

CITIES IN THE DEVELOPING WORLD

Policies for Their Equitable
and Efficient Growth



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Cities in the Developing World

Policies for Their Equitable
and Efficient Growth

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Foreword

THIS BOOK WAS ORIGINALLY WRITTEN as a background study for the *World Development Report, 1979*, the second of a series of annual reports produced by the World Bank's economic staff. Each year the best of these studies are separately published for the use of scholars and practitioners in specific fields. The present work is one of three monographs dealing with problems of industrialization and urban development, the main themes of the 1979 Report.

The unprecedented rate of urban growth in developing nations has created massive new tasks for national and local policymakers. This study by Johannes Linn delineates the major problems of adapting to the growth of cities in developing countries, and it discusses policies to increase the efficiency and equity of urban development. The areas covered include urban employment, income redistribution, transport, housing, and social services such as health and education. Linn evaluates the effectiveness of policy instruments such as public investment, pricing, taxation, and regulation. Some of these policies can be used in ways that improve both the efficiency and the equity of the development of cities, without a conflict between these goals.

As in other World Bank research studies, Linn takes a broad comparative view of his subject. His policy recommendations are soundly based in economic theory, but supported as well by a wealth of empirical illustrations drawn from the Bank's operational work.

Hollis B. Chenery
Vice President
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The World Bank

Preface

THE URBAN POPULATION OF DEVELOPING COUNTRIES is growing at a very rapid rate. Between 1975 and the year 2000, urban communities in developing countries will have to absorb close to 1 billion people.¹ The number of very large cities is also increasing rapidly. In 1950 only one city in the developing countries had more than 5 million inhabitants. By the end of this century, some forty cities are expected to be at or above this size. Such a pace of urban growth poses unprecedented challenges for national and municipal policymakers, particularly in the areas of urban employment, transport, housing, health, and education. This study addresses the question of how policy in these areas can be designed to improve both the efficiency and equity of urban growth; its conclusion is that many policies can be identified that simultaneously serve these twin goals.

Policies addressing the urbanization process must be formulated at the national, regional, and city levels. The primary concern of this study is the policy issues that arise and can be dealt with at the municipal level. National spatial development and the growth of any particular urban area, however, represent highly interrelated aspects of one and the same process of transformation experienced in all developing countries. The main implications of this interrelation are discussed in Renaud (1981).

A discussion of the institutional framework of urban government, administration, and finances—another aspect of urban policy—was purposefully set aside as lying largely beyond the scope of this volume. Urban government presents very difficult tasks under the best of circumstances; in the cities of developing countries the problems faced by urban authorities are monumental, whereas the resources to deal with them are exceedingly scarce. Since the public sector has a pervasive role in managing urban growth, the benefits from making urban governments more effective are substantial. Even the best urban development strategy comes to naught unless institutions exist to im-

1. In this book the word "billion" means one thousand million.

plement it. Improvements in the institutional framework are therefore a prerequisite for more efficient and equitable growth. This study addresses some institutional and fiscal questions in relation to specific areas of urban policy; the range and importance of issues regarding urban administration and finances, however, are so significant as to warrant a separate, comprehensive and detailed assessment of urban government. Such an assessment is currently under preparation (Bahl and Linn, forthcoming).

This volume thus takes as its primary theme the design of city-level policy for more efficient and equitable urban growth in developing countries. Such an analysis must begin with a diagnosis of the problem of urban policy in developing countries, which can be summarized as consisting of two inter-related phenomena. First, urban labor supply tends to expand as rapidly, if not in fact more rapidly, than urban labor demand; this limits the growth of urban wages and incomes, especially for unskilled workers. Second, the demand for urban services (including transport, housing, and public services) expands more rapidly than their supply; this leads to rising prices for urban land and housing, overcrowded housing, and shortages of public services, all of which affect the urban poor especially. Since these imbalances are largely the result of inefficient management of labor demand and service supply by governments, the efficiency and equity of urban development can be increased by improving the policies that create the imbalances. The present volume also analyzes policies concerning urban labor supply and conditions of service demand in considerable detail. The principal conclusions can be briefly summarized as follows.

Employment and Labor Market Policies

Because the urban poor are particularly affected by maladjustments in the labor market, the drawing of an employment profile of the urban poor is a first step in the analysis of employment and labor market policies. The commonly held notion that the poor are poor primarily because they are unemployed (or employed in marginal or "informal-sector" activities, untouched by government intervention) is found to be largely unfounded. The poor generally work many hours, often are found in formal-sector employment, and are frequently affected by government intervention. The primary reason for their poverty is that their productivity is too low to permit their earning a comfortable living.

