capital resources and budgets. No matter how well meaning, the natural tendency of all ministries and agencies is to obtain maximum resources for their constituencies regardless of the technical merit or capacity to

effectively utilize those resources. It is this reality which has for the most part kept national economic planning from achieving its potential.

4. Making of political appointments to technical ministries without appropriate expertise and experience. This problem is frequently exacerbated by the constant switching of personnel in any given political post, thereby not allowing sufficient time to utilize on-the-job experience to improve performance.
5. Selecting inappropriate development priorities, in response to national desires for self-esteem and modernization rather than seriously seeking real development opportunities. Many examples exist around the world of "show-case" projects such as unusually large stadiums, new capital cities, vast capital intensive industries requiring perpetual subsidies or other special projects. For example, one Asian country spent an enormous amount on a new, unneeded and largely unused ceremonial six lane highway from the airport to the city center. This same amount could have financed water standpipes for all unserved neighborhoods in the city.
6. Wasting public funds through graft, or corruption or sheer mismanagement.

In developing a response to the urban problems, the better the understanding of the potential political distortions within a given country the better chance there will be to resolving the problems.

## CHAPTER II

### ORGANIZING THE APPROPRIATE RESPONSE TO URBAN PROBLEMS

The appropriate response to urban problems rests on a clear understanding of four key elements:

#### **I. Estimates of the National Urban Population to be Served**

The existing national urban population, plus the net in-migration to urban areas, plus the natural increase in urban population establishes the total magnitude of households to be served, new jobs required, and land to be urbanized (using assumptions about densities which are a variable subject to policy analysis).

#### **II. The Total Capital Resources Pool Available**

Before meaningful urban investment programs can be developed, some estimate of the ability to finance those programs must be made. These estimates can be generated through assumptions about overall macro-economic growth and the likely allocation of shares of that growth amongst the major competing sectors (agriculture, defenses, etc.). The result of such projections will be the establishment of an estimated total resource pool which will be available from domestic public and private savings and foreign savings (most simply imports minus exports, but including foreign financing mechanisms such as worker remittances, direct foreign investment, medium- and long-term official loans and grants, private loans and the drawdown of foreign balances). This in turn results in estimates of the total capital resources which will be available to finance all development investment.

Urban investments in shelter, infrastructure, services and job creation can be estimated on the basis of the population to be served, service levels to be provided and the capital costs of job creation. However, these aggregate urban investments must fit within the overall resource constraints of the total resource pool or there will be inadequate resources for non-urban investment (say in agriculture or defense) or inadequate resources to complete the urban agenda as envisioned.

#### **III. Assessment of Government and Private Sector Capacities**

Legislation, regulation, and urban management procedures can dramatically affect the options available for supporting urban development. The structure and organization of government as well as the capacity of individual government units to meet their responsibilities all need careful review and consideration as to the feasibility of implementing urban development strategies effectively.

A similar approach needs to be undertaken to assess the capacity of the private sector in fulfilling its potential role in job generation, in the construction sector, and in financing urban services.

#### IV. The Implications of the Time Factor on Urban Development

The above three development elements need to be considered in relationship to the time horizon of the urban development strategy to be pursued. The population to be served is likely to be expanding through time, but the effects of family planning programs and other cultural or social factors (women headed households, age of marriage, women in the labor force, education of children, etc.) may also affect the configuration and requirements of the population through time. The total resources pool available for urban development will expand at different rates depending on the selection of urban strategies to be pursued (strategies which stress economic efficiency will tend to increase the pool at faster rates than those which stress social equity or regional equity). The changes sought in administrative and management capacity and their successful implementation will affect the range of urban development options available in the last years of the program. The lead time required to coordinate an urban development sequence prior to establishing a benefit flow from the investment must be an integral part of the urban development process as it affects the selection of priorities and technologies.

## CHAPTER III

### THE BASIC POLICY TRADE-OFFS LIKELY TO BE OF CONCERN IN COUNTRY URBAN DEVELOPMENT STRATEGIES

The generalized list of urban problem issues obviously will vary greatly in importance and severity country to country. These differences in the urban problem issues will be reflected in the analysis related to the four key elements in developing an urban strategy (pages 15-16). The evolving process of developing national urban strategies (as well as strategies for individual urban centers) is likely to present policy makers with complex trade-offs, the resolution of which will largely determine the success of any given strategy within a given country context. Amongst the most important of these trade-off issues to be addressed are the following:

#### I. Economic Policy

Urban strategies must be highly sensitive to economic policy in order to succeed. Urban centers must have an economic function and the urban form should be a result of the economic function. Amongst the macro-economic trade-off issues to be considered are:

- A. Efficiency versus Equity: There needs to be a balance struck between investment based on purely economic efficiency criteria and investment based on equity criteria (both interpersonal equity and spatial or regional equity). Economic efficiency is used to refer to the achievement of the most efficient use of investment resources to contribute to economic growth as measured in Gross National Product. Equity refers to the distribution of the benefits of the society in terms of income distribution and access to facilities and services.

It is highly unlikely that a government would choose a national settlement strategy which was highly concentrated on either efficiency or equity criteria in the extreme. A balance between them is required as a pure efficiency strategy is likely to lead to social unrest even while achieving high economic growth rates for the nation as a whole. A pure equity approach could create conditions in which investment incentive turns negative and the overall economy declines which in turn obviously affects the ability of the government to achieve its equity goals.

Efficiency and equity considerations affect both individuals and households and spatial locations. The impact between interpersonal efficiency and equity and spatial locational efficiency and equity trade-offs is at the heart of national settlement development strategy, given the fact that investment resources are going to be scarce and management capacity limited.

Essentially, development planning is a rationing (or allocation) process of scarce resources. In any given year the public and private sector will have some finite level of resources to invest and a finite capacity to manage that level of investment. The future pool of resources to be available is directly related to the strategic decisions

concerning the investment mix of present resources. The more efficient present investment, the more likely that future investment pools will be larger.

