

AN URBAN LENS ON NATIONAL DEVELOPMENT PLANNING IN AFRICA



GUIDEBOOK
for Policymakers



United Nations
Economic Commission for Africa

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Glossary

Benchmarks – measurements for tracking progress against a comparator. These are often quantitative (e.g., manufacturing share of gross domestic product (GDP)); they can, however, also be qualitative (e.g., grades according to the public expenditure and financial accountability framework). Benchmarks can be self-referential, comparing progress of a single city or country over time, or can be used to compare a country to other countries, in particular those with success in the benchmarked area, or both. Benchmarks can often be used to provide both a baseline (the initial measurement) and a target (the measure of success or achievement of a goal).

City – an urban agglomeration defined by the clustering of population and economic activities. Cities may be administratively defined by municipal boundaries; however, functionally, cities often exist at a scale beyond municipal boundaries. A full urban, suburban and peri-urban agglomeration may be referred to as the metropolitan area, with functional boundaries defined by a single labour market.

Competitive – Firms are competitive if they are able to succeed in markets in which other firms are already operating or attempting to enter. Cities are competitive if they offer advantages sufficient for firms to compete in national, regional and global markets. These advantages may be in the form of access to and quality and cost of factors of production, including land, skilled labour, utilities and production inputs. They may also include transport and transactions costs and access to a knowledge and innovation-rich environment.

Efficient – free from unnecessary costs. Efficient transactions operate to balance supply and demand, while minimizing losses and externalities. Spatial efficiency occurs when all entities are located in their most optimal location on the basis of accessibility, the cost of development in that location, market competition and willingness to pay. Efficient cities operate smoothly and do not place unnecessary encumbrances on residents or firms in their transactions or travel.

Externalities – the portion of costs or benefits of a transaction that is borne by society rather than by those taking part in the transaction. When parties to a transaction do not pay the full cost of their action, for example, polluting the air, society bears the consequences, such as increasing health risks and costs. When parties to a transaction are unable to capture the full benefits of the transaction, such as in education or research, they will engage in less than optimum levels of the transaction. The divergence between private and social costs and benefits arising from externalities cause market inefficiencies in which markets produce more of the negative goods, such as pollution and congestion, and less of the positive goods, such as education and research, unless policies are in place to correct these market inefficiencies.

Inclusive – involving the full social spectrum, including various income levels, ages, genders, ethnicities and abilities. Inclusive economic growth emphasizes connecting economic growth with equitable economic opportunities for all men and women and the alleviation of poverty, inequality and

access to services. Broad-based economic growth results in economic gains that are shared widely. One yardstick of inclusive growth is whether growth is job rich.

Land use – the classification of activities or buildings on land. Classification may include categories such as commercial, industrial, offices, parks and open space, residential and vacant or unbuilt land. More specific categories may also define densities or detailed specifications, for example, single family versus multifamily residential and light versus heavy industry. Land use can also refer to the mixture and density of land uses over a broader area, such as an entire city.

Linkages – the connections between economic activities. Value chain linkages refer to the purchase of inputs and sale of outputs along a chain of production. For example, the chocolate value chain involves linkages between a variety of economic activities, such as growing cocoa beans, harvesting, initial processing, the aggregation and sale of intermediate products, transportation, design and quality control, confection and sales and marketing. Urban-rural linkages refer to the economic connections between urban and rural areas. These may include value chain linkages and the sharing of knowledge, movement of labour and flow of cash transfers between family members.

National spatial system – the arrangement and distribution of cities, towns and rural areas, including their functional roles and the connections between them. The national spatial system includes the urban system (i.e., the arrangement and distribution of cities and their connections). The urban system and the cities constituting it, through agglomeration economies and functions of production and consumption, help to diffuse economic growth and development to the rest of the spatial system. Various regional development approaches such as growth pole and secondary city development strategies underscore this critical economic role of cities and the urban system.

Productive – able to produce more output with less input. Productive can also describe a set of conditions that enable firms to be productive. For example, a productive city reduces costs to firms such as transportation and energy, while providing an environment in which markets function efficiently and innovative ideas are shared. The result is that firms locating in a productive city can produce more output with less cost.

Productivity – a measure of the amount of output generated, compared with inputs such as labour, capital and land. Productivity is a central component of economic growth and GDP. Labour productivity, the amount of output per worker or per hour worked, is the basis for wages and in part determines (along with income distribution), whether or not the working population will be rich or poor.

Sector – a theme or subject of government action, for example, infrastructure and public works. Economic sectors refer to groupings of similar economic activities, which, at the broadest level, can be broken down into three categories: industry, services and agriculture. Economic sectors and sub-sectors can also be more specific, for example, textiles or maize.

Special economic zone – an umbrella term covering export processing areas, free trade areas, industrial zones, multi-facility economic zones or any location designated by the government to benefit from special policies and investment designed to attract target firms and private investment.

Structural transformation – accompanies the process of economic growth and involves four characteristics: a declining share of agriculture, a rising share of urban-based activities, namely, industry and service sectors, a rising share of urban population involving increased rural-to-urban migration

and demographic transition from high fertility and high mortality rates to low fertility and low mortality rates.¹ The movement of labour from agriculture to industry and service sectors, or what narrowly is defined as structural change, signifies not only a composition change of outputs in the economy, but also a rise in productivity and income, and hence the well-being of the society at large. Simon Kuznets identified the rate of sectoral change from agriculture to industry and services as one of the six features of modern economic growth and involving social and institutional changes such as the occupational status of labour and the structure of consumption and firms.²

System of cities – see urban system.

Urban form – the spatial layout of the city in terms of land use, density and transportation. Urban form can be measured by the density of population and economic actors, the physical form and spatial arrangement of built-up land, the connectivity of the transport network, including streets and infrastructure for transit and non-motorized modes, the distribution and mixture of land uses and the social mix or segregation of residential and public areas.

Urban growth – the population increase of a city or cities.

Urban issues – the full range of economic, social and environmental matters taking place in and affected by cities.

Urban system – the arrangement and distribution of cities by sizes and roles and the connections between them.

Urbanization – the percentage of the national population living in cities or, alternatively, the process by which this percentage increases.

¹ See Peter Timmer and Selvin Akkus, "The Structural Transformation as a Pathway out of Poverty: Analytics, Empirics and Politics", Working Paper 150 (Center for Global Development, 2008).

² See Simon Kuznets, "Modern Economic Growth: Findings and Reflections", lecture to the memory of Alfred Nobel (11 December 1971).

Foreword

Urbanization is a key defining trend for Africa in the twenty-first century. In a matter of just a few years, Africa will overtake Asia as the fastest urbanizing region in the world. By 2035, more than half of the population of Africa will be living in cities. Urbanization is rapidly and increasingly changing the economic, social, cultural and environmental dynamics of the continent. This paradigm shift presents unprecedented opportunities for African countries to harness the potential of agglomeration economies. Such economies thrive in an urban context. This, in turn, gives rise to an accelerated inclusive and sustainable growth if linked to structural transformation.

The urban transition that is unfolding is momentous. It must be planned and managed in a prudent and prescient manner, however, as such a transition has the potential to exacerbate challenges, including poverty, inequality, unemployment, climate change and environmental degradation. Moreover, the urban transition is matched by a demographic transition, which is characterized by increasing youthful populations. The trend is prevalent in most countries in the continent. It offers a time-limited dividend that is yet untapped. It may also cause significant unrest, however, if the needs of the young, urban population are not met adequately, including in terms of employment, mobility and housing.

The discourse on Africa's urbanization has tended to focus on its negative externalities or social dimensions. It is now increasingly recognized as an engine for economic growth and structural transformation. Still, in many instances, urbanization is viewed from the perspective of a functional lens in national development plans. The focus is often on a limited set of urban issues (slums, infrastructure, housing, environmental degradation and social services), and disconnected from the macro and multisectoral targets and priorities. Considering the significance of urbanization in Africa in terms of scale and impact, it is of paramount importance to accord it an elevated, strategic and multisectoral focus in national development planning. Only then can the enormous advantages of Africa's rapid urban transition be harnessed to accelerate national growth and transformation priorities.

Against that backdrop, the Economic Commission for Africa has developed a "Guidebook for policy makers" "An Urban Lens in National Development Planning in Africa". This Guidebook is devised to support member States better integrate urbanization in national development planning in Africa. It builds on field research undertaken by ECA in selected African countries representing different sub-regions and economic conditions. Therefore, the Guidebook is rooted in context and encompasses practical considerations associated with the role of urbanization in national development planning in Africa. It is structured around four entry points for the integration of urbanization in national development planning in Africa: economic sector targeting, productive cities, national spatial systems and coordination and finance. Together they form a coherent, practical and adjustable strategic framework.

The Guidebook sets out an efficient and simple path to the strategic integration of urbanization in the national development planning frameworks of African countries. In doing so, it presents the means through which African countries can leverage the powerful potential of rapid urbanization. Structural transformation through economic diversification and job-rich growth enhances economic, social and employment prospects, and is critical to meeting the needs of the people of the continent in the years to come.

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Executive summary and quick guide

There has been a resurgence in national development planning in Africa, with governments recognizing the need to plan strategically in order to align resources and policy efforts towards achieving their development goals within the framework of a structural transformation agenda. Cities play a central role in economic development and structural transformation. They have yet, however, to be fully integrated into national development plans and are often seen as a social and functional challenge, rather than an economic opportunity.

National development plans are uniquely suited to address the role of cities and urbanization in development. While sector policies, subnational development strategies and national urban policies can address urban issues and can play a role in implementing the vision of the national development plan, the national development plan is the only policy framework that can align economic and spatial planning under a common vision. This entails establishing the framework for the efforts of various ministries, departments and agencies and the private sector to be coordinated in space, both within and between cities, and guiding the development of cities and the spatial system to meet economic targets in the short and long term.

This guidebook addresses the role of cities in economic development, viewing development through an urban lens and cities through an economic lens. There is an argument in it for a greater emphasis on cities merely for the sake of tackling urban poverty or expanding access to decent housing, although those are laudable goals. Rather than urbanization being considered a “sector” in the guidebook, the growth of cities is viewed as a necessary pathway to structural transformation and economic development, and the central issue is productive urban jobs. All other urban issues (i.e., density, housing, transport, informality) are discussed as components in fostering or constraining structural transformation.³

The ways in which cities and urban issues have an impact on development are reviewed in the guidebook, providing a number of entry points for policymaking. The report also provides practical guidance on bringing cities into each stage of the national development planning process. The executive summary is meant as a “quick guide” to help policymakers to quickly grasp the core issues and recommendations, with more detailed reading in the body of this guidebook.

The “What”: themes for national development planning with an urban lens

National development planning identifies growth strategies, including prioritizing economic sectors, programmes and investments. By its very nature, this prioritization process requires policymakers to make hard choices, especially in the context of limited resources. While the idea of incorporating an urban lens into planning may appear to be just another sector or issue in a long list of competing pol-

³ While social and environmental issues are of critical importance to the management of cities, the focus of this guidebook is economic planning within the context of national development planning.

icy priorities, that is not the case. Instead, employing an urban lens facilitates a better understanding of the development process in order to make strategic decisions across sectors.

The urban lens helps to bring spatial considerations into economic planning, with a view to accelerating structural transformation. The urban lens helps countries to achieve inclusive growth by unlocking the potential of cities and urban systems as growth drivers. In contrast to the urban demographic growth and service delivery gaps, which are the focus of many publications on urbanization, this guidebook places an emphasis on the interface between cities and economic sectors and the physical, institutional and infrastructure conditions underlying urban productivity. Although it highlights the urban challenges that African cities face, the overall thrust gravitates to urban economic opportunities, with a focus on urban jobs. Aligning economic and spatial priorities and coordinating household, business and public investments within cities or throughout the emerging national spatial system to drive and sustain growth is the centrepiece of this guidebook. It is organized around four substantive themes that link cities with national economic development.

A: Sector targeting

B: Productive cities

C: National spatial system

D: Coordination and finance

Theme A: Targeting economic sectors that leverage urban potential

Economic planning should target sectors that leverage the economic potential of urbanization and cities. The ability of African economies to achieve structural transformation and broad-based economic growth hinges on their capacity to create high productivity jobs, which are located largely in urban areas. Urban firms need workers, and urban populations need jobs. Moreover, cities represent a huge opportunity to grow domestic production, owing to rising urban demand and consumption. This is driven by urban population and income growth, which is, in general, higher than the national population growth rates.

In successfully transformed economies, the urban transition has been the locomotive of growth. At an early phase in the urban transition, the household demand for food and other necessities, and most important, the demand for decent housing and associated infrastructure services, act as significant levers of economic growth.⁴ In cases in which such urban demand coincides with comparative advantages and growth-stimulating economic policies, urbanization can be a key driver for growth. Firms in the areas of processed food, manufactured goods, urban housing and urban infrastructure can meet the rapidly rising demand for such products and services and create jobs. Furthermore, urban economic activities can boost rural productivity through both forward and backward value chain linkages with rural products. Urban value chains and jobs should therefore be central components of economic sector targeting.

⁴ Even in the United States of America, the value of the inventions in improving housing through electricity, plumbing and a central heating system, and the investment that followed to improve urban living in the early phase of urban transition (1870-1940), was of a revolutionary scale. See Robert J. Gordon, *The Rise and Fall of American Growth: The U.S. Standard of Living since the Civil War* (Princeton University Press, 2016).

The following are key questions for policymakers:

- Which economic sectors will create urban jobs and generate structural transformation?
- Which economic sectors will leverage and harness urban demand for domestic sector growth?
- How can cities add value to rural products through forward and backward linkages?

Theme B: Productive cities

Owing to their density of economic actors and interaction, urban areas have an innate economic advantage that is based on agglomeration economies.⁵ The productivity of cities is not a given, however, and many African cities are falling far short of achieving their productive potential. That is due to a myriad of problems, including inefficient land use and disconnected sprawling development, congestion and barriers to mobility and the segregation of land uses and social groups.

The way in which cities are planned and managed determines in part their productivity. African cities are experiencing problems of congestion and prematurely rising costs of land, housing and mobility, which are affecting the competitiveness of firms and indicating the dire need for good urban planning, land management and investment in infrastructure, especially public transport and energy. While the fundamentals of urban development can be addressed in national urban policies, the intensive policy reform processes should be supported by the national development plan, and costly urban investments can be prioritized to be aligned with the specific economic sector goals within national development planning. The national development plan prioritization of urban investment should consider the generation of social, economic and environmental co-benefits, the contributions to job growth and productivity of priority economic sectors and the prevention of premature constraints on urban productivity.

The following are key questions for policymakers:

- What are the biggest barriers to the productivity and competitiveness of urban firms?
- What level of investment in urban infrastructure is needed to make cities drivers of structural transformation?
- How can urban investments and programmes be prioritized to best leverage urban economic advantages and align with national development priorities?
- What components of urban management require national-level support and/or coordination?

Theme C: Productive national spatial system

National-level policy decisions shape the distribution of city sizes, economic functions and connections between cities in the national spatial system, with implications for national development. Economic planning should consider the spatial implications of priority economic sectors. Economic policies have a strong impact on where growth occurs, and the national spatial system has economic implications for specific value chains. Some economic policies may have strong spatial implications, and yet they may not have been anticipated or planned for.

⁵ See Economic Commission for Africa, *Economic Report on Africa 2017: Urbanization and Industrialization for Africa's Transformation*, chap. 3 (United Nations publication, Sales No. E. 17. II. K. I).

Spatial aspects of economic policies should be carefully considered. In addition, national spatial planning should be underpinned by a well-thought-out economic rationale. Promoting space-blind policies can have serious consequences in terms of mismatched investment, and promoting the development of specific cities without a corresponding strategy for the economic sectors located there could be a waste of resources. Both should therefore be avoided. Managing the equitable and efficient allocation of population and resources across space is a complex process involving hard choices, for example, between investing in existing cities and new cities and between lagging regions and leading urban areas.

While special economic zones are one component of the national spatial system that can play a critical role in fostering new and emerging industries, their success will be more likely if they are located within or near already competitive cities, where they can gain access to the benefits of agglomeration economies. Linking special economic zones with cities is also important for knowledge and technology spillovers, value chain linkages with existing firms and sectors and employment of the urban labour force. A similar argument may be made for connecting economic corridors with existing national cities.

Planning for the national spatial system should also consider the potential of African regional markets, which present opportunities for economies of scale, knowledge-sharing and trade in goods with higher value added than those exported outside African regional markets. Fostering a national urban system that supports regional integration is one way to leverage the economic potential of cities.

In the long run, pairing spatial and economic planning should help to build a system of diverse and specialized cities with complementary economic functions, including linkages to small towns and rural areas. Given the resource and management capacity constraints facing African economies, however, countries may need to prioritize a few locations for investment, including their largest cities and metropolitan urban areas, in order to reap agglomeration economies, while simultaneously building transport networks linking them with strategically located secondary cities and growth centres. When implemented within a credible and long-term policy framework, such strategic approaches to infrastructure investment will also attract private investment, making development coordination across space and sectors possible.

The following are key questions for policymakers:

- Where, within the national spatial system, can investment most cost effectively achieve economic growth?
- Where, within the national spatial system, will target economic sectors generate growth?
- Which cities and towns require which types of investment in order to support target economic sectors?
- How can industrial parks and special economic zones leverage existing geographic advantages for competitiveness and facilitate spillover benefits to the rest of the economy?
- How can connective linkages best bolster value chains and a productive system of complementary cities and towns?

Theme D: Arrangements for implementation: coordination and finance

Urban issues are complex and multisectoral. Any successful policy on urban development will integrate the actions of an array of ministries, departments and agencies at the national and local levels, as well as the activities of the private sector. Coordination between policymaking, planning and investment programming is essential to align policies and investment between various economic sectors in specific regions and cities. The results of poor coordination are disjointed urban investment and programmes that lose out on economic synergies and can create dysfunctional cities. Mechanisms for coordination during the national development plan process action can be codified and should involve establishing processes, staffing and oversight for coordination, as well as the transparent sharing of information.

At the same time, policy implementation cannot succeed unless it is adequately funded. Cities require enormous investment, but they can also generate enormous resources. There is an array of instruments available to better link urban investment and revenue, and developing adequate subnational financial management capacity will likely play a critical role in implementing them. Land value capture and leveraging the private sector are two entry points for improving resources to fund urbanization and guide urban development in economically beneficial patterns. No matter what financial instruments are used at which level of governance, the most critical element is priority urban initiatives of the national development plan receiving adequate resources. Financial planning and budgeting are therefore central to implementation.

The following are key questions for policymakers:

- What mechanisms can be established through the national development plan process to allow for coordination between the many public and private actors engaged in the development of cities?
- How can subnational authorities be better supported to manage cities in ways that align with the national development plan?
- Within cities and the national spatial system, how well is public and private investment currently coordinated and how can it be better aligned?
- How can investment in cities better leverage private sector contributions?
- How can the potential public revenue arising from cities be better harnessed for public investment?

The key urban issues of economic relevance under each of the four substantive themes are highlighted in table (i).

Table(i): Key spatial entry issues by theme and relevant planning instrument

Theme	Issues	Trends to consider	Relevant planning or policy instruments guided by national development plan vision
A: Sector Targeting	<ul style="list-style-type: none"> – Factor (land, labour, capital, resources) intensity of priority urban economic sectors – Scale and type of urban jobs (direct and indirect), including the informal sector – Supply chains and links to rural areas – Potential job creation in urban housing and infrastructure – Urban consumption and imports versus domestic production 	<ul style="list-style-type: none"> – Employment by sector – Productivity by sector – Value added to rural products – Source of inputs to rural products (domestic or imported) – Urban demand for and consumption of housing – Urban consumption of goods and services; share of imports versus domestic production 	<ul style="list-style-type: none"> – Economic sector plans – Investment plans – Trade policy – Thematic strategies: employment, productivity, private sector development
B: Productive Cities	<ul style="list-style-type: none"> – Urban form: density, connectivity, mixture of uses, social segregation or mix – Urban planning and regulations – Urban land market and land administration – Urban transport – Access to electricity and other urban services 	<ul style="list-style-type: none"> – City or metro gross domestic product (GDP) versus population – Urban sector productivity – Costs of land, housing and congestion in major cities – Access to urban infrastructure and services 	<ul style="list-style-type: none"> – National urban policy – National flagship urban programmes – Urban master plans – Sector strategies: housing, transport, electricity
C: National Spatial System	<ul style="list-style-type: none"> – Primacy and deconcentration of key economic sectors – Diversity and specialization of cities – Location preferences of priority sectors – Economic zones and their link with cities – African regional trade and integration 	<ul style="list-style-type: none"> – City size distribution – Clustering and centralization by sector – Connectivity between cities – Multipliers and spillovers from firms in special economic zones – Domestic and regional trade 	<ul style="list-style-type: none"> – National spatial framework – National infrastructure investment plan – Regional policies and/or development plans – Special economic zone policies

Theme	Issues	Trends to consider	Relevant planning or policy instruments guided by national development plan vision
D: Arrangements for Implementation: Coordination & Finance	<ul style="list-style-type: none"> – National development plan compliance and coordination mechanisms – Urban theme intersectoral working groups – Decentralization of governance and finances – Subnational financial management capacity – Land value capture – Private investment and public-private partnership – Local economic development and implementation capacity 	<ul style="list-style-type: none"> – Qualitative assessments of institutional coordination – Per capita subnational budgets; – Own-source revenue share of subnational budgets – Revenue from property taxes or land-based sources – Private sector contributions to plan implementation in cities 	<ul style="list-style-type: none"> – National development planning guidelines – Budget guidelines – Regulations on subnational revenue generation and public-private partnership

The “How”: urban issues at each stage of the national development plan process

An urban lens can inform each stage of the national development planning process. This guidebook helps to break down the national development plan process into four general stages that can be applied among the unique practices of individual countries, examining how the urban lens can be applied in each one.

Stage 1: Diagnostics and analysis

The diagnostics and analysis stage plays a decisive role in establishing the conceptualization of the role of cities in economic development. This conceptualization enables top economic planners to frame the urban issues and lay the groundwork for integrated spatial-economic planning. It also allows for the construction of a compelling urban narrative that facilitates informed public and policy discussion around urban priorities during the planning cycle. The diagnostics and analysis stage can answer questions about the role of cities in economic development, including the current situation and opportunities for better harnessing urbanization for economic development. To answer such questions, stakeholder engagement will include lead and priority economic sector representatives, experts in urban development, private sector stakeholders and others listed in section 3 of this guidebook.

Data are also critical to the diagnostics and analysis stage. Data on urban issues, in particular subnational and city-level data, present a challenge for many African countries, where urban GDP is rarely measured. In addition, data on the elements that contribute to urban productivity, such as urban infrastructure, transport and mobility, built density and employment by sector and by city, are often missing.

Establishing a set of select indicators to be measured and tracked at the city level over time can inform both the analysis stage and evaluation later on. Existing economic data from household surveys, cen-

sus and other sources, if purposefully disaggregated and compiled, can be used to answer questions about the contribution and trajectory of urban-based economic sectors to structural transformation and broad-based growth. Matching indicators to policies relating to cities and their role in economic development is necessary to track the success of such policies.

Stage 2: Vision, goals and targets

During the development of visions, goals and targets, it is important to consider the spatial component of national development priorities, including the locations where target economic sectors and value chains will generate growth, as well as the location-specific requirements for their success. Creating job-rich and productive cities and achieving spatial integration of the national economy are critical development imperatives that need to find their articulation in the objectives of the overarching macroeconomic and priority sector plans.

Goals can address the link between urbanization and economic development through the lens of urban job creation and the development of priority economic sectors and value chains, including urban-rural linkages; improving the productive benefits of cities themselves; and guiding development of the national spatial system for long-term prosperity. More specifically, goals can address the topics outlined in table (ii).

Table (ii): General goals to link cities to economic development

Economic sector targeting	Urban productivity	National spatial system
<p><i>Focus: urban jobs</i></p> <ul style="list-style-type: none"> – Leverage urban consumption, housing and urban infrastructure to drive economic growth – Maximize urban job creation of priority economic sectors, including through forward and backward linkages to rural production – Make cities attractive to domestic investment and foreign direct investment in priority economic sectors – Transform the informal economy 	<p><i>Focus: urban economic dynamism and competitiveness</i></p> <ul style="list-style-type: none"> – Improve the urban real estate development process – Ensure sufficient urban investment targeted to economic priorities and removing bottlenecks or barriers critical to growth and productivity – Expand urban economic opportunities to a broader population 	<p><i>Focus: the role of cities in the national economy and their connections</i></p> <ul style="list-style-type: none"> – Support target economic sectors with location-specific investment – Pair long-term spatial visions with economic development strategies – Create functionally complementary cities – Promote connectivity between cities, with rural areas and within the African region – Ensure special economic zones are connected catalysts of growth rather than isolated enclaves

Stage 3: Implementation strategies

Implementation is often the weakest link in even the best policies, and national development planning must address implementation shortfalls in order for any action on the role of cities to have an impact. Two critical components of implementation are coordination of the multiple actors and sectors engaged in urban issues and the financial resources necessary to implement policies needed to make cities drivers of structural transformation.

The coordination of urban issues cannot be done solely by a single ministry. The economic role of cities involves many sector ministries and agencies and, importantly, the private sector. The urban land development process alone must coordinate all ministries, departments and agencies in charge of all major infrastructure, as well as land and physical planning within the framework of an economic vision. Beyond following basic principles of connected, compact and mixed urban development, programmes affecting cities should be aligned with the economic vision and the needs of priority economic sectors. Both the location and the type of infrastructure investment should be strategically selected with those needs in mind. In addition, matching public programmes with the investment of businesses and households will be critical for such programmes to achieve their goals and create value. This location-specific synchronization of investment between government, firms and households is equally important to the amount of investment.

While cities require enormous public resources, they also generate massive resources if the right policies are in place. Land value capture is an often underutilized tool, with huge potential for growing cities that can generate significant revenue in an economically efficient way. Leveraging the activities of the private sector is also an avenue to achieve development goals and may simply be a matter of designing effective regulation to ensure that private sector investment is in line with national development plan goals. Public-private partnership also holds high potential for generating investment in growing cities, if governments can develop the expertise needed to negotiate mutually beneficial agreements.

Stage 4: Monitoring and evaluation

Monitoring and evaluation is critical to adjust policies in response to new information and changing circumstances. Spatial and city-level economic data are often lacking and can be bolstered through efforts in conjunction with the national statistical agency and experts in monitoring and evaluation for applied data tracking. Data on urban issues can illuminate the spatial factors influencing the process of economic growth and structural transformation. A list of indicators relating to urban issues can be found in the annex to this report.

Way forward: next steps to incorporate cities and urban issues into the national development plan

Various countries, depending on their level and speed of urbanization and level and nature of development, need to contextualize the key ideas and process steps outlined in this guidebook to their realities. For example, countries that are least urbanized are facing rapid urbanization and may be in need of urgent action on multiple fronts, but, constrained by resources, their policy and investment prioritization becomes extremely important. At the same time, perhaps they represent countries where opportunities are greater because most of the urbanization is yet to happen. Middle-income countries, on the other hand, may be able to prevent diseconomies of agglomeration from prematurely setting in and choking their growth potential. They can do that through policies targeted at leveraging urban productivity, facilitating the transition to skill-intensive urban-based economic sectors and avoiding a middle-income trap.

Notwithstanding such contextual diversity and specificity, few action ideas as next steps forward are proposed in this guidebook. One first step to better integrate economic and urban spatial planning is to appoint a senior urban adviser to the national development plan agency and a senior economist to the national ministry for urban development. In addition, these two experts could commission a multisectoral effort to gather targeted information for the next national development plan cycle, which may include policy or theme papers or inter-sector dialogues. The country-specific policy pro-

cess should inform this process. The list of potential topics and indicators provided in the guidebook could provide a useful reference and starting point.

Within the national development plan itself, three general approaches can be taken:

1. Broaden the conceptualization of the “urban sector” and bring jobs and urban productivity to the centre. Urban jobs should be a primary consideration in economic sector targeting and “urban” programming, including housing programmes. Soft and hard infrastructure investment in cities should also be prioritized through the prism of their impact on urban jobs and productivity.
1. In the immediate term, consider the spatial impact and requirements of economic sector planning, pairing spatial planning and spatial targeting of investment in a way that matches public and private investment, meets the needs of target economic sectors and accommodates the shift in population and economic activity that arises from the impact of economic planning.
1. With a view to the longer term, lay the groundwork for the ways in which cities and the urban system will perform for the economy of the future. Goals can include a system of cities with complementary functions, including both mid-sized specialized cities and large, diverse cities operating efficiently to maximize productive benefits to firms and overall economic competitiveness.

Guidebook organization

This guidebook is organized in three sections that are related to incorporating an urban lens into national development planning.

In section 1, the question “why” is discussed, that is, the need to plan with cities in mind. In section 2, the question “what” is discussed, that is, urban issues for national economic planning. In section 3, the question “how” is discussed, that is, entry points for cities at each stage of the planning process. These sections are followed by a brief conclusion outlining next steps for policymakers and an annex of indicators relevant to the role of cities and urbanization in economic development.

The guidebook draws upon the experience of countries that successfully transformed their economies using a national development planning process and leveraging the role of cities. Case studies are referenced throughout each section. These include the following:

- Lessons drawn from the experience of the Republic of Korea with adaptive planning;
- The success of several Asian economies in targeting various types of industries at various stages in their development;
- The experiences of Brazil, Ethiopia and Turkey in targeting economic sectors that leverage urban demand;
- The experience of Malaysia in diversifying into primary commodity value-added activities early in the development process;
- The forward-thinking multimodal transport planning of Singapore;

- The experience of China in allocating land for industry and leveraging land value capture to fund massive investment;
- The experience of Ethiopia with its road investment programme;
- The challenges of India relating to underinvestment in large cities;
- The long-term view of Viet Nam on national spatial planning;
- The necessity of focusing limited resources through spatial targeting, as illustrated by the early experience of Kenya of national spatial planning;
- Trends and challenges of manufacturing deconcentration in several countries;
- Coordination of regulatory, spatial and economic efforts of Malaysia in the development of a tech hub;
- Efforts to improve spatial and economic planning alignment in India, and alignment of such policies in South Africa;
- The distinct roles of various types of cities and their performance trend in Indonesia and the need for economic strategies targeted on the basis of these roles;
- The transformative effect of investment in urban transport in the cities of Colombia;
- The experience of Morocco in using sector strategies for aligning public investment with private sector growth and a gradual shift towards regional governments to coordinate national economic policy implementation.

This guidebook is organized around a framework of the four content-defining themes and four planning process stages. The focus throughout is on cities and urbanization, with the data requirements and indicators needed to assess and track country progress specified in each section and discussed in the annex.

Frequently asked questions

1. Should the focus be on rural transformation, rather than on urbanization, as rural issues are more fitting for an African context?

Rural transformation is important and is linked to urbanization. In fact, rural transformation cannot occur without urbanization. This is because rural incomes and productivity are tied to demand in cities, and as agriculture becomes productive, it sheds labour that should be absorbed in non-agriculture (urban-based) economic sectors and activities. In fact, one of the challenges in the African context is the breakdown of these urban-rural linkages, owing in part to limited urban job opportunities and poor labour absorption. This leads to sustained low agricultural productivity and, in many cases, rural land fragmentation or urbanization characterized by a low-wage informal economy.