An improvement in labor earnings must be sought principally through action at the national and sectoral levels that is directed toward improving the balance between the growth of labor supply and labor demand. A limited

array of policy steps, however, can also be taken at the city level, and this would help increase the earnings of the urban poor. These policies include improvements in local administration, regulation, and taxation that would eliminate biases against low-income employment; public service investment and pricing measures designed to foster a greater labor intensity of service provision and improved operations of small-scale enterprises; urban land-use policies to permit increased participation of poor households in the labor market; and improved education and health services for low-income neighborhoods.

Fiscal System

More and better employment opportunities can raise the incomes of the urban population, particularly of the urban poor, only in the long term. Immediate alleviation of urban poverty must come through other public actions. Although the fiscal system in most countries has not been notably effective in reducing overall inequality, tax measures can be designed that reduce the burden of existing taxes on the lower-income groups and shift a greater share of the burden of higher tax revenues to those who can better afford it. Since the urban poor tend to pay about 10 percent of their incomes in taxes, the reduction of taxes bearing on the poor (mainly indirect taxes, in particular sumptuary taxes and local excise taxes) should be contemplated. To the extent that increased public revenues have to be raised, reliance on progressive taxes—such as urban property taxes, automotive taxes, and various types of benefit taxes—would be desirable. Nevertheless, the main potential of the public sector for improving the equity and efficiency of urban growth lies on the expenditure side of the public budget and in related regulatory and pricing policies for urban services, especially in the areas of urban transport, housing, and social services. Careful sectoral policy analysis, design, and implementation are required to ensure that public expenditures that are made ostensibly on behalf of the poor will actually reach them and that the welfare of as many of the poor as possible will improve. In the past, urban policies have frequently involved the bulldozing of slums, the banning of street vendors and traditional modes of transport, and the building of high-cost housing, subways, and limited-access highways, and all these measures served primarily the interests of the wealthier residents. In place of these approaches, urban investment, pricing, and regulation policies can and should be designed to assist those forms of transport, housing, sanitation, and other services that meet the needs of a majority of the urban population, including the poor, at costs they can afford.

Urban Transport

Urban transport is one of the areas selected for study in this volume. The function of urban transport is to provide the link between residence, employment, and amenities and to link consumers and producers in urban commerce. The available evidence on the determinants of demand and supply in urban transport in developing countries suggests that transport demand and costs vary directly with city size; the correct design of urban transport systems and of urban land use therefore gains importance as cities grow. The poor are particularly affected by transport policies because their adequate access to employment opportunities is critical and because they cannot afford to spend large shares of their limited income on transport.

The main transport policies appropriate for large cities in developing countries include support for walking and bicycling complemented by improved bus services in the poorest developing countries; a relatively heavier reliance on bus services and other intermediate motorized transport modes (for example, jitneys or vans) should be encouraged in the more advanced developing countries. Conventional investment strategies favoring costly rapid mass transit (for example, subways) and the private automobile are not likely to be in the interest of efficient urban transport in most developing countries, whereas curbs on the use of the private automobile in congested central cities will increase transport efficiency. Besides increasing the efficiency of urban transport, the policies proposed in this volume would also lead to transport systems that better serve the needs of the urban poor.

Urban Housing

In the area of urban housing, analysis must begin with a careful and comprehensive definition of housing. Such a definition would include not only the shelter structure but also the lot on which the structure stands, the infrastructure services available to the lot, and the access the lot has to off-site services (such as health and education services), employment opportunities, and other urban amenities. The importance of housing thus broadly defined for the economy of developing countries and their cities, as well as for the welfare of urban households, particularly the poor, can readily be demonstrated.

Once urban shelter has been correctly defined, analysis can address the urban housing problem in developing countries, and for this a review of the major determinants of housing demand and supply is useful. For determining

urban housing demand, the structure and variation of private preferences for the major housing attributes (access, space, tenure, services, and shelter structure) are essential, as are the effects of urban population and income growth on the increase in housing demand over time. For urban housing supply, a recognition of the different roles played by various supply agents—in particular the role of public agencies in providing urban services and of the private sector in providing raw land and shelter structures—must be made. Also of importance are the various factors limiting increases in the housing supply, especially public policies restricting land conversion, provision of public services, and construction of shelter.