This should lead the planner to select a strategy which is most efficient while achieving essential equity objectives to satisfy the prerequisite need for social stability.

- B. Scale and Balance between International and Domestic Private and Public Investment: The mobilization of savings for investment is highly sensitive to government policies (either positive or negative) and the specific economic opportunities within the country. Private investment is likely to be more responsive to efficiency criteria while domestic public investment can be made an instrument for implementing equity criteria if so desired. The balance struck between the potential sources of investment limits the spatial options of urban development strategy (i.e. it is unlikely that private investment can be attracted to non-economic locations regardless of the government's desired urban strategy).
- C. The Relationship between Investment for Export Production and Domestic Consumption: In allocating productive investment, countries must balance the need to generate foreign exchange earnings through export and the need to satisfy domestic consumption through import substitution and local production. In countries where arable land is in short supply, this issue can focus on the use of land for export crops versus local food sufficiency. In many countries agro-industries make up a sizeable share of the industrial sector which further complicates the balance required. Urban strategies need to reflect feasible industrial policy.

## II. Urban Spatial Policy

All developing countries have a national network of urban settlements. Most tend to have a primary city, usually the national capital, which is many times larger than the next largest city in the nation. The question of primacy has dominated much of the thinking about national urban strategy. It usually has meant a stated policy of attempting to restrict the growth of the primary city and encouraging secondary cities as growth poles. However, this question should not be addressed in isolation or simplistically. It involves the analysis of a variety of complex factors:

- A. Agglomeration Economies versus Diseconomies: Urban spatial strategy should seek to maximize the economies of agglomeration (concentration of economic activity and population to reduce the costs of production, maximize forward and backward linkages, and service markets efficiently) while minimizing the diseconomies (pollution, congestion, and wasteful use of resources).

The problem is made more complex as the benefits of agglomeration are enjoyed primarily by the producer while the costs of the diseconomies created are shared by the urban center as a whole. Therefore, a situation can develop whereby it is in the interests of the producer to locate in the primary city despite an overall negative impact

on the primary city (because of the diseconomies created). The response to this issue requires sophisticated analysis almost on a case by case basis.

- B. Concentrated versus Dispersed National Urban Growth: There are many reasons why countries desire to have urban growth dispersed across the national space (for example, for regional equity, exploitation of natural resources, and defense). However, premature or over ambitious urban growth dispersment strategies can have devastating effects on national economic growth. A carefully based analytical framework is required to identify the levels of dispersment feasible given the four key elements identified earlier.
- C. Upgrading and Maintenance of Existing Urban Structure versus New Development: Most developing countries have enormous deficits within their existing urban structure while at the same time they face vast new population and economic development demands. A balance must be determined between investment in the upgrading and maintenance of existing structure and investment in the creation of new structure. Overconcentration on upgrading of old structure will mean forgone opportunities for guiding and accommodating new growth (which if left to spontaneous solutions can result in the creation of major new problems and overconcentration of development, and have a negative impact on national economic growth). On the other hand, overconcentration on new growth and neglect of upgrading and maintenance results in accelerated depreciation of capital stock, unmet social and economic needs among existing populations, and ultimately much higher costs to both the private and public sectors.
- D. The Relationship of Physical and Spatial Standards and Individual and National Affordability: The selection of appropriate service levels for urban development depends on a variety of factors which need to be subjected to analysis and evaluated in relation to the broad issues of economic and urban policy. The issue of service levels cannot be isolated from the questions of affordability. Obviously, higher standards of service levels are more desirable than lower standards, but service levels which are not affordable to the individual household and/or the nation generally result in large segments of the population remaining unserved (because available capital investment is tied up in servicing the few with high service levels at high costs per unit). Furthermore, if high standards of service levels are attempted for the larger population (through subsidies) significant risks are run that investment required for the productive sectors will be curtailed.

The selection of land use standards can also have dramatic impact on total costs. Low density development is more costly than high density development because of land costs and enlargement of infrastructure networks per person served. Cultural and social factors should not be ignored when setting density standards.

Physical and spatial standards may also need to vary between urban centers within the national settlement system. What is feasible in one center may be inappropriate in another depending on economic function,

population to be served, and in some cases, the incentives which the government wishes to create to support certain forms of economic and population growth.

### III. The Policy Issues of Governance

How the trade-offs in governance are determined will also affect the range of options available for urban development strategies. Among the issues to be addressed are:

- A. Centralized versus Decentralized Administration: The degree of centralization in government decision making, finance mobilization, and control of development implementation can affect the national settlement pattern. While many countries desire decentralized urban development patterns, they have not been willing to have a concurrent decentralization of government powers. This dichotomy often goes unrecognized as one of the contributing factors to the failure of many decentralization strategies.
- B. Degree of Public Intervention in the Urban Land Market: There is a wide variety of instruments available to governments for intervention in urban land markets. The efficient utilization of urban land, its cost to consumers of land, and the mobilization of public revenues from land are critical issues in urban development. Many governments have been reluctant to develop positive urban land policies with the result that inefficiencies in the urban land market have distorted urban form and have increased costs to both the public and private sectors.
- C. The Use of Urban Subsidies Related To Cost Recovery: The governments policies concerning the use of subsidies for urban areas in general and individual households and enterprises in particular are important policy issues. The relationship between physical standards, affordability, and subsidy has been discussed under Urban Spatial Policy. Presently, many urban areas are subsidized by rural areas and agricultural producers. Within urban areas, it is not uncommon to see the bulk of urban subsidies going to middle and upper income groups. Insofar as subsidies represent transfers of wealth between regions and between groups, serious policy issues are raised which affect national economic growth and equity.
- D. Definition of the Respective Roles of the Public and Private Sectors in the Economy: Governments define the respective roles of the public and private sectors of the economy through decisions about legislation, regulation, and taxation on the one hand and public investment on the other. The policies adopted by the government, therefore, are central determinants of both national economic growth and urban form. Policies not based on sound analysis and clear understanding of the relative feasibility and practicality of the actions taken can have enormously deleterious effects on the private sector.