Secondly, policy attention to rural transformation does not negate or compete with policy attention to urbanization. In fact, cities play an important role in rural transformation by contributing to rural value chains both upstream and downstream. The inputs to agriculture and natural resources (e.g., fertilizers, machinery, business services and production innovations) can be sourced from cities. Rather than being exported as raw commodities, rural products can be processed with value added in cities, breaking the colonial legacy of production that relies on extractive industry and exports of raw materials.

Rural transformation and urban economic development are therefore two sides of the same coin and two critical components of structural transformation, which, by its definition, requires labour to move into urban economic sectors. The question is not whether Africa should urbanize or not, given that urbanization is already happening. Questions should focus instead on the kind of urbanization that is desired and how to anticipate, plan, harness and manage it.

Africa is no longer a predominately rural continent. On average, only 21 per cent of GDP comes from agriculture and 13 per cent from natural resource rents on the continent.⁶ By contrast, a forecasted 63 per cent of GDP growth will come from cities in sub-Saharan Africa for the period 2007-2025, excluding North Africa.⁷ Of course, the degree to which employment and value added will be focused in cities differs by the country and subregion. By 2035, the time horizon of many national development visions, four of five subregions of Africa will be more than 50 per cent urban by population and even more urban when considering the location of GDP. East Africa is the only subregion that is forecasted to remain less than half urban by population, but it is also the fastest urbanizing. In all regions, investment in cities and urban populations will have long-term economic impacts of the magnitude that national development plans cannot ignore.⁸

⁶ Based on World Bank Indicators (World Bank).

⁷ See McKinsey Global Institute, *Urban World: Mapping the Economic Power of Cities* (2011).

⁸ For further reading, see section 2, "The nature of urban productivity", on the role of cities in economic development; section 2, "Adding value to rural products", on agricultural value chains; and section 2, "Productive national spatial system", on planning for the national spatial

2. Other sectors are also important: why give urbanization priority?

Urbanization is not a “sector.” It is a process that plays a necessary role in economic development. It is important to understand the role of urbanization in economic development because unguided urbanization can restrict long-term growth and structural transformation. An understanding of the role of urbanization in economic development can facilitate strategic policy decisions across sectors to advance structural transformation, development and inclusive prosperity. This guidebook does not contain a recommendation to prioritize urbanization over other sectors, but rather to use information about the urbanization process to assist in the prioritization of target economic sectors (e.g., manufacturing), infrastructure investments (e.g., rural-urban transport and logistics infrastructure) and areas of policy focus (e.g., boosting subnational management capacity).⁹

3. Does urbanization have to mean big cities getting bigger or can it be led by the growth of rural towns?

One of the challenges of urbanization in Africa is the asymmetry of urban structure. The urban landscape is often dominated by a prime or biggest city, with the rest or majority of urban centres left far behind in size, without the capacity to economically thrive without a big push or capital investment. Because of the relatively better infrastructure and momentum of agglomeration economies that they enjoy, prime cities in Africa continue to attract investment and migration, notwithstanding their own limitations and barriers, discussed in this guidebook, while the rest of the urban system remains stuck with limited growth opportunities.

Prime or big cities will continue to be the main factors behind the economy for the foreseeable future, and therefore African countries should invest in them to unblock the infrastructure barriers and capacity limitations in urban management, notably land and urban planning. It is also prudent, however, to strategically approach the development of secondary and intermediate cities with the long-term objective of creating a balanced urban system. Growth pole (e.g., Chad) and secondary city (e.g., Cameroon and Ethiopia) development strategies, which some countries are promoting, are part of the long-term solution, but they need aligning with sector priorities and infrastructure investment, especially in energy and transport.

Many African countries face dual challenges of high rural poverty and urban informality, demanding radical agricultural transformation and accelerating industrial development. Both push and pull factors appear to be at work, but without a major shift in agricultural productivity or structural change, resulting in extreme cases in the hollowing out of remote farm lands and overcrowding of the prime cities. Restricting migration to cities is almost impossible and not productive. However, given a large rural population and scope for transformation, African countries with agrarian economies could plan ahead to leverage urban advantages, while fostering urban-rural linkages through a range of strategies, including rural industrialization and rural urbanization.¹⁰

system, including urban and rural areas.

⁹ For further reading, see section 1, “The relationship between urban productivity and economic growth”, on the link between urbanization and development; section 2, “Targeting economic sectors that leverage urban potential”, on economic sector targeting; and section 2, “Productive cities”, on strategies to promote urban productivity.

¹⁰ For further reading, see section 2, “Urban primacy versus a balanced urban system”, on urban primacy; section 2, “Adding value to rural products”, on urban-rural linkages; and section 2, “The spatial impact of economic policies and structural transformation”, on linking economic planning with the national spatial system.

4. Many African cities are dominated by slums and informality. How can policymakers consider urbanization to be an economic driver when it takes the form of slum growth?

The unique economic potential of cities exists even in the presence of informality. The clustering of economic activity, the sharing and pooling of labour and markets and knowledge-sharing occur in both formal and informal settings. Slums, however, represent barriers to realizing the full economic potential of cities. Their workforce is often untrained and cut off from good job opportunities and their enterprises lack access to urban services.

Slums are, to some extent, inevitable at a specific level of income. They are a symptom of urban poverty and the inability of both households and the government to afford basic housing and services at scale. Creating conditions for urban job creation is the pathway to structural transformation, and it simultaneously creates one of the main conditions for slum amelioration: higher incomes.

The other condition necessary to resolve the slum crisis is direct intervention in housing markets to ensure that the poor can have access to serviced land, that the building materials sector is able to deliver affordable materials and that the regulatory framework does not constrain urban housing construction. Creating the institutional framework for affordable financing and subsidies also play a role in helping households to obtain housing, especially early in the economic development process.

When considering the role of cities in structural transformation and development, slums feature in three ways:

- a. Slums may be inevitable at a specific stage of development, but governments can direct the formation of informal settlements so that they can be easily upgraded as incomes rise. That includes preventing development in hazardous areas, regularized plotting, leaving space for streets and public amenities and regularizing land titles. Better planned slums allow their residents to take part in urban economic development and prevent the huge expense of replotting and relocating their residents;
- a. Housing interventions should not be siloed from the goal of structural transformation. Housing construction should create jobs, develop skilled contractors and develop the building materials value chain. The location and form of subsidized housing should follow economic geography best practices (mixed use, mixed income, connected, dense neighbourhoods);
- a. Urban issues should not be conflated with the housing sector. Housing is only one component of urban development and plays a comparatively small part in the ways in which cities can facilitate or hinder national structural transformation. Issues ranging from access to land and credit, to mobility and social and economic infrastructure, as well as urban capacity to plan, tax and regulate, have an impact on the economic dynamism and role of cities. National development planning is an important vehicle for articulating, prioritizing and implementing economic policy and investment programmes affecting many of those issues. It should not ignore housing and slums, but rather view cities and urbanization through an economic lens first, given that economic policy is at the heart of national development planning.¹¹

¹¹ For further reading, see section 2, “Harnessing urban demand to generate economic development”, on job creation in the construction sector; and section 2, “Urban form”, on urban form for productive cities.

5. African cities are crowded, expensive and largely informal. Where are the opportunities?

There are economic opportunities embedded in the very nature of cities. Cities are often referred to as “drivers of development” because of their necessary role in structural transformation and economic growth. The productivity premium of urban agglomerations, the dynamism and churning effect of cities in business start-ups and turnovers and the role they play in facilitating the movement of labour from low to high productivity activities all point to the critical role of cities in development. As workers are able to produce more or more valuable outputs, their incomes rise and societal welfare improves. During the process of structural transformation, labour usually moves to industry and services, away from agriculture. This process entails urbanization, which is why urbanization is so closely associated with GDP in countries and over time.

Urban productivity is higher than rural productivity, and productivity is higher in large cities than in small cities, even in the midst of the crowding, the congestion and the inequality that often characterizes large cities. This is because of the power of agglomeration economies, namely, the set of economic benefits arising from the clustering of economic activities. This productivity differential is the reason why even cities with high rates of poverty usually have higher incomes than rural areas in the same country. Urbanization is therefore one way to raise incomes, especially if formal sector urban jobs can be expanded.

Owing to the central role of urban productivity in development, the character of cities is important. Urban productivity can be increased by improving mobility, preventing urban sprawl, improving access to affordable electricity, water and other services and investing in a well-educated and skilled urban workforce. Cities can also rise to their economic potential through strategic investment aimed at specific economic sectors that will employ the urban workforce and drive growth. The key point to note is that there is a time window during which the urban transition takes place, when urban advantages need to be unlocked and exploited, and long-term growth patterns are set. In the context of Africa, the prevalence of informality and the huge backlog of investment needed to decongest and improve urban functionality make managing the urban transition uniquely challenging. Nevertheless, this makes the urban lens in development planning, more, not less, important.¹²

6. Is urban development not the domain of city and local authorities? Why should it be considered at the national level?

Urban authorities have an important role to play in urban development, but they often lack the capacity to manage urban development well. In many cases, decentralization has a long way to go. Even where there has been significant devolution of power, it has not always been accompanied by fiscal decentralization, and economic management competencies are particularly weak or lagging. The result is that many cities are struggling to cope with rising population and increasing demand for services, within extremely limited budget and capacity. The failure of subnational governments to manage cities and the failure of cities to operate efficiently places a major constraint on national economic development. Urban development and the performance of cities is therefore an issue of national significance.

Investment in subnational urban management capacity can pay off in the long run, allowing subnational governments to eventually play a larger role. For example, in Morocco, regional authorities

¹² For further reading, see section 2, “The nature of urban productivity”, on agglomeration economies; section 1, “The relationship between urban productivity and economic growth”, on the link between urbanization and development; and section 2, “Productive cities”, on characteristics of productive cities.

and regional institutional frameworks have become the focal points for urban development and the coordination of major economic projects. The elevated level of responsibility held by subnational entities has followed upon 15 years of major investment in cities, the development of a generation of highly educated, skilled and trained Moroccan leaders and the establishment of well-functioning vertical coordination mechanisms.

Even in countries where local leaders can manage basic urban development, major national economic development initiatives require a national role. Interventions such as infrastructure megaprojects, regional targeting and economic sector targeting occur at the national level. National development policies should therefore promote strategic location-specific and economic sector-specific urban policies and projects that go beyond the mandate of local governments to manage urban development.¹³

7. Where in the national development plan process should urbanization be integrated?

Urban issues should be considered throughout the national development plan process. This guidebook breaks the national development plan process into four generic stages and contains discussions of the urban lens in each: (a) diagnostics and analysis; (b) vision, goals and targets; (c) implementation strategies; and (d) monitoring and evaluation.

The diagnostics and analysis stage is critical for developing a country-specific conceptual framework for understanding the role of cities in national development. This stage can help to identify economic trends, opportunities and challenges, with the understanding that structural transformation requires job creation in high productivity urban economic sectors. Diagnostics can cover the structure of the economy and economic sectors of opportunity, the productivity of cities as an environment for economic activity and the economic geography of the national spatial system as a whole. A policy paper or policy dialogue on these issues can help economic policymakers to build a narrative about cities that will inform economic policy. The conceptualization of urbanization and an evidence-based policy framework, along with good city-level economic data, are critical. Urban and subnational data are often lacking. Bolstering urban data and statistics and disaggregating existing statistical databases at the city and metropolitan levels may therefore be a fundamental early step in preparing for the national development plan process. The technology and big data revolution and the ongoing effort to develop indicators within the framework of the Sustainable Development Goals should be an opportunity to build capacity in this area.

The establishment of the vision, goals and targets will draw upon the diagnostics and analysis stage. Having a clear articulation and reflection of the urban dimensions of development (e.g., urban jobs, urban productivity, human capital) in the national vision is important. Urban issues should not be an afterthought, confined to housing or appear in the preamble to the national development plan, without cascading through the planning process all the way to budgeting and programming. The urban conceptualization in development planning should have an emphasis on the opportunities and the challenges and the quality of urban growth, as well as the quantitative and demographic dimensions. Policy should identify and articulate important links existing between economic growth and urbanization. These include prioritizing urban job creation in sector targeting, factoring urban productivity into growth projection and target setting and considering the national spatial system and its economic functions within national development plan or as an aligned regional strategy.

¹³ For further reading, see section 2, "The urban land and real estate development process", on managing urban development to achieve urban productivity; and section 2, "Coordinated action for policy implementation", on vertical coordination.

Implementation strategies can help to achieve goals and targets linked to cities by addressing gaps in institutional horizontal and vertical coordination, as well as subnational capacity. Finance is also a critical bottleneck to leverage urbanization. Cities require massive investment, but they also potentially generate significant economic dividends and can boost public revenue under the right policy and financial framework.

Monitoring and evaluation should, as in the diagnostic stage, answer key questions about the economic role of cities, draw upon urban and spatially disaggregated data and tap into expert knowledge on cities, urbanization and structural transformation. Attention to cities during monitoring and evaluation can inform the next policy cycle about where policies on their economic role are succeeding and failing and how to tailor the policy approach to harness urbanization for development.¹⁴

Contextualizing this guidebook for specific economies

Countries vary on the basis of their level of development and speed of urbanization and their existing capacity for national development planning. In this guidebook, countries that are less urbanized but rapidly urbanizing will identify the issues requiring urgent attention. In order to guide the urbanization process in ways that facilitate economic and human development. Where resources and capacity are lacking, countries can begin with the following action:

- Prioritize the establishment of an urban development process that results in good urban form and leaves room for future public space and infrastructure; supports for land and real estate market functioning and planning for streets and connectivity at the scale of urban expansion will be key, even if major public investment come later
- Ensure that the national spatial system and the spread of public programming and investment facilitate value added to rural products
- Engage with the Economic Commission for Africa (ECA) for technical support, as needed.¹⁵

Countries that are fairly urbanized but have cities plagued by inequality and poverty will find this guidebook useful for finding ways to help the urban population to take part in economic growth, as follows:

- Consider investing natural resource rents to address urban productivity and removing spatial barriers to better link urban workers and economic opportunities (see sect. 2, theme B).
- Consider targeting and investing in economic sectors and value chains with the potential to create more urban jobs
- Consider lifting up the economic role of secondary cities.

¹⁴ For further reading, see section 3 on the urban lens in the national development plan, diagnostics and analysis; on the urban lens in the national development plan vision, goals and target setting; on the urban lens in national development plan implementation strategies; on the urban lens in national development plan monitoring and evaluation; and the annex, on indicators and data collection.

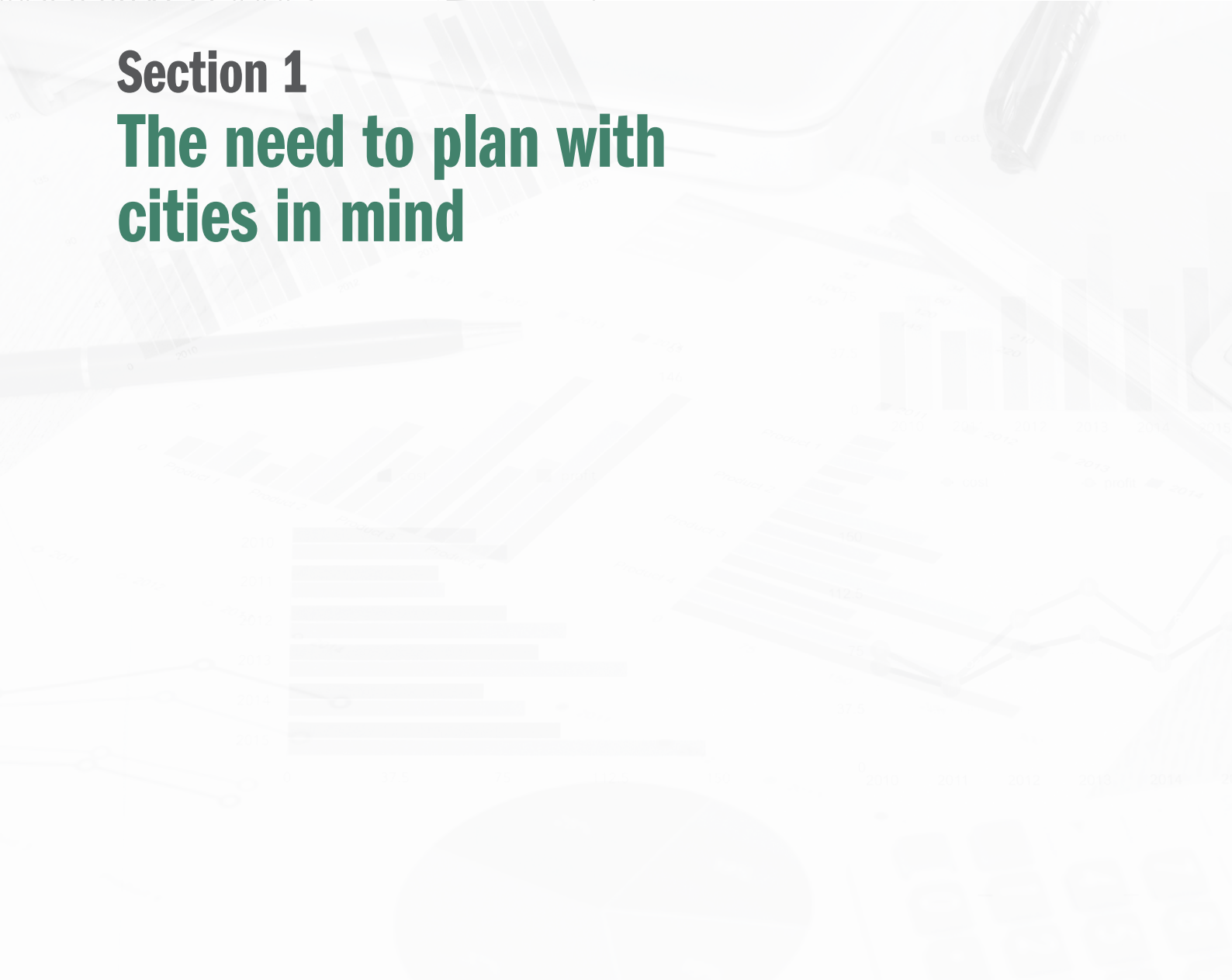
¹⁵ In section 3, the boxes “Where to start” provide more information on possible first steps in incorporating urban issues at each stage of the national development plan process.

Countries that are urbanized and that have an array of productive, diverse and complementary cities can draw upon this guidebook to benchmark their standing on key urban issues and identify areas in which urban productivity can still be improved, perhaps also focusing on the urban role in industrial upgrading and innovation. Sample benchmarks can be found in the annex.

Countries that do the majority of development planning at the subnational level or through sector strategies can still adapt much of the guidance within this guidebook and apply it to their context. However, even where planning is decentralized and occurs at regional or local levels, a role for national planning can still be seen in considering the spatial implications of macroeconomic policies and locating national investment and programming according to the economic logic of a national spatial system (see sect. 2, theme C). That can be critical in helping to overcome multi-jurisdiction coordination failures (see sect. 3, stage 3) and establishing national standards for urban data (see sect. 3, stage 4).



Section 1
**The need to plan with
cities in mind**



Why national development planning?

In 2008, the Commission on Growth and Development, an independent group of policymakers, academics and business leaders, released a landmark report entitled *Growth Report: Strategies for Sustained Growth and Inclusive Development*. The report was the result of two years of work that drew on empirical studies initiated to reassess past theories of economic growth and poverty reduction and help developing countries to rethink policy development. One of the things that the Commission did was distil lessons from countries that were successful in sustaining the long-term economic growth and transformation of their economies. The Commission identified some of “the distinctive characteristics of 13 high-growth economies that have been able to grow at more than 7 per cent for periods of more than 25 years since World War II”.¹⁶ The development accelerators captured in their analysis include leadership and commitment to create a stable and functional investment environment and implement a multi-decade development process through competent application of economic planning and management tools.¹⁶

The central message of those findings underscored the role of the State in stimulating structural transformation by exploiting a country’s comparative advantage, by developing the market and by nudging and supporting firms to invest, compete and expand. As the economy develops, its factor endowments need adjustment to take the economy to the next stage of development, requiring planning ahead and investment in infrastructure and institutions. In the context of developing economies in which institutions are weak and market failure is pervasive, the role of planning to coordinate investment of households, firms, national and local governments is crucial.

The experience of East Asian countries, in particular, underscores the role of national planning in accelerating growth and realizing structural transformation. Their experiences differ in context and in the specific planning approach or model that they pursued, but they share the following common features:

- They formulated a long-term vision and strategy and they used five-year development plans as the main tool for setting priority economic sectors and growth targets.
- Although economic growth remained a common goal, as economies evolved, adjustments were made to respond to new priorities and challenges, including urban unemployment and social and spatial disparities.
- They established and continued to adjust the economic administrative structures to consolidate the planning process by linking economic planning, sector planning, spatial planning and budgeting.
- At the early stages of development, governments, through public expenditure, prescriptive targets and indicators, took a more interventionist role, but, as economies developed, that slowly moved towards indicative and collaborative planning, with increasing emphasis on the role of markets and the private sector.

¹⁶ See Justin Yifu Lin, *The Quest for Prosperity: How Developing Economies Can Take Off* (Princeton University Press, 2012).

The lessons of Asia are applicable to Africa. Long-term economic planning is a tool for African economic development.

Box 1.1: Responsive development planning in the Republic of Korea

The experience of the Republic of Korea is illustrative of the potential of national development planning. The country has achieved a remarkable economic transformation in a generation, and its planning effort to mobilize and direct investment to priority export sectors is credited as one of the factors behind its success. Between 1960 and 2002, its gross domestic product (GDP) grew at an annual rate of 7.5 per cent. In addition, growth was accompanied by structural transformation that saw manufacturing increase from 14 per cent of GDP in 1965 to 29 per cent in 2004. Fast industrial development was accompanied by job creation. At its peak in 1991, industry employed 37 per cent of the workers of the Republic of Korea, bringing along with it demographic, technological and urban transitions and associated challenges, which the leaders of the country had to accommodate. ^a Today the Republic of Korea is a member of the Organization for Economic Cooperation and Development (OECD), and it ranks as the seventh-largest exporter and fifteenth-largest economy in the world. ^b

The Republic of Korea has addressed emerging issues and challenges by adjusting its development priorities and improving its economic management approaches. For example, the first and second five-year plans (1962-1966; 1967-1971) were aimed at building and modernizing an industrial base, with an initial focus on labour-intensive sectors. Later planning shifted the emphasis to heavy and skill-intensive industries, such as electronics, machinery and shipbuilding, as a path to increased productivity. That policy built the country's export competitiveness in consumer electronics goods and tapped Japanese foreign direct investment (FDI) and technology.

Korean policymakers have not been oblivious to the cost of growth and the emerging social and spatial disparities. In its third five-year plan (1972-1976), developing the rural economy and promoting balanced regional development was included as one of the development goals. Multiple measures were taken to decongest Seoul and relocate industries to other cities (although without total success). In the same vein, the fifth five-year plan introduced the creation of a comprehensive social security system as a priority area. ^c Recent growth strategies focus on green growth, productivity and innovation.

^a See Matleena Kniivilä, "Industrial development and economic growth: Implications for poverty reduction and income inequality", in *Industrial Development for the 21st Century: Sustainable Development Perspectives* (United Nations Secretariat, Department of Economic and Social Affairs, 2007).

^b See Organization for Economic Cooperation and Development, "Korea. Policy Priorities for a Dynamic, Inclusive and Creative Economy", OECD Better Policy Series (2015).

^c See Paul Kuznets, "Indicative planning in Korea", *Journal of Comparative Economics*, vol. 14, Issue 4, pp. 657-676 (1990).

National development planning in Africa

The initial planning experience of post-independence Africa was short-lived and largely unsuccessful. A number of countries began the post-colonial period of the late 1950s and early 1960s with central planning, with the goal of steering growth and promoting industrial development. The macroeconomic instability and accumulated debt that followed the external economic shocks of the early 1970s, however, along with weak institutions and economic management of many African countries, brought the first generation of planning to an unhappy end.¹⁷ The structural adjustment programmes that African countries were compelled to embark on in the late 1970s and 1980s were focused on budget cuts, institutional reforms, privatization and the rolling back of the State, with disruptive effects on long-term development planning in Africa.

¹⁷ See Economic Commission for Africa, *Planning for Africa's development: Lessons, insights and messages of the past and present experiences* (Addis Ababa, 2016).

Box 1.2: National development planning in Uganda and Zambia

Uganda and Zambia have similar approaches to cities within their national planning frameworks, which demonstrate both shortfalls and progress in that area. The second national development plan 2015/16-2019/20 of Uganda is guided by Vision 2040, while the seventh national development plan (2017-2021) of Zambia is guided by Vision 2030.

Uganda and Zambia both target three priority economic sectors to drive national development: agriculture, mining and tourism. This shared sector targeting illustrates the importance of agriculture and natural resources, but it is also striking that the plan does not explicitly have a priority on urban job creation and target manufacturing. Although industrial development and, in the case of Zambia, diversification, are important components of the vision, the absence of manufacturing from the national development plan, as an important building block of implementing the vision, raises some questions. Both countries are rapidly urbanizing, with the urban growth rate of Uganda standing at one of the fastest-growing ones in the world and Zambia poised to reach 50 per cent urban by 2035. They aim to accelerate structural transformation and confront the challenges of employment and poverty reduction. Notwithstanding such circumstances, the plans do not prioritize labour-intensive manufacturing and high-productivity services as growth sectors. It is similarly unclear how the nexus between the priority economic sectors and cities is envisioned to play out towards achieving the stated goals of structural transformation, poverty reduction and employment.

Encouragingly, both countries are in the process of developing national urban policies. These policies will, it is hoped, assist policymakers in conceptualizing the link between urbanization and development and what is required to make cities drivers of development. The expertise developed during the formulation of national urban policies should inform the forthcoming cycles of national development plans. Important also is that both countries are working to address institutional coordination. Uganda has proposed an “urban sector working group” to help ministries to align their urban projects and strategies. In Zambia, one of the main thrusts of the seventh national development plan is to improve institutional coordination and prevent disconnected or competing priorities between ministries.

Notwithstanding the impact of external forces, the early experience of planning in low-income countries, including those in Africa, was seen by many with scepticism and considered to have largely failed owing to fundamental structural challenges and capacity constraints. The list of problems undermining development planning in low-income countries was long and included unrealistic or overly ambitious targets, inappropriately specified or inadequate macroeconomic models, unreliable and non-existent data, inadequate participation of stakeholders, lack of competent staff, departmental rivalry, economic uncertainties and external shocks, as well as institutional arrangements that deprived planning commissions of adequate authority to coordinate resources and implementation.¹⁸

Since the late 1990s, there has been a resurrection of development planning, but it has been focused in large part on social development concerns and macroeconomic stability objectives. This is influenced in part by the global agenda of the Millennium Development Goals and the poverty reduction strategies that were components of the Heavily Indebted Poor Country Initiative. Notwithstanding externally determined development priorities, African countries have made progress in building their planning capacity and have begun to develop a new generation of development plans that are focused on economic growth and structural transformation. The scale of the challenges and opportunities associated with the demographic and urban transitions that many African countries are experiencing require development that is guided by a long-term vision and priorities, and one that is indicative, inclusive and coordinated. A growing number of African countries are responding to this need and have laid out their development visions, which, in many cases, entail five-year development plans that focus on inclusive growth and industrial development.

African countries should continue to develop their national development planning practice, and there is room for many countries to adopt an approach that more fully accounts for the urban transition that they are undergoing, which is inextricably tied to their development trajectories.

¹⁸ See Tony Killing, “The possibilities of development planning” (Oxford Economic Papers, 1974).

Box 1.3: National development plan versus national urban policy: can a national urban policy supplant the need for urban issues within the national development plan?

What is a national urban policy?

A national urban policy is an emerging global best practice promoted within the New Urban Agenda. According to the United Nations Human Settlements Programme, a national urban policy is “a coherent set of decisions derived through a deliberate government-led process of coordinating and rallying various actors for a common vision and goal that will promote more transformative, productive, inclusive and resilient urban development for the long term.”^a

National urban policies are intended to provide a broad vision, rather than a piecemeal approach, for leveraging the opportunities of urbanization and preventing or mitigating its challenges. They provide a framework for guiding urbanization differentiated by the size and role of the city, including the prime city, secondary cities, smaller cities and market towns. The national urban policy framework provides guidelines for physical development and suggests institutional roles and responsibilities to achieve them.

Why include urban issues in the national development plan if there is a national urban policy?

- 1. The national urban policy and the ministry that is in charge of its implementation do not typically have the authority or instruments to coordinate all urban issues.** Urban issues are multisectoral and require coordinated action by many ministries and subnational entities. A national urban policy is developed by and housed in a single ministry, typically the ministry of housing or the ministry of infrastructure. While that ministry can propose a framework for coordinating the work of the other ministries and subnational entities, a higher level of authority is needed to establish and implement that framework. The national development plan is the avenue to achieve coordinated action towards development goals, including action on urban issues.
- 2. The national development plan provides guidance for making hard choices in the implementation of national urban policies.** The national urban policy can provide a vision for the sustainable city. Not all components of that vision can be implemented at once, however, owing to limited resources. The national development plan is therefore needed to guide the prioritization and phasing of national urban policy implementation in alignment with national development goals.
- 3. The national development plan can consider the entire national spatial system.** The national development plan is well suited to linking urban and rural development to leverage their unique roles in structural transformation. The national urban policy focuses more on cities themselves and relies upon the national development plan to situate them within the national spatial and economic system.
- 4. The national development plan can align economic sector targeting policies with urban interventions.** The national development plan identifies priority economic sectors and can promote their development with place-based interventions, shedding light on the question of which economic sectors should be supported with which policy interventions and where. The national urban policy can then help to align urban development with sector-specific priorities, especially if the national development plan specifies the place-based requirements for priority sectors.
- 5. The national development plan and the national urban policy can provide complementary inputs to each other.** The diagnostic process that occurs during the formulation of the national urban policy can provide critical insights into economic opportunities and barriers in cities. This can feed national development plan formulation with well-grounded strategies to leverage urbanization. At the same time, the national development plan should provide a strong vision of economic development and a set of priorities that are incorporated into the national urban policy.

^a See United Nations Human Settlements Programme, *The Evolution of National Urban Policies – A Global Outview* (Nairobi, 2014).

Relationship between urban productivity and economic growth

Both historical and empirical evidence confirm the link between urban agglomerations and economic growth. This relationship is bidirectional. It is clear that economic growth, particularly when it is tied to job creation and consumption in cities, draws people to cities. At the same time, economic growth based on gains to rural productivity can also encourage migration as agriculture and natural resources shed labour.

The relationship also goes the other way: the growth of cities enables economic growth. Urbanization is an integral part of structural transformation, and structural transformation is an essential feature of modern economic growth and development. Agglomeration economies of cities generate higher productivity, making firms and workers in cities more productive than in rural areas and sustaining the productivity differential exhibited in city economies, and, over the long term, skills, knowledge and technology concentrated in cities continue to drive economic growth. Dynamic cities offer a competitive environment for firms to learn and innovate and economic structures to morph and adapt to changing global markets and technology.