The urban housing problem—whose symptoms include land invasion and illegal subdivision, overcrowding, lack of basic services, poor access to employment opportunities, and rapidly rising land and housing prices—can then be seen as the inevitable result of a rapid increase in the demand for housing, which places a heavy strain on an inelastic housing supply. Since the failure of supply to adjust more quickly to changes in demand is in part attributable to inefficient public policies, and since the poor are especially hurt by these malpractices, a more appropriate urban housing policy can contribute to greater efficiency and equity.

On the basis of this diagnosis of the urban housing problem, it is possible to develop a strategy for providing improved housing for the poor. One can begin by estimating housing needs and the implied resource requirements at a global level by a “basic needs” approach; but since such estimates of housing needs have to be translated into specific policy prescriptions, a discussion of public policies designed to lower the cost and increase the supply of housing for the poor is necessary.

In direct public supply of housing services, urban governments generally can act only in a limited way through urban land acquisition. They must, however, undertake major activity in providing public services and must use low-cost technologies much more extensively than has commonly been done in developing countries—especially for water supply, sanitation and solid waste disposal, and neighborhood road construction. In general, governments should not get directly involved in shelter construction in most cities in the developing world because the private sector is relatively efficient in this area and because the public sector has generally not been successful. The exceptional experiences with public housing in Singapore and Hong Kong are very likely not replicable in most other developing countries.

The effects of public pricing and taxation measures on urban housing demand and supply must also be considered. Property taxation is potentially the most important among the tax instruments in this regard, but it is found in practice not to have a significant direct effect on urban housing supply in developing countries. Nonetheless, policymakers should avoid high taxes on

buildings, eliminate taxes on property transfers, use special taxes on vacant land with caution, and view proposals for taxation on land value increments with some suspicion. In contrast, user charges have a substantial effect in encouraging an efficient allocation of demand and efficient investment patterns for urban public services. In general, estimates of the marginal cost of service provision can serve as a guide to efficient pricing, although the cost of administration will limit fine adjustments in the pricing structure, particularly in the case of limited consumption. General subsidies for urban public services should be avoided because their effects on efficiency, revenues, and equity will likely be undesirable. Selective subsidies, however, can be defended on grounds of externalities or alleviation of poverty, but they need to be carefully designed. In the case of water supply, for example, consideration must be given to the appropriate vehicle for reaching the most deserving households: subsidy of house connection is likely to be feasible and desirable in middle-income countries, but subsidy of standpipes will be preferable in low-income countries.

Regulation and control of urban housing in developing countries have on the whole done more harm than good. Regulations regarding urban land use, subdivision, and building standards are observed mainly in the breach; nevertheless, they can result in clouded land titles, the bulldozing of slums, and elevated standards for public housing programs. Rent controls are counterproductive to their goal of lowering rents because they tend to restrict the housing supply, impede mobility, reduce access of the poor to housing, and limit property tax revenues.

A comparison of conventional public housing programs in developing countries with low-cost urban housing projects supported by the World Bank shows that the latter are designed to reach those much lower in the income distribution, tend to avoid subsidies more successfully, and are likely to be more easily replicated to reach a much larger number of urban poor. A review of estimated economic rates of return indicates further that these projects not only serve the goal of alleviating poverty but also can earn respectable economic rates of return; thus they avoid any conflict with the goal of economic efficiency. The main explanation for this good performance lies in the low-cost service standards that are adopted in such projects. Yet a number of limitations on replicability remain even for these projects, particularly as regards the availability of urban land and the regularization of tenure, the overall housing strategy in a country, and the availability of general public revenues to support nonshelter components of urban projects.

Social Services

Finally, among the urban amenities important to the poor, social services play a major role. An analysis of these services must recognize the complexity

of relations between education, health, nutrition, and fertility, as well as the important role and needs of women, infants, and children in urban life. The main problem for the poor is that they are trapped in a vicious circle in which low incomes induce poor education, health, nutrition, and family planning, which in turn act upon and reinforce each other, thus leading in the end to continuing low productivity and poverty.

For education in the urban setting, efficiency could be improved by a greater emphasis on public primary (or basic) education than on higher education, by a more aggressive, albeit selective, use of school fees, and by a restructured curriculum that would provide more functional training. Similar measures would also serve the interest of the urban poor, but special emphasis needs to be placed on reducing the private cost of education to them (for example, out-of-pocket expenses) and on increasing the physical accessibility of schools.

Health and nutrition problems are particularly serious among the urban poor, even when compared with rural dwellers, and it is not clear that public health systems always serve the urban poor better than the rural poor. In attempting to deal with urban health and nutrition problems, the conventional policy bias in favor of modern curative health care needs to be replaced by a focus on preventive, or basic, health care. The central role of women in contributing to the health of poor families through appropriate hygienic and nutritional practices must be recognized. These measures will serve to increase the efficiency and equity of the health care system.