#### IV. Conclusions

Several important conclusions can be drawn from this discussion of the general urban problems faced by developing countries and the policy issues to be determined in organizing an effective response. These include:

- A. While there are many similarities in the urban problems shared by developing countries, there are no generally applicable solutions that can be adopted without modification country by country to reflect local differences and priorities.
- B. Effective urban development strategies must be developed within the range of feasible choice based on populations to be served, investment resources available, government and private sector capacities, and responsiveness to time sequencing considerations. For the most part, this places substantial constraints on the urban policy options within a single population generation.
- C. The government has the obligation and the responsibility to set urban policy (in the absence of a positive urban policy based on conscious decision making, there will always be a de facto urban policy even if highly detrimental to national development).
- D. It is unlikely that a feasible urban policy can be established which will simultaneously achieve all desired urban policy objectives. Trade-offs will have to be made between competing, but desirable objectives.
- E. The selection of urban policy objectives and instruments needs to be internally consistent in order to be effective.
- F. Only through analysis and follow-up monitoring can the most suitable urban policy be established for a given country.
- G. In the absence of a comprehensive urban policy, it is difficult to predict all of the consequences of ad hoc urban interventions on the part of government.

## CHAPTER IV

### THE IMPORTANCE OF URBAN POLICY FORMULATION WITHIN THE NATIONAL DEVELOPMENT CONTEXT

National urban policy is a component of national development policy. It is important, therefore, to establish the linkages between urban policy and rural development policy on the one hand and sectoral policies on the other. There is an overall national development policy matrix to be considered. (See Chart 1.)

The national development policy matrix is made up of urban and rural policies which are essentially spatial in nature in that they are based on locations across the national space and sectoral policies which concern specific aspects of development.

#### I. National Spatial Policies

Sectoral policies can only be implemented through specific spatial locations within the nation even though the various policies contain many non-spatial elements as well. Urban and rural policies, therefore, are primarily concerned with the spatial allocation of sectoral policies and cut across the individual sectoral policies to make them mutually supporting and consistent within their various spatial locations.

##### A. Urban Policies

Urban policies are that portion of national development policies which deal specifically with the spatial and sectoral organization of the national settlement system and the individual urban centers. They are primarily concerned with defining and enhancing the contribution of urban centers to national economic objectives; the creation of urban jobs; the standard of living achievable by various urban target groups of the population; the distribution of urban population throughout the settlement system; and the administration, management, and finance of the urban areas.

##### I. The Typology of Urban Settlements within the Nation

Each country will have a hierarchy of urban settlements which needs to be understood and analyzed. This hierarchy will vary considerably country to country and differences from theoretical urban hierarchy should not be of concern per se. There is little or no evidence to support the desirability of seeking to achieve theoretical symmetry in the hierarchy of national urban settlements.

It is important to understand the relationships between urban centers, both economic and social, and the functions of each of them. This will result in the preparation of a typology of urban centers. Such a typology will frequently include the following major types of urban centers.

SECTORAL DEVELOPMENT POLICIES	NATIONAL SPATIAL POLICY						
	URBAN DEVELOPMENT			RURAL DEVELOPMENT			
	PRIMARY CITY	SECONDARY CITIES	MARKET TOWNS	ZONE 1	ZONE 2	ZONE 3	ETC
I. ECONOMIC POLICIES INDUSTRY NATURAL RESOURCES AGRICULTURE CONSTRUCTION FINANCE ETC.							
II. NATIONAL NETWORKS & NODAL POLICIES TRANSPORT COMMUNICATIONS ELECTRIC POWER WATER ETC.							
III. NATIONAL PUBLIC SERVICES EDUCATION HEALTH ETC.							
IV. SHELTER AND SETTLEMENT HOUSING INFRASTRUCTURE FACILITIES							

NATIONAL DEVELOPMENT POLICY MATRIX

CHART I

- **The Primary City:** Most countries have a city which is many times larger than the second largest city in the country. Most often this is the capital city of the nation. There frequently is a bias against the primary city in that it is often considered too large in relation to the rest of the settlement system. Most governments would like to restrict the growth of the primary city, but the policy instruments available to actually accomplish this objective are weak. Furthermore, there is considerable evidence accumulating which suggests that the primary city, in spite of many obvious problems, is nonetheless the most productive urban area for investment and for improving the standard of living of the population.
- **Secondary Cities and Provincial Capitals:** Secondary cities are frequently provincial capitals. Secondary cities usually provide a central place for higher level services to their region such as major hospitals, universities, as well as government functions. Secondary cities are also the major commercial center for their region and centers for agro-industry (if in an agricultural region), and small scale enterprise for local consumer markets.
- **Market Towns:** Smaller urban centers which service a rural hinterland with markets, equipment repair facilities, and community services.
- **Special Purpose Urban Centers:** Specialized urban centers usually are dependent on one major economic function such as tourism, exploitive industry (mining, petroleum, forestry, etc.), major capital industry towns (frequently company towns built at the same time as the industrial plant), ports, and military bases. These special purpose urban centers are normally located solely because of the locational requirements of the economic function they service.

## 2. The Failure of Traditional Urban Physical Planning

It is important to note that the major policy issues discussed above are dimensions of the urbanization issue that are not addressed effectively by traditional urban physical planning. Many governments have units (whether at the national or local level) assigned the responsibility for urban physical planning, and regulation of physical development (subdivision control, zoning, and plan approvals).