A productive city is a well-functioning city that reduces costs to firms and boosts production through agglomeration economies. A competitive city offers advantages sufficient for firms to compete in national, regional and global markets. On average, firms in African cities bear 19 per cent higher costs per unit of output than firms in other regions.^b

^b See Giuseppe Iarossi, "Benchmarking Africa's Costs and Competitiveness", in The Africa Competitiveness Report 2009, World Economic Forum, World Bank and African Development Bank (Geneva, World Economic Forum, 2009).

While urbanization is necessary for structural transformation, it is not sufficient. The quality of cities can facilitate the growth of productive economic sectors or can constrict it. The quality of cities is based on their institutions, infrastructure and spatial layout (see table 1.1). Well-functioning cities in these three areas convey productivity to firms operating there.

Table 1.1: Characteristics of well-functioning, "productive" cities

	Well-functioning cities bolster productivity	Poorly functioning cities reduce the urban productive advantage
Institutions	<ul style="list-style-type: none"> – A well-functioning property market allows firms to find an optimum location to do business – Permits, taxes and regulations are clear, fast and easy to navigate – In general, markets are working well, enabling supply of land, housing, goods and services to meet demand 	<ul style="list-style-type: none"> – Land with a clear title is difficult to find – Permits, taxes and regulations are time-consuming, costly and difficult – The convergence of many constraints on economic activity lead to high transaction costs and constrained supply in markets for land, housing, goods and services. The result are disproportionately high costs of living and of labour, compared with cities at similar income levels

	Well-functioning cities bolster productivity	Poorly functioning cities reduce the urban productive advantage
Infrastructure	<ul style="list-style-type: none"> – Firms can gain access to electricity and other utilities easily – Commutes are easy owing to good transit, connected roadways and space for non-motorized modes – Freight transport is fast and efficient with easy access to transport hubs and ports 	<ul style="list-style-type: none"> – Outages and poor access to basic services raise production costs – Commutes are long, unpredictable or costly, raising the cost of labour – Freight transport is costly owing to congestion, difficulty accessing transport hubs and ports
Spatial layout/urban form	<ul style="list-style-type: none"> – Density and the clustering of firms allows for knowledge spillovers and cross-fertilization, resulting in high rates of innovation – Residential density increases the size of consumer markets and creates a pool of labour for labour sharing and skills matching – A mixture of uses creates high levels of accessibility, lower transport costs and plenty of options for firm inputs and consumer choices – Social mix allows for labour mobility and economic mobility of households – Connectivity reinforces accessibility, allowing firms to gain access to larger markets for purchase and sale 	<ul style="list-style-type: none"> – Sprawling land use increases travel times and reliance on motorized single occupancy vehicles, creating congestion, long commutes and inaccessibility – Separation of land uses create peak hour congestion and undermines knowledge cross-fertilization and the innovative process – Social segregation creates poverty traps and despair – Poor internal city connectivity limits accessibility, undermining all elements of agglomeration economies

Need for an urban lens

Urbanization and economic development are innately linked. Cities, through agglomeration economies, make workers and firms productive and drive growth. As countries develop, manufacturing, services and knowledge-based sectors become the main employers and magnets of investment, and their economic performance, to a great extent, depends on the quality of cities and the national spatial system. Cities are the grounds for structural transformation, and their dysfunction can become an impediment to development.

Structural transformation involves the movement of labour from low-productivity to high-productivity activities. This process is central to economic development, given that it enables an increasing share of workers to begin to receive higher incomes. According to Peter Timmer and Selvin Akkus, four characteristics of development define structural transformation: a declining share of agriculture in gross domestic product and employment, a rise in industrial and service sectors, a demographic transition from high rates of births and deaths to low rates of births and deaths and a rapid process of urbanization.^a The movement of labour to higher productivity activities results in increased average productivity and income of the economy. In addition, thanks to urban dynamism and continuing accumulation of skills, knowledge and technology in cities, firms and workers in urban economic sectors will continue to increase their productivity, thereby further driving economic growth.

^a See Peter Timmer and Selvin Akkus, "The Structural Transformation as a Pathway out of Poverty: Analytics, Empirics and Politics", Working Paper 150 (Center for Global Development, 2008).

Regardless of the economic role of cities, they are growing in Africa, even in places where, and in years when, economic growth has slowed. Urbanization is an unstoppable megatrend that is sometimes carried forward by its own demographic momentum, with urban births exceeding deaths and tipping

the population scale towards cities.⁵ Africa is the epicentre of rapid urbanization and is projected to have 56 per cent of its population living in cities by 2050.¹⁹ Nevertheless, urban growth will vary, with East Africa, the least urbanized, making the fastest transition (projected to double its urbanization in 35 years), and Southern Africa, the most urbanized, proceeding more slowly.

The implications for this profound transition are enormous and multifaceted. As a growing share of the population of Africa is set to be living in cities, the efforts to combat poverty and inequality is to be won or lost in cities. Because of the speed and scale of urbanization in Africa, its cities are overwhelmed by demand for jobs, housing and services. Not only do cities need to catch up with the backlog, they also need to plan ahead to accommodate future growth. This is a mammoth task of historical significance, which is achievable only through a national vision and coordinated action on multiple fronts, which is why the national development planning framework is of paramount importance.

Notwithstanding the economic importance of cities in the development trajectory of Africa, they are too often an afterthought in economic planning. There is nevertheless a new wave of economic planning in Africa that brings the role of cities into focus. Agenda 2063: The Africa We Want, the Common African Position on the Post-2015 Development Agenda and the Common African Position on Habitat III recognize cities as economic drivers. This is a critical moment in the history of Africa to plan and invest in cities.

Currently, African national development plans consider urban issues, but these are often siloed and do not always factor into economic policies and targets. While structural transformation is usually a component of national development visions, the medium-term national development plans that are designed to implement them do not always prioritize urban jobs, a prerequisite of structural transformation. Urban goals are often expected to deal with poverty and informality, rather than to realize the economic opportunities that cities and urbanization represent. In the same vein, national development plans often place a priority on agriculture and rural development over urban economic productivity, even in countries where the population is approaching 50 per cent urban or beyond and GDP growth is driven by urban economic sectors.²⁰ This results in urban underinvestment, with significant consequences for the economy in the long term.

Good practices are nevertheless in effect across Africa. The national development plan of Mozambique puts a priority on industry, with an emphasis on agro-processing and transformation of rural products as a key strategy to achieve structural transformation and create urban jobs, while bringing agricultural producers into the economic development process. The policy framework of Morocco has achieved a two-decades-long “urban upgrade”, including major investment in 14 major cities, resulting in cities becoming both more attractive to investors and more liveable and equitable. The South Africa planning framework includes explicit attention to spatial-economic linkages, coordinating spatial development planning at the regional and local levels with national economic planning.

¹⁹ See United Nations, *World Urbanization Prospects: The 2014 Revision*, Department of Economic and Social Affairs (New York, 2014).

²⁰ See Gulelat Kebede and Liz Paterson Gauntner, “Integrating Urbanization in National Development Planning for Inclusive Economic Growth”, paper prepared for ECA, Addis Ababa, 2018.

Box 1.4: Four anti-urban myths***Myth 1: Agriculture should be the driver of development, owing to large rural populations and comparative advantages in agriculture.***

It is true that agriculture is a critical part of the development puzzle. One of the challenges of structural transformation in Africa is the low productivity of its agricultural sector. Many African countries have a large rural population and agrarian economy, and some sort of green revolution is a necessary condition. Agriculture, however, cannot be the sole focus or the singular driver of development. On the contrary, agriculture transformation needs industrial and urban development on two accounts: first, making agriculture productive requires industrializing it, given that improvement in yield and productivity involves mechanizing, intensifying and agro-processing; and second, structural transformation and modern economic development involves a shift of employment and value added away from agriculture to industry and services.

Successful agricultural development naturally needs big urban markets for its produce, and cities and industries to absorb the surplus labour exiting from farming. In that sense, increasing the productivity of agriculture is also a component of the structural transformation process, but it requires the development of the other economic sectors. Because the manufacturing and services sectors have productivity levels higher than those of agriculture, under the right conditions, the income level of society is expected to grow with the increasing urban population and the declining rural population. Conversely, if there is a lack of decent urban jobs, poverty will be shifted from rural to urban, and the structural transformation process that began with agricultural development cannot be sustained. This is the basic story of development, borne by history around the world, and Africa is not fundamentally different, even though it has its own specificities.

Development of the agricultural sector and development of urban economic sectors is not a zero-sum game. The two can, and should, go together.

***Myth 2: As policies to improve cities will stimulate migration and only make cities more overcrowded, policymakers should focus on rural development to slow urbanization.*^a**

African urbanization is driven more by natural growth than migration. Its rates of migration peaked in the 1960s and began to decline after that. Unlike the experience of the United Kingdom of Great Britain and Northern Ireland during the Industrial Revolution, where natural urban population growth was lower in cities owing to high death rates, African urban population growth is driven by natural population growth based on a fall in mortality rates in cities. Urbanization will therefore continue independently of migration or rural development^b

In addition, past policies of preventing or slowing migration have been in large part unsuccessful. In the 1980s, many African Governments, concerned by rapid urbanization, attempted to slow urban growth, but their policies failed^c and may well have caused productivity losses.^d

Policies that attempt to deter migration (by neglecting investment in service provision) should be avoided, given their adverse economic impacts.^e

Lastly, rural and urban development are complementary. Multifaceted economic linkages between urban and rural areas mean also that well-functioning urban economies have benefits for rural areas. Increasingly, urban migrants and their families straddle the urban–rural line, developing livelihood strategies that combine incomes from both sources.^f

Urban migrants remit money back to rural areas, boosting spending in education and investment with benefits for rural economic productivity.^g

Migration, in particular to small towns, is often a way out of poverty. Urbanization also helps rural economic development by creating markets for agricultural products and providing business services to agricultural enterprises.

^a See Economic Commission for Africa, *Economic Report on Africa 2017: Urbanization and Industrialization for Africa's Transformation* (United Nations publication, Sales No. E. 17. II. K. I).

^b See Patricia Clarke Annez and Robert M. Buckley, "Urbanization and Growth: Setting the Context" in *Urbanization and Growth*, Michael Spence, Patricia Clarke Annez and Robert M. Buckley, eds. (Washington, D.C., Commission on Growth and Development, 2009); Sean Fox, "Urbanization as a Global Historical Process: Theory and Evidence from Sub-Saharan Africa", *Population and Development Review*, vol. 38, No. 2 (2012) pp. 285–310.

^c See Patricia Clarke Annez and Robert M. Buckley, "Urbanization and Growth: Setting the Context" in *Urbanization and Growth*, Michael Spence, Patricia Clarke Annez and Robert M. Buckley, eds. (Washington, D.C., Commission on Growth and Development, 2009).

^d David Harvey, "Reshaping Economic Geography: World Development Report 2009", *Development and Change*, vol. 40, No. 6 (Oxford, Blackwell Publishing, 2009), pp. 1269–1277.

^e See Ivan Turok and Gordan McGranahan, "Urbanization and economic growth: the arguments and evidence for Africa and Asia", Environment and Urbanization, vol. 25, Issue 2 (International Institute for Environment and Development, 2013).

^f See Patricia Clarke Annez and Robert M. Buckley, "Urbanization and Growth: Setting the Context" in Urbanization and Growth, Michael Spence, Patricia Clarke Annez and Robert M. Buckley, eds. (Washington, D.C., Commission on Growth and Development, 2009); Deborah Potts, Circular Migration in Zimbabwe and Contemporary Sub-Saharan Africa (2010, Woodbridge and Rochester, New York: James Currey and Boydell and Brewer).

^g See African Development Bank, Organization for Economic Cooperation and Development and United Nations Development Programme, African Economic Outlook 2016: Sustainable Cities and Structural Transformation (2016).

Myth 3: Poor countries cannot afford to invest in urbanization and cities

Urbanizing countries cannot afford not to invest in cities. As population shifts to cities, production will also shift to cities, with sectors such as manufacturing and services leading growth. Because cities are the location of the future economy, investment in cities will determine whether the future economy performs well or poorly.

Urban investment is indeed costly, but it can also generate a high return on investment in terms of economic growth. Cities also generate a large and increasing share of public revenue, making urban investment financially sustainable with the right set of revenue instruments.

Investment in urban services is often less costly than investment in rural services per capita to achieve the same level of service. This is because, at higher densities, roads, schools, health clinics, police stations and electrical lines can serve a larger number of people in a smaller radius.

Lastly, investing in urbanization does not entail investing only in big cities. It also involves investing in a continuum of urban settlements, including in small and intermediate-sized cities, as well as in rural or market towns. Rural development strategies, although not the subject of this report, are important and should be complementary and connected to urban development strategies. The question is therefore not whether to invest in cities, but rather how to prioritize and optimize investment in cities, within the context of developing a continuum of human settlements that are productive, connected and integrated.

Myth 4: Cities evolve organically without requiring national policy action ^a

Cities are built on the foundation of public infrastructure and can be guided towards sustainable urban form through good planning. Cities grow around a network of public spaces, the most critical of which are streets. Government is important in defining how streets and infrastructure will shape the city and can result in well-functioning - or poorly functioning - urban space.

While urban planning and development control requires local action, national standards and funding are critical to ensure that local governments have the mandate and the capacity for good planning, as well as the finances to implement their plans.

Beyond infrastructure, private development requires well-functioning institutions and public investment to achieve efficient and equitable urban form. A long-term planning framework and its implementation signals government commitment and the growth prospects of a city, helping to crowd in private investment. Well-coordinated public and private goods play complementary roles, with public investment supporting private investment and private prosperity reflected in public revenue.

The inability of governments to deliver public infrastructure and services is at the heart of urban and industrial failures. Economically efficient cities require early, strategic investment, in particular in energy, transport and other infrastructure. Socially equitable cities also require government action to assist low-income households in finding decent housing and connecting to jobs. Environmentally sustainable cities require policies to correct the market failures caused by negative externalities.

^a See Economic Commission for Africa, Economic Report on Africa 2017: Urbanization and Industrialization for Africa's Transformation (United Nations publication, Sales No. E. 17. II. K. I).

Reasons to think urban now

There are a number of reasons why planning for the urban development of Africa should be an urgent priority for economic planning. While some countries are further along the urbanization and development continuum, some general considerations hold true for many African countries:

- 1. The pace of urbanization is greater than that which other regions have experienced, and thus urbanization of Africa requires a larger immediate response.** J. Vernon Henderson stated that urbanization occurs during a span of approximately 30 years, as opposed to the more leisurely pace of urbanization of today's developed countries, which played out between 100 and 150 years, and that rapid urbanization is traumatic.²¹ The urban population of Africa is estimated to have doubled in the past 20 years and is expected to double again in the coming 20 years.²²
- 2. The opportunities arising from the urbanization process are transitory.** Urbanization should be exploited when it happens. African cities are growing fast, but that does not make them productive. Productivity arises from density of economic activities in a well laid-out and managed spatial economy. The prevalent phenomenon of slums and informality in African cities indicate the resilience and the creative energy of people, but also the lost productive opportunities owing to a lack of planning and investment in advance of urban growth. The good news is that the urban transition is ongoing and can be exploited. This will require urgent short-term and thoughtful long-term actions, coordinated within a development framework.
- 3. Urbanization requires major investment, and doing nothing is not an option.** Density can lower per capita costs of services and infrastructure, but that does not make urbanization cheap. Cities require massive public investment to accommodate a quickly rising population in a compact environment. The return on urban investment, however, is also high, especially when investment occurs within a good planning framework, is aligned with private sector investment and is paired with well-functioning revenue and land value capture tools. The costs of neglecting investment in cities are high and include foregone productivity, social and environmental costs and high future costs to retrofit a dysfunctional urban layout.
- 4. Good planning is critical in order to avoid costly long-term lock-ins arising from inefficient patterns of urban development.** Establishing a compact and connected urban development pattern with adequate space for current and future infrastructure needs will avoid the need to expropriate developed land and demolish early improvements later, a costly and often socially fraught process. In addition, the fundamental infrastructure established early on will have an impact on the development pattern for decades to come and could either foster or undermine agglomeration economies. "Policies should aim to provide a well-planned, connected network of streets with space for non-motorized modes of transport and for priority use such as mass transit and freight. Heading off land and property market constraints early, including preventing speculation, can help forestall urban problems and enable more compact development. Well-planned, serviced buildable plots can also help to keep cities affordable".⁵
- 5. Urban demographics in many African countries are presenting a limited-time dividend that can be harnessed to boost economic growth.** The urban transition in Africa is accompanied by a demographic transition. As fertility rates decline, there will be a window of opportunity

²¹ See J. Vernon Henderson, "Cities and development", *Journal of Regional Science*, vol. 50, No. 1 (2010), pp. 515–540.

²² See United Nations, *World Urbanization Prospects: The 2014 Revision*, Department of Economic and Social Affairs (New York, 2014).

when economies benefit from a decreasing dependency ratio. The benefits involve not just additional economic output owing to a larger work force, but also increased capacity to save and invest in education, health and skills. The benefits eventually disappear as the population enters its aging phase. The fertility rate is lower in urban areas than in rural areas, and the urban transition can facilitate the demographic transition. For example, in Ethiopia, as early as 1994, the fertility rate for Addis Ababa was below the replacement rate of 2.1, compared with the national average rate of 5.4 at the time.²³

The high ratio of young people in African cities is a potential asset that should be harnessed. African young people in cities have better access to education and information technology and can amplify the demographic dividend. In East Asia, the demographic dividend accounted for one third to one half of growth during the “East Asian miracle.”²⁴ Some estimates put the GDP increase arising from a one percentage point decline in age dependency at 1.1 per cent. Those estimates, however, are also conditional on investment in human capital.²⁵ African cities must be able to create jobs to harness the demographic dividend.

- 6. African cities are the site of rising consumption, which can be met by domestic production under the right policy conditions.** On the demand side, growing urban consumption and income provide domestic firms opportunities for industrial development and structural transformation. With an average growth rate of 5 per cent and a more than 60 per cent share of the economy during the period of 2000–2011, household consumption in Africa is the dominant, and a growing, component of GDP and a major driver of current account imbalances. There is therefore a need to turn urban consumption growth into production opportunities in economic sectors with comparative advantage. Food, business support services and the construction sector are good candidates to drive job creation.
- 7. Urban growth is a critical link for agricultural and rural transformation.** As illustrated in table 1.2, managing the urban-rural links is an essential condition of the structural transformation process. This is particularly important in Africa, given that many rapidly urbanizing African countries have large rural populations and agrarian economies. Undoubtedly, agricultural transformation is a major development priority. Agriculture’s transformation nevertheless presupposes effective inter-sector linkages centred in industrial and urban development, including industrial inputs and urban-based support services, growing urban markets, agro-industrial processing capacity, trade logistics and growing urban employment opportunities to absorb the surplus labour exiting farming and livestock sectors. Building the infrastructure necessary to foster these linkages and investing in industrial and urban capacity to support agricultural transformation should therefore be central to the goals of national development planning.

²³ See Karin Ringheim, Charles Teller and Erin Sines, “Ethiopia at a Crossroads: Demography, Gender, and Development”, policy brief (Washington D.C., Population Reference Bureau, 2009).

²⁴ See Jeffrey G. Williamson, “Demographic Dividends Revisited”, *Asian Development Review*, vol.30, No. 2, pp.1-25 (Asian Development Bank, 2013).

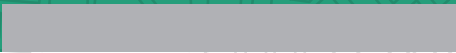
²⁵ See Paulo Drummond, Vimal Thakoor and Shu Yu, “Africa Rising: Harnessing the Demographic Dividend”, IMF Working Paper, WP/14/143 (Washington D.C., International Monetary Fund, 2014).

Table 1.2 : Urban and rural linkages and interdependencies

Urban	<----->	Rural
Agricultural trade/transport centre	<----->	Agricultural production
Agricultural support services	<----->	Agricultural intensification
– Production inputs		– Rural infrastructure
– Repair services		– Production incentives
– Information on production methods (innovation)		– Education and capacity to adopt/adapt innovation
Non-agricultural consumer markets	<----->	Rural income and demand for non-agricultural goods and services
– Processed agricultural products		
– Private services		
– Public services (health, education, administration)		
Agro-based industry	<----->	Cash crop production and agricultural diversification
Non-agricultural employment	<----->	All of the above

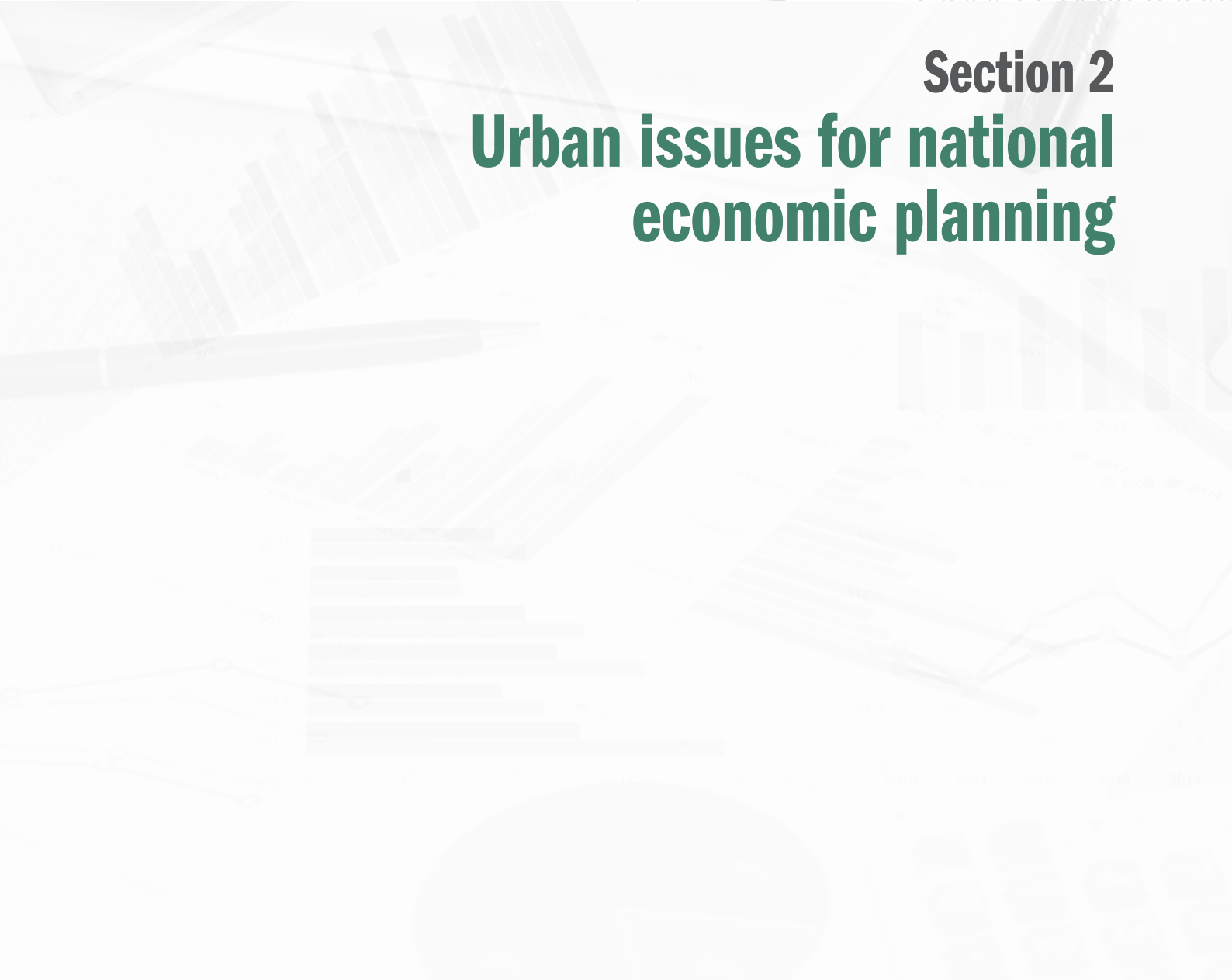
Source: Mike Douglas, "A regional network strategy for reciprocal rural-urban linkages: an agenda for policy research with reference to Indonesia", in Cecilia Tacoli, ed. (2006), *Rural-Urban Linkages* (Earthscan).

In conclusion, the need for national development planning to incorporate an urban lens for a robust and more explicit consideration of urbanization is pressing. Notwithstanding the complexities of African cities, a stronger consideration of urban issues in the economic planning context offers high potential dividends for African economies.



Section 2

Urban issues for national economic planning



Section II

How are cities related to national development and how can national policies leverage their potential? This section presents an exploration of the role of cities and urbanization in economic development and structural transformation. It centres on four substantial policy themes on this subject:

A: Sector targeting

B: Productive cities

C: National spatial system

D: Coordination and finance

Theme A: Targeting economic sectors that leverage urban potential

Table 2.1: Sector targeting considerations

Background information	Some of the issues and trends to consider
<ul style="list-style-type: none"> – Urban populations have been growing rapidly, but jobs have not. If the trend continues, informality and unemployment will worsen. – All sectors are not equal in job creation. Urban job-rich sectors are critical to achieve inclusive growth. <p>Urban population growth and urban development fuel demand for consumer goods, notably food and housing, and business services, including information technology, finance and trade, as well as infrastructure. Cities are the locus of foreign direct investment.</p> <ul style="list-style-type: none"> – For their consumption potential – Urban demand growth creates markets for rural products, facilitating structural transformation. Fostering rural urban linkages is the key to maximizing development impact. 	<ul style="list-style-type: none"> – Employment intensity of priority sectors and potential demand for labour; urban labour market conditions; construction sector growth potential and barriers; urban multipliers to maximize job creation – Urban development for job creation: prospective growth of urban business support and core services, including information technology, finance, trade, transport, waste management and demand for labour – Urban consumption growth and economic effects: urban middle class growth and discretionary spending; food import and prices; food consumption and shifts in product preferences; housing supply chain; value addition to agriculture products and barriers; cities and regions with agro-processing clusters; agro-processing firm-specific infrastructure and logistics needs

National development planning will target specific economic sectors or industries to support growth. Not all sectors, however, are equal in their productivity and ability to generate jobs. In order to leverage the economic potential of urbanization and cities, policies can target economic sectors that create jobs for an urban workforce and leverage the demand created by urban populations and income to develop domestic industries and value chains, which are also critical to transform rural economies.

This section does not contain an exhaustive discussion of sector prioritization and targeting. National planning should, of course, factor in a range of other considerations in sector selection beyond leveraging the economic potential of cities. These considerations include areas of national comparative advantage, the potential for linkages to existing economic sectors, the potential for growth in exports and transferable technology and skills, among others. This section focuses on the ways in which cities and urbanization can better factor in sector targeting within the national development planning process.

Jobs for growing urban populations

In countries and over the course of history, urbanization has been strongly correlated with economic growth. Many African countries, however, have experienced urbanization without economic growth or without broad-based job creation. African countries have urbanized at lower levels of GDP per capita than has been the case in other global regions. Even as African economies have seen a resurgence in economic growth in the twenty-first century, GDP growth has not always been job-rich or inclusive.²⁶

In the meantime, African urban populations continue to grow. That is driven in large part by natural increase – the difference between birth rates and mortality rates – instead of migration from urban

²⁶ African countries and subregions differ by level and type of growth.

areas. Urban population growth is therefore occurring even in countries where urban pull factors such as jobs are weak. Urban population growth that is not accompanied by a similar growth in urban formal sector jobs has led to urban poverty and the proliferation of informal, low-wage and vulnerable employment.

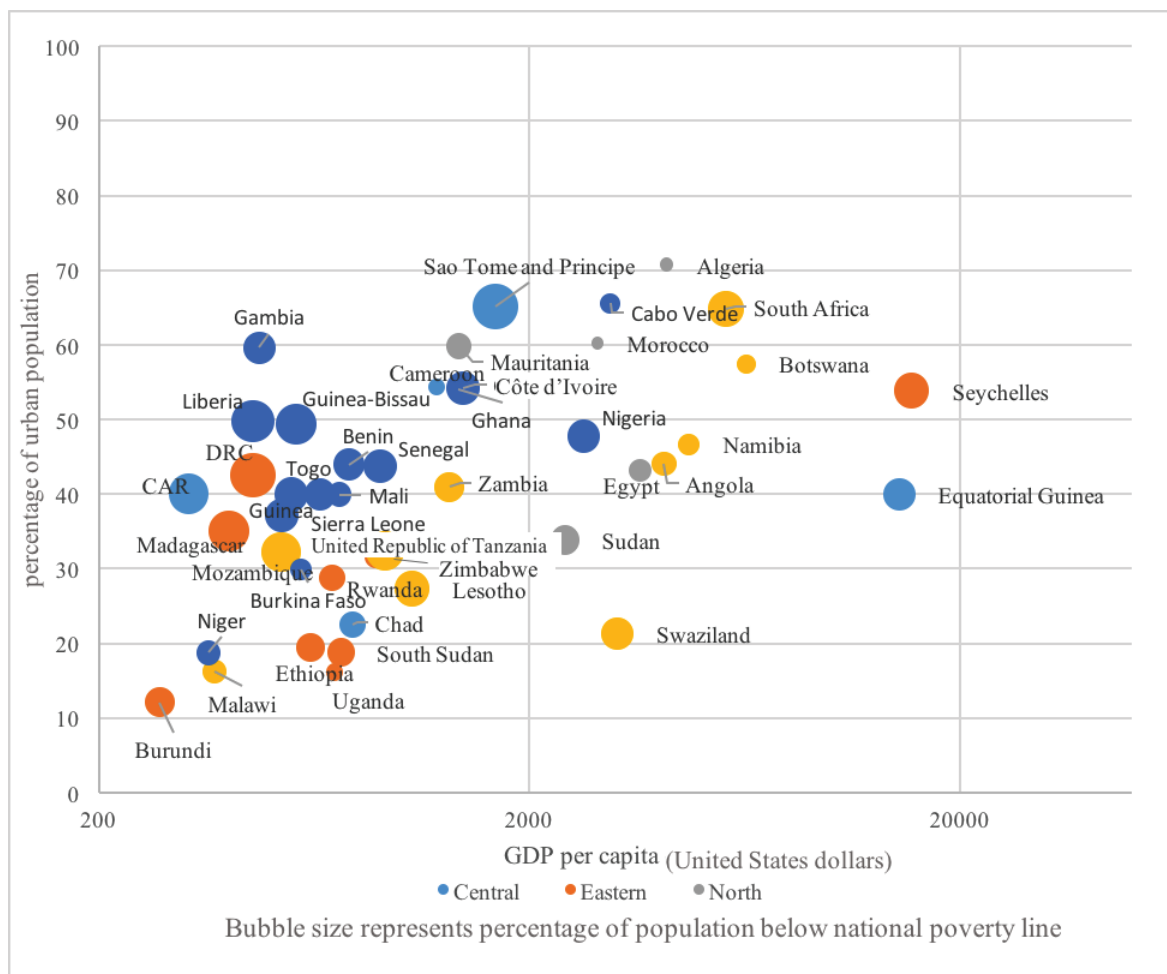
Box 2.1: Classifying African economies: urbanization, income and jobs

African countries differ in their stage of urbanization. Some, especially those in North Africa and with higher incomes, have already urbanized to levels of 60 per cent urban and beyond. Others are less urbanized but are urbanizing rapidly. In almost all cases, the populations of cities are growing, creating a need for a concomitant rise in the number of urban jobs.

