

URBANIZATION IN A NATIONAL CONTEXT: *A SYSTEM OF CITIES APPROACH*

22. ***A paradigm shift in thinking about urbanization.*** Urbanization in the developing world was once considered too fast and unmanageable, something to be resisted and controlled. Efforts by many national, state and local governments over the past several decades have been devoted – through various policies and interventions -- to curb or contain it. Indeed, this thinking represents the “old paradigm.” Increasingly, policy makers are recognizing that urbanization is not only inevitable, but also a powerful force in support of economic growth and poverty reduction. The emergence of this “new paradigm” is grounded in the notion that density -- and the urbanization that drives it -- is essential to achieve agglomeration economies and productivity gains. Function, and not size, is the metric by which a city’s performance should be measured, raising important questions about how to manage the process of urbanization and harness its potential for economic development.

23. ***What are the key principles for efficient and inclusive urbanization?*** The World Development Report 2009 entitled “Reshaping Economic Geography” identifies higher densities, shorter distances and lower divisions as the essential building blocks for economic success. Further, it points out that no country has grown to middle income status without industrializing and urbanizing. Building on these messages, the Urban Strategy is based on an approach that facilitates spatial efficiency in production while addressing concerns of congestion and internal divisions within urban areas. The focus is on harnessing the urbanization to deliver equitable and inclusive growth and poverty alleviation. Policy discussions should start with the contribution of institutions, and specific instruments identified on how they promote economic density and manage social and environmental externalities.

24. ***Rising concentration of people in towns and cities is the most visible spatial transformation.*** As countries develop and economies grow, some places “take off” with rising economic densities that attract people to live in or near towns and cities. The urban share of the population rises sharply—from about 10 percent to 50 percent—as countries grow from low income to lower-middle incomes of about \$3,500 (See Annex E, Figure E-1). Between 2000 and 2005, the average urban population growth for low income countries was 3 percent a year, more than twice the rate for middle-income countries and more than three times the rate for high-income countries.¹² This spatial transformation is closely related to the sectoral transformation of countries from agrarian to industrial and then post-industrial economies and is helped by a healthy farming sector. When agriculture is doing well, people who move are “pulled” by prospects of a better life in cities – not “pushed” from rural areas. Not only does this make them better off, it also improves conditions in the villages they leave and increases productivity of the cities where they settle.

25. ***Neither the magnitude of urbanization nor the size of mega-cities should motivate policymakers to implement restrictive policies.*** Restrictive policies constrain the mobility of people seeking economic opportunities, and misguided interventions often divert resources to locations that are not profitable for businesses. In many countries, these policies to restrict mobility have had severe negative consequences by leading to the growth of informal settlements where the poor who live there lack access to services. Targeted policies are tantamount to fighting the tide of development – they don’t succeed in most cases and often end up slowing down economic progress and worsening lives of the poor. *What are the policy priorities for successful urbanization?*

26. ***Most developing countries have a mix of urban settlements with incipient urbanization (urban shares of about 25 percent), intermediate urbanization (urban shares of 50 percent),***

¹² World Bank 2008e.

and advanced urbanization (with urban shares more than 75 percent). Figure E-2 in Annex E illustrates these three types of areas in Colombia as depicted in WDR 2009, each with a specific geography. As different parts of a country urbanize at different rates and the binding constraints to promote concentration differ by the stage of urbanization, policies should be formulated according to the stage of urbanization permitting both rural-urban and inter-urban linkages. At each stage, however, the objective of urbanization policies should be to facilitate economic density by improving the options available to people and to firms.

27. ***Urbanization policies should focus on increasing the efficiency of the transformation from a rural to an urban economy, and in the process balancing between agglomeration benefits and congestion costs from concentration.*** The most important market failures that need to be addressed are those associated with land markets. Increasing the spatial efficiency of production is inherently linked to how the same piece of land changes uses to accommodate economic density. For places with incipient urbanization, it becomes important that land is registered and property rights are allocated and protected. The national institutions responsible for administering land rights are spatially neutral – not distinguishing whether a place is rural or urban. In places with low urban shares, assigning property rights will provide incentives to farmers for specializing into either higher value crop production or making the land available for urban uses.

28. ***What are the approaches that countries should take to ensure a smooth process of urbanization and how can the Bank assist?*** A three-pronged approach is recommended as follows:

- ***First, design policies and institutions that anticipate urbanization to maximize its effect.*** At the national level, this would include macroeconomic policy frameworks that promote trade and capital flows, national frameworks for land and labor markets, and sound intergovernmental fiscal systems, which influence how cities manage their finances and development. At the city level, it will require effective land use planning, updated urban planning regulations and capacity to implement them, sound capital investment planning and sustainable sources of finance.
- ***Second, to inform policy making, ensure that appropriate mechanisms are in place to facilitate national, regional and local policy coordination and investment decision-making, grounded in sound data collection and analysis systems.*** This is an area where countries more successful in managing this transition have relied on Urban Commissions, Urban Forums and other such institutional arrangements that link all levels of government and policy makers with urban planning institutions, universities, NGOs and the private sector in collecting and analyzing data, and designing approaches that work.
- ***Third, an area where the Bank can help is in providing an analytical framework and diagnostic tool to assist countries in understanding and responding to the urbanization process.*** In that regard, the Bank is developing and will be piloting a new tool – *The Urbanization Review (UR)* – to assist client countries. The UR will have three modules – First, a data-collection tool (focusing on key indicators covering demographics, housing and land, and transport, among other infrastructure services). The second module will include analytical tools and metrics to interpret the data, and the third module will link the analysis to policy recommendations in the form of an action plan. Over time and with increasing application of the UR diagnostic tool, cross-country and cross-regional comparisons will be enabled that would help individual countries to compare and benchmark their performance.