For the most part, these units are staffed by architects, engineers, and physical planners. These professional groups, while having an important contribution to make, are severely handicapped by the lack of social and economic understanding of the urbanization process. The failure to set a realistic framework for urban planning

in terms of capital resources and service levels related to affordability of individuals and the nation leads to inappropriate physical planning. This type of planning normally results in unrealistic proposals which cannot be financed by the government. To be effective, physical planning should only be undertaken after the social, economic, and financial parameters have been set to guide the work.

## B. Rural Policies

Rural policies are essentially the same in concept as urban policies in that they also are the portion of national development policies which deal especially with the spatial and sectoral organization of rural areas. They are primarily concerned with defining and enhancing the contribution of rural areas to national economic objectives; the efficient management of rural lands; the creation of rural jobs (both farm and non-farm); the standard of living achievable by various rural target groups of the population; the distribution of rural population; and the administration, management, and finance of rural areas.

The significant difference between rural and urban policies spatially is that urban policies tend to be concerned with finite urban areas (nodal points) and their interconnecting networks. Rural policies are concerned with large contiguous rural spaces or zones and their linkages with each other and with related urban places.

## C. The Relationship Between Urban and Rural Policies

Urban policy and rural policy cover all of the inhabited space of the nation. It is useful to think of them as a continuum of spatial policy (from the primary city to the smallest rural village). Artificial distinctions between them should be ignored. Functionally, it is desirable given individual country characteristics to identify the urban centers of a certain scale or function for which specific programmatic response through urban policy is appropriate and to consider all other centers (regardless of population size) as being a part of rural policy.

In other words, the break point in the spatial continuum should be operationally defined by the kinds of actions required rather than artificially defined by census data on population size alone. An action definition of this kind will make the individual sectoral policies much more coherent. It is, however, important that a clear demarcation be established so that all sectoral policies are consistent in their definition of urban and rural. As a general rule, the same set of policy planning boundaries should be used by all sectors. These boundaries should always respect political boundaries which are used for data collection.

It is also important to recognize the obvious linkages between urban and rural policy which need to be addressed jointly. Among the most important are issues of:

- national migration (rural to rural, rural to urban, and urban to urban);
- the distribution system whereby agricultural products are sent to urban areas for consumption, processing (agro-industry) or export;
- the distribution system whereby manufactured consumer goods, equipment, and agricultural inputs (fertilizer, petroleum, etc.) are sent from urban centers to rural areas;
- the joint use of national networks (transportation, power, electricity, and water) for both urban and rural requirements;
- the use of urban centers for rural regional serving facilities (universities, hospitals, government administration);
- tax policy affecting the equitable distribution of burdens among urban and rural populations and enterprises;
- the allocation of public investment among urban and rural populations and space to achieve national objectives in the situation of capital scarcity; and
- the use of agricultural land for urbanization, and other non-agricultural purposes.

## II. The Range of Sectoral Policies to be Considered

Sectoral policies are those policies which concern a specific aspect of development in the nation. It is advisable to have a specific comprehensive policy which clarifies the public and private sector responsibilities in each of the following areas:

### A. Economic Policies

The group of sectoral policies concerning economic growth and job generation are the underpinning of economic development planning. The economic sectors, often called the productive sectors, include:

- Industrial policy which covers such issues as export potential, import substitution, appropriate technology, opportunities for foreign and domestic private investment, and the respective roles of large scale and small scale industry in the economy.
- Natural resource policy determines the exploitation of commercially significant natural resources for export or domestic use, including mining, petroleum, forestry, and fishing.

- Agricultural policy concerns the types and quantity of crop and livestock production for export and for domestic consumption, agricultural product import requirements, irrigation and land reclamation, storage requirements, marketing and distribution networks, pricing, etc.
- Construction policy concerns the manufacture or importation of building materials, and construction equipment, their use and the organization and enhancement of capacity of construction companies.
- Financial services policy concerning the regulation of the banking industry, credit, money supply, trade, etc.

#### B. National Network and Modal Policies

This group of sectoral policies concerns the international linkages between a given country and the world, the national space, and given population concentrations within the national space. It includes:

- Transportation policies concerning roads, automobiles, buses, trucking, and taxis; ports, and shipping; airports, passenger and cargo air flights; railroads, passenger and cargo train movements.
- Communications policy concerning telephones, radio, and television.
- Electric power policy covering generation capacity and technology choice; distribution networks and power allocations; and tariffs.
- Water policy including water allocation between agriculture, industry, and urbanization; bulk water delivery systems; flood control; pollution control; and pricing policy.

#### C. National Public Services

This group of sectors is concerned with the delivery of basic public services (though to varying degrees there is a private sector contribution to be considered). It includes:

- Education policy concerning the levels of education (university, secondary, and primary) and special purpose education such as vocational training and adult literacy.
- Health policy concerning the hierarchy of health facilities and services, special purpose curative centers, preventive and public health services, and family planning programs.

#### D. Shelter and Settlement

This sector covers housing policy and those aspects of infrastructure and facilities which have direct impact on residential settlements provided by both the public and private sectors.

- Housing policy is concerned with how the private sector can deliver and finance housing to meet effectively the demand at costs which are affordable to the population.
- Urban infrastructure is concerned with the service levels, distribution networks, and cost recovery from urban users, for roads, water supply, sanitation, drainage, and electric power.
- Service facilities at the local level concern local health, education, welfare, markets, religious and cultural centers.

### III. The Essential Features of Policy Formulation

The formulation of national policies, whether they be sectoral or spatial, are similar in outline. It is important to recognize the need for the preparation of policies in all of the sectoral and spatial areas noted above. This will be an interactive process whereby national policy parameters are established. Then when the individual sectoral or spatial policies are prepared, they can be adjusted against the realities created by national policy parameters.