In figure 2.1 the distribution of income (GDP per capita) and urbanization in Africa are shown. Although national poverty lines are not fully comparable, larger bubbles indicate higher urban poverty by this national metric. It is clear that GDP growth alone is not enough to reduce urban poverty. Urban jobs are a central component of this dynamic. For example, in South Africa, urban unemployment ranges between 24 and 36 per cent in the six cities with populations above 1 million, with unemployment of young people as high as 47 per cent in Nelson Mandela Bay.^a Relatedly, national urban poverty in South Africa stands at 39 per cent of households.

^a See Statistics South Africa, 2011. Available at www.statssa.gov.za/?page_id=1021&id=nelson-mandela-bay-municipality.

Figure 2.1: Income, urbanization and urban poverty in Africa, 2015



Abbreviations: CAR, Central African Republic; DRC, Democratic Republic of the Congo.

Source: World Development Indicators (World Bank).

Urban jobs with decent wages not only are critical for reducing urban poverty, but also play a central role in combating the pervasive spread of informal settlements. Housing policies of past decades have shown that efforts to improve housing market supply alone cannot tackle the housing gap for the poorest families. At very low levels of income, even the lowest cost formal house built owing to an efficient housing market is still too expensive for the poorest. Housing subsidy programmes and social housing have been used to bridge that gap, but these programmes are difficult to scale up in cities where a large share of the population requires such assistance. Improving access to decent urban jobs is a necessary component of efforts to resolve urban informality.

Demographic dynamics in many African countries have resulted in an urban-based growth in the population of young people. A large population of young people can generate a demographic dividend as the economic dependency rate decreases and a larger share of the population is working. These dividends have contributed significantly to economic growth in Asian countries, explaining the 36 per cent growth in the Philippines and the Republic of Korea, the 41 per cent growth in Indonesia and the 51 per cent growth in Singapore between 1965 and 2005.²⁷ If large populations of urban young people do not have adequate job opportunities, however, not only will the country forego the economic benefits of a demographic dividend, but also unemployed young people can also create social unrest as levels of frustration and economic desperation rise. The need for the creation of quality formal sector urban jobs is therefore especially urgent for countries experiencing such a demographic change.

Job-rich sectors leverage the urban workforce

Economic growth is not enough. Job-rich growth is needed if countries are to leverage the economic potential of their cities. Labour-intensive economic sectors should therefore be given priority in economic planning. Priority also should be given to tradable economic sectors. Tradable economic sectors such as manufacturing, information technology, finance and professional services have higher growth potential because they can leverage external demand and, in general, have higher value added per job, pay higher average wages and have large multipliers in non-tradable sectors such as retail, education, health, food and waste management. The role of various economic sectors in growth and urban job creation is described in table 2.2.

Table 2.2: Roles of various economic sectors

Sector	Economic potential	Job-creating potential	Policy implication for urban job creation
Agriculture	Provides a critical source of subsistence income for many Area of comparative advantage for many African economies	As agriculture becomes more productive, it sheds jobs with the workforce typically shifting to urban areas. Nevertheless, modernization of agriculture can be linked to urban jobs in upstream and downstream sectors.	Link an increasingly productive agricultural sector with value-added opportunities, which are mostly urban-based. Develop processed food supply chains with urban jobs in processing, logistics, transport, wholesale and retail

²⁷ See David E. Bloom and Jocelyn E. Finlay, "Demographic Change and Economic Growth in Asia", *Asian Economic Policy Review*, vol. 4, Issue 1, pp. 45-64 (2009).

Sector	Economic potential	Job-creating potential	Policy implication for urban job creation
Natural resource extraction	Can create massive streams of income, but also be exposed to volatility of global economy and prices	Typically, low; generally capital intensive	Avoid overreliance on natural resources income Invest natural resource rents in job-creating urban sectors and supportive infrastructure Consider policies supportive of diversification
Manufacturing	Uniquely tied to productivity convergence and therefore strong potential for economic growth Can be challenging to compete in global value chains	High for some economic sectors (e.g., textiles); low for others (e.g., automobiles)	Prioritize manufacturing, focusing on the domestic and subregional markets in which local firms have better market access and advantage Invest in labour-intensive sectors or linkages to labour-intensive sectors and industrial upgrading to develop technology and skill-intensive sectors
Non-tradable services (e.g., retail, food services, utilities)	Large in employment and proportionally small in gross domestic product contribution	Absorb a large share of urban labour, also often in the informal sector, when higher productivity opportunities are not available	Avoid policies that restrict these activities, while assisting them to be productive and build linkages to tradable sectors. Offer informal enterprises a path to formalization
Tradable services (e.g., finance, information and communications technology)	High productivity Can help other sectors to become more productive	Not typically labour-intensive, but do pay higher wages and can create jobs in non-tradable sectors	Support these sectors, especially through skilled workforce development and clustering

Productivity is a measure of the amount of output generated, compared with inputs, such as labour, capital and land. Productivity is a central component of economic growth and gross domestic product. Labour productivity, the amount of output per worker or per hour worked, is the basis for wages and in part determines (along with income distribution) whether the lives of the working population will get better. Cities or urban areas are more productive than rural areas and big cities are more productive than smaller ones. This stems from scale economy effects of population size. Cities with high human capital and capacity to innovate or generate new knowledge or apply existing knowledge increase productivity. Scale is not enough to achieve and sustain productivity. Factors affecting the growth and multiplier effect of cities such as urban density, land use, infrastructure and mobility are important.

Sector targeting can take into account not only the number of off-farm jobs needed by the national workforce, but also the level of skill involved. Box 2.2 illustrates the movement from unskilled to skilled economic sectors pursued by a number of Asian countries as part of their national development planning.

Box 2.2: Evolution of sector targeting in Asian development planning

In some of the most successful Asian economies, the trajectory of sector targeting has taken into account the skill sets of workers and firms and the need to create a broad set of manufacturing jobs early in the development process. The Republic of Korea began by prioritizing textiles and apparel in the 1960s, then moved towards chemicals and heavy industry in the 1970s, including automobiles, shipbuilding, petrochemicals, machinery and consumer electronics. In the 1980s and 1990s, there was a movement towards high tech and knowledge-intensive economic sectors, such as semiconductors. Unemployment and the need for rapid growth to absorb the labour force was one of the recurrent themes running across the national five-year development plans. Japan and Singapore have followed similar paths, beginning with labour-intensive light industry and moving towards a high-tech knowledge-based economy.^a

a See Paul Kuznets, "Indicative Planning in Korea", *Journal of Comparative Economics*, vol. 14, Issue 4 (Elsevier, 1990); Yong-Sook Lee, Ying-Chian Tee and Dong-Wan Kim, "Endogenous versus Exogenous Development: A Comparative Study of Biotechnology Industry Cluster Policies in South Korea and Singapore", *Environment and Planning C Government and Policy*, vol. 27, Issue 4 (2009); Ann Markusen, "Interaction between Regional and Industrial Policies: Evidence from Four Countries" (World Bank, 1995). Available at <http://documents.worldbank.org/curated/en/451311468743369899/pdf/multi0page.pdf>.

Harnessing urban demand to generate economic development

As populations shift into cities, patterns of consumption change. Urban consumers buy more processed food and more manufactured goods, and they need urban housing and urban infrastructure and public services. Too often, urban demand is met predominantly by imports, for example, of processed food, clothing and other manufactured goods, representing a missed opportunity for domestic job creation. In other cases, urban demand is left unmet, as is often the case in urban housing and infrastructure, resulting in overcrowded cities and poor living standards, in addition to missed opportunities for construction jobs.

Box 2.3: Indicators relating to sector targeting to leverage urban potential

- Labour intensity of priority economic sectors
- Share of imports in food supply
- Ratio of raw to processed agricultural exports
- Manufacturing value added and employment share in gross domestic product
- Ratio of tradable to non-tradable sectors by output, value added and employment

More detail on indicators can be found in the annex.

By some accounts, Africa is at the beginning of an infrastructure boom.²⁸ In addition, in countries with rising incomes, urban formal housing construction is booming. The construction and building materials sectors represent major job creation opportunities, with jobs for both unskilled and skilled labour. Ethiopia, for example, has pursued a major road-building initiative, paired with efforts to develop and link the domestic cobblestone industry. The programme has had major job creation benefits, given that cobblestone quarrying and paving is labour-intensive. The programme has also built local governments' experience in procurement and contract management.²⁹ Turkey is another country that has included construction in its development strategy (see box 2.4).

²⁸ See Andre Pottas, *Addressing Africa's Infrastructure Challenges* (Deloitte, 2013).

²⁹ See Nzinga Broussard and Tsegay Gebrekidan Tekleselassie, "Youth Unemployment: Ethiopia Country Study", Working Paper 12/0592 (International Growth Centre, 2012).

Box 2.4 : Job creation in the construction value chain in Turkey

The Turkish eighth and tenth development plans (2001-2005 and 2014-2018) include sector strategies for the construction sector, and for good reason. The current plan notes that, during the previous planning period, the sector represented between 5 and 6.5 per cent of gross domestic product and between 5 and 7 per cent of jobs. That was slightly lower compared with the eighth plan, but it was accompanied by strong backward and forward linkages to energy, cement, brick, stone, iron and steel, manufacturing, banking, insurance and technical consulting making up another 28 per cent of the Turkish gross national product. Two thirds of construction inputs from domestic firms are comprised of manufacturing and energy. The majority of the construction sector is domestic, but international contracting services amounted to \$27.2 billion in 2012 and information-intensive and high-standard projects should increase, if policy objectives are achieved.^a

^a See Republic of Turkey, Ministry of Development, The Tenth Development Plan 2014-2018 (Ankara, 2014); M. Atilla Oner and Ozcan Saritas, "A systems approach to policy analysis and development planning: Construction sector in the Turkish 5-year development plans", *Technological Forecasting and Social Change*, vol. 72, Issue 7 (2005).

Urban consumption is on the rise in Africa, and FDI is responding, with a growing share of investment aimed at African consumer markets rather than natural resource extraction. While coal, oil and natural gas still account for a quarter of FDI funds into Africa, telecommunication, financial services and retail products have led investment activity into Africa since 2009.³⁰ One example of market-seeking investment is the growing number of supermarket chains entering African cities. In Eastern and Southern Africa, modern retail (e.g., supermarkets) accounted for between 5 and 15 per cent of the purchased food market in 2010, but it is expected to grow to represent between 30 and 40 per cent of food purchasing by 2040.³¹ South African retailers have a dominant place in the region, with companies such as Shoprite Holdings, Woolworths, the SPAR Group and Pick n Pay Holdings having operations in 15, 10, 9 and 8 countries, respectively.³² Large retailers represent a major job creation opportunity, especially if they are well-linked to domestic agriculture, transport and processing and manufacturing.

Box 2.5: Brazil: domestic consumer market as growth driver

Brazil has a massive consumer market, with retail accounting for nearly 20 per cent of its \$2.3 trillion economy. The gross domestic product contribution from supermarkets alone reached close to \$70 billion in 2014. In contrast to most Asian economies that transformed their economies through export, Brazil has thrived on the back of its large and growing domestic market.

Retail is labour-intensive. The largest retailer, Companhia Brasileira de Distribuicao, has approximately 170,000 employees, more than the number of the entire Brazilian automotive industry, which employs approximately 130,000 workers. There is also a large job multiplier to be had through linkages along the retail value chain. Notwithstanding the recent decline in its growth, Brazil has managed, over many decades, to develop its industrial base, which is driven mainly by its consumer market, and cities have been the magnets of investment.^a

^a See PricewaterhouseCoopers LLP, "The retail and consumer industry in Brazil-Navigating the downturn," (2015).

³⁰ See EY, "EY's attractiveness survey, Africa 2015: Making choices" (2015). Available at [www.ey.com/Publication/vwLUAssets/EY-africa-attractiveness-survey-2015-making-choices/\\$FILE/EY-africa-attractiveness-survey-2015-making-choices.pdf](http://www.ey.com/Publication/vwLUAssets/EY-africa-attractiveness-survey-2015-making-choices/$FILE/EY-africa-attractiveness-survey-2015-making-choices.pdf).

³¹ See David Tschirley, Steven Haggblade, and Thomas Reardon, "Africa's emerging food system transformation", White Paper 2013 Series, (United States Agency for International Development, 2013). Available at http://pdf.usaid.gov/pdf_docs/PA00KB5C.pdf.

³² See Reena das Nair and Shingie Chisoro, "The expansion of regional supermarket chains: Changing models of retailing and the implications for local supplier capabilities in South Africa, Botswana, Zambia and Zimbabwe", Wider Working Paper 2015/114 (Helsinki, UNU-WIDER, 2015).

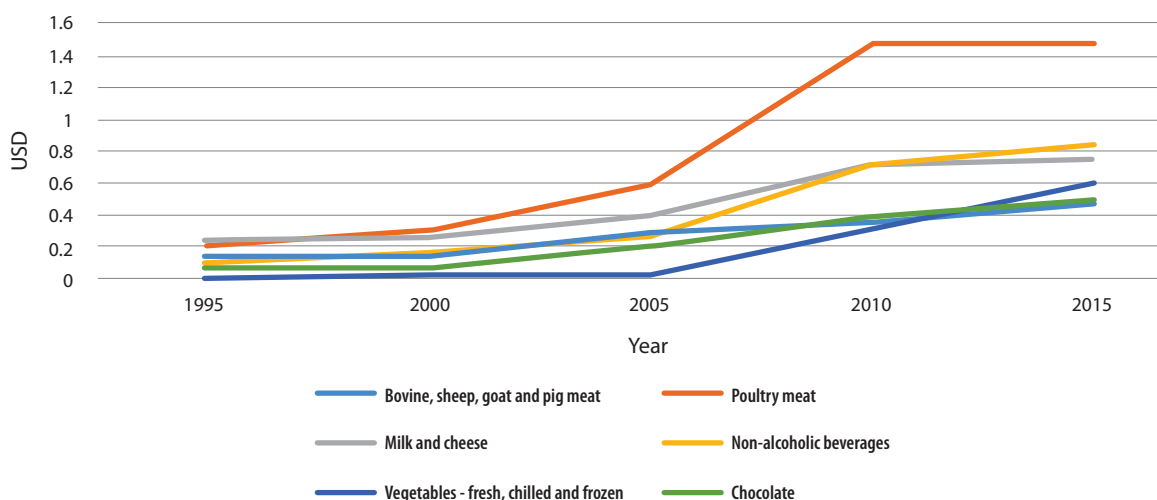
In addition to consumer purchasing power, firm purchasing power is on the rise in Africa. Business services represent another set of opportunities for urban job creation, especially in financial services, communications and information technology. These urban-based sectors can thrive under the right policy framework, creating jobs for a young tech-savvy generation and making other firms more productive and competitive.

Adding value to rural products

Urban and rural development do not represent a policy trade-off. In fact, history has demonstrated that the course of economic development often begins with an agricultural revolution, and where improvements in urban productivity and well-being outpace those in rural areas, there is eventually a convergence as rural areas catch up.³³ Economists have often described the linked process of urban and rural development: “An agricultural and an industrial revolution always go together, the first releasing the labour which the second draws off the land”.³⁴ The linkage between rural production and urban consumption is, however, sometimes broken during the development process in cases in which rural products are exported without being processed and cities rely on imports of processed foods. The result is missed opportunities for value added and job creation. Africa, with considerable comparative advantage in food production, still imports a large amount of food, and per capita food imports are on the rise (see figure 2.2). Nevertheless, well-targeted policies can achieve both urban job creation and rural development through linked and mutually reinforcing processes.

The linkage between urban and rural prosperity happens in at least three ways. First, urban firms and markets benefit rural producers when they purchase their goods. Urban activities can add value to rural products through agro-processing and natural resource beneficiation. As rural production expands to serve urban markets, rural producers can leverage economies of scale. In addition, when producing for buyers in the domestic value chain, purchasing firms often intervene to support quality and productivity improvements among rural producers.⁵

Figure 2.2: African per capita food imports, select categories and years between 1995 and 2015
 (Millions of United States dollars)



Source: Observatory of Economic Complexity (2017).

³³ See The World Bank, “World Development Report 2009: Reshaping Economic Geography”, World Development Report, vol.1 (2009).

³⁴ See W. Arthur Lewis, *Principles of Economic Planning* (Taylor and Francis Group, 1949).

Second, urban services can benefit rural producers by improving their access to finance and savings, marketing, accounting services, transport and information and communications technology. These inherently urban-based service sectors provide fit-for-purpose business tools for rural producers, including mobile banking, microfinance, cold storage and transport.

Third, especially in newly urbanizing countries, urban populations have strong ties to rural areas that can result in a variety of forms of support. Some segment of the population resides in both cities and rural areas owing to seasonal work or connections to family, and they bring with them to rural areas knowledge, technology and money. In addition, the remittances of urban workers to family and friends in rural areas can serve as investment in rural education, capital (e.g., seeds or tools) or a safety net. There is empirical evidence that urban areas through these and other ties, including backward linkages, off-farm employment, consumer prices and agricultural productivity itself, help to reduce rural poverty. A study based on data on Indian districts between 1981 and 1999 confirmed that rural areas with proximity to urban centres and rural populations closer to the poverty line benefited substantially.³⁵

National development plans that target job creation in cities can therefore have spillover benefits to their hinterlands and direct rural economic benefits when the value chain linkages between urban and rural areas are supported and developed.

Box 2.6: Leveraging comparative advantages in labour-intensive and resource-intensive sectors: early development planning in Malaysia

Development planning in Malaysia followed a trajectory similar to that of other Asian countries, moving from low-tech labour-intensive industries to major industrial restructuring in the 1970s and 1980s, and then to information and communications technology and skill-intensive sectors. Industrial planning of the post-independence period in the 1960s and 1970s focused on reducing its dependence on raw commodities, namely rubber and tin, and exploiting its comparative advantages in resource-intensive and labour-intensive industries such as rubber and palm oil products. In the 1970s, investment was focused in primary processing industries linked to agriculture, mining and forestry, as well as domestic market-oriented industries such as food products, beverages, textiles, printed materials, furniture, rubber products and building supplies. Targeted economic sectors also included chemicals and chemical products and transport equipment. Along with diversification, Malaysia also invested to physically integrate the domestic economy and improve the liveability of cities. ^a A key component of the poverty reduction strategy that was adopted to implement its new economic policy and development plans was increasing demand for labour by expanding the industrial sector and the key elements of the service sector, as well as facilitating the movement of labour from low to high productivity sectors.

^a See Zainal Aznam Yusof and Deepak Bhattasali, "Economic Growth and Development in Malaysia: Policy Making and Leadership", Working Paper No. 27 (Washington D.C., World Bank, 2008).

³⁵ The Indian study estimates that a 20 per cent increase in urbanization will reduce the share of rural population by between 3 and 6 per cent. See Massimiliano Cali and Carlo Menon, "Does Urbanization Affect Rural Poverty? Evidence from Indian Districts", Policy Research working paper (Spatial Economics Research Centre, 2009). Available at <http://eprints.lse.ac.uk/33205/1/sercdp0014.pdf>.

Policy recommendations for economic sector targeting

Based on the preceding paragraphs, several policy recommendations can be set out:

- Target economic sectors that will create urban jobs and help large urban populations, especially young people, to find decent employment. Typically, these sectors will include labour-intensive manufacturing and tradable services that are largely urban-based.
- Target economic sectors that meet urban demand on the basis of urban population growth, demographics, income and spending projections. Build domestic capacity to produce food and other consumer goods that need not be imported on the basis of agricultural endowments and the level of skill- and technology-intensity involved. This also helps to promote rural industrialization and foster rural-urban linkages.
- Support an affordable housing market and the construction value chain. Target job creation through public investment in social housing and infrastructure and through institutional reforms required in the land and housing finance sectors. Build the capacity of urban enterprises to provide business services that facilitate urban value added, business start-ups and firm productivity.
- Link urban and rural value chains by targeting agro-processing and natural resources beneficiation. Help urban services sectors, including communication, to finance and transport better serve rural producers.
- Lastly, it is important that policies to support target economic sectors be developed in consultation with firms and workers in those sectors. For example, if agro-processing is identified as a target sector, further policy development in that area must engage both rural producers and potential urban actors in the agri-business and processing sectors to identify existing barriers, opportunities and the best approach to address them.

Theme B: Productive cities

Table 2.3: Considerations for productive cities

Background information	Some of the issues and trends to consider ^a
<ul style="list-style-type: none"> – Cities drive growth. Urban agglomerations increase productivity by facilitating labour pooling, input sharing and knowledge and information exchange. – Urban productivity is a critical lever of economic growth and transformation for rapidly urbanizing countries of Africa, but it is not fully exploited. African cities are expensive and congested, and a big and growing part of their economy is informal. – Harnessing urban advantages for productivity require African countries to create dense, integrated and connected cities and managing externalities. In the case of prime cities, this often involves planning for a larger metropolitan area or city-region and large infrastructure investments. – Urban land management, urban planning, transport and energy are priorities critical to productivity of African cities. 	<ul style="list-style-type: none"> – Urban productivity trend measured by urban population growth as opposed to value added; productivity of formal (large, small and medium firms) versus informal sectors, challenges and opportunities. – Productivity dispersion among firms; growth driving and emerging urban economic sectors and opportunities; firms in clusters versus firms outside clusters. – Externalities and cost of living and business trends: congestion, land price, housing price, wages, cost of transport, price of electricity. – Quality of urbanization and trends: density, connectivity, accessibility, mobility, informality. – Governance and planning issues: planning, land management, municipal finance, urban infrastructure investment.

^a Although some of these issues are within the competence of urban planning and management, they involve significant amounts of investment, are affected by national policies and priority-setting and are part of a national development challenge (informal economy and the productivity of lead economic sectors).

Cities are the drivers of economic transformation. They play an instrumental and necessary role in economic structural shifts to high productivity manufacturing and services owing to the urban nature of firms in these sectors.³⁶ Urbanization is associated with economic development globally, in countries (see figure 2.3) and over the course of history.³⁷ The often-quoted statement, “No countries have achieved sustained economic growth without the growth of cities”,³⁸ underscores the productivity premium of cities as essential drivers of development. As of 2011, 600 cities with 20 per cent of world population had contributed 60 per cent of GDP. This economic power stems from the productivity premium that they command owing to their high level of economic density and dynamism associated with it.³⁹

The central role of cities in national economies is especially pronounced in developing economies, including in Africa. This does not mean that cities in developing countries are more productive than cities in developed economies; rather, it is in part a reflection of the large difference in productivity and income between urban and rural areas in developing countries. Nairobi, with 9 per cent of the national population, generates 20 per cent of GDP; Dar es Salaam, with 7.9 per cent of population, accounts for 14.9 per cent of GDP; Addis Ababa generates more than 360 per cent higher GDP than

³⁶ See section 1, “The relationship between urban productivity and economic growth”.

³⁷ See David Harvey, “Reshaping Economic Geography: *World Development Report 2009*”, *Development and Change*, vol. 40, No. 6 (Oxford, Blackwell Publishing, 2009); Edward Glaeser, *Triumph of the City: How Our Greatest Invention Makes Us Richer, Smarter, Greener, Healthier and Happier* (London, Macmillan, 2011); and UN-Habitat, *State of the World’s Cities 2010/2011: Bridging the Urban Divide* (Nairobi, 2010).

³⁸ See UN-Habitat, “*The Economic Role of Cities*”, *The Global Urban Economic Dialogue Series* (Nairobi, 2011).

³⁹ See Richard Dobbs and others, *Urban world: mapping the economic power of cities* (McKinsey Global Institute, 2011).

its population share; and Kinshasa and Cape Town generate more than 500 per cent and 100 per cent higher GDP than their population share, respectively.⁴⁰

Figure 2.3: Urbanization and income across countries, 2015



Source: World Development Indicators (World Bank).

At the national level, there are three questions to ask for development planning:

1. What are the most pressing barriers to urban productivity?
2. What type of interventions are most needed to realize the productive potential of cities?
3. Where can investments and policies most effectively harness and support urban productivity?

African cities nevertheless also tend to be less productive and less competitive than cities elsewhere, and Africa appears to be urbanizing at a lower level of income than other regions have; that is, when other regions were at the same level of urbanization that Africa is now, they had higher per capita GDP.⁴¹ It is therefore critical to examine the ways in which barriers to urban productivity can be mitigated and counteracted and identify the requirements for realizing the productive potential of African cities.

Nature of urban productivity

Over the long run, improvements in income and living standards are driven by growth in productivity. Cities make firms and workers productive. There is strong empirical evidence for the economic advantages of urban space, known as agglomeration economies. The density and the proximity of economic actors in cities allow for economies of scale, reduced transport and transaction costs, the sharing of labour and input and output markets, and for spillovers of knowledge and technical capacity.⁴² Firms benefit from industry clustering owing to buyer-supplier networks and knowledge

⁴⁰ See Richard Dobbs and others, *Urban world: mapping the economic power of cities* (McKinsey Global Institute, 2011).

⁴¹ See Somik Vinay Lall, J.Vernon Henderson and Anthony J.Venables, *Africa's Cities, Opening Doors to the World* (Washington D.C., World Bank, 2017)

⁴² See David Harvey, "Reshaping Economic Geography: *World Development Report 2009*", *Development and Change*, vol. 40, No. 6 (Oxford, Blackwell Publishing, 2009); see also John M.Quigley, "Urbanization, Agglomeration, and Economic Development", Working Paper No.19 (Washington D.C., World Bank, 2008).

Box 2.7: Indicators relating to urban productivity

- City or metro area gross domestic product (GDP) per capita
 - The ratio of a city's GDP contribution to population share
 - Productivity of firms within the city versus other locations
 - Share of employment in informal and/or non-tradable sectors
 - Cost of living and indirect costs to firms (electricity, transport, waste management, urban regulations)
 - Traffic congestion
- More detail on indicators can be found in the annex.

diffusion. At the inter-industry level, firms benefit from complementary services, large labour pools that enhance matching of skillsets to firm needs, information transfers and cost savings relating to shared infrastructure.⁴³

City size and concentration are the key drivers of agglomeration economies. "Workers are more productive on average in large cities than in small cities and in small cities than in rural areas."⁴⁴ Size also comes with cost implications, however. As cities grow in size, they become congested and the price of land, housing and urban amenities increases. This makes cities expensive to both households and firms. Costs arise owing to scarcity of space for building, travelling, living and working. At a specific point, these costs, or diseconomies of agglomeration, begin to outweigh the benefits of the urban economy. Nevertheless, agglomeration economies are powerful, and many workers and firms are willing to endure high costs and crowded conditions to gain access to the city's productive benefits. For example, the rising labour cost in the industrial heartlands of Shenzhen and Guandong, China, has not deterred most firms that prefer to stay and pay the premium rather than moving to cheaper locations, owing to the web of supply chains and agglomeration economies that these places still offer.⁴⁵

It is not easy to quantify the extent to which cities are achieving or missing their economic potential, but at a very basic level, the relationship between population growth and GDP growth in cities provides an indication of the extent that diseconomies are constraining productivity. The growth of the informal economy that mirrors the gap in formal economy jobs is also a crude indicator of the strains on urban productivity of African cities. If urban population is growing faster than urban GDP, cities may be facing constraints on their efficient functioning. In many cases, cities are weak in the basic fundamentals: infrastructure, public services, housing and institutions. These weaknesses pose both direct and indirect costs to firms.

African cities often have high costs and have been found to be disproportionately expensive, with the cost of goods consumed by households being on average 31 per cent higher in African cities compared with cities in lower- and middle-income countries outside Africa.⁴⁶ Costs are borne not only by urban households that struggle to affordably meet their basic needs for shelter and transport, but

⁴³ See Somik V. Lall, Zmarak Shalizi and Uwe Deichmann, "Agglomeration economies and productivity in Indian industry", *Journal of Development Economics*, vol. 73, No. 2, (Washington D.C., The World Bank, 2004), pp.643-673.

⁴⁴ Gilles Duranton, "Growing through Cities in Developing Countries", *World Bank Research Observer*, vol. 30, No. 1 (Oxford University Press, 2014), pp. 39-73.

⁴⁵ See *The Economist*, "Jewel in the crown: What China can learn from the Pearl river delta", 8 April 2017. Available at www.economist.com/news/special-report/21720072-pearl-river-delta-chinas-most-dynamic-open-and-innovative-region-says-vijay

⁴⁶ See Shohei Nakamura and others, "Is Living in African Cities Expensive?", Policy Research Working Paper No.7641 (World Bank, 2016). Available at <http://documents.worldbank.org/curated/en/429961468185035012/pdf/WPS7641.pdf>.

also by firms, both formal and informal, that pay high indirect costs of urban dysfunction and that are at a competitive disadvantage globally. African firms pay on average 19 per cent higher costs per unit of sale than firms in East Asia.⁴⁷ These high costs demonstrate that, in African cities, diseconomies are higher than should be expected, given city size and level of economic development.

The productivity of cities has an impact on not only the competitiveness of large firms attempting to compete in regional and global markets, but also the basic income level of many working in the informal sector. Informal enterprises are often disproportionately affected by segregated, sprawling and disconnected urban form, as well as from infrastructure and services deficits. Better functioning cities can be an enabling condition for those in vulnerable employment to improve their livelihoods by connecting to larger markets and formal sector firms, upgrading their production through access to better public services and formalizing through supportive and easier to navigate regulatory frameworks.

African cities are underperforming owing to three main factors: inefficient urban form, a dysfunctional urban development process and inadequate infrastructure. These elements represent the basic fundamentals for a functional city and are explored below.

Urban form

Efficient means free from unnecessary costs. Spatial efficiency occurs when all entities are located in their most optimal location on the basis of accessibility, the cost of development in that location, market competition and willingness to pay. Efficient cities operate smoothly and do not place unnecessary encumbrances on residents or firms in their transactions or travel.

The spatial layout of cities can either enhance or undermine urban productivity. Agglomeration economies arise from the proximity and connectivity of economic actors in space. Proximity and connectivity are the result of density, mobility and integration of a variety of business and household types.

National development planning has an important role to play in shaping the emerging urban form of African cities. The national development plan sets priorities and standards, in line with the national economic vision, which are necessary to deliver a unified mandate to subnational governments and ministries to work together to achieve compact, connected and integrated urban form. This goes beyond the jurisdictional reach of national urban policies, which are typically overseen by a single ministry.⁴⁸ The national development plan can also establish the institutional mechanism to achieve urban form priorities. This may be in the form of a metropolitan-level cooperation framework or government entity that can overcome the inter-municipal coordination problems inherent in large metro areas. This is the case in Uganda, where the national development plan supports the mandate and the role of the Greater Kampala Metropolitan Area government and its development mandate. The national development plan can also align infrastructure targets and megaprojects to achieve an emerging urban form that supports economic competitiveness and prosperity.

⁴⁷ See Giuseppe Iarossi, "Benchmarking Africa's Costs and Competitiveness", in *The Africa Competitiveness Report 2009*, World Economic Forum, World Bank and African Development Bank (Geneva, World Economic Forum, 2009).

⁴⁸ An explanation of the various roles and interaction of national urban policies and national development plans can be found in box 1.3.