In sum, the challenges presented by the rapid growth of cities in the developing world are great and troublesome. The severity of the problems, however, need not overwhelm those in charge of managing the rapid growth of urban populations. The conclusion of this study is that policy instruments exist, and have been tested, by which many of the urban ills in developing countries may be redressed. Certainly, governments cannot hope to eliminate all manifestations of urban poverty and inefficiency, but they can begin to make inroads against them on many fronts—at a minimum, by eliminating those policies that have commonly served to compound the difficulties associated with rapid urban growth and, more positively yet, by supporting and encouraging many of the policies that can simultaneously serve to increase efficiency and equity in urban development. The progress that has been made in many developing countries over the recent years in replacing many of the counterproductive, conventional policy approaches with imaginative new departures can be taken as a hopeful sign that further changes of this kind are possible. Indeed, that this volume can go beyond mere speculation about the beneficial effects of the policies it proposes and supports is a credit entirely to those many people whose creativity in thought and whose courage in implementation have led to the rich body of experience that is reviewed and analyzed here.

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Contents

| | |
|---|-------|
| Foreword | xi |
| Preface | xiii |
| Employment and Labor Market Policies | xiv |
| Fiscal System | xv |
| Urban Transport | xvi |
| Urban Housing | xvi |
| Social Services | xviii |
| Acknowledgments | xxi |
| 1. Overview | 3 |
| Purpose and Scope of the Study | 4 |
| Some Dimensions of the Urban Policy Problem | 5 |
| Diagnosis of Urban Problems and Policy Approaches | 27 |
| A Conceptual Framework for Urban Policy Analysis | 30 |
| 2. Employment and the Urban Poor | 36 |
| Employment Characteristics of the Urban Poor | 37 |
| Urban Employment and Labor Markets | 42 |
| Summary of Policy Implications | 59 |
| 3. Redistribution of Urban Incomes through Fiscal Policy | 68 |
| The Scope for General Income Redistribution | 69 |
| The Scope for Alleviating Urban Poverty through Fiscal Policy | 72 |
| Summary of Policy Implications | 83 |
| 4. Urban Transport | 87 |
| Urban Transport in Developing Countries: Trends, Determinants, and Policies | 89 |
| Transport and the Urban Poor | 105 |
| Summary of Policy Implications | 108 |
| 5. Urban Housing: Land, Services, and Shelter | 120 |
| The Urban Housing Sector | 125 |

| | |
|--|-----|
| Estimating Housing Needs | 138 |
| A Housing Strategy for the Urban Poor | 142 |
| Urban Development Projects: Recent World Bank Experience | 169 |
| Summary of Policy Implications | 182 |
| 6. Urban Social Services: Education, Health, Nutrition, and Family Planning | 190 |
| The Social Service System | 192 |
| Education | 195 |
| Health, Nutrition, and Family Planning | 202 |
| Summary of Policy Implications | 209 |
| References | 213 |
| Index | 225 |

Tables and Figures

TABLES

- 1-1. *Characteristics of Housing in Bogota, Colombia* 6
- 1-2. *Urban and Rural Unemployment Rates in Selected Economies* 7
- 1-3. *Estimates of Underemployment in Selected Economies* 8
- 1-4. *Urban Household Incomes across Cities in Relation to Average National Incomes for Selected Economies* 9
- 1-5. *Global Poverty Indicators: Regional Averages* 10
- 1-6. *Global Poverty Indicators: Distribution within Selected Economies* 11
- 1-7. *Incidence of Slums and Squatter Areas in Selected Cities* 12
- 1-8. *Persons per Room and Access to Electricity in Urban Areas, 1960, 1970, and Recently* 14
- 1-9. *Percentage of Population with Access to Water Supply and Excreta Disposal: Regional Averages* 18
- 1-10. *Estimated Rural and Urban Infant Mortality Rates in Selected Economies* 18
- 1-11. *Intake of Selected Nutrients and Energy in Urban and Rural Areas of Nine Developing Economies, 1960-70* 19
- 1-12. *Food Intake and Demographic, Socioeconomic, and Health Characteristics for Nonsquatter and Squatter Urban Areas in India and Pakistan* 20
- 1-13. *Characteristics of Nonsquatter and Squatter Urban Settlements in Manila, Philippines.* 21
- 1-14. *Distribution of Medical Doctors between the Capital and Remaining Regions of Selected Countries, 1968* 22
- 1-15. *Persons per Hospital Bed, 1960, 1970, and Recently* 23
- 1-16. *Comparison of Educational Efficiency in Urban Areas of Latin America: Successful Completion of Primary Education* 26
- 1-17. *Availability of Complete Primary Schools in Urban and Rural Areas* 27
- 1-18. *Primary School Enrollment by Income Group* 28