In establishing national policies, however, a series of alternative strategies should be developed to identify the most feasible alternative in terms of meeting national objectives. This in turn underscores the need for constant monitoring of policy through time. The performance, or lack of performance, within a given sector or in the other sectors will greatly affect the ability of a given policy to meet its objectives in the end years of the policy period. (For example, policies which assume a four percent real growth in the economy cannot be achieved if the real growth is one percent over the first few years of the policy period. These policies will have to be adjusted downward in their estimated output.)

All policies to be comprehensive and useful should respond to the following outline of topics to be addressed:

- The preparation of a clear set of objectives which are comprehensive to the subject, demonstratively achievable by the supporting analysis, and internally consistent.
- A precise definition of populations or target groups to be served in an operational context.
- The capital resources required in aggregate, the specific sources for their mobilization, and the guidelines for their allocation.

- The human resources required for policy implementation, likely deficits in skills to be encountered, and means for overcoming these deficits.
- The physical standards and/or the programmatic standards of performance to be achieved in implementation, along with supporting analysis demonstrating that the standards can be achieved with the capital and human resources to be made available.
- A clear analysis of the linkages between a given sectoral or spatial policy and the other sectoral or spatial policies with which it must interact, identification of potential impacts on a given policy if other policies are not achieved, and means for mid-point corrections to reflect implementation performance.
- A systematic time phasing for the implementation of policy reflecting likely changes in all of the basic components of policy listed above at differing time periods (i.e. it is desirable to link policy implementation with the basic national planning sequence such as five year plans).
- Definition and outlining of the basic implementation guidelines, including any proposed changes in legislation required; the administration and management responsibilities at the national, provincial, and/or local levels of government; the role of private sector enterprises or investors; the means of finance mobilization and cost control and cost recovery methods and policies to be utilized; and the methods of instituting maintenance procedures after capital investment is made.

#### IV. The Danger of Unrealistic Policy Formulation

There is a natural tendency for governments to indulge in the preparation of sectoral and spatial policies which "solve" the national needs in a given area at high standards. It is politically attractive to do this in that it allows the government to essentially promise the people solutions to their felt needs. These kinds of policies are frequently not costed out or if they are the sources of funding are not identified within national affordability criteria. Furthermore, they do not have a convincing time sequence as to how they will be achieved.

It is important to realize that in so far as governments seek to implement these kinds of policies, they have a very negative effect on national economic growth and social equity objectives. These problems were encountered in Egypt where a major national urban policy study was recently completed under AID sponsorship. The following quote summarizes the situation of the existing urban policy of the government:

"When applied to the current urban agenda in Egypt (the sum of plans and projects for cities and regions in the nations), the analysis

leads to several important conclusions which now need to be addressed by government decision-makers:

- Even under the optimistic forecast of annual real growth in the economy and a substantial increase in domestic savings, there will not be a sufficient capital resource pool to implement all of the urban projects and plans already drawn up or contemplated at their present targets and standards.
- The more rapid decentralization of the population across the national space attempted, the higher will be the investment costs per capita and the higher the risk of a slowdown in the rate of economic growth.
- The higher the physical standards adopted in new development or upgrading older settlements or neighborhoods, the more likely it becomes that substantial segments of the population will receive little or no benefit from the investment available in their life time and the less likely it becomes that the government can recover enough of its investment to replenish the investment pool in later years.

These three conclusions underline the need to carefully evaluate the risks involved in different ways of programming urban investment in achievement of Government objectives."<sup>1</sup>

---

<sup>1</sup> PADCO et al, National Urban Policy Study, Final Report, Volume One, Pages xxvii - xxix, July 1982.

## CHAPTER V

### OPTIONS FOR INTERVENTION IN URBAN DEVELOPMENT

The previous discussion of the urban problem issues and the structure of urban policy with national development policy outline the basic issues to be addressed in the developing countries. The totality of this urban development framework is enormous in scope and complex in detail. Urban development, therefore, presents a substantial challenge to international donors to determine appropriate means and levels of assistance to LDC's which wish to respond to urban development issues.

#### I. Selection of Countries With An Urbanization Priority

While all countries are at some stage of urbanization, in many, the degree of urbanization is so limited that it should not be a policy priority when compared to other sectors such as rural development or population. In those countries, interventions in urban structures should be carefully related to support the essential relationships between the urban areas and rural areas.

The starting point to determine whether or not a country's urban problems are such that intervention is appropriate begins with a review of the role and importance of urbanization in national development. Among the factors to be considered are:

- The percentage of the existing population which is classified as urban. Appendix I gives a complete list of the state of urbanization in countries throughout the world and projects world urban populations if current trends persist through 2000.
- The aggregate size of existing urban centers within the country (particularly the primary city).
- The estimates of the rate and scale of projected future urban population growth. (Appendix I indicates that the number of countries with 50 percent or more of their population urban will increase from 56 countries in 1980 to 79 in 2000.)
- The economic contribution of urban centers to Gross National Product in the present and estimates for the future.
- Transitional shifts in the sectoral distribution of the economy indicating a shift from traditional agriculture, resource based employment to urban related employment such as manufacturing and services.
- Limitations on the availability of urban land in the country, particularly where these limitations are imposed due to conflicts between agricultural and urban uses. (In countries such as Jamaica,

Egypt, or Nepal where there are finite limits on arable land and existing high man/land ratios, it is likely that urbanization will become important regardless of the levels of existing urbanization.)

- The existence of a unique problem which for humanitarian reasons demands an urgent response.

These criteria can be quantified, except for the last, and provide a first level screening as to whether or not urban development issues should be given greater attention by national policy-makers than they are now. Note that the criteria do not necessarily respond to specific needs since it is almost a foregone conclusion that every developing country will have needs which could be addressed. What is shown is that there are specific countries which urban issues, if left unresolved, are likely to have a detrimental impact on national development.

## II. The Importance of Urban Policy Intervention

It is enormously important that a comprehensive urban policy be in place before embarking on major sectoral or spatial interventions. Ad hoc interventions such as a massive program to provide high standard water and sewerage developments in secondary cities are not likely to be the most important intervention or most useful to national development efforts unless they are related to a consistent national urban policy.