Urban form is the spatial layout of the city in terms of land use, density and transportation. Urban form can be measured by the density of population and economic actors, the physical form and spatial arrangement of built-up land, the connectivity of the transport network, including streets and infrastructure for transit and non-motorized modes, the distribution and mixture of land uses and the social mix or segregation of residential and public areas.

Density

Density is empirically linked to productivity.⁴⁹ Dense and compact development allows for the efficient use of urban resources, including land and infrastructure, as well as the increased efficient interaction of economic actors. Density must be accompanied by the adequate provision of public open space and quality infrastructure to support a high quality of life, as is the case in some of the world's most productive cities (e.g., New York, Singapore and Tokyo). Density does not materialize overnight, but it should be planned for and enabled as part of the development process. Cities that allow for incremental densification will see physical and economic development proceeding in parallel, instead of producing a situation in which physical development constraints curtail productivity growth.

Building upwards is costlier than building outwards. At a specific level of development, the economic advantages of proximity to the urban centre nevertheless outweigh the costs, and, if not constrained, upwards development will occur.⁵⁰ Until then, serviced plots should be configured in a way that ensures good connectivity and enables later densification.

Barriers to densification include dysfunctional land and real estate markets (discussed below) that reward land speculation or prevent infill and redevelopment. Low density development can also result from poor planning or inadequate infrastructure provision, leaving the private sector to build disconnected and fragmented developments on the fringe.

Mobility

Mobility is also fundamental to economic interaction and can broaden the radius of the connected urban economy. Multimodal mobility, that is, a system of transportation allowing for a range of modes, including mass transit and non-motorized travel, ensures that all segments of the population have access to economic activities and prevents urban poverty traps, as well as reducing auto congestion.⁵¹

Planning for mobility is sometimes counter-intuitive, given that major infrastructure investment can actually worsen congestion. This dynamic arises from the inseparable relationship between transportation infrastructure, land use and induced demand arising from access to road space. Investment in highways and ring roads encourage peripheral development and reliance on single occupancy vehicles for increasingly long commutes, leading to increased congestion in the medium term and long term. Nevertheless, investment in inner-city connectivity, transit systems and infrastructure serving pedestrians and bicycles increases the attractiveness of compact and connected development patterns, together with zoning rules that encourage density around public transport corridors that can

⁴⁹ See United Nations Human Settlements Programme, "Unleashing the Economic Potential of Agglomeration in African Cities", The Global Urban Economic Dialogue Series (Nairobi, 2013).

⁵⁰ India is one case in which stringent regulations against built density in major city centres have constrained both physical and economic development. The constricted housing supply is one factor in the extremely poor housing conditions facing a large segment of the urban population. See United Nations Human Settlements Programme, *The Evolution of National Urban Policies – A Global Overview* (Nairobi, 2016).

⁵¹ It is prudent to plan for transit and non-motorized transport early in city development. In the example of Los Angeles, a push for multi-modal planning came too late, with middle-class professionals leaving the city owing to smog and congestion. See Peter W. G. Newman and Jeffrey R. Kenworthy, "The land use-transport connection: An Overview", *Land Use Policy*, vol. 13, No. 1 (Manchester, 1996).

slow the increase in vehicle miles travelled. Singapore provides an excellent example of coordinated land use and transport planning (see box 2.8).

Often, infrastructure investment in African cities focuses disproportionately on serving private automobiles, while a large share of the population travels by foot or by shared transit instead.⁵² Reorienting transportation investment to better support a multimodal system can avoid the long-term and medium-term pitfalls of stifling congestion and high transport costs.

Box 2.8: Multimodal planning in Singapore in the 1970s

In the 1970s, Singapore demonstrated a forward-thinking approach to lay the groundwork for its transport network to become a world-class multimodal system. The Government simultaneously put severe economic restrictions on car ownership and use, with import duties at 40 per cent of car value and registration fees adding another 25 per cent tax,^a and invested heavily in public transport.

Transit planning was linked to urban planning, allowing for land use densities to correspond to radial and circumferential mass transit lines, with higher densities at nodes of intersection. High density development in general has also shortened trips, and the longest component of some commutes is the vertical climb in an elevator.

Early investment in rail flew in the face of advice from the World Bank and United States of America consultants who argued that buses were more cost-effective than rail. Instead, Singapore urban planners understood that rail was the only mode that would continue to provide a preferred alternative to driving to a growing middle class.^b

^a See Mark Goh, "Congestion management and electronic road pricing in Singapore", *Journal of Transport Geography*, vol.10, No. 1 (2002).

^b See Peter W. G. Newman and Jeffrey R Kenworthy, "The land use-transport connection: An Overview", *Land Use Policy*, vol. 13, No. 1 (Manchester, 1996).

Multimodal transport systems reduce carbon emissions and provide affordable options. Investment in mass transit and non-motorized modes can therefore satisfy a triple aim: being green, equitable and economically beneficial. While decreasing the subsidies to private auto use can also help to foster the shift to other modes, it is important not to restrict private auto use without providing viable and attractive alternatives, given that such a strategy will increase the cost of living and undermine competitiveness.

Land use refers to the classification of activities or buildings on land. Classification may include categories such as commercial, industrial, offices, parks and open space, residential and vacant or unbuilt land. More specific categories may also define densities or detailed specifications, for example, single-family versus multi-family residential and light versus heavy industry, among others. Land use can also refer to the mixture and the density of land uses over a broader area, such as an entire city.

Integration

Single-use zoning has fallen by the wayside as a good practice in urban planning. While some businesses naturally cluster owing to their economic preferences, single-use clustering need not be mandated. With the exception of nuisance industries,⁵³ allowing for a mix of residential, office, com-

⁵² Studies from various parts of the world have found subsidies to cars are approximately \$4,000 per car annually in roads, parking, health costs and pollution costs. See Peter W. G. Newman and Jeffrey R Kenworthy, "The land use-transport connection: An Overview", *Land Use Policy*, vol. 13, No. 1 (Manchester, 1996).

⁵³ Nuisance industries should be separated from residential areas and other businesses owing to spillover effects such as noise, bad odours or heavy truck traffic.

mercial, public service and light industrial land uses is the recipe for a vibrant and innovative urban fabric. Avoiding over-zoning and use-segregation also allows market forces to shape the city and allows businesses to select the most attractive location for their activities in relation to their workforce, inputs, customers and similar businesses. In addition, a mixture of land uses can create complete neighbourhoods, which reduce travel distances for households and create a sense of community.

An important part of the consideration in achieving integration should be the role or place of the informal economy. Since it was minted by Keith Harth in his 1971 case study of Accra, the term “informal economy” has morphed to capture the range of self-employment and informal wage employment that continued to proliferate. Both as autonomous income and livelihood source for the majority, and as an integral part of value chains of African economies, the informal economy has important links to economic growth, poverty and inequality. Understanding these links and promoting accommodative regulations and planning policies, both at the national and local levels, especially in relation to access to land, public space and credit, is important to maximize its gains in productivity, employment and taxes and to gradually but steadily transform it.

Box 2.9: Industrial land in China

Zoning land for industry and protecting it from price competition is one area in which single-use zoning can be useful. Chinese cities have allocated two to three times the amount of industrial land than have similar cities in other countries and have kept it below market prices. Some have argued there is too much land devoted to industry in China,^a but the Chinese industrial sector has been central to enormous growth and urban employment.

^a See World Bank and Development Research Center of the State Council, the People's Republic of China, *Urban China: Towards Efficient, Inclusive and Sustainable Urbanization* (Washington D.C., 2014).

Reducing residential and social segregation is also important for an economically vibrant city. Large pockets of poverty and affluence contribute to urban fragmentation. In particular, impoverished areas that are not well integrated create social isolation and poverty traps, limit equitable access to economic opportunities, foster crime and insecurity and distort urban labour markets. Limiting residential segregation requires cities to limit the size of gated communities and prevent them from closing public rights of way. It also requires local and national authorities to work together to build affordable and subsidized housing in a variety of connected locations throughout the city at a scale that can provide an alternative to slum expansion.

Box 2.10: Efforts of Medellín to connect and integrate its urban form

Between 2004 and 2007, the mayor of Medellín, Sergio Fajardo, became famous for the term “social urbanism”, linking social inclusion with the urban form of the city. During his time as mayor, the city connected rich and poor neighbourhoods with new transport connections, including the now famous Metrocable cable cars, which transport commuters daily from the hills, where most lower income families live, to the light rail system and jobs below. The commute, which before took more than one hour, now takes only 10 minutes by cable car. Fajardo once said, “Our most beautiful buildings must be in our poorest areas”, and he acted on this thought with a number of public works, including parks, a library, schools and public artwork. This physical development programme has been accompanied by massive investment in education. The result is that the percentage of public school students testing at the national average went from 20 to 80 per cent between 2002 and 2009, the city’s once exceedingly high murder rate dropped 80 per cent between 1991 and 2010, and the city has seen major growth in the business, medical and tourism sectors.^a

^a See Liz Paterson Gauntner, “Spatial Development: Economic considerations” (presentation at Johannesburg’s Spatial Development Framework 2040 Workshop). (United Nations Human Settlements Programme, 2015).

Planning and implementation

Urban planning has to catch up with the rapid urban growth of African cities, and serious challenges of deficits in housing, urban services and infrastructure. The rigidity, the lack of inclusiveness and disconnect with implementation existing in traditional top-down planning approaches has not helped to make progress. The planning vacuum in many cities has resulted in entrenched informality, congestion, sprawl, fragmented communities and a disconnect between jobs and housing. Turning that around requires good urban planning at a new scale. Planning alone is insufficient, however. Implementation requires interfacing with the private sector real estate development process and investing adequately in public land, urban infrastructure and services.

Economic planning can guide urban physical planning. Not all cities serve the same economic role. The comparative advantage of large cities often lies in their density of skilled economic actors, enabling the sharing of knowledge and process of innovation. Enabling density and the dynamism of the real estate market to respond to the churning of firm births and deaths may be the urban planning priority for such cities. This should be based on the economic vision for these cities spelled out in the national development plan. Secondary or peripheral industrial cities may require prioritization of industry, access to ports, logistics areas and a large pool of workers. The economic requirements of small market towns may mean regional urban planning priorities including transport connections to resource areas and larger urban markets, as well as the urban spaces supportive of market activities. In all cases, economic planning to support location-specific economic activities should influence physical planning and investment.

Urban land and real estate development process

The process of urban development shapes the urban form of cities. The institutions governing the urban development process are at the heart of many of the failures to achieve productive, green and equitable urban space. Development constraints in both public infrastructure and the private development of housing and employment space have resulted in pervasive informality. Market forces respond to the productive benefits offered by compact, connected and integrated urban development, but regulatory and institutional barriers in land acquisition and permitting, inefficiencies in the construction supply chain, externalities and misplaced subsidies distort real estate markets, resulting in inefficient, unequal, sprawling and disconnected cities.

Supply side

A fundamental barrier to sustainable urban development in many African cities is poorly managed land markets resulting in a lack of access to well-planned, serviced and buildable plots. Speculation and title irregularities often make compact and connected development very difficult. In many African cities, developers struggle to find clean titles, owing to a history of transfers that have not been recorded or have been misreported. Poor land registration and administration are causes for multiple claims and disputes.⁵⁴ Land is associated with power, and corruption can therefore sometimes stand in the way of a well-functioning land market, especially when it comes to valuable plots within the city. As a result, buildable land scarcity and high prices discourage investment in housing and business, limit location choice for businesses and fragment development by limiting clustering of similar activities.

⁵⁴ The backlog of unresolved land disputes is huge. By one estimate, clearing up the backlog of land disputes in Mozambique at current rates would take 500 years. See Paul Collier, *Building African cities that work* (Johannesburg, Centre for Development and Enterprise, 2013). Available at www.cde.org.za/wp-content/uploads/2014/03/Paul%20Collier%20February.pdf.

Even when plots are planned and available, often they are fragmented or not adequately serviced for urban development, precluding opportunities for firm clustering and future expansion. Potential developers and users may struggle to find connections to basic public services such as water, electricity and waste management. Such difficulties may result in inefficient private provision, causing development costs to rise and urban competitiveness to decrease.

Another supply-side constraint is the underperformance of the real estate development value chain. Domestically available building materials may fail to meet standards based on outdated colonial rules, resulting in the costly import of building materials. Simultaneously, a large potential workforce that could provide labour in architecture and design, engineering, electrical, plumbing and other construction tasks is not adequately trained for such duties. Financing for real estate development projects is another hurdle, with lenders unwilling to accept the risks commonly associated with land title disputes and construction delays.

The result of a myriad of supply-side constraints is disproportionate urban prices that far outstrip the income of the local population and make the city less attractive to international investors, leading to disconnected, sprawling and informal cities.

Demand side

Failures in demand for sustainable urban development are often a matter of income levels, with the urban poor unable to afford formal development, thus relying on informal housing. This is a temporary problem for developing cities that will ease as incomes rise, but which should be addressed in the meantime. There are a variety of incremental development schemes that allow for very basic homes and structures in a layout that can be upgraded over time without major plot readjustments or expropriations for infrastructure. Providing a connected and planned area for incremental development that leaves space for streets and other infrastructure sets the stage for future economic growth.

In cities that already have higher levels of income, there is still a segment of the urban population that requires public support to develop adequate housing. However, housing subsidies should be managed in a way that follows the basic principles of sustainable development. Social and subsidized housing should be well connected and well serviced. Social housing blocks in isolated peripheral locations should be avoided, given that they do not contribute to productive urban form and place an undue transportation burden on residents.

On the opposite end of the demand spectrum, international investors and businesses can shape a city. Well-planned and well-managed cities can attract such demand by creating a spatial framework that is favourable to future economic growth and productivity and by fostering good institutions, planning practice and urban regulations that support its realization.

Urban infrastructure

The African urban infrastructure deficit is huge. The result is that firms incur higher costs, limiting their ability to compete in global markets. On a broader scale, the lack of fundamental infrastructure in African cities undercuts their ability to lead national economic transformation. In addition, urban development in the face of underinvestment in infrastructure sets cities up for ongoing economic problems, locking them into a long-term productive disadvantage unless they undergo a costly retrofit of existing urban space.

Three factors constrain improvement:

- Urban planning and enforcement often fails to preserve the land necessary at the right locations for infrastructure development
- Urban infrastructure is underfunded, and local financing mechanisms are limited
- Infrastructure construction is expensive; one estimate puts unit (KM) cost of road construction in low income Africa at a third higher than that of the OECD countries.⁵⁵

African firms identify electricity and transport as the two most important infrastructure constraints.⁵⁵ Africa is disadvantaged, however, by both higher electricity costs and limited access, with firms facing frequent power outages.⁵⁶ Citing a study of the World Bank, it was observed in Economic Report on Africa 2017 that firms in East Asia and in Latin America and South Asia save 70 per cent and 50 per cent, respectively, in inland transport costs of exports and imports, compared with Africa.⁵⁵ Electricity and transport are also important for households and workers in African cities. Limited choice, low access and limited affordability constrain the urban population, especially the poorest households, from making essential trips and realizing their full potential in the labour market.⁵⁷ Improving workers' access to mobility and electricity should therefore be priorities.

Box 2.11: Indicators relating to the fundamentals of urban performance

- Land administration index
- Cadastral coverage and accuracy
- Share of land taxes in local revenue
- Measures of sprawl, including density, leapfrog development and unbuilt urban space
- Land allocated to streets and walkability ratio
- Percentage of households living in slums/informal settlements
- Access to electricity, water and sanitation
- Cost of power interruption to firms
- Average commute time and congestion
- House price to income ratio

More detail on indicators can be found in the annex.

National role in promoting urban productivity

Cities in Africa and other regions are moving towards decentralized governance. Given the role of cities in driving national economic development, however, it is imperative that strategic investment and policy measures targeted at the factors constraining urban productivity be prioritized and coordinated at the national level. Although many of the normative planning and regulatory measures high-

⁵⁵ See Paul Collier, *Building African cities that work* (Johannesburg, Centre for Development and Enterprise, 2013). Available at www.cde.org.za/wp-content/uploads/2014/03/Paul%20Collier%20February.pdf.

⁵⁶ The average effective electricity tariff in Africa was estimated at \$0.14 per kilowatt-hour in 2010, against \$0.04 in South Asia and \$0.07 in East Asia. See African Development Bank Group, "The High Cost of Electricity Generation in Africa", 18 February 2013. Available at www.afdb.org/en/blogs/afdb-championing-inclusive-growth-across-africa/post/the-high-cost-of-electricity-generation-in-africa-11496.

⁵⁷ See Vivien Foster and Cecilia Briceno-Garmendia, *Africa's Infrastructure: A Time for Transformation* (Washington, D.C., World Bank, 2010).

lighted above as good practice are within the competence of cities and subnational authorities, they lack the technical and financial capacity and, in some cases, the requisite national policy framework.

National-level policy guidance is critical to develop a country-wide framework for sustainable, productive and competitive cities. National urban policies can assist in this area by providing guidelines for physical development and suggesting institutional roles and responsibilities to achieve them. Beyond the national urban policy (and serving as its foundation), national economic planning through national development plans should also play a role in guiding urban development, as should local economic development plans that are aligned to the national development plan and its vision for the role of the city on the basis of its size and locational advantages (see sect. 2, theme C). The national development plan alone can make urban productivity a national priority across sectoral silos.

In the same vein, no city has the resources to resolve all urban challenges, nor will a simple demographic-based national resource allocation suffice to improve urban productivity at a scale needed to boost growth and job creation envisioned in the national development plan. Hard choices have to be made in cities and regions, as well as between planning and infrastructure issues that are constraining urban growth and productivity. Economic sector targets, FDI and economic zone strategies, as well as associated spatial considerations and location preferences of targeted firms, on the one hand, and actual and potential returns of investment among diverse urban agglomeration and regions, on the other, can serve as a rubric for prioritizing urban programmes and investment in the context of limited resources. The urban expansion of metropolitan areas and their infrastructure and housing programmes, which are too big and complex to fully rely on interjurisdictional networking, need a long-term policy framework and coordination.

National-level policy guidance is also required in relation to accommodating and transforming the informal economy on three counts. First, sectoral priorities should include the relevant informal sector firms and activities. Second, issues such as access to credit and markets hinge in part on national policy frameworks and regulations such as subcontracting and public procurement procedures. Lastly, the transformation of the informal economy is also related to cutting red tape, improving economic governance and simplifying tax and business licensing, issues relating to national policy, reform process and local capacity.

Municipalities need assistance in developing adequate capacity for effective urban management and physical and economic development planning. Municipalities must attract skilled staff with commensurate salaries in order to prevent brain drain. Staff require training and access to the right technical equipment to do their jobs effectively.

Municipalities also need support to adequately budget for and fund their mandates, requiring national transfers commensurate with their decentralized mandate and responsibilities or support to raise revenue. In addition, major infrastructure investment or those that span across municipal jurisdictions will require funding from a higher level of government or, at a minimum, support for inter-municipal financing agreements.

National governments have a role in municipal urban management, in areas in which local politics may interfere with national priorities for economic development. This can be the case when powerful local interests profit from land speculation, residential segregation or individual privatization of public services, action that benefit the few at the expense of the many. Strong national mandates and a

process to hold local governments to account may be required to promote urban management that overcomes corrupt or individual interests in the interest of the national economy.

Policy recommendations for productive cities

Based on the preceding paragraphs, we can draw out several policy recommendations, as set out below. National policy and regulatory frameworks are needed, even if implementation is sometimes at the subnational level.

- Strengthen the planning system to plan, regulate and invest at the required scale to match urban growth and development. There must be an adequate supply of well-planned, buildable and serviced plots to accommodate population growth. Land planned and zoned for development must be supported by a connected network of streets and other infrastructure. Initial development may not be at a high level of density and, initially, full infrastructure provision may be lagging owing to funding constraints. Nevertheless, planning and space for streets and future infrastructure should allow for incremental densification as the city grows economically.
- Strengthen the real estate development market to function efficiently and supply built space to meet urban demand. Land market regularization should be a top policy priority. Policies and programmes can strengthen the construction value chain. Market-based interventions should be paired with subsidies in order to ensure that the poor can gain access to decent housing.
- Urban investment must proceed at scale to keep pace with growth. Transport and energy are priority areas for urban business productivity.
- Promote the integration and transformation of the informal economy by considering it in sector priorities and value chains, and by taking inclusive policy steps, including in areas such as public procurement, subcontracting, land and credit.

Box 2.12: Urban road expansion in Ethiopia

Ethiopia is piloting a streamlined approach to planning for urban expansion that foregoes time-intensive master planning in favour of quickly expanding and protecting a connected network of roads. The approach has four steps:

- Forecasting and mapping the extent of urban growth
- Annexing the land required for growth so that a single city can manage the area
- Mapping out a 1 km x 1 km arterial road grid with 30 m wide roads
- Selecting public open spaces to protect them from development.

Acquisition of land for roads is financed with national assistance and the implication that the value of future land leases will reflect early investment in a connected grid. ^a (Ethiopia has a lease-based land tenure system.)

^a See Patrick Lamson-Hall and others, "A New Plan for African Cities: The Ethiopia Urban Expansion Initiative" (Marron Institute of Urban Management, New York University, 2015).

Theme C: Productive National Spatial System

Table 2.4: Considerations for the National Spatial System

Background information	Some of the issues and trends to consider
<ul style="list-style-type: none"> – Many African countries have urban systems characterized by primacy. Notwithstanding the challenges of this phenomenon, primary cities in Africa remain the most productive. – The size of cities, their distribution and the connections between them affect the overall efficiency of national economy. – Economic sectors have various locational preferences that may or may not be supported within the national spatial system. – Synergies and economies of scale and knowledge-sharing arise from the economic linkages between cities and rural areas, as well as linkages with African regional markets. – Macroeconomic and sector policies have strong, and often, unintended spatial implications. Sector priorities or trade policies could, through their influence on migration and employment, for example, affect urban growth and spatial development pattern 	<ul style="list-style-type: none"> – The distribution of city sizes and the economic potential and role of various cities – The centralization, clustering or dispersion of various economic sectors – Location-specific and sector-specific economic benefits and barriers – The relationship between trade in rural products and domestic cities – The role of national cities in African regional integration – Macroeconomic and sector policies with significant spatial impacts and their alignment with spatial policies and visions – Decentralization of governance and its impact on national spatial system (provincial capitals and counties and resulting spatial economic and urban growth pattern) – Regional and local economic development programmes and impact

National development planning must determine where investment should be prioritized. Policy decisions will shape the distribution of city sizes, economic functions and connections between cities in the national spatial system, with implications for national development. Sector planning and economic policies have powerful spatial implications, and the system of cities has economic implications for specific value chains.

The national spatial system refers to the arrangement and distribution of cities, towns and rural areas, including their functional roles and the connections between them. The national spatial system includes the urban system (e.g., the arrangement and distribution of cities and their connections). The urban system and the cities constituting it, through agglomeration economies and functions of production and consumption, help to diffuse economic growth and development to the rest of the spatial system.

Too often, governments pursue national spatial planning without a strong economic rationale, resulting in wasted resources. A system of diverse and specialized cities, including linkages to small towns and rural areas, can support broad-based structural transformation and inclusive growth, if strategically supported. One-off or limited public investments in cities, however, will likely not be enough to shift the balance of economic geography, which is influenced by natural advantages, the economic pull of large cities and path dependency relating to a history of public and private investment.

The need to pair spatial and economic planning arises for two reasons. The first is to better match public and private investment in space, pairing public infrastructure and services with the economic

activity that can leverage them and eventually generate the revenue to pay for them. The second is to meet the locational requirements of priority economic sectors, which may involve supporting a more balanced system of cities.

Box 2.13: Consequences of neglecting large cities in India

The focus of the development planning of India has been on rural development, notwithstanding rapid urban growth. A recent urban population decline in the largest cities, however, has been cause for concern for policymakers. The deterioration of infrastructure in large cities was identified as a major concern in the eleventh five-year plan. Though the plan considered creating small and medium-sized cities as growth centres as a strategy for achieving a balanced urban system, the economic realities of productivity and decades old investment patterns meant that that was not tenable. The weak economic base of small cities and the large productivity potential of large cities make promoting infrastructure investment in large cities an efficient and strategic step. This was confirmed by the eleventh five-year plan that included a strategy focused on 65 large and special category cities. The Government of India also launched the Smart Cities Programme to harness technology for achieving economic growth and improvement of quality of life in Indian cities.^a

^a See Amitabh Kundu, "Politics and Economics of Urban Growth", *Economic and Political Weekly*, vol. 46, No. 20 (2011).

Policies to coordinate economic and spatial planning should consider the benefits and the pitfalls of attempting to foster a balanced urban system, the locational requirements of target economic sectors and the spatial impact of existing economic policies. These issues are discussed below.

Urban primacy versus a balanced urban system

African countries tend to be characterized by urban primacy, namely, an urban system dominated by one very large city and a set of much smaller ones. Unbalanced urban systems⁵⁸ can present problems for economic competitiveness. As the largest city grows very large, diseconomies of agglomeration, such as high factor costs, congestion and crowding, increase. The lack of other large or mid-sized cities with comparable agglomeration economies, however, means that businesses are left with limited viable options and unable to deconcentrate away from the largest city. This dynamic negatively affects urban residents in the largest city who bear the brunt of diseconomies, businesses that face a lack of location options to meet their specific needs and the population living outside the prime city, who struggle to find economic opportunities.

While primacy can be harmful, policies to counteract it can be even worse. The prime city plays a central role in the national economy and is most likely the centre of high productivity, as well as innovations, start-ups and FDI. Policies that result in underinvestment or neglect of the prime city will therefore constrict the heart of the economy. Prime cities tend to remain central to national economic performance in the long term, but the imbalance of the urban system may ease with economic growth.⁵⁹ Multiple countries in South-East Asia, including Malaysia, the Philippines, Thailand and Viet Nam, have attempted to resettle people in lower density areas, but those programmes have not, in general, been successful, owing to economic problems for relocated households.⁶⁰

⁵⁸ Many national systems of cities follow a rank-size rule, whereby cities listed in order of size decrease by a common ratio. Nevertheless, in systems characterized by primacy, the gap between the largest cities and other cities break that rule.

⁵⁹ According to one study, primacy peaks in the \$2,000 to \$4,000 GDP per capita range in 1985 public-private partnership dollars. See J. Vernon Henderson, "Urbanization and Economic Development", *Annals of Economics and Finance*, Society for AEF, vol. 4, No. 2 (2003).

⁶⁰ See Francisco Javier Arze el Granado, "Spatial considerations on decentralization and economies of concentration in Indonesia" in *Reshaping Economic Geography in East Asia*, Yukon Huang and Alessandro Magnoli Bocchi, eds. (Washington D.C., World Bank, 2009).

Achieving a balanced national urban system with a hierarchy of primary, secondary and tertiary cities that play complementary roles in building a competitive and spatially integrated national economy is a strategically important goal. Country experiences show, however, that reversing primacy and creating a balanced urban system is expensive and a long-term undertaking (see box 2.14). These experiences underscore that the most powerful spatial tools are economic policies and strategies, not always spatial policies per se. Primacy arises from economic factors. Firms have an economic incentive to move to or establish themselves in the largest city. Workers looking for jobs follow. Moving development away from prime cities and boosting growth in selected regional growth poles or secondary cities therefore is not easy, and its success depends on how expensive and constrained the prime city has become owing to overcrowding and insufficient public investment, as well as how attractive the new places have become in terms of agglomeration threshold, market access, cost and supply of factors of production and services. Incentivizing to create attraction sufficiently enough in favour of the new places is not easy and requires a set of coherent and complementary economic and spatial policies and investment sustained over a long period of time.

Box 2.14: Long-term planning for the national spatial system of Viet Nam

Viet Nam is a lower-middle income country with fast economic growth and incipient urbanization (34 per cent in 2015). It has a national urban system characterized by two specialized growth poles. Ho Chi Minh City is focused on manufacturing with a focus on low value added products. Hanoi and its region are focused on heavy industry and higher technology manufacturing. The Viet Nam Urban Vision for 2050 is aimed at gradually developing a network of cities. It is intended to achieve this in phases, with initial action focusing on expanding the urbanized territory through the creation of smaller urban centres around Hanoi and Ho Chi Minh City. This is to be followed by developing the metropolitan areas of Hanoi, Ho Chi Minh City and Da Nang, another growing city. The vision is supported by a strategy that directs public spending, infrastructure investment and FDI to priority economic sectors and fast-growing cities such as Da Nang.^a

This vision recognizes that changing the national spatial system is a long-term process requiring a phased approach, coordinated investment policies and alignment with ongoing spatial-economic momentum.

^a See Ethiopia Development Research Institute and Global Green Growth institute, *Unlocking the Power of Ethiopia's Cities* (2015). Available at <http://static.newclimateeconomy.report/wp-content/uploads/2015/03/Unlocking-the-Power-of-Cities-in-Ethiopia.pdf>.

Policies to bolster secondary cities that can take the pressure off primary cities and provide good locational options for firms can be successful, if they are strategic. Such policies should focus attention on a few cities in order to ensure that investment is not spread too thinly to have an impact (as in the case of Kenya; see box 2.15). The most cost-effective investment will likely be in cities that are already close to a population and investment threshold needed to become a growth pole. Attempting to locate growth poles in disconnected or disadvantaged regions or attempting to build new cities from scratch will likely require very high expenditures that could be spent elsewhere for greater impact.

Table 2.5: Benefits and costs of spatial targeting

Investment will likely have higher benefits/lower costs in a city that...	Investment will likely have higher costs in a city that...
<ul style="list-style-type: none"> – Is a preferential location for industries targeted by the national development policy – Is optimally dense enough to make investment in urban amenities viable – Is endowed with basic infrastructure and human capital – Is already at or close to a size threshold in which the city is poised to become a competitive location for firms – Is well connected to strategic national, regional and international transport networks 	<ul style="list-style-type: none"> – Lags behind in basic infrastructure and is isolated from existing national, regional and international networks – Lacks subnational capacity to manage infrastructure investment, operation and maintenance – Is unappealing to targeted industries

Note: Table adapted from *Economic Report on Africa 2017*.

Box 2.15: Policies to promote a balanced urban system in Kenya

The first national urban policy of Kenya* was issued during the second national development plan (1970-74) and advocated a hierarchy of cities and towns with a set of population targets aimed at decentralizing the urban system. A series of policy revisions followed, eventually shifting in the second half of the 1980s to emphasize market-based incentives for private sector development in smaller towns and rural areas. Throughout the series of plans, central tools included public infrastructure investment and guidelines on public project citing.

Results fell short of what was originally envisioned. This was owing in part to a lack of spatial focus with investment spread too thin to transform any one growth centre, as well as weak coordination with sector and national economic planning. The list of growth centres increased from 9 to 11 during the third five-year development plan, with 9 more added as special attention centres. Seventeen more special attention centres were included during the fifth five-year development plan. Politics played a role in these designations, but with a cost for the effectiveness of investment aimed at creating a more balanced system of cities.^a

The national development plan can provide an economic rationale for spatial targeting and should limit the number of proposed growth poles to what is feasible under resource constraints.

^a See Hugh Emrys Evans, "National Development and Rural-Urban Policy: Past Experience and New Directions in Kenya", *Urban Studies*, vol. 26, No.2 (April 1989).

* Later called an urbanization policy.