- 2-1. *The Conventional View of the Urban Labor Market* 37
- 2-2. *Employment Profile of the Urban Poor: Selected Cases* 38

| | | |
|-------|--|-----|
| 3-1. | <i>Gini Coefficients for Alternative Tax-Expenditure Packages</i> | 71 |
| 3-2. | <i>Results of Seven Tax Incidence Studies</i> | 74 |
| 3-3. | <i>Incidence of Local Government Taxes in Bogota, Colombia, 1970</i> | 75 |
| 4-1. | <i>Transport Data for Selected Cities</i> | 92 |
| 4-2. | <i>Illustrative Costs of Urban Travel by Different Modes</i> | 96 |
| 4-3. | <i>Daily Person and Vehicle Trips, by Mode, in Metropolitan Manila, 1971</i> | 98 |
| 5-1. | <i>Household Income and Percentage of Household Expenditure on Housing, Utilities, and Transport in Selected Cities, Various Years</i> | 121 |
| 5-2. | <i>Average Household Expenditures on Housing as a Percentage of Average Income, for the Lowest Third of the Income Distribution, in Selected Countries and Cities</i> | 122 |
| 5-3. | <i>Residential Building Construction as a Percentage of GDP, Fixed Capital Formation, and Total Construction, in Selected Developing Countries</i> | 122 |
| 5-4. | <i>Average Household Expenditures on Housing as a Percentage of Total Household Expenditure in Peru, 1971</i> | 124 |
| 5-5. | <i>Matrix of Housing Supply Agents and Activities</i> | 129 |
| 5-6. | <i>Number of Conventional Dwellings Constructed by Public Investors as a Percentage of Total Conventional Dwellings Constructed during 1971-73, in Selected Developing Countries</i> | 131 |
| 5-7. | <i>Urban Household Tenure in Selected Developing Countries</i> | 136 |
| 5-8. | <i>Frequency Distribution of Countries, by Share of Urban Households with Owner Occupancy</i> | 137 |
| 5-9. | <i>Financial Implications of a "Basic Needs" Housing Strategy in Selected Developing Countries, 1980-2000</i> | 140 |
| 5-10. | <i>Costs of Public and Private Water Supply in Selected Developing Countries</i> | 148 |
| 5-11. | <i>Total Annual Cost per Household and Affordability of Alternative Sanitation Technologies</i> | 151 |
| 5-12. | <i>Estimated Monthly Water Charges as a Percentage of Estimated Monthly Income, by Income Group, Eleven Selected Cities</i> | 159 |
| 5-13. | <i>Percentage Contribution of User Charges to the Financing of Local Government Expenditures in Selected Cities</i> | 160 |
| 5-14. | <i>Daily Urban Water Consumption from Community Water Supplies</i> | 164 |
| 5-15. | <i>Public Service Subsidies (Taxes) as a Percentage of Income, by Population Group, and Change in Gini Coefficients, in Four Colombian Cities, 1974</i> | 166 |
| 5-16. | <i>Total Cost Breakdown of World Bank Urbanization Projects, at Appraisal, Fiscal Years 1972-80</i> | 171 |
| 5-17. | <i>Poverty Impact, Cost Recovery, and Affordability: Comparison of World Bank Projects with Conventional Public Housing Programs</i> | 172 |
| 5-18. | <i>Urban Housing Projects in El Salvador, Zambia, and the Philippines: Location of Participants in the Income Distribution</i> | 174 |
| 5-19. | <i>Standards and Shelter Costs of World Bank Urbanization Projects</i> | 176 |
| 5-20. | <i>Estimated Economic Rates of Return on World Bank Urbanization Projects</i> | 180 |
| 6-1. | <i>Percentage Distribution of Deaths, by Cause, in Selected Model Populations</i> | 203 |
| 6-2. | <i>Composition of Public Health Expenditures in Selected Developing Countries</i> | 204 |

FIGURES

1. *Relation of Public Service Provision, Fiscal Dividend, Externalities, and Subsidies in the Urban Setting* 30
2. *System Linkage of Urban Human Resource Development* 192
3. *Primary Health Care System in Jamaica* 208