In countries where a strong basis for urban policy (usually in form of not necessarily related, but clearly articulated spatial and sectoral policies) exists, these policies should be jointly analyzed to determine if they meet national development objectives and can be implemented within likely future resources. If they cannot, then a series of alternative strategies should be developed to test the importance of these sectoral and spatial policies in terms of achieving national goals. When a desired urban policy emerges, sectoral and spatial policies should be modified to ensure that they are consistent with national policies. It is frequently necessary to modify sectoral and spatial targets, standards, costs, and timing to make the policy consistent with national urban development policies.

When an extremely weak or non-existent basis for urban policy exists, more thorough urban policy studies should be conducted. Initially, urban development reviews can be conducted to identify key issues requiring immediate intervention and to develop a data base from which more rigorous analysis of urban policy options can be conducted. As in the case above, a consistent methodology for analyzing urban strategies should be adopted to postulate several such strategies for review by policy makers. Then when a feasible strategy is adopted, specific spatial and sectoral policies should be developed supporting the national urban development policy.

### III. The Importance of Institutional Development Support

Ultimately, the success of urban development in developing countries will depend on the efficiency and capacity of urban development institutions. Ideally, during the urban policy development stage, key urban institutions should be identified which will have the major responsibilities for implementing urban policy (it's important that initially only key institutions be identified as it will probably not be possible to develop all institutions simultaneously). These key institutions should be assessed in terms of their capacities to fulfill their urban policy roles. Where gaps exist in their capacities, attention should be given to rectify the conditions. Although not an exhaustive list, the following indicates a series of specific areas where assistance is frequently necessary to develop institutional capacities:

- 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 that data to enable them to execute their responsibilities under national urban policies. In urban areas, some of the examples of this type of intervention are development of cadastral survey, aerial photography, map making, computerization of data bases, and institution of financial monitoring mechanisms.
- Improvement in institutional procedures to achieve efficiency, cost recovery, cost control and improved delivery of services to target groups. In many countries, there is an urgent need to improve budgetary procedures of urban institutions at both national and local levels.
- Improvement in the technical capacity of urban institutions through training programs. Such training should always be part of sustained institutional development and not be merely isolated programs for individuals. Ideally, such training should occur in-country. Where such training capacity does not exist, carefully selected overseas training programs can be developed.
- External technical assistance programs can be developed to meet specific in-country needs, but these should be tailored in such a way that they develop local capacity.

### IV. Support for Private Sector Development In Urban Areas

There is considerable scope for supporting the private sector operating in urban areas. In considering this area of potential intervention, a distinction should be made between the scales of private enterprise (large scale and small scale) and between the types of private enterprise to be supported (industry, construction, commerce, etc.).

It is likely that support of the private sector will be reinforcing to the primary city within the country because most private sector enterprise and its potential for immediate further development will be found there. This may

not necessarily be a negative factor as such support will largely revolve around removing unnecessary constraints on the private sector (overly restrictive regulatory procedures, excessive taxation, etc.) rather than direct financial support.

Particular care must be given to programs designed to attract productive enterprise to secondary cities. Experience has shown that the level of incentives needed to attract private enterprises to such areas is frequently greater than the net contribution of the enterprise to national economic growth, thus negating the benefits of locating that enterprise in that location. Therefore, the full subsidy stream needs to be carefully analyzed before embarking on an incentive program to insure that it will have a net positive effect on the country's growth.

The private sector can be supported in a variety of ways:

- Legislative, regulatory and financial procedures can be revised to facilitate private sector growth without resorting to excessive financial incentives.
- Private sector 'spin-offs' of public enterprises either through preparation of public enterprises for private sector investment and management or through seeking opportunities for encouraging private sector enterprises which support the parent public sector company exploiting backward or forward linkages.
- Support for capital mobilization for private enterprise by removing financial constraints which limit investment and where appropriate, encourage foreign investment.
- Support for management training for private enterprise at all scales.

#### V. Support of Capital Mobilization for Urban Development

Several of the interventions already mentioned will tend to support capital mobilization. However, in most countries, direct programs which focus on resource generation need to be initiated. Two forms of resource generation are necessary: the first is to increase government current revenues to reduce deficits, while the second aims at generally increasing investment capital through increased domestic and foreign savings. The two are not exclusive and need to be considered jointly to be successful.

Regarding increases in government revenues, programs need to be established which equitably distribute the burden of financing government among the different sectors of the economy. Frequently, taxation instruments already exist but need enforcement, or their impact excessively taxes a particular group while not taxing others. Public utilities frequently bear the brunt of negative tariff structures which do not adequately finance current operations and maintenance expenditure let alone provide for capital development. In each case, careful review of financial mechanisms needed to increase revenues must be made to ensure that new inequities or diseconomies

are not being introduced which will reduce the net contribution of the financial intervention to the nation's overall economic growth. As mentioned previously, attempts at increasing revenues should be closely coordinated with parallel programs aimed at improving efficiency and reducing costs of providing urban services.

Increasing investment capital is of prime importance if urban development plans are to be implemented. However, the first step in the process is to ensure that proposed developments effectively utilize investment capital and that their targets can be reached within a reasonable span of time. All too often, overly ambitious programs are initiated which cannot be fully completed due to a variety of factors. As a result, the benefits which should have flowed from those investments either do not materialize or are postponed for extended periods.

Once sound investment targets consistent with national urban policy objectives are set, programs for mobilizing capital resources should be put in motion. These programs can aim at increasing domestic savings through reducing consumption (not always a desirable route since a certain level of consumption is necessary to encourage investment in the first place), or they can focus on removing constraints to savings. In many countries untapped financial resources exist in the form of informal savings outside the banking sector or in non-productive investments such as land speculation. In those countries, making financial instruments more attractive to savers can be a significant means of channeling existing financial resources into more productive uses. Well functioning banking institutions are also an attraction to foreign investors seeking to most efficiently use their resources. The development of sound financial policies is likely to be the most effective means of mobilizing both domestic and foreign savings. Such policies need to focus on such issues as import/export regulations and taxation, monetary policy, banking restrictions and the attractiveness of domestic financial instruments.