Spatial targeting of investment and programmes over a wider array of cities and towns should be paired with economic analysis to match such programming with localized economic sectors of comparative advantage. Special attention can be given to cities and towns that have features that are attractive to priority economic sectors.

Locational preferences of target economic sectors: city size and special economic zone location

Economic sectors have various locational preferences, depending on their reliance upon various factors of production. Knowledge-intensive sectors tend to favour large, dense and diverse cities where a diversity of ideas is exchanged continuously. Land-intensive sectors likely favour smaller cities with lower land prices. Labour-intensive sectors favour cities where the cost of living is low. Exporters may wish to be close to ports, whereas input-intensive industries may wish to locate near the source of inputs (see table 2.6). Often a first step towards industry deconcentrating is that firms move out of

large cities to their periphery or an adjacent town (see box 2.16). Of course, generalizations do not always hold true, and in-country sector experts can provide more accurate and specific insight.

Box 2.16: Manufacturing clustering and deconcentrating

In Colombia, Indonesia, the Republic of Korea and Thailand, manufacturing clustered within the big cities or metro areas before it began to relocate to urban areas outside the prime cities. Though the primacy of Seoul peaked around 1970, the deconcentration of manufacturing from Seoul and the other major cities to rural areas and smaller cities began in the early 1980s. The share of manufacturing that was outside Seoul continued to grow steadily, increasing from 26 per cent in 1983 to 42 per cent in 1993. These changes happened alongside enormous investment in interregional transport systems, major infrastructure investments and fiscal decentralization.^a

^a See J. Vernon Henderson, "Urbanization and economic development", *Annals of Economics and Finance, Society for AEF*, vol. 4, No. 2 (2003).

Table 2.6: Sector-based location preferences

Sector type	Common location preferences
Knowledge-intensive; skill-intensive; research and development; innovation-intensive	Large, diverse city
New firms; start-ups	Large, diverse city
Land-intensive industry	Urban periphery or secondary city with low land cost
Labour-intensive industry	Mid-sized cities with low cost of living
Input-intensive industry; initial processing of raw commodities	Close to source of inputs

Developing the productivity and the competitiveness of the locations preferred by target economic sectors can help policymakers to strategically target limited investment resources. For example, if textile exports are a target sector, policymakers may wish to target a specific secondary city with a low cost of living and proximity to a port for investments that would support textile factories (e.g., electricity upgrades, improved water connections, workforce housing, transport and logistics). Importantly, firms and stakeholders within target economic sectors should weigh in on policies intended to attract them to specific locations. Engagement directly with firms can avoid misguided policies based on unchecked assumptions. For example, in Asia, a close relationship between exporters and government, including information-sharing and direct collaboration, was crucial in export strategy successes.⁶¹

Special economic zones are one option to develop a tailored set of locational characteristics that meet the needs of target economic sectors. Nevertheless, the location of special economic zones matters. Isolated or enclave special economic zones should be avoided because target firms will likely benefit from agglomeration economies of an established city. Connections to inputs, markets and labour should also be considered in deciding the location of a special economic zone. Isolated special economic zones also limit spillover benefits from FDI firms locating there, such as knowledge diffusion to the wider economy and job multipliers.

⁶¹ See Joseph E. Stiglitz, "Some Lessons from the East Asian Miracle", *World Bank Research Observer*, vol. 11, No. 2 (Washington D.C., World Bank, 1996).

Locating special economic zones in or close to existing cities is also a way to maximize their benefit/cost ratio. Urban special economic zones can draw upon existing urban infrastructure (both public and private) in the city, instead of requiring the provision of all workforce housing and services, such as schools and hospitals, from scratch. Urban locations thus decrease costs, while increasing benefits for the urban workforce, suppliers and buyers of special economic zone products, and special economic zone firms wishing to gain access to services firms located in the city. Too often, African special economic zones have been placed in lagging areas and hinterlands, increasing infrastructure requirements and decreasing their accessibility to the point of jeopardizing their competitiveness and ability to attract firms.⁶²

Box 2.17: Indicators relating to productive national spatial systems

- Urban primacy
- Presence of specialized cities
- Industrial concentration
- Interregional transport connectivity
- Domestic and regional trade

More detail on indicators can be found in the annex.

Linkages between cities, towns, rural areas and African regional markets

A well-functioning system of cities enables domestic and regional value chain development. Cities may play complementary economic roles, enabling same-sector clustering without overcrowding. The localization economies, or the economic benefits arising from same-sector clustering, can be generated in medium-sized cities if specialized clusters of firms locate there. Specialized medium-sized cities may therefore achieve some of the benefits of agglomeration without the diseconomies that come as cities become very large. At the same time, urbanization economies, or the economic benefits arising from different-sector clustering, require large, diverse cities. This explains why such cities are the site for innovation and the churning process of new firm births and deaths that gives rise to generations of more productive firms. The takeaway is that policymakers should focus on the functions of cities, matching economic sector planning with urban and regional planning.⁶³

Linkages refer to the connections between economic activities. Value chain linkages refer to the purchase of inputs and sale of outputs along a chain of production. Urban-rural linkages refer to the economic connections between urban and rural areas. These may include value chain linkages and the sharing of knowledge, the movement of labour and the flow of cash transfers between family members.

In other words, the type and mix of industries define the optimal size of cities. Agglomeration economies can be particularly powerful in clusters of firms that are of the same sector or have direct connections to one other, but the diseconomies of agglomeration depend more on the size of the city than on sector type. This asymmetry has two policy implications: first, positive externalities can

⁶² See Thomas Farole, *Special Economic Zones in Africa: Comparing Performance and Learning from Global Experience* (Washington D.C., World Bank, 2011).

⁶³ David Harvey, "Reshaping Economic Geography: *World Development Report 2009*", *Development and Change*, vol. 40, No. 6 (Oxford, Blackwell Publishing, 2009), pp. 1269–1277.

be maximized when mutually beneficial industries co-locate; and second, industries vary in their scale and hence specialized cities vary in their optimal size depending on the specializing industry.⁶⁴

In order for the system of cities to operate in an integrated and synergistic manner, connections between cities and regions that support domestic trade are critical. Firms involved in the manufacturing of standardized products are particularly amenable to relocate from costly urban centres to lower cost secondary cities if those cities or urban centres are linked to inter-urban transport networks.⁶⁵ In addition, programmes beyond hard infrastructure, such as improved financial linkages or support to enterprises in transport, trade and logistics, will support value chain development.

Integration with African regional markets, in particular those in neighbouring countries, provides further opportunities for urban specialization and trade. In order to enable the functioning of a productive regional urban system, regional trade barriers must be reduced and domestic infrastructure enhanced. Investment in intraregional and interregional connectivity to cut transport costs is key. High transport costs, attributable to distance and infrastructure, undermine African interregional and global trade. Infrastructure accounts for nearly 50 per cent of the transport cost differential that sub-Saharan Africa has to bear.⁶⁶

Nevertheless, there are already efforts to improve regional integration through regional economic communities, multi-country corridor projects and the agreement establishing the African Continental Free Trade Area. These efforts are particularly important for countries that are small, lack economic diversification or are landlocked. National spatial systems can promote regional linkages with productive cities with the potential to expand the production of manufactured and value-added products for regional markets.

Spatial impact of economic policies and structural transformation

The structure of the economy has a direct impact on the spatial system of a country. This should be taken into account during national development planning in order to accommodate spatial changes that occur alongside economic changes.

Economic structural transformation is inherently connected to urbanization, and as African countries achieve their economic goals, urban growth will proceed in parallel. Specifically, the economic sectors leading growth will influence the spatial pattern of development. Economic and investment policies influence this process. The spatial impact of policies should be considered as follows:

- (a) Trade policy. Domestic industry protection through tariffs, for example, encourages import substitution, which tends to favour industrial concentration in big cities and urban markets. A similar measure for specific agricultural products may have a stronger impact on secondary cities connected to the targeted agricultural resource. For example, Nigeria recently took tariff and non-tariff measures to discourage rice imports⁶⁷ and stepped up an effort to revive its domestic

⁶⁴ See Masahisa Fujita, Paul Krugman and Anthony J. Venables, *The Spatial Economy: Cities, Regions, and International Trade* (Cambridge, MIT Press, 1999).

⁶⁵ See Somik V. Lall, Zmarak Shalizi and Uwe Deichmann, "Agglomeration economies and productivity in Indian industry", *Journal of Development Economics*, vol. 73, No. 2, (Washington D.C., The World Bank, 2004), pp.643-673.

⁶⁶ See Nuno Limão and Anthony J. Venables, "Infrastructure, Geographical Disadvantage, Transport Costs and Trade", *The World Bank Economic Review*, vol. 15, No. 3 (World Bank, 2001).

⁶⁷ See CNBC Africa, "Nigeria relaxes import restriction list", 14 October 2015. Available at www.cnbc.com/news/west-africa/2015/10/14/nigeria-import-ban-lifted-on-rice. According to a BBC report, Nigeria spends \$5 million daily for rice imports, an estimated 1.26 per cent of the national budget in 2017. Domestic production depends heavily on small farms, and the success of the sector hinges

rice production. This could encourage the expansion and growth of rice mills and associated activities located in secondary cities throughout the majority of the rice-growing areas of Kaduna, Niger, Benue, Ebonyi, Taraba, Kano and Borno.⁶⁸ Alternatively, trade policies that focus on raw commodities will lead to the creation of “consumption cities” that are characterized by reliance on imports and high inequality.⁶⁹ Domestic trade policies can also affect cities, sometimes in a way that policymakers do not anticipate. In Thailand, for example, an export duty on rice led to the decline of rice farms and the outmigration of farmers, negatively affecting farmers, including those from the poorer north-eastern region, which was the focus of most regional development efforts.⁷⁰ On the other hand, an increase in the government purchase price of rice was one of the policy instruments that the Republic of Korea effectively used to increase the income of farmers and promote decentralized urban development.⁷¹

- (b) Fiscal policy. Tax breaks are a common incentive provided to lure investment in priority economic sectors and may be targeted to a specific industrial zone or city. If the policy is successful, investors will cluster in the intended location but may need additional policy support to create linkages outside the area, especially with rural economies and value chains.
- (c) Monetary policy: Currency undervaluation helps exporters by making them more competitive. This is of specific significance to natural resource exporting countries where other economic sectors face the threat of Dutch disease⁷² and struggle to compete in the global market. On the other hand, if the country is highly dependent on imports for food and basic needs and if domestic production is not competitive, then currency undervaluation may have serious social consequences for the urban poor or may exert pressure on the demand for increased wages and subsidies.
- (d) Other economic policy instruments. There are a range of instruments that national governments deploy to favour priority sector development such as tax breaks and preferential access to finance and land. Cities that experience economic and urban labour force growth as a result of these policies will experience rapid urban population growth and pressure to meet growing needs of urban services, housing, land and infrastructure.

Cities and towns grow and sometimes shrink, owing to economic shifts. Spatial shifts can be anticipated and accommodated in order to ensure that the way in which cities function benefits their populations and firms and the economic constraints arising from poor urban management are prevented.

Policy recommendations for productive national spatial systems

Several policy recommendations can be made with regard to fostering productive national spatial systems:

on the capacity to improve quality and connect agriculture to agro-processing, warehousing and the logistics See BBC, “Why does Nigeria import so much rice?”, 2 February 2017. Available at www.bbc.com/news/world-africa-38795673.

⁶⁸ See Nairaland Forum, “Nigerian States and What They Produce”. Available at www.nairaland.com/2521578/nigerian-states-what-produce.

⁶⁹ See Douglas Gollin, Remi Jedwab and Dietrich Vollrath, “Urbanization with and without industrialization”, *Journal of Economic Growth*, vol. 21, No. 1 (March 2016).

⁷⁰ Harry W. Richardson, “National Urban Development Strategies in Developing Countries”, *Urban Studies*, vol. 18 (1981), pp.267-283.

⁷¹ See Edward Reed, “Is Saemaul Undong a Model for Developing Countries Today?”, paper prepared for International Symposium in Commemoration of the 40th Anniversary of Saemaul Undong, hosted by the Korea Saemaul Undong Center, 30 September 2010.

⁷² Dutch disease occurs when exports of a commodity result in an influx of foreign currency, making imports cheaper in the domestic market and reducing the competitiveness of other exports. This impedes economic diversification and the expansion of tradable goods and services sectors.

Section II

- Investment in prime and large cities is critical, since these cities will be at the heart of national economic growth and transformation for decades to come. Although it is imperative to decentralize development and achieve balanced urban systems in the long run, prime and/or large cities will remain growth drivers for the foreseeable future and, in many cases, appear to be prematurely constrained by infrastructure, land use and planning deficiencies. Scarcity of resources, including management capacity, also means that African countries need to make the best use of these cities, while slowly investing in connectivity infrastructure, laying the foundation for developing other cities and growth centres in a strategic fashion.
- Secondary and mid-sized cities can be strategically supported to become growth poles that relieve pressure on the prime city and provide locational options for firms. Nevertheless, policies to create secondary city growth poles should be focused on a limited number to concentrate resources on cities already close to a productive threshold and maximize cost effectiveness and the likelihood of success.
- Special economic zones should be connected to cities so that firms locating in special economic zones can benefit from urban labour, inputs and consumer markets and so that innovation can flow both ways between special economic zone and city firms.
- Spatial targeting can be paired with sector targeting to meet the specific locational needs of priority economic sectors. Engagement with firms and stakeholders within the sector should inform such policy decisions.
- Optimal city size depends on the type and mix of industries. Good planning to coordinate urban development, such that functionally complementary cities emerge over time, is important.
- Domestic and African regional linkages must be strengthened to support city specialization and trade.
- Economic policies have a significant, and sometimes unintended, negative spatial impact. This impact can be planned for and accommodated to better align economic growth and the spatial performance of cities and towns.

Theme D: Arrangements for implementation: coordination and finance

Table 2.7: Considerations for coordination and finance

Background information	Some of the urban issues and trends to consider
<ul style="list-style-type: none"> – Cities and their economies are multifaceted, involving a variety of economic sectors and public services: manufacturing, services sectors, utilities, housing, infrastructure and governance, among others – There are three critical points of coordination: public-private; horizontal, especially between spatial and economic planning; and vertical, between national policymakers and subnational implementers – The investment rate in Africa is too low to drive growth, a limitation especially for cities – Per capita budgets for cities in Africa are too small and capacity for financial management too weak – Cities have untapped financial potential, especially through land value capture and private sector participation 	<ul style="list-style-type: none"> – Institutional factors impeding urban development – Ministries, departments and agencies with existing mandates with urban implications – Coordination of investment among private, household and public investment. External economies of cities require synchronization between various actors and investment – Urban investment requirements – Local share of national revenue and spending – Revenue from land value capture – Local capacity for municipal finance management, including the capacity to borrow and develop bankable urban projects – External challenges and opportunities for public-private partnership in local infrastructure projects

Good planning is not enough. Too often ambitious and forward-thinking plans fail on the ground. Two common themes of implementation failure are coordination and finance.

Coordinated action for policy implementation

Urban issues encompass many sectors, agencies and policies. In order to avoid common implementation barriers, better connections are needed between ministries and sectors that work in parallel on urban issues, whether explicitly labelled as “urban” or not. Silos can be broken by adjusting the mandates of ministries, departments and agencies and by institutionalizing inter-agency coordination mechanisms.

It is critical to pair spatial and economic planning. Policymakers should plan for the spatial implications of sector and macroeconomic policies. Economic forces have a powerful impact on human geography that must be planned for. At the same time, policymakers should consider the spatial requirements for and constraints on target economic activities. Malaysia provides an example of coordinated action to support ICT firm needs (see box 2.18).

Box 2.18: Coordination of investment and legal reforms to support clustering in the Malaysia Multimedia Super Corridor

The Malaysia Multimedia Super Corridor demonstrates the potential of well-connected and well-served locations for same-sector clustering. The Corridor was envisaged and developed in 1996 to become a global leader in the conceptualization, design, testing, production and distribution of advanced ICT applications. As of 2005, more than 1,421 firms had located there, creating 27,000 new jobs.

The Multimedia Super Corridor is located in a corridor of 75km², leading to Kuala Lumpur International Airport, and it covers two new cities: Putrajaya and Cyberjaya. The former is the administrative centre of the federal Government and the latter hosts ICT companies operating in smartly designed buildings and urban systems. In order to attract international companies into the enclave, the Government invested in fibre optic telecommunications, modern transportation networks and soft infrastructure. A conducive legal framework has been important to the Corridor, with four laws enacted in 1997: the Digital Signature Act, the Copyright Act (Amendment), the Computer Crimes Act and the Telemedicine Act.^a

The alignment of legal, investment and spatial policies was central to the success of the Corridor.

^a See Zainal Aznam Yusof and Deepak Bhattasali, "Economic Growth and Development in Malaysia: Policy Making and Leadership", Working Paper No. 27 (Washington D.C., World Bank, 2008).

Coordination is critical during both planning and implementation. The aim of coordination is three fold:

- Alignment of national, subnational and sector plans
- Alignment of resources with plans
- Alignment of implementation by various ministries, departments and agencies in space, time, priorities and roles

In addition, coordination must go beyond the public sector. The centrepiece of coordination for urban development should be connecting household, business and public investment. In order to be functional and productive, cities need all three and in a coordinated fashion.

Because of the complex and multisectoral nature of cities, urban sector programmes by necessity involve multiple actors and sectors, and therefore the different roles of various ministries, departments and agencies, steps and processes, should be clearly spelled out and codified in guidelines. Roles and responsibilities should be well defined, ensuring strict compliance with the national development plan process. That is why the national development plan coordination in general and urban issues in particular should be placed at a higher or more strategic level. The Republic of Korea, for example, in the early 1960s established the Economic Planning Board under the Deputy Prime Minister. The Board directed the Bureau of Economic Planning, the Office of Planning Coordination and the Bureau of Evaluation and Analysis, each fully empowered and mandated to support planning, coordination and monitoring and evaluation. In a similar vein, Malaysia established planning and implementation units within the Office of the Prime Minister to ensure that planning and action were coordinated.

Pairing the right agencies with the right mandates becomes critical for plan implementation. Authorities overseeing the national development plan should be located at a level of authority to be able to guide and coordinate plan implementation. At the subnational level, implementing entities require the authority, resources and staffing to oversee processes involving a wide array of stakeholders.

No single ministry, department or agency can manage all urban issues. Mechanisms for inter-agency coordination should therefore be established as a fundamental part of implementation arrangements. Horizontal coordination at the national level will link major infrastructure investment and sector-specific planning with the national urban vision and policy goals. Vertical coordination between national and subnational actors will also play an important role in national development plan implementation. Urban programmes ranging from neighbourhood redevelopment to housing or ICT will have a better chance of successful implementation if they are connected to national flagship programmes and sector priorities.

Vertical coordination can help subnational agencies to connect the dots between local and national priorities and take advantage of national megaprojects that take place in their locality. Subnational budgets can leverage national assistance to develop local economic development plans, create realistic budgeting and expenditure plans and develop bankable projects, all components of national development plan implementation.

Mechanisms for coordinating should allow for responsiveness and flexibility in planning and budgeting in the face of changing situations. The existence of procedures built into the system for consultation and adjustment is very important.

Mechanisms for coordination may include regular meetings and forums to allow for regular inter-agency dialogue. Communication and coordination take time and resources, so having dedicated staff time for this activity or a dedicated inter-agency liaison may be more realistic than adding coordination activities to already overburdened staff. The free sharing of information between ministries, departments and agencies can reduce the burden of intermittent communications, allowing linked projects to adapt and communicate as needed. National governments should assess and amend budgeting mechanisms or other processes that create an atmosphere of inter-agency competition and reluctance to coordinate and share information.

Finance for policy implementation

Policies should be reflected in both capital and operational budgeting. In addition, a range of financial tools can support strategic investment to leverage urbanization, including well-supported decentralization, public-private partnership and land value capture.

Box 2.19: Indicators relating to finance for urban development

- Ratings relating to policy-based budgeting
- Stock and quality of public capital (infrastructure)
- Public investment in urban infrastructure as a percentage of GDP
- Per capita subnational budget
- Domestic firms' share in public procurements
- Share of own source revenues versus transfers in the subnational budgets of major cities
- Revenue from property tax as a percentage of GDP
- Private sector share of public project investment

More detail on indicators can be found in the annex.

Urban investment shortfall

Investment and saving rates, along with technology and trade, are major drivers of development. In Africa, notwithstanding the sustained positive growth of GDP in the recent past, investment rates did not show growth. In fact, in the past two decades, investment rates were either unchanged or declined in 28 countries. Although there has been a marked increase in the average growth rate of investment in the decade beginning in 2000 (from 3 per cent in the 1990s to 6.6 per cent in the 2000s), it did not significantly change the investment share of GDP, given that it was offset by GDP growth. Between the 1990s and the 2000s, the average investment share in Africa grew from 17.7 to 18.7 per cent, a low rate, compared with developing countries' global average share of 24 and 26 per cent during the same decades.⁷³

The backlog of investment needs for African cities is growing, and projected rapid urbanization of the coming decades will increase investment needs in African cities. It is estimated that the continent needs \$93 billion annually to meet its infrastructure gap,⁷⁴ and narrowing that gap is crucial for Africa. The infrastructure deficit is a penalty on productivity in Africa. Road freight is four times more expensive, and firms lose more than 12 per cent of production time owing to electricity outages.⁷⁵

Linking public revenue to urban development

Revenue in African cities is weak but has untapped potential. There are three areas on which to focus to improve revenue:

- Revenue base expansion
- Tax administration improvement
- Tapping of underutilized sources of revenue

The dominance of the informal economy in African cities limits their tax base. Nevertheless, in the long run, the service sector in general and the informal economy in particular should be a potential source of growth, employment and taxes. Efforts to enhance local revenue should be paired with, or even preceded by, efforts to enhance productivity. Creating a supportive business environment costs money, but it also generates profits and taxes. Revisions to overly restrictive regulations on informal activities and a more inclusive credit system can nudge informal operators out of the shadow economy. In addition, web-based and mobile-based platforms can enhance access to public services, cut red tape and facilitate the payment of taxes.

In general, local authorities in developing countries have limited authority and capacity to expand their revenue base. Subnational taxes in developing countries are 2.3 per cent of GDP, compared with 6.4 per cent in industrial countries.⁷⁶ Most African cities are dependent on national transfers for their operation and investment. The reliance on national transfers is not unique or specific to African cities, but the per capita budget of African cities is too small to plan and execute major programmes. Illustrative data from cities in Colombia, Mozambique, the Philippines and Rwanda highlight that fact. The

⁷³ See United Nations Conference on Trade and Development, *Economic Development in Africa 2014: Catalyzing Investment for Transformative Growth in Africa* (United Nations publication, Sales No. E.14.II.D.2).

⁷⁴ See Jeffrey Gutman, Amadou Sy and Soumya Chattopadhyay, *Financing African Infrastructure: Can the World Deliver?* (Washington D.C., Brookings, 2015).

⁷⁵ See African Development Bank Group, "Infrastructure Deficit and Opportunities in Africa", *Economic Brief*, vol.1 (2010).

⁷⁶ See Roy W. Bahl and Richard M. Bird, "Subnational Taxes in Developing Countries: The Way Forward", Institute for International Business, Working Paper No. 16 (Institute for International Business, 2008).

secondary cities of Medellin and Santa Marta in Colombia have an average per capita budget of \$224, and two secondary cities in the Philippines (Iloilo and Cagayan de Oro) have an average per capita budget of \$68. On the other hand, districts in Rwanda (Rubavu and Nyagatare) and two secondary cities in Mozambique (Nacala Porto and Nampula) feature average per capita budgets of only \$37 and \$24, respectively.⁷⁷

Improving basic financial management, including revenue enhancement, at the local level should be a priority. Revenue tools are often available, but poor tax records, public information and enforcement result in low collection rates. In particular, improvements in land management and property taxes hold potential for local governments. In developed countries, property taxes constitute between 30 and 40 per cent of local revenue, while the share is between only 3 and 4 per cent in most developing countries.⁷⁸ Property taxes constitute only 0.6 per cent of GDP in developing countries, while it is more than 2 per cent of GDP in developed economies.⁷⁹ Reforming land management and improving land information systems can spur growth by removing a major hurdle for business and households, while at the same time helping to boost the public income.

There are a variety of instruments available to governments to capture the increasing value of urban land. Land value capture policies are built on the idea that the value of land reflects market forces and public investment. Whereas buildings reflect private investment, the land itself is valued on the basis of its location in proximity to services and infrastructure and within a well-managed and prosperous city. When governments make public investment, the resulting increase in land values represents an unearned windfall to landholders, which can be captured as public revenue is reinvested into the city. In that way, land value capture and reinvestment can become a virtuous cycle that benefits all parties involved.⁸⁰ Taxes on land value are considered by economists to be the least distortionary of all taxes, and if well targeted, can deter land speculation and actually make built space more affordable by incentivizing supply.⁸¹

There are many instruments that can be used for land value capture:

- Annual property taxes can be applied to the value of land, or split-rate taxes can apply a higher rate to land than to buildings
- Land value increment taxes applied at time of sale capture a portion of the increased value in land since the last title transfer
- Betterment levies assign the cost of infrastructure or public service improvements to all affected plots, with payments based on level of benefit or land value
- Developer exactions require those adding built space or redeveloping a plot to pay a contribution towards the infrastructure and the services that will be required by plot users

⁷⁷ See African Development Bank, Organization for Economic Cooperation and Development and United Nations Development Programme, *African Economic Outlook 2016: Sustainable Cities and Structural Transformation* (2016).

⁷⁸ See United Nations Human Settlements Programme, "Municipal Finance", Habitat III Issue Papers 7 (New York, 2015).

⁷⁹ See Ehtisham Ahmad, Giorgio Brosio and Caroline Pöschl, "Local Property Taxation and Benefits in Developing Countries – Overcoming political resistance?", Asia Research Centre Working Paper 65 (London, London School of Economics, 2014).

⁸⁰ In order to truly benefit all parties, including those who are not land owners, investment of land-based revenue should be used to increase the supply of well-located affordable housing and services that are accessible to all income levels.

⁸¹ See Lawrence Walters and Liz Paterson Gauntner, "Sharing the Wealth: Private Land Value and Public Benefit", in *Finance for City Leaders Handbook*, Marco Kamiya and Le-Yin Zhang, eds. (Nairobi, United Nations Human Settlements Programme, 2016).

- Sale of development rights allows for specific development rights (e.g., additional height or density allowances) to be sold or publicly auctioned to the highest bidder
- Sale and lease of public land allows the government to collect payment for land directly at a price that is established by policy or determined in the open market.

Improving land records for tax purposes will necessitate regular valuation. Fortunately, computerization provides affordable options for what was once a complex and labour-intensive process. Making land records publicly available can help to incentivize tax payment, create transparency and support a well-functioning real estate market.

Box 2.20: Land-based finance in China

China demonstrates the enormous financial potential of land during urbanization. The Chinese system decentralizes responsibility for infrastructure provision and economic development to cities. Subnational governments own land classified as urban and issue long-term leases for its use. Cities have used the acquisition and the development of land to finance infrastructure, borrowing and using land lease payments to repay loans.^a

While leases for industrial land are kept low, land for other uses is competitively auctioned, leveraging the market value of newly serviced land to repay public investment.

The benefits of this system are apparent in the level of infrastructure investment of China. The country has spent approximately 10 per cent of gross domestic product on infrastructure during the past two decades, a much higher percentage than the developing country average of between 3 and 4 per cent and the developed country average of 2 per cent. This spending is done primarily through local governments. Land leases account for 46.7 per cent of public revenue (as of 2012). Massive investment in cities has contributed to three decades of national economic growth averaging 10 per cent annually, with 260 million migrants out of agriculture and into more productive urban economic sectors and 500 million people lifted out of poverty.^b

The use of land-based finance in China, however, has not been executed without problems. The planning system has not promoted an efficient urban layout, leading to sprawl, and public land development has fuelled peripheral development and even an oversupply of real estate in some cases. The lack of other available subnational revenue tools and low transfers (2 per cent of the national capital budget) means that urban expansion is motivated by financial requirements, not always planning for good urban form. In addition, the pace of financing has created an unsustainable debt burden for many subnational governments. Lastly, expropriation from rural collectives has led to injustice and civil unrest.^b

^a See Zhi Liu, "Planning and Policy Coordination in China's Infrastructure Development"; paper was commissioned for the ADB-JBIC-World Bank East Asia Pacific Infrastructure Flagship Study, 2004.

^b See the World Bank and Development Research Center of the State Council, the People's Republic of China, *Urban China: Towards Efficient, Inclusive and Sustainable Urbanization* (Washington D.C., 2014).

Efficient investment

National development planning by its nature prioritizes action for economic development and can serve as a guide for high-impact and coordinated investment to uplift priority economic sectors. When the link between planning and budgeting is broken, however, expenditure will fail to achieve policy goals. Policy-based budgeting is not merely an imperative for national capital budgeting; operating budgets that allocate staff and resources to managing programmes and agencies also play a central role in prioritizing national action. The same is true at the subnational level, in which both capital and operating expenditure will dictate the success of development initiatives. Subnational budgeting and financing will likely require national-level support to align with national development plan priorities.

In the context of African resource limitations, investing in high-return economic activities has become particularly crucial. Judged by the incremental capital output ratio, which declined from 7.4 to 4.1 between the 1990s and the 2000s, the aggregate productivity of capital has shown a very positive improvement in Africa. Studies also suggest, however, that the efficiency of public investment is low. Urban infrastructure is a major part of public investment, but it should be strategic, given that low-efficiency investment is a drain on public budgets.⁸²

Well-targeted and high-impact public expenditure must be coordinated with private sector activities to support common economic sectors and locations. Mutually reinforcing action creates a well-functioning economic synergy and provides a good return on investment.

It should be noted that there is sometimes a trade-off between public investment with high returns and that serving the poorest. Not all social support must be linked to economic development and vice versa, but economic policies can also prioritize investment and economic sectors that serve both goals of growth and inclusivity. In cases in which poverty and growth are geographically separated, it may be easier to help poor populations to gain access to high growth areas through well-located housing, affordable transport and reducing barriers to residential mobility, rather than attempting to attract high growth firms to locate in disadvantaged areas.

Leveraging private sector investment in cities

The public sector alone cannot close the finance gap between urban requirements and the current level of investment, and often the private sector has a higher capacity for borrowing and project management than local governments. Fortunately, the private sector has an incentive to invest in African cities owing to high potential returns. Private investment in cities must be both enabled and directed. Enabling conditions require good urban institutions that allow for transparency and clarity of information and ease of doing business. Private investment can be directed to serve national development goals through regulatory frameworks and incentives.⁸³ For example, private housing developers can and should be directed to contribute to connected and compact cities.

Formal joint financing agreements and public-private partnerships also hold potential for enlisting the private sector to contribute to conditions for urban economic growth. Public-private partnerships can solve some of the constraints facing cities, which have upfront investment needs that can be too high to be borne fully by the public sector. Private investment in infrastructure in developing countries is on the rise, increasing from less than \$20 billion in 1990 to more than \$200 billion in 2012.⁸⁴

Often, public-private partnerships are built on concession agreements whereby a private operator has the right to provide public services in exchange for user fees. Nevertheless, trade-offs between achieving economic efficiency and expanding access to the urban poor should be carefully considered and addressed when urban services such as water and sanitation services are privatized, and agreements should build in consideration of the ability to pay with cross-subsidies and protections for the poor. Moreover, governments should exercise caution in establishing concession agreements in order to avoid bearing too much risk.

⁸² See United Nations Conference on Trade and Development, *Economic Development in Africa 2014: Catalyzing Investment for Transformative Growth in Africa* (United Nations publication, Sales No. E.14.II.D.2).

⁸³ A useful guide to urban regulations is to be found in *Reforming Urban Laws in Africa: A Practical Guide* (African Centre for Cities, United Nations Human Settlements Programme and Urban LandMark, 2017).

⁸⁴ See Le-Yin Zhang and Marco Kamiya, "Public-Private Partnerships", in *Finance for City Leaders Handbook*, Marco Kamiya and Le-Yin Zhang, eds. (Nairobi, United Nations Human Settlements Programme, 2017).

There are a variety of models of public-private partnerships. The private entity may finance, build and operate a facility to provide services to the public, with the ability to collect fees or with payments from the government. Most public-private partnership agreements are for a set period of time, with the transfer of assets to the public sector at the end of construction or the concession. Private entities may pay a lease for the rights to operate a public facility to provide services and collect revenue. Private involvement may also be limited to financing a public project.⁸⁵

Public-private partnerships require high capacity on the part of the government, whether national or subnational. A clear and easily navigable legal framework is essential. In addition, government staff need the capacity to put together bankable projects, negotiate with private entities to ensure reasonable risks and premiums on the part of the public sector and assess whether projects represent good value for money and alignment with national development plan priorities for scarce resources. If this capacity or experience in these areas is lacking, governments should seek outside expertise and exercise caution in establishing public-private partnerships.

Box 2.21: Public-private partnerships for infrastructure projects in Indonesia

Indonesia allocates 5 per cent of its gross domestic product to infrastructure. It promotes public-private partnership as a major financing strategy for its infrastructure programme, encouraging economically and financially viable projects to be implemented through regular public-private partnership arrangements, while providing government support to public-private partnerships involved in high value-for-money projects that perform marginally in terms of cash flow. Government support to private sector partners involves access to land, tax breaks and guarantees associated with risks arising from administrative delays and regulatory changes. In this way, the government tries to free up public resources from projects that are likely to be attractive to the private sector and direct them to projects that are not financially feasible but have high economic and social returns.^a

^a See Government of Indonesia, Ministry of Development Planning, "Infrastructure Development Strategy in Indonesia" (2011).

Subnational financial management

Cities cannot fulfil their potential as drivers of national economic transformation if their basic operations are not adequately funded. Cities around the world and in Africa are being given ever-broader mandates for local service delivery in a process of decentralization. These responsibilities must be paired with adequate financial resources or governments risk undermining the economy's economic engine.

While most African cities will require significant national transfers in the long term, movement towards financial decentralization can be paired with national support for improving the financial management and implementation capacity of subnational authorities. Such measures could involve the following:

- Progressively increasing the role of subnational authorities in the execution of public projects and raising the local share of public spending
- Creating built-in incentives to increase the share of local revenue in budgets
- Strictly linking capital budget allocations with subnational operation and maintenance budgets

⁸⁵ See United Nations, *Guidebook on Promoting Good Governance in Public-Private Partnerships*, Economic Commission for Europe (United Nations publication, Sales No. 08.II.E.1).

- Providing legislative and institutional conditions for cities to gradually gain access to capital markets and utilize public-private partnerships

Large metropolitan areas with a variety of municipal governments sometimes face an added challenge to generating own-source revenue. In order to compete for development and investments, there can be a race to the bottom in the application of taxes and fees, which undercuts the ability of local governments to fund their mandates through such revenue tools. Such inter-metropolitan competition can be avoided through the actions of higher-level governments (i.e., state, district or national).

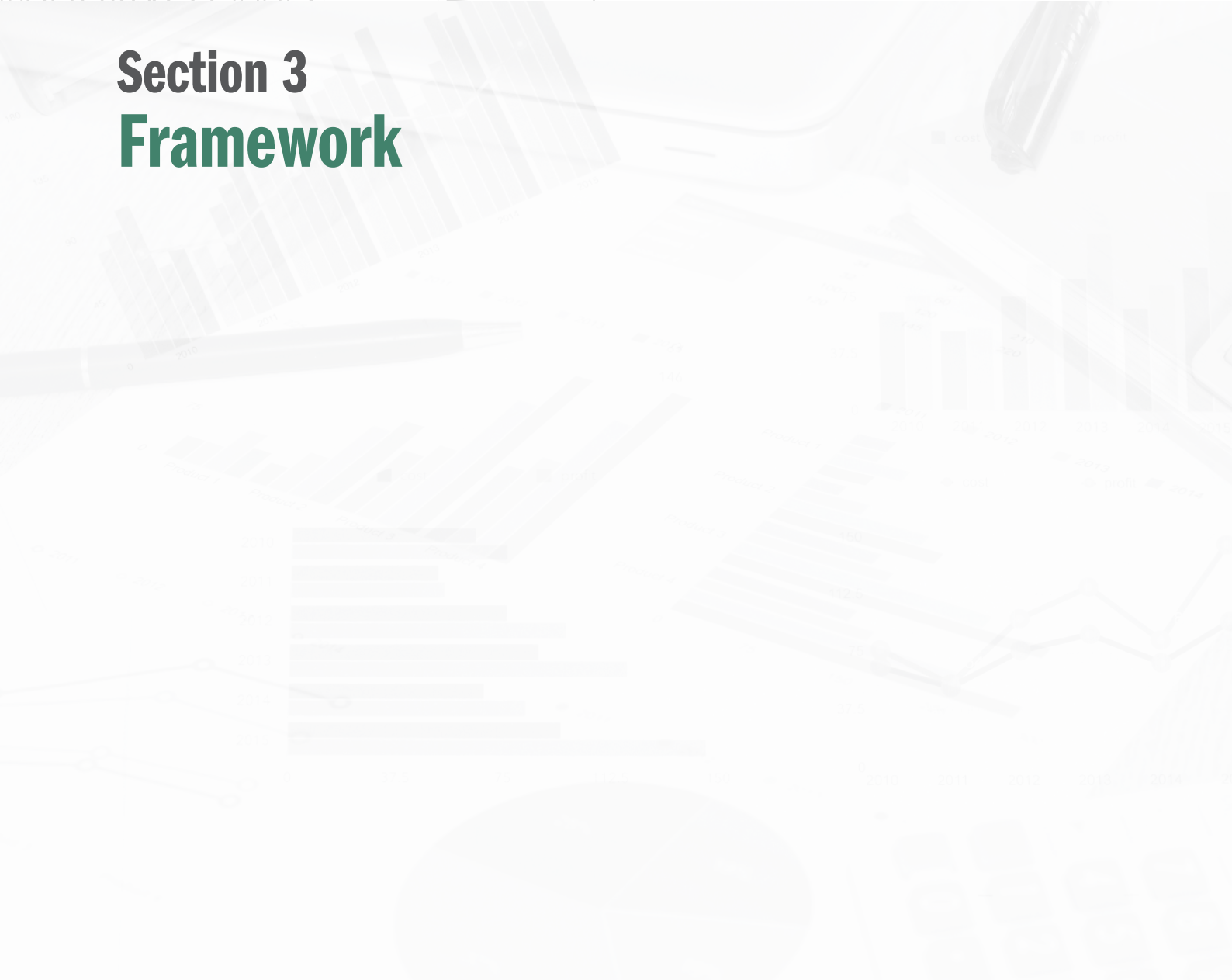
Policy recommendations for coordination and finance

Several recommendations can be made, as follows, for pairing national development plans with implementation arrangements that lay the groundwork for success on urban targets:

- Consider the multifaceted nature of urban development and assign mandates, instruments and oversight to enable the alignment of multiple actors implementing urban programmes
- Institute processes for ongoing dialogue and information-sharing, both horizontally between national ministries, departments and agencies and vertically with subnational governments
- Assess and reduce processes that engender unhealthy competition or institutional rivalry between ministries, departments and agencies handling urban issues that should be closely coordinating
- Match targeted economic growth in cities and urban economic sectors with adequate investments and budgeting
- Bolster land value capture instruments to better link urban development with sustainable revenues and invest in subnational financial management capacity, especially in large cities
- Boost the return on urban public investment by rigorously linking spending to national development plan priorities and coordinating public investment with private sector activities growth potential
- Improve public sector capacity to develop bankable urban projects and leverage public-private partnerships



Section 3 Framework



Urban issues at each stage of the national development plan process

National development plan stage	Process issues	Applying an urban lens	
<p>Analysis and diagnostics</p>	<p>Collecting data on urban issues</p>	<p>Economic sectors</p>	<ul style="list-style-type: none"> – Which economic sectors best create urban jobs – Areas of rising urban demand – How sector locational needs align with national spatial system realities
		<p>Productive cities</p>	<ul style="list-style-type: none"> – Urban form, mobility and connectivity – Spatial equity and inclusiveness – Land development process – Urban infrastructure
		<p>National spatial system</p>	<ul style="list-style-type: none"> – Primacy and specialization – Inter-city and inter-regional connectivity; value chain opportunities
		<p>Coordination and finance</p>	<ul style="list-style-type: none"> – Horizontal and vertical coordination within government – Coordination with the private sector – Budgeting alignment with plans – Subnational financial capacity – Land value capture

National development plan stage	Process issues	Applying an urban lens	
<p>Analysis and diagnostics</p>	<p>Stakeholders and input</p>	<p>Stakeholders should represent:</p> <ul style="list-style-type: none"> – Major cities – Secondary cities – Major industries/sectors (by value added) – Major industries/sectors (by urban employment, including informal) – Housing – Transport – Infrastructure – Finance 	
	<p>Analysis of urban issues</p>	<p>What is the current situation and why:</p> <ul style="list-style-type: none"> – Urban demographics, income and consumption – Urban employment – Urban productivity and competitiveness – National spatial system <p>What opportunities and constraints are at play:</p> <ul style="list-style-type: none"> – Urban competitiveness – Urban job creation – Urban quality of life and equity – Inter-city and urban-rural linkages <p>What broad priorities should be considered in terms of the data and analysis?</p>	
<p>Vision, goals and targets</p>	<p>Establishing goals and targets</p>	<p>Target economic sectors</p>	<p>Growth and employment</p>
		<p>Productive cities</p>	<p>Local income growth or value added; jobs; inclusive prosperity; land management; mobility and connectivity; access to basic services and decent housing; reduced regulatory and institutional barriers to enterprises</p>
		<p>National spatial system</p>	<p>Spatial distribution of firms, jobs and income; role of secondary cities; urban-rural linkages; regional integration; public-private investment matching; reduced inter-urban and urban-rural disparities</p>

National development plan stage	Process issues	Applying an urban lens
Implementation strategies	Coordination framework	<ul style="list-style-type: none"> – Clear and coordinated roles and responsibilities for implementing urban programmes and targets – Coordination between various policy instruments with urban implications – Coordination mechanisms for the urban development process – Public-private coordination
	Financial planning	<ul style="list-style-type: none"> – Geography of investment and programmes aligned with national spatial and economic vision – Timing and prioritization of funding incorporates urban investment and maintenance costs – Use of available financial tools, including land value capture, debt financing, private sector contributions and cost-effective planning – Subnational agencies with financial capacity to succeed in delivering on their mandates
Monitoring/Evaluation	Responsibilities for monitoring and evaluation	<ul style="list-style-type: none"> – Process and outcome data can be fit-for-purpose – Monitoring and evaluation benefits from external oversight or implementation – Enlist national statistics agencies as needed
	Improving subnational data	<ul style="list-style-type: none"> – Pair spatial data with economic data – Strengthen data on urban productivity, land use, infrastructure and mobility – Align subnational data efforts for comparability and returns to scale

What are the practical considerations for incorporating cities and urbanization into the national development planning process? This section provides guidance on that task. The policy formulation process is different in every country. Even so, most policy processes can be distilled into four general stages: diagnostics and analysis; vision, goals and targets; implementation strategies; and monitoring and evaluation.

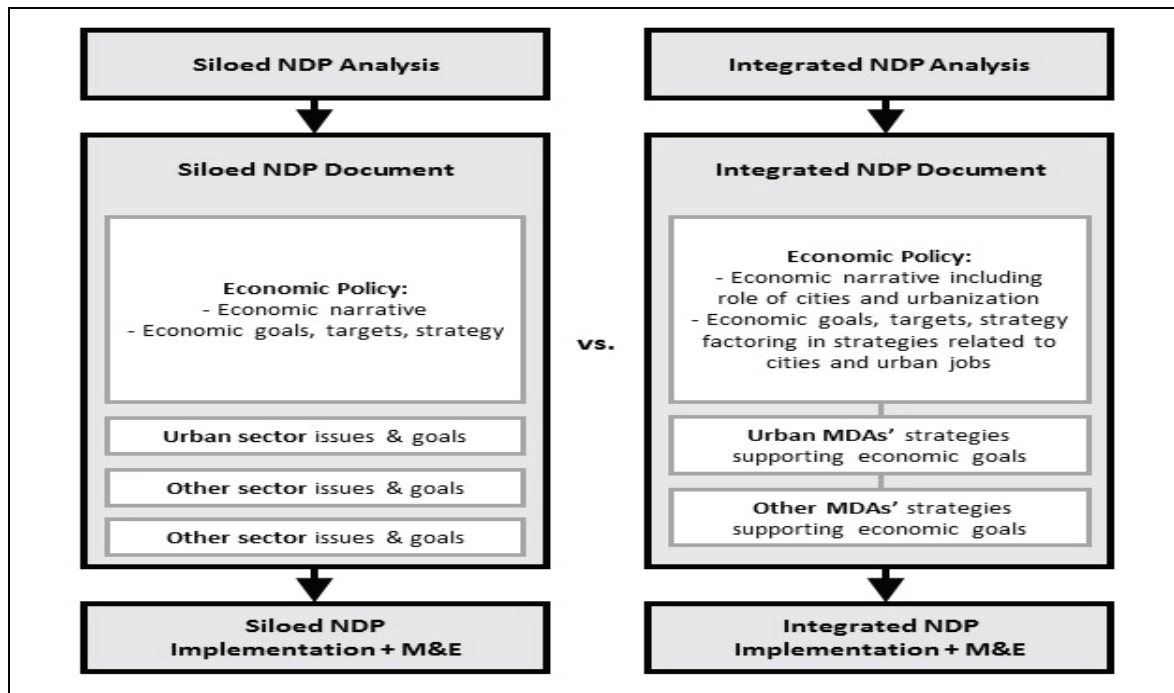
Table 3.1: National development planning by stage in South Africa, Uganda and Zambia

	South Africa	Uganda	Zambia
Stage 1: Diagnostics and analysis	<ul style="list-style-type: none"> – Establishment of a national planning commission with advisers in various fields – Provision of data by Statistics South Africa on population, economy, living conditions and natural environment -data broken down by sector and province available – Creation of diagnostic report with primary challenges – Consultations on draft national development plan with the public, parliament, the judiciary, national departments, provincial governments, development finance institutions, State-owned entities and local government formations and civil society 	<ul style="list-style-type: none"> – Formation of committees and task forces to discuss national development plan issues, including a core technical committee, sector task forces and an ad hoc patriotic team – Economic, social and population statistics provided by the Bureau of Statistics and Population secretariat – Consultations with economic sectors, the private sector and civil society organizations – Consulting and collection of data from local governments – Consultative meetings of permanent secretaries, ministers and members of Parliament – Consultations with the President 	<ul style="list-style-type: none"> – Policy analysis coordinated by the Cabinet Office – Assessments conducted at various subnational levels – Consultative process with civil society, the private sector, quasi-government institutions and stakeholder groups.
Stage 2: Vision, goals, targets	<ul style="list-style-type: none"> – Creation of draft national development plan and broad consultations to review – Final national development plan 	<ul style="list-style-type: none"> – Discussions between the National Planning Authority, the Ministry of Financial Planning and Economic Development and the Bank of Uganda – Submission of draft national development plan to the Cabinet – Further consultations and revisions – Submission of national development plan to Parliament and final approval 	<ul style="list-style-type: none"> – Development Coordinating Committees (Planning Development Control Committees) and District Development Coordinating Committees identify programme priorities during plan preparation – Strategic choices, drafting and validation at the sector level by sector ministries

	South Africa	Uganda	Zambia
Stage 3: Implementation strategies	<ul style="list-style-type: none"> – Development of medium-term strategic frameworks – Provincial, municipal and sector plans – National and subnational budgeting 	<ul style="list-style-type: none"> – Creation of sector and local government planning guidelines – Creation of local government budget framework papers – Development of sector master plans and strategies – Development of medium-term expenditure frameworks – Annual budgeting 	<ul style="list-style-type: none"> – Ministries undertake implementation with coordination provided by Cluster Advisory Groups – Planning Development Control Committees and District Development Coordinating Committees provide advisory services – Output-based budgeting supports plan implementation
Stage 4: Monitoring and evaluation	<ul style="list-style-type: none"> – Department of Planning, Monitoring and Evaluation oversees at multiple levels, including the following: <ul style="list-style-type: none"> • Implementation of the national development plan and medium-term strategic frameworks • Performance of individual national and provincial government departments and municipalities • Frontline service delivery • Support to policy development 	<ul style="list-style-type: none"> – Regular monthly, quarterly and half year performance reports – Annual sector performance reports/reviews – National performance reports by the Office of the Prime Minister and the Ministry of Financial Planning and Economic Development – Annual national development report by the National Planning Authority – National development plan mid-term review by the National Planning Authority – Final evaluation 	<ul style="list-style-type: none"> – Monitoring and evaluation overseen by the Ministry of National Development Planning with the support of Cluster Advisory Groups – Planning Development Control Committees and District Development Coordinating Committees provide advisory services – Through the Joint Monitoring, Evaluation and Statistics Working Group, the participation of non-State actors augment monitoring and evaluation and statistical capacities at national, provincial and district levels

Within these general stages, countries can adapt the guidance here to their specific processes. Applying an urban lens is often a matter of asking targeted questions, engaging the right stakeholders, constructing an informed narrative and prioritizing key issues.

Urban issues often already feature in African national development plans, but they need to be better integrated into the economic planning at the heart of the plan. Instead of checking off urban issues as one more sector mandate that has its own separate section within the plan, the economic potential of cities should factor into macroeconomic targets, economic policies and strategies to achieve them. At the same time, urban agency mandates included in the plan should be oriented to support the achievement of the economic vision of structural transformation.

Figure 3.1: Urban issues within a siloed versus an integrated planning framework

Abbreviations: NDP, national development plan; M&E, monitoring and evaluation; MDA, ministries, departments and agencies.

Box 3.1: What are urban issues?

Urban issues are the full range of economic, social and environmental matters taking place in and affected by cities. Urban issues, however, are often siloed or framed as housing or challenges of urban poverty. By contrast, this guidebook includes consideration of the ways in which cities are connected to economic development. Urban issues include urban jobs, firms and economic sectors and their role in structural transformation and development. They also include the demand generated by cities for rural products, imports and domestic products and services. Furthermore, they include the productivity and the competitiveness of urban space as a location for economic activity and innovation, as well as the dynamics of population, institutions and infrastructure that shape the role of cities in economic development. Section 2 of this guidebook highlights four of the major entry points for urban issues in national development planning: (a) targeting economic sectors that leverage urban potential; (b) urban productivity; (c) the productivity of the national spatial system; and (d) the coordination and finance of programmes relating to cities.

The guidance found in this section is structured to help national planning agencies to close the gaps in linking economic and spatial planning. The following are examples of the types of gaps commonly found in African national development planning with regard to urban issues:

- (a) Economic considerations are missing from spatial planning, at the regional and urban scales, including planning for infrastructure and sectoral programmes;
- (b) Spatial considerations are missing from economic planning, including the locational needs of firms and city-specific comparative advantages;
- (c) Urban issues are equated with housing or informality and are treated as a sector, rather than as underlying components in economic productivity and development;

- (d) Urbanization is treated as a social challenge, rather than an economic opportunity;
- (e) Urban investment is often one-off projects, rather than being coordinated around a targeted economic strategy;
- (f) Place-based economic programmes, such as rural growth poles, industrial zones and trade corridors, are not always well connected to the value-creating, productivity-enhancing and job-creating linkages possible in cities;
- (g) Public sector activities in cities are disconnected from one another, missing out on synergies and opportunities to foster a better functioning urban environment;
- (h) Urban programmes do not leverage the high potential for urban financial resources;
- (i) Urban priorities are acknowledged but underfunded, leading to worsening urban problems.

There are many opportunities to remedy these gaps, some of which are already in practice in a number of African countries.

Economic programming and investment can build upon locational advantages, including the potential for innovation and high productivity economic activities to locate themselves in large cities. For example, South Africa has facilitated growth of the financial sector in Johannesburg. Côte d'Ivoire has pursued economic development of regional growth poles on the basis of their unique economic potentialities. Cameroon has targeted expansion of the manufacturing sector as a critical component to address high urbanization and the need for productive urban jobs.

Regional development planning and spatial targeting can factor into the locational needs of strategic economic sectors. For example, sector development planning in Morocco has included specialized rail and port infrastructure (e.g., to serve the phosphates industry) and educational facilities to link urban workforces with the skills needed to enter high-tech manufacturing jobs called for in economic planning.

Strategies to improve cities, including strategies to manage informality, can focus on boosting urban productivity and facilitating urban job creation. For example, Burkina Faso pursued an innovative approach to street planning in Ouagadougou in the 1970s and 1980s, which involved demarcating and preserving the street grid, even while housing within the blocks did not meet formal standards. That resulted in a more connected urban fabric in the long term, avoiding one of the primary constraints on urban mobility in African cities: disconnected urban form. Mobility is linked to the cost of doing business and the productivity of urban firms. Another example is Ethiopia, which leveraged foreign investment in transport to build the first light rail system of sub-Saharan Africa in Addis Ababa, setting the stage for it to become a world-class city and avoiding the common temptation to pour transportation dollars primarily into ring roads, which have a debatable impact on internal connectivity and long-term mobility.

Rather than pursuing policies to limit or restrict urbanization, national development plans can leverage its momentum to speed the transfer of workers into higher-wage jobs and support the process of structural transformation. For example, Rwanda is actively targeting urbanization in conjunction with economic strategies for job creation in Kigali and six secondary cities. This will help its population to

Section III

move out of poverty and allow for rural productivity increases as larger tracts of land become available for agricultural modernization.

Urban projects and investment can be coordinated across sectors to achieve a concerted economic goal. For example, Uganda is considering the establishment of an urban sector working group to coordinate the urban projects from multiple ministries and departments to ensure that they are coordinated and aligned to achieve the goals of the national development plan. The seventh national development plan of Zambia has an implementation framework structured to overcome divisive competition between ministries, departments and agencies, with permanent secretaries coordinating outcome-based clusters in which each ministry, department and agency has a performance contract to deliver towards a joint outcome and a budget sequenced to deliver components in a logical order.

Place-based economic initiatives such as rural growth poles, corridors and industrial zones can be physically and economically connected with cities. This allows for forward and backward linkages in the case of agricultural products (consider tractors, fertilizer, finance, marketing and retail). In the case of industry, connection with an existing city allows for knowledge-sharing and innovation, helping domestic firms learn from foreign ones and linking firms in the industrial zone with an urban knowledge base. It also links industrial firms with an urban labour pool and urban markets. Chad plans to develop regional growth poles on the basis of agricultural potential and to link them with urban and regional markets through transportation upgrades. Zambia is implementing a set of multi-facility economic zones that are connected mostly to major cities, including the largest three cities of Lusaka, Kitwe and Ndola.

Stage 1: Diagnostics and analysis

Established policy frameworks typically involve initial data-gathering and analysis to inform the policy process. Any policy will reflect the information available to policymakers. Analysis of urban issues is therefore an important component of incorporating an urban lens. Importantly, it is not enough to gather information on urban issues. This information must inform the economic narrative, flushing out the ways in which cities are facilitating or constraining broad-based economic growth.

Goal: To acquire the information and construct the narrative needed to understand how cities can better support economic development in the specific country context.

Collecting data on urban issues

Data with relevance for the role of cities in national development will include both economic and spatial data. Adding spatial information to existing economic data can provide planners with a new understanding of cities and the national spatial system. It is not only the number of firms or amount of employment that matter for economic planning, but also where they are located and how they are connected across space. One possible quick win is to request that national statistics agencies begin to disaggregate data at the city or metropolitan level when they report household and economic surveys. Other quick wins may be available by mining existing data from urban service providers, customs and border agents, municipal tax agencies and municipal planning or land permitting offices. Data can shed light on the function of cities in the national economy in the following four areas.

A) Economic sectors leading structural transformation

In order to leverage the power of cities and urbanization for economic development, priority economic sectors should include those with high potential to create urban jobs, leverage urban demand (see box 3.2) and foster value chain linkages that link cities to rural and regional development (see sect. 2, theme A). In table 3.2, key questions are listed that can assist policymakers in assessing sector targeting that leverages urban opportunities.

Table 3.2: Key questions for data collection relating to sector-specific opportunities

Key questions	Possible data sources ^b
Which economic sectors are currently driving the economy (on the basis of value added and employment)? Which are growing fastest and declining?	National statistics
Which economic sectors are currently driving the urban economy (on the basis of value added and employment)? Which are growing fastest and declining? The overlap between urban and national lead sectors is of interest.	National statistics; to define leading, lagging, emerging and declining economic sectors, follow the methodology in annex A of Elisa Muzzini and Aparicio, <i>Bangladesh: The Path to Middle-income Status from an Urban Perspective</i> (Washington, D.C., World Bank, 2013).
To what extent are major cities reliant on non-tradable sectors and how prevalent is the informal economy?	Enterprise Surveys; Survey Methodology for Tradable vs. Nontradable Classification, World Bank; <i>Africa's Cities: Opening Doors to the World</i> (World Bank, 2017). p.13; informal economy data from national statistics or World Development Indicators.
How well developed are the value chains of lead and growing urban economic sectors? How well connected are non-tradable and informal sectors to the rest of the economy?	National statistics; expert knowledge

Key questions	Possible data sources ^b
How labour-intensive are lead, growing and priority economic sectors and what is their ability to create urban employment? ^a	Classification of economic sectors by labour intensity can be found in Basu, S.R., <i>Retooling Trade Policy in Developing Countries: Does technology intensity of exports matter for GDP per capita? Policy issues in international trade and commodities</i> (forthcoming) (Geneva, United Nations Conference on Trade and Development (download data from /www.tradesift.com/about-ts/productGroups/pg_unctadSkill.aspx)
How reliant is the economy on exports of raw commodities? Which agricultural products are being exported without value added? What are the existing urban opportunities and constraints for value chain development?	Classification of economic sectors by labour intensity can be found in Basu, S.R., <i>Retooling Trade Policy in Developing Countries: Does technology intensity of exports matter for GDP per capita? Policy issues in international trade and commodities</i> (forthcoming) (Geneva, United Nations Conference on Trade and Development (download data from www.tradesift.com/about-ts/productGroups/pg_unctadSkill.aspx)
To what extent is the country importing foodstuffs to feed its cities, intermediate goods (e.g., plastics, cement) and low-skilled and medium-skilled manufactured goods that could possibly be made domestically, creating urban employment?	Classification of economic sectors by labour intensity can be found in Basu, S.R., <i>Retooling Trade Policy in Developing Countries: Does technology intensity of exports matter for GDP per capita? Policy issues in international trade and commodities</i> (forthcoming) (Geneva, United Nations Conference on Trade and Development (download data from www.tradesift.com/about-ts/productGroups/pg_unctadSkill.aspx)
What economic sectors have high levels of foreign direct investment and what is the extent of technology and skill transfer to urban firms and workers from these sectors?	National statistics and reports; expert knowledge; United Nations Human Settlements Programme, <i>State of African Cities 2017</i> report
How much does manufacturing contribute to the national gross domestic product (GDP) and employment?	World Development Indicators, national statistics
How labour-intensive is the industrial sector?	Employment in industry/value added in industry (data from World Development Indicators)
Is the urban housing supply meeting demand?	Housing supply gap (data from national statistics); ratio of cheapest formally built house price to GDP per capita (see <i>Economic Report on Africa 2017</i>); data from the Centre for Affordable Housing Finance in Africa; mortgages as a percentage of GDP (data from the Centre for Affording Housing Finance in Africa)
What products are experiencing rising urban demand? What percentage of the urban population can be considered middle class and what is the trend? What are areas of opportunity to produce for urban markets domestically?	National statistics; import statistics from United Nations Comtrade database or www.atlas.media.mit.edu
What are country-specific areas of comparative advantage? How well developed are their value chains? Where do they have untapped potential to create urban jobs?	Export knowledge; national statistics; revealed comparative advantage data by product available from www.atlas.media.mit.edu, country-specific product space diagrams and the World Integrated Trade Solution database
What are the education level and skills of the urban workforce?	National statistics

^a Capital-intensive economic activities fail to create sufficient scale of jobs, and the per capita cost of urbanization also becomes more expensive, when cost of job creation is considered.

^b A more detailed list of sample indicators and metrics, as well as explanations of their relevance to urban issues and national development planning, can be found in the annex.

Box 3.2: Leveraging urban housing demand for job creation in Ethiopia

The ambitious low-income and middle-income housing programme of Ethiopia, the Integrated Housing Development Programme, is a multi-year flagship project aimed at addressing the housing challenge, while propelling the construction industry and creating jobs. The programme is designed to be financed through dedicated housing savings schemes and mortgages established through an arrangement with Ethiopian Commercial Bank. The Addis Ababa metro and city authority subsidizes construction of the housing units and infrastructure through tax and tariff abatements, as well as a discount on land lease. Down payments of beneficiaries are limited to 40 per cent of income for the middle-income households and 10 per cent for low-income households. ^a Between 2006 and 2010, the programme matched 142,802 households with homes, 44 per cent of which were in Addis Ababa, ^b and, by 2012, it had created 176,000 jobs. ^c Ethiopia is urbanizing rapidly and has been able to leverage household savings to create urban jobs, while also tackling the urban housing shortfall.

^a See United Nations Human Settlements Programme, "Condominium Housing in Ethiopia: The Integrated Housing Development Programme" (Nairobi, 2011).

^b See Government of Ethiopia, Ministry of Urban Development, Housing and Construction, National Report on Housing and Sustainable Urban Development, Addis Ababa (2015). Available at <http://habitat3.org/wp-content/uploads/National-Report-Africa-Ethiopia-Final-in-English.pdf>.

^c See Cities Alliance, Ambitious Housing Delivery Programme Transforms Ethiopia's Cities, 9 July 2012. Available at www.citiesalliance.org/node/3006.

B) Performance and productivity of cities

Cities have huge economic potential as economic drivers, but this potential is often underachieved owing to constraining factors related to urban form, the urban development process and inadequate infrastructure (see sect. 2, theme B). An assessment of cities can identify constraints on urban performance and identify priority policy areas to reshape cities and their institutions. Table 3.3 lists key questions that can shed light on the performance of cities.