## Appendix I

TABLE I.1

1980 RATES OF URBANIZATION AND PROJECTED YEAR 2000  
URBAN POPULATIONS: LOW-INCOME ECONOMIES

COUNTRY/ REGION	1980 POPULATION (MILLIONS)	1980 PERCENT URBAN (%)	AVERAGE ANNUAL URBAN GROWTH RATE (%)	2000 PROJECTED POPULATION (MILLIONS)	2000 PROJECTED URBAN POPULA- TION (MILLIONS)	PERCENT URBAN IN 2000 (%)
KAMPUCHEA	6.9	11	5.4	10	3.22	32.24
LAO PDR	3.4	14	5.2	5	1.36	27.26
BHUTAN	1.3	4	4.4	2	0.12	5.92
CHAD	4.5	18	6.5	7	3.02	43.13
BANGLADESH	88.5	11	6.5	141	32.42	22.99
ETHIOPIA	31.1	14	5.4	54	14.50	26.85
NEPAL	14.6	5	4.9	22	1.76	8.00
SOMALIA	3.9	30	5	7	3.29	46.93
BURMA	34.8	27	4.2	54	20.59	38.13
AFGANISTAN	15.9	15	5.8	24	6.70	27.92
VIET NAM	54.2	19	3.3	88	16.24	20.73
MALI	7	20	5.6	13	4.41	33.89
BURUNDI	4.1	2	2.5	7	0.15	2.12
RWANDA	5.2	4	6.3	10	0.72	7.19
UPPR VOLTA	6.1	10	5.9	10	2.23	22.32
ZAIRE	28.3	34	7.2	51	40.12	78.66
MALAWI	6.1	10	7	12	2.59	21.59
MOZAMBIQUE	12.1	9	8.3	22	4.37	19.88
INDIA	673.2	22	3.3	994	272.73	27.44
HAITI	5	28	4.9	7	3.86	55.12
SRI LANKA	14.7	27	3.6	21	8.37	39.85
SIERRA LEO	3.5	22	4.3	6	1.89	31.55
TANZANIA	18.7	12	8.7	36	11.68	32.46
CHINA	976.7	13	3.3	1245	216.33	17.38
GUINEA	5.4	19	6.1	9	3.29	36.56
C AFRICA R	2.3	41	4.8	4	2.70	57.49
PAKISTAN	82.2	28	4.3	134	47.60	35.52
UGANDA	12.6	9	3.4	24	2.53	10.55
BENIN	3.4	14	3.7	6	1.08	18.06
NIGER	5.3	13	6.8	10	2.77	27.68
MADAGASCAR	8.7	18	4.3	16	4.08	25.48
SUDAN	18.7	25	7.1	34	18.43	54.21
TOGO	2.5	20	6.7	5	2.05	40.93
TOTALS	2160.9			3090	759.20	30.49

TABLE 1.2

1980 RATES OF URBANIZATION AND PROJECTED YEAR 2000  
URBAN POPULATIONS: MIDDLE-INCOME ECONOMIES

COUNTRY/ REGION	1980 POPULATION (MILLIONS)	1980 PERCENT URBAN (%)	AVERAGE ANNUAL URBAN GROWTH RATE (%)	2000 PROJECTED POPULATION (MILLIONS)	2000 PROJECTED URBAN POPULA- TION (MILLIONS)	PERCENT URBAN IN 2000 (%)
GHANA	11.7	36	5.1	23	12.29	53.43
KENYA	15.9	14	6.8	36	9.46	26.27
LOSDTHO	1.3	12	12.2	2	1.70	85.23
YEMEN PDR	1.9	37	3.8	3	1.51	50.37
INDONESIA	146.6	20	4	216	60.64	28.07
YEMEN AR R	7	10	8.3	11	3.03	27.54
MAURITANIA	1.5	23	8.4	3	1.93	64.45
SENEGAL	5.7	25	3.5	10	2.89	28.91
ANGOLA	7.1	21	5.7	12	4.78	39.85
LIBERIA	1.9	33	5.7	4	2.01	50.27
HONDURAS	3.7	36	5.5	7	3.60	51.46
ZAMBIA	5.8	43	6.7	11	9.65	87.74
BOLIVIA	5.6	33	4.1	9	4.05	44.99
EGYPT	39.8	45	2.8	60	31.11	51.86
ZIMBARWE	7.4	23	6.4	17	7.10	41.74
ELSALVADOR	4.5	41	3.3	8	3.40	42.47
CAMEROON	8.4	35	7.5	14	13.45	96.08
THAILAND	47	14	3.4	68	11.43	16.81
PHILIPPINE	49	36	3.6	77	33.12	43.01
NICARAGUA	2.6	53	4.7	5	3.14	62.75
PAPUA N G	3	18	8.3	5	2.52	50.34
CONGO P R	1.6	45	4.5	3	1.95	64.90
MOROCCO	20.2	41	4.6	36	19.59	54.43
MONGOLIA	1.7	51	4.1	3	1.76	58.63
ALBANIA	2.7	37	3.4	4	1.74	43.39
PERU	17.4	67	4.2	27	25.06	92.80
NIGERIA	84.7	20	4.7	169	50.37	29.81
JAMAICA	2.2	41	2.5	3	1.63	54.30
GUATEMALA	7.3	39	3.9	12	5.66	47.21
IVORY COAS	8.3	40	8.6	15	11.70	77.99
DOMIN REP	5.4	51	5.4	9	7.17	79.66
COLOMBIA	26.7	70	3.9	39	37.91	97.22
ECUADOR	8	45	4.2	14	7.74	55.27
PARAGUAY	3.2	39	3.8	5	2.25	45.08
TUNISIA	6.4	52	3.9	10	6.88	68.83
KOREA D R	18.3	60	4.4	28	24.06	85.92
SYRIAN A R	9	50	5.1	16	10.85	67.83
JORDON	3.2	56	4.7	6	4.08	68.01
LEBANON	2.7	76	2.8	4	3.74	93.56
TURKEY	44.9	47	4.5	67	47.14	70.35
CUBA	9.7	65	2.1	12	9.37	78.07
KOREA REP	38.2	55	4.7	52	51.65	99.32
MALAYSIA	13.9	29	3.3	21	7.14	34.00
COSTA RICA	2.2	43	3.3	3	1.64	54.78
PANAMA	1.8	54	3.6	3	1.90	63.23
ALGERIA	18.9	44	5.7	34	23.81	70.02
BRAZIL	118.7	68	4.1	177	173.49	98.02
MEXICO	69.8	67	4.3	115	96.72	84.10
CHILE	11.1	80	2.3	15	13.20	87.97
S AFRICA	29.3	50	3.1	52	28.04	53.93
ROMANIA	22.2	50	2.9	25	18.91	75.65
PORTUGAL	9.8	31	2.9	11	4.88	44.38
ARGENTINA	27.7	82	2.1	34	31.20	91.77
YUGOSLAVIA	22.3	42	2.9	26	15.96	61.37
URUGUAY	2.9	84	.6	4	3.15	78.85
IRAN	38.8	50	5	61	44.17	72.41
IRAQ	13.1	72	4.6	23	21.07	91.60
VENEZUELA	14.9	83	4.2	24	23.22	96.75
HONG KONG	5.1	90	2.5	6	5.83	97.11
TRINIDAD	1.2	21	1.2	2	0.33	16.64
GREECE	9.6	62	2.6	11	9.20	83.62
SINGAPORE	2.4	100	1.5	3	3.11	100.00
ISRAEL	3.9	89	2.7	5	4.77	95.36
TOTALS	1138.8			1079	1086.85	63.94