Table 3.3: Key questions for data collection relating to urban economic performance

Key questions	Possible data sources ^a
Is urban productivity increasing along with urbanization and city size?	Urbanization versus gross domestic product (GDP) per capita (data: World Development Indicators; see figure 2.3); GDP per capita of major cities (data: national statistics); for comparators, see PricewaterhouseCoopers, <i>Economic Outlook 2009</i> , table 3.10; specific cities' contribution to GDP, compared with population share and whether this is rising or declining (data: national statistics)
How efficient are major cities, as measured by cost of living versus comparators at similar income levels?	Cost of living (data: Economist Intelligence Unit or Mercer Cost of Living Index); GDP per capita (data: World Development Indicators)
How are cities managing their growth to sustain productivity?	Urban expansion plan and effectiveness of implementation; share of land allocated for streets and infrastructure; investment for future growth
Is public investment in cities keeping pace with urban population growth? What are the barriers that firms face?	Public spending on infrastructure and services (data: national budgets); "Share of residential areas laid out before development" (data: <i>Atlas of Urban Expansion</i>); percentage of firms identifying electricity as a major constraint (data: Enterprise Surveys); percentage of urban population with access to electricity, improved sanitation, an improved water source (data: World Development Indicators or national statistics)
How well are land and real estate markets functioning in major cities?	Land administration index (data: Doing Business); Cadastral coverage (data: municipal records); days for firms to obtain a construction-related permit (data: Enterprise Surveys); percentage unbuilt urban space (urbanized open/total urbanized, data: <i>Atlas of Urban Expansion</i>). Land price/rent
Are major cities developing in an inclusive manner?	Are street closures by gated communities legal and/or common? (data: expert knowledge; code review); percentage of population living in slums (data: World Development Indicators, UN-Habitat or national statistics); percentage of firms paying for security and cost of security to firms (data: Enterprise Surveys); proportion of public investment benefitting transit and non-motorized modes versus private automobiles (data: budget review)
How is connectivity and mobility in major cities?	"Walkability ratio" (data: <i>Atlas of Urban Expansion</i>); congestion measured by percentage increase in journey time for a typical commute in peak hour congestion versus free flow (data: national statistics or field test); urban expenditure on motor cars, compared with level of income (data: <i>Atlas of Urban Expansion</i>); percentage of leapfrog development (data: <i>Atlas of Urban Expansion</i>)

^a Note that many are measured at the city level. The productivity and performance of major cities has huge relevance for the national economy.

C) National spatial system

Policy decisions will shape the distribution of city sizes, economic functions and connections between cities, with implications for national development. Economic planning has spatial implications and vice versa (see sect. 2, theme C). Too often, national governments pursue spatial targeting without a strong economic rationale, resulting in wasted resources. In other cases, the spatial implications of economic policies are ignored. This can result in businesses without supportive infrastructure and services and rising populations in areas with job growth that are not adequately planned for. In table 3.4, key questions are listed that may shed light on the national spatial system.

Table 3.4: Key questions for data collection relating to the national spatial system

Key questions ^a	Possible data sources
What is the level of urban primacy?	Percentage of urban population in largest city (data: World Development Indicators); city-size distribution (data: national statistics); gross domestic product (GDP) of the largest city as percentage of national GDP (data: national statistics)
What is the economic status of secondary cities?	Level of industry concentration (data: national statistics); differential between cities on standard of living indicators (data: national statistics, subnational poverty database)
How do secondary cities and subnational regions differ by areas of comparative advantage? And/or how do they complement each other through value chains?	National assessments showing sector concentrations, the spatial distributions of economic opportunities and/or city or regional assessments of physical and human capital
What is the level of African regional integration?	Infrastructure integration ranking for relevant regional economic communities (data: Regional Integration Index); trade with neighbouring countries (data: United Nations Comtrade database).
What is the quality of domestic trade infrastructure?	Ratings of infrastructure quality in Logistics Performance Index; proportion of products lost to breakage or spoilage during shipping to domestic markets (data: Enterprise Surveys); trade data and expert interviews

^a A more detailed list of sample indicators and metrics and the relevance for the national development plan can be found in the annex.

D) Arrangements for implementation

Policies are meaningless without the ability to implement them. Barriers, however, often stand between policy formulation and successful implementation, in particular regarding urban issues. Institutional coordination and finance are two common types of barriers. The data-gathering phase can shed light on what is required to overcome implementation barriers and put into practice lessons from prior policy successes and failures. One example of such analysis is recommendations for India to overcome its lack of coordination between spatial and economic planning (see box 3.3). Key questions on coordination and finance are listed in table 3.5.

Table 3.5: Key questions for data collection relating to implementation arrangements

Key questions	Possible data sources
Are ministries, department and agencies with mandates relating to urban issues and urban actors (i.e., firms, developers and households) meaningfully engaged in the national development plan process? Do they provide input on their mandate alone or on overall economic targets and strategies?	Expert interview
Are there forums for regular dialogue and coordination relating to urban issues among national level ministries, departments and agencies, and between national and local actors?	Expert interview
In a typical greenfield development project with government involvement, how well do relevant ministries, departments and agencies coordinate for implementation?	Expert interview (consider ministries, departments and agencies in charge of economic development, electricity, planning and permitting, roads/transport, sanitation and water)
Are civil society, private sector firms and target economic sector representatives meaningfully engaged in the national development plan process? Have they been able to shed light on the role of cities in economic development?	Expert interview
To what extent do private sector actions contribute to urban projects and programmes implementing the national development plan, including financing?	Review of project documents
To what extent do sector-specific policies and strategies with urban implications align with the spatial vision of the national development plan?	Expert interview (consider policies relating to, for example, industry and manufacturing, housing, transport, energy and information and communications technology)
To what extent are city governments engaged in implementing the national development plan and to what extent are they supported by sector technical support, national funding transfers, capacity-building and regulatory support?	Expert interview
Does the national budget align with national development plan goals and targets on cities and support their implementation?	Scores on budget credibility and policy-based budgeting using the Public Expenditure and Financial Accountability framework; existence and success of measures to align ministry, department and agency budgets with the national development plan (data: expert interview); achievement of infrastructure targets in previous national development plans (data: policy review and expert interviews)

Key questions	Possible data sources
Does the cost of maintenance and state-of-good-repair factor into initial investment planning and ongoing budgeting for urban projects?	Expert interview; budget document review
Do revenue instruments at the national or subnational level effectively capture a portion of increased values to urban land and reinvest this revenue in urban development?	Expert interview (consider revenue instruments such as annual property taxes, capital gains taxes on real estate, betterment levies and special assessments on property, developer exactions, sale of development rights, lease and sale of public land.)
Has decentralization of responsibilities been paired with increased local fiscal authority and financial management capacity?	Percentage of revenues raised subnationally and percentage of capital spending controlled subnationally (data: national statistics or budget review); subnational Public Expenditure and Financial Accountability ratings; disparities among cities in public service delivery (data: national statistics)
What lessons can be drawn from past national development plan implementation efforts or policies to mainstream an issue into policy implementation (e.g., gender and climate)? How can these lessons be applied to mainstreaming urban issues?	Evaluation reports; expert interviews

Information on policy implementation arrangements are less likely to be covered in international, national and local data sets. Instead, it is critical to have qualitative information and expert knowledge to bring to the table. The latter relies on getting the right stakeholders in the room.

Box 3.3: Coordinating economic and spatial planning in India

The existing systems of development planning and spatial planning of India are disjointed. A national steering committee established to look into this problem recommended measures to integrate sector and spatial planning into a holistic framework. These include the following:

- Establishing new urban growth along emerging industrial and high-tech growth corridors/transportation grids and connected to existing large/metropolitan cities/growth centres
- Preparing a strategic spatial development plan to ensure that subnational planning processes are aligned with national economic and infrastructure priorities
- Ensuring that subnational planning covers both physical and socioeconomic development
- Mandating that the planning commission support the preparation of the national spatial strategy through a dedicated spatial planning division and establishing similar divisions in the ministry of urban development and the ministry of housing and urban poverty alleviation to provide support to the states. ^a

^a See India, Ministry of Housing and Urban Poverty Alleviation, Report of the Working Group on Urban Strategic Planning, 12th Five-year Plan, Steering Committee on Urban Development and Management (2011).

Stakeholders and input

To address urban issues through the national development plan, stakeholders engaged in urban issues must be part of the diagnostics and analysis stage. Such stakeholders could be systematically identified by their role in land use planning and regulation, infrastructure provision, housing and transport. Additional urban stakeholders could include those involved in education and skills development, trade, technology and critical business support services, such as financing and the real estate market. One of the major problems of development in African cities is weak coordination between public and private investment. It is critical, from the beginning, to have interaction between private investors and urban and priority sector leaders.

Stakeholders should be guided to provide input under a conceptual framework linking cities to the national economic vision. Topical experts or policy papers on the links between cities and national development can begin to establish this framework in advance of stakeholder engagement in order to frame the dialogue and pose guiding questions.

Listed in table 3.6 is the type of stakeholder that holds knowledge of urban issues, although in practice this list will differ by country. Stakeholders in these areas can move beyond the basic data by providing an explanation of the complex factors at play. They can also help to validate some of the critical information and underlying assumptions in analysis.

Table 3.6: Stakeholders to consult on urban issues

Area	Stakeholders
Urban infrastructure, land use planning and urban development	National and local ministries, departments and agencies in charge of development regulations and infrastructure provision
Formal sector real estate development	Real estate development companies City cadastral and permitting offices Public land management authorities
Urban housing and slum amelioration	Housing ministries, departments and agencies at the national and local levels Slum dwellers' civil society groups Housing finance institutions Land and planning authorities
Urban transport	Ministries, departments and agencies in charge of transport planning, investment, operation and maintenance Transit operators' associations Non-motorized transport advocacy groups
Urban economy	Strategy planning and/or local economic development ministries, departments and agencies in major and secondary cities National-level ministries, departments and agencies in charge of urban economic sectors (e.g., industry, manufacturing, agro-processing and business services) Informal economy ministries, departments and agencies and advocacy groups; Technical and vocational education ministries, departments and agencies; Investment promotion offices

Area	Stakeholders
Rural linkages	Agri-business associations and ministries, departments and agencies overseeing the sector, including logistics and processing Rural development experts
Domestic and African regional inter-city trade	Ministries, departments and agencies in charge of trade regulations and customs enforcement Private sector trade associations Freight and logistics sector representatives and ministries, departments and agencies with related mandates
Budgeting and finance to support urban programming	Ministry of finance Subnational budgeting and finance offices National and regional development banks Major private investors
Urban private sector	Firms and association representatives in construction, manufacturing, finance, information and communications technology and sectors and firms creating significant urban employment and value added, as well as economic sectors with critical linkages including agriculture

These stakeholders have an inside understanding of the factors at play that are making cities work for economic development and those constraining their economic potential. Their engagement, however, should not stop at diagnosis. They can be involved in priority-setting, identifying and checking the feasibility of solutions, detailed strategy development and monitoring. Building stakeholder relationships and gaining buy-in early in the national development plan can therefore help to more fully mainstream urban issues throughout the process.

Managing the engagement of stakeholders can be quite cumbersome and fatiguing. It needs a fit-for-purpose process in which various stakeholders stay informed and, at the same time, participate at critical stages in which they have a clear role and input. It is important to define in advance the role and the contributions of stakeholders and the technical input to be made at each stage of the process (i.e., data, research, policy advice, implementation oversight and monitoring).

Final analysis of urban issues

The end result of data collection and stakeholder engagement will be an informed analysis of urban challenges and opportunities within a coherent narrative about the role of cities in national economic development. Existing country-specific protocols will determine how this input is incorporated into the national development plan vision, goals and targets.

Table 3.7: Urban issues for final analysis

Analysis should result in an understanding of...	...on issues of
<ul style="list-style-type: none"> – The current situation – Reasons for current successes and challenges – Strengths, weaknesses, opportunities and threats – Priority areas for intervention 	<ul style="list-style-type: none"> – Urban job creation – Urban-based economic sectors, such as manufacturing, construction and tradable services – Linkages between urban informal and non-tradable sectors and formal and tradable sectors – Areas of rising urban demand and the capacity to meet that demand through domestic production – Urban-rural supply chain linkages – The economic productivity of cities, especially the largest ones, and constraints on productivity – Urban transport, land development and infrastructure investment (both provision and maintenance) – Equity within cities and broad-based access to economic opportunities – Disparities between cities in productivity and quality of life – Subnational comparative advantages – Impact of existing policies (including trade, fiscal, monetary) on the type and location of industries – Urban components of domestic and regional trade and logistics, with a focus on regional corridors and wholesale, retail and business support service activities – Public finance support for urban policy implementation – Government coordination for policy implementation, both horizontal and vertical – Engagement and partnership with the private sector (firms and civil society)

Box 3.4: Diagnostics and analysis stage: Where to start?

Urban issues can begin to be incorporated into the analysis and diagnostics stage in the following ways:

1. Establish and fund national-level staffing or an agency to oversee urban statistic; basic data will include city or metro-level gross domestic product and other economic indicators, land use in cities, mobility and congestion, housing and infrastructure and urban/local revenue.
2. Engage experts on urban issues at all stages of the national development plan process and leverage their knowledge to construct a coherent narrative on the role of cities in national economic development and structural transformation.
3. During analysis, ask questions about the economic role of cities.

Stage 2: Vision, goals and targets

National development plans often have a broad vision (e.g., become a middle-income country by 2030), followed by a more specific set of goals and targets. Economic development visions for growth and prosperity are implicitly associated with structural transformation and urbanization, that is, an increasing role for industry and services sectors, urban consumers and workers. The role of cities and urban economic sectors should therefore be made explicit or have clear conceptual linkages within goals and targets.

Goal: To set goals and targets that leverage the role of cities in achieving the national development vision

The following paragraphs on sector targeting, urban productivity and the national spatial system describe the type of goals and targets that leverage the role of cities and urbanization for structural transformation and economic development. Obviously, goals are specific to national realities and vary by context. Hence, by necessity, the goals below are generic. Nevertheless, they underscore three principles in integrating urbanization into economic planning: first, emphasize urban opportunities, or turn challenges into opportunities by addressing constraints and barriers that matter most to economic growth, jobs and productivity; second, expand the scope of urban development (beyond housing) to make cities real drivers of economic growth; and third, acknowledge the multidimensional nature of urban issues by considering their implications in macro and sector policies, by pairing spatial and sector planning and by coordinating it throughout both sectors and levels of government.

A. Goals for specific economic sectors (sector targeting)

A1. Leverage urban consumption to drive economic growth

Consumption is related to urbanization. Demand is driven by population and income growth, and preferences shift as incomes rise and populations become more urban-based. Rising consumption and demand for processed foods, manufactured goods, urban housing and infrastructure represent a growth and job-creation opportunity (see sect. 2, theme A) that can be reflected in goals. 5

The targeting of specific economic subsectors will depend on a number of factors: country-specific and city-specific comparative advantages, local preferences in consumption, potential to create jobs and include vulnerable populations such as young people and women, the level of knowledge, skills and technology required and potential linkages to existing and future sectors of importance. A strength, weakness, opportunity and threat analysis carried out during the analysis stage can inform the level and the type of policy support needed to help a sector to succeed. Often investment in hard or soft infrastructure that serves a specific sector will have spillover benefits to other economic sectors and the urban residents in the area, which should be taken into account during prioritization.

Housing construction should factor into economic and job creation targets, in particular in countries with rapidly growing cities and an underdeveloped construction value chain. Housing continues to be a major problem for most major African cities. Nevertheless, a combination of improvements in land and housing markets and subsidies to the poorest households can help the massive latent demand in the housing sector and the building materials value chain to materialize. Governments can leverage this demand to create urban jobs under the right set of policies. Such policies may include the following:

- Skill development and technical training
- Public procurement policies
- Revision of building codes to promote locally sourced materials
- Simplification of regulatory barriers to housing construction, including land registration and permitting
- Support for broader participation in the mortgage market
- Expanded public investment in urban infrastructure
- Social housing investment

One potential area for countries that have a strong agriculture sector is value-added activities, in particular in food value chains. Such value chains can create a host of off-farm jobs as agriculture becomes more efficient and sheds labour, while meeting rising urban demand that would otherwise be met by food imports. These include jobs in transport, logistics, processing, packaging, marketing, wholesale and retail.⁵

A2. Maximize urban job creation of priority economic sectors

Urban population growth is a given in most African countries. It is critical to pair this demographic phenomenon with growth in urban jobs (see sect. 2, theme A). The national development plan can help to foster urban job creation by prioritizing economic sectors that are job-rich (i.e., sectors with high employment elasticity of capital) and by fostering a strong employment multiplier by linking urban value chains with domestic production, including that occurring in rural areas.

Indeed, the pairing of urban population growth with urban job growth in decent-wage sectors is the single greatest determinant of whether urbanization will contribute to structural transformation. Without an increase in urban jobs in high-productivity sectors, urbanization will represent in large part the transfer of poverty into cities or will remain a missed opportunity. Too often, the urban workforce is engaged in non-tradable, low-productivity and informal services. Nevertheless, one primary function of national development planning is to help to orient the economy towards growth in strategic economic sectors. To leverage the momentum of urbanization for development, these strategic sectors must include urban job-rich manufacturing and/or tradable services.

As discussed above, specific sector targeting will incorporate a range of considerations, but a central one should be the urban workforce. The prioritization of urban jobs has specific policy implications for various economic sectors, such as agriculture, manufacturing, natural resources, tradable services and non-tradable services (see table 2.2). African cities are teeming with a large workforce of young people, and often a majority of them have formal education, giving a comparative advantage to labour and skills-intensive sectors versus capital-intensive sectors. This can result in either a substantial economic bonus or a social risk born of high levels of economic frustration, depending on whether quality urban jobs are available. However, the issue is not only about demand and supply of labour, but there is also a mismatch between technical skills and jobs, which can be addressed through policy and coordinated action.

A3. Make cities attractive to investment and competitive for firms in priority economic sectors

In priority economic sectors, which are yet emerging, attracting FDI becomes crucial to generate momentum. Nevertheless, even in traditional sectors in which there are domestic firms, FDI will be an important player in filling investment gaps and facilitating the spread of technology. Studies show that the absorptive capacity of technology existing in firms, cities and regions is a precondition for internalizing and maximizing FDI benefits.⁸⁶ In the case of the consumer goods sectors, the growing urban population and middle class of the continent have begun to be attraction points to FDI. Cities need to facilitate entry and operation of firms within the supply chain to amplify growth and expand local economic opportunities. They need to plan and invest in advance in anticipation of growth, aligning their investment priorities with sector priorities on the basis of a careful analysis of sector and urban growth patterns.

At the same time, the success of local and national businesses in strategic economic sectors such as manufacturing and tradable services rely on the business environment of cities to help them to compete in regional and global markets. Cities have advantages that accrue to the firms operating within them, including all the components of agglomeration economies: labour-sharing and matching, input-sharing and matching, economies of scale and market size and the sharing of knowledge and innovation. These advantages rely on the density, the connectivity and the accessibility of urban form. At the same time, poorly functioning cities have costs that also accrue to firms in terms of travel times, costs of inputs such as electricity and water, the cost of land and the cost of living, which affect labour costs. The infrastructure and the institutions that characterize cities can be make-or-break components in the success or failure of lead firms. The urban environment should therefore be prioritized among national economic goals.

A4. Transform the informal economy

Informal enterprises, prevalent in African cities, are characterized in large part by low productivity and wages, poor access to land and public services and vulnerability to downturns. At the same time, they provide for the livelihoods of a large segment of the urban population. A special set of targets and policy initiatives will likely be needed to lift this section of the economy from its current vulnerable position.

The informal economy is a broad category, which includes street vendors, small manufacturing firms working in clusters and producing industrial goods and service sector firms employing skilled labour. Differentiating informal enterprises by sub-sector, type and size is important for an effective and targeted policy approach.

The approach to the informal economy can be multifaceted. It will likely involve the following:

- a. Growing formal sector opportunities to absorb a larger share of labour;
- b. Facilitating the transition of informal enterprises into formality by reducing regulatory barriers, improving the ease of public services access and tax payments through technology and incentivizing transition through better access to land, credit and training;

⁸⁶ See Nuno Crespo and Maria Paula Fontoura, "Determinant Factors of FDI Spillovers – What Do We Really Know?"; *World Development*, vol. 35, No. 3 (2007).

- c. Facilitating the linkages between formal and informal sector firms, especially in manufacturing and business services, in which informal enterprises can improve quality and productivity more quickly in the context of a steady buyer;
- d. Adjusting zoning and public space regulations to allow for informal enterprises to exist in areas in which they can gain access to their customer base, also gain access to linkages to formal sector firms and do not compromise urban mobility by congesting thoroughfares.

National development plan targets should recognize that the informal economy will continue playing an important role in urban livelihoods for decades to come, but also that formal opportunities can be expanded and the productivity of small and medium-sized enterprises can be strengthened.

B. Goals for cities and urban productivity

B1. Improve the urban real estate development process

Firms in African cities are constrained by disconnected and sprawling growth patterns and housing shortages arising from a poorly guided real estate development process. Poor land management, ineffective urban planning and underinvestment in infrastructure are fundamental barriers (see sect. 2, theme B). Constraints on land and real estate development and unplanned or poorly planned urban form make African cities disproportionately expensive. Indirect costs to firms, such as high costs of transporting goods to market, limit their ability to grow and compete in larger markets.

Investment in improving the institutional framework for private real estate development is a highly cost-efficient approach to achieving major urban productivity gains with limited resources. Cities are built primarily by private households and firms. Steering this development in sustainable patterns, even if public infrastructure upgrades come later, can result in a more competitive city and avoid the long-term costs of poorly planned urban space.

Cities with populations that grow out of pace with planning for new development, infrastructure provision and investment in the existing core undermine their productive potential. African cities must clarify land rights, regularize property transfers and ease permitting, provide an adequate supply of planned, serviced and buildable plots, plan and lay out a connected transport network in advance of expansion and reduce barriers to infill and core redevelopment. After the diagnostics and analysis stage reveals the major barriers to urban productivity, national development plan targets can prioritize these issues.

B2. Ensure sufficient urban investment

Investment in African cities is not keeping pace with economic needs, undermining the driver of the modern economy. Investment planning and adequate budgeting is the first step towards resolving this issue. Capital spending can prioritize projects that benefit target job-creating economic sectors. There is also a need to prioritize basic infrastructure over flashy mega-projects, filling in the urban fundamentals in which they have been overlooked. For example, internal road connectivity and maintenance are critical to a productive city and its long-term competitiveness, while large ring-road projects are overwhelmed with traffic within a matter of years or even months. The public sector cannot bridge the investment gap alone. Attracting private investment into bankable projects will be critical.

The costs of urban infrastructure are high and the need is very great. The economic costs of failing to invest are even greater. In addition, the long-term return on urban investment is very high if it results

in a well-planned compact and connected city with a strong level of service for urban businesses (see box 3.5). Returns on urban investment not only accrue to the private sector, but cities can also be the source of huge public revenue. As investment in cities raises productivity, it is reflected in value-added taxes, income taxes and taxes on land values. Land value capture and land-based finance instruments, if effectively used, can help to ensure the sustainability of urban investment spending by linking it to public revenue.

Box 3.5: Returns on investment of strategic urban interventions

While the cost of investing in cities at scale is very large, the benefits are also large. Calculation of the economic and financial benefits of urban investments should factor in the following:

- (a) The population served through public investment in cities is large, owing to the clustering of people. Schools, health centres, roads and trunk lines all may have lower cost per capita owing to population density;
- (b) The population served by urban investment is increasing owing to urbanization;
- (c) Urban-based economic sectors have high productivity potential. Appropriate infrastructure and public services can catalyse this productivity;
- (d) There is high potential for domestic and foreign private investment in cities. Public dollars can leverage private dollars;
- (e) Some urban investments have spillover benefits to rural areas through knowledge-sharing, forward and backward economic linkages and person-to-person remittances. Benefits are therefore not limited to urban areas;
- (f) Urban investment establishes the conditions for firm clustering to promote agglomeration economies;
- (g) Prosperous cities generate huge public revenue under the right institutional framework.

Costs avoided through urban investment that are early and at scale include the following:

- (a) Well-planned urban infrastructure can avoid costly expropriation, resettlement, replotting and retrofitting later;
- (b) There are both personal and social costs of urban poverty. Social costs include decreased private investment in the city, insecurity caused by the high unemployment of young people and the risk of political dissatisfaction and upheaval;
- (c) Public investment can enable compact and connected development, preventing some of the costs of sprawl such as long travel times, distances, pollution, congestion and foregone economies of agglomeration.

National development plan target setting can address the required level of public investment in cities, the level of service of basic infrastructure, the development of bankable projects and attraction of private investment, and sustainable revenue generation through land value capture. While governments cannot solve all urban problems in the short term owing to limited resources, the national development plan can strategically target programmes and investments to support a specific growth trajectory rooted in the economic vision of the national development plan.

B3. Expand urban economic opportunities to a broader population

It is not enough for African cities to be prosperous; they should also be equitable. In many cities, broad segments of the population are isolated from economic opportunities owing to social, institutional and physical barriers (see sect. 2, theme B).

National development plan targets can focus on removing spatial barriers to integration in cities through increasing connectivity, broadening access to jobs through transit and non-motorized modes, desegregating housing, creating affordable and social housing in areas of opportunity, reduc-

ing sprawling and disconnected formal development and connecting informal areas to jobs and services.⁸⁷

Non-spatial barriers can also be subject to national development plan targets aimed at making cities inclusive. These can include access to education and training that matches the demand of job-rich economic sectors, improving financial inclusion and the participation of women and young people in urban decision-making.

Importantly, efforts to make the city more connected and accessible can have beneficial spillover effects for firms (especially small enterprises), which are also constrained by connectivity, access to skilled workers and finance. Strengthening urban institutions and spatial planning that results in a compact, connected and integrated city can achieve both social and economic goals. Progress in these areas requires innovative flagship national programmes that are well designed, financed and coordinated.

C. Goals for a productive national spatial system

C1. Spatial targeting of investments for balanced development

Many African countries are characterized by a system of cities with excessive primacy: overcrowding in the largest city and the lack of economic development in other cities (see sect. 2, theme C).

National development policies have spatial implications that can either reinforce primacy or contribute to balanced development. Infrastructure plans have obvious (though not always predictable) spatial impacts. Trade polices also bolster or restrict specific economic sectors, with a locational impact. Institutional set-up also influences firm location choice, with centralized bureaucratic hurdles leading to clustering in the capital city and decentralized access to government services and decision-making, allowing for decentralized business activity. If the national development plan includes a national spatial vision, then it must be supported by a clear understanding of the locational impact of existing economic policies and alignment with the national vision.

Primacy is not easy to overcome. Firms have an economic rationale for their location choice, and forcing them to relocate can harm their productivity. Similarly, major investment in lagging hinterlands can fail to attract firms or generate productive conditions. Policies to address primacy therefore risk wasting precious investment resources if not strategically targeted.

Nevertheless, a more balanced system of cities can benefit firms and industries by providing more quality location options. Working with firms can help policymakers to understand what would be necessary for decentralization to be an economically rational choice. Spatial targeting must be strategic and informed by an assessment of the trade-offs of various investment scenarios. Such scenarios should take into account the unique characteristics of target economic sectors and cities.⁸⁸ Matching sector-specific investments with strategic spatial targeting is critical to ensure cost-effective results.

⁸⁷ The city of Johannesburg, through its Corridors of Freedom initiative, is, for example, trying to link poor neighbourhoods of the city with economic and employment opportunities in job-rich areas by investing in a bus rapid transit network and looking for ways to integrate the trunk and feeder transport systems of these densely-populated areas. See Cristoffel Venter, "Assessing the potential of bus rapid transit-led network restructuring for enhancing affordable access to employment – The case of Johannesburg's Corridors of Freedom", in *Research in Transportation Economics: Competition and Ownership in Land Passenger Transport*, Juan Carlos Munoz, David A. Hensher and Ruth Steel, eds., vol. 59 (Elsevier, 2016).

⁸⁸ Mid-sized cities in Nigeria with a population of between 500,000 and 1 million, including Aba, Ilorin, Onitsha, Kaduna and Jos, have shown a growing role in manufacturing, suggesting a healthy urban differentiation emerging in Nigerian urban system.

In setting goals relating to the national spatial framework, fast-growing cities, cities with an existing economic base and secondary cities may provide a good return on investment, while bolstering opportunities outside the prime city. No country can uplift every city and town simultaneously, and efforts to spread investment evenly will mean no location receives enough investment to become a growth pole.

At the same time, cities and towns not prioritized as growth poles should not be forgotten. Populations in these areas should be offered the following:

- a. Be provided basic services needed for a decent quality of life, such as education, health services and clean water;
- b. Have a say in the way in which public resources are used in their communities; local populations understand their own needs and what is required to support their livelihoods;
- c. Have the option to move to a growth pole to work, even if that is the prime city, remitting a portion of their income back to their home city or town, as desired.⁸⁹

Creating a more balanced urban system is a long-term project requiring high levels of commitment, coordination and investment. In the meanwhile, policies must not neglect the prime city, which is central to economic growth and transformation. The case of Indonesia (see box 3.6) illustrates the way in which spatial-economic targeting can factor in returns on investment inherent in large cities.

Box 3.6: Economic targeting by city type and economic performance in Indonesia

Indonesia is an urbanizing and rapidly growing economy. One study has broken down the contributions of cities to economic growth. While the share of the urban population living in cities continued to grow between 1993 and 2007, the gross domestic product (GDP) of urban areas remained stable, at 60 per cent, indicating that many areas had failed to generate agglomeration economies. Jakarta, in particular, is constrained by congestion and availability of land, indicating the existence of diseconomies of agglomeration, and large metropolitan cities with populations of between 5 and 10 million were found to be stagnating.

Nevertheless, mid-sized cities with populations of between 500,000 and 5 million managed to perform well, growing their economies equal to or faster than their populations. That is owed to the provision of better conditions, including reliable energy, connectivity to port and the availability of capital for investment. Financial services and construction sectors contributed an increasing share of GDP in these mid-sized cities.

The largest increase in the trade, restaurant and hotel sector activity occurred in cities with populations in the range of 500,000 to 1 million, which also showed a remaining productivity advantage over mid-sized cities arising from accumulated agglomeration benefits.

The study recommended a differentiated approach to various city size categories with alignment of investment interventions based on spatial and sector priorities. Notwithstanding the fact that the majority of the 44 urban agglomerations identified in the study are located in three islands (Bali, Java and Sumatra), the study's authors recommended continuing to invest in their mid-size and large cities, exploiting existing agglomeration economies, instead of creating new growth centres. This is because additional investment in infrastructure and improved land availability has the potential to release binding constraints on the largest cities and continue their growth and economic return ^a.

^a See World Bank, "Indonesia The Rise of Metropolitan Regions: Towards Inclusive and Sustainable Regional Development" (Washington D.C., 2012).

⁸⁹ The increasing phenomenon of circular migration, where people move to cities temporarily or seasonally, has economic implications for the villages and cities involved, and should be factored into the planning processes. Thanks to mobile money there is a growing financial linkage between urban and village households.

Box 3.7: Managing urban growth in concert with economic sector development in the long run leads to better balanced urban system: the experience of Colombia

Colombia has, in addition to its capital, Bogotá, a diverse network of growing cities, including Barranquilla, Bucaramanga, Cali and