TABLE 1.3

1980 RATES OF URBANIZATION AND PROJECTED YEAR 2000  
URBAN POPULATIONS: HIGH-INCOME OIL EXPORTERS

COUNTRY/ REGION	1980 POPULATION (MILLIONS)	1980 PERCENT URBAN (%)	AVERAGE ANNUAL URBAN GROWTH RATE (%)	2000 PROJECTED POPULATION (MILLIONS)	2000 PROJECTED URBAN POPULA- TION (MILLIONS)	PERCENT URBAN IN 2000 (%)
LIBYA	3	52	8.3	5	5.00	100.00
SAUDIA ARA	9	67	7.6	15	15.00	100.00
KUWAIT	1.4	88	7.4	2	2.00	100.00
U A EMIRAT	1	72	15.5	1	1.00	100.00
TOTALS	14.4			23	23.00	100.00

1980 RATES OF URBANIZATION AND PROJECTED YEAR 2000  
URBAN POPULATIONS: INDUSTRIAL MARKET ECONOMIES

COUNTRY/ REGION	1980 POPULATION (MILLIONS)	1980 PERCENT URBAN (%)	AVERAGE ANNUAL URBAN GROWTH RATE (%)	2000 PROJECTED POPULATION (MILLIONS)	2000 PROJECTED URBAN POPULA- TION (MILLIONS)	PERCENT URBAN IN 2000 (%)
IRELAND	3.3	58	2.2	4	2.90	72.51
SPAIN	37.4	74	2.2	43	40.33	93.78
ITALY	56.9	69	1.3	61	47.91	78.53
NEW ZEALAND	3.3	85	1.9	4	3.63	90.79
UNITED KINGDOM	55.9	91	.3	58	55.10	94.99
FINLAND	4.9	62	2.2	5	4.60	92.07
AUSTRALIA	14.5	89	1.9	17	16.71	98.29
JAPAN	116.8	78	2.1	130	125.14	96.26
CANADA	23.9	80	1.7	28	25.25	90.18
AUSTRIA	7.5	54	.5	8	4.66	58.20
USA	227.7	77	1.5	259	222.57	85.93
NETHERLAND	14.1	76	.6	16	11.38	71.11
FRANCE	53.5	78	1.4	58	54.03	93.16
BELGIUM	9.8	72	.4	10	7.64	76.42
NORWAY	4.1	53	2.8	4	3.63	90.77
DENMARK	5.1	84	.9	5	4.93	98.51
SWEDEN	8.3	87	.2	8	7.09	88.65
GERMANY FR	60.9	85	.4	62	57.19	92.25
SWITZERLAND	6.5	58	1	7	4.51	64.43
TOTALS	714.4			787	699.20	85.62

1980 RATES OF URBANIZATION AND PROJECTED YEAR 2000  
URBAN POPULATIONS: NON-MARKET INDUSTRIAL ECONOMIES

COUNTRY/ REGION	1980 POPULATION (MILLIONS)	1980 PERCENT URBAN (%)	AVERAGE ANNUAL URBAN GROWTH RATE (%)	2000 PROJECTED POPULATION (MILLIONS)	2000 PROJECTED URBAN POPULA- TION (MILLIONS)	PERCENT URBAN IN 2000 (%)
POLAND	35.8	57	1.7	42	27.48	65.44
BULGARIA	9	64	2.6	10	9.26	92.56
HUNGARY	10.8	54	2.1	11	8.50	77.25
USSR	265.5	62	1.8	312	230.61	73.91
CZECHOSLOV	15.3	63	.2	17	13.77	81.01
GERMAN D R	16.9	77	.3	17	14.67	86.28
TOTALS	353.3			409	304.28	79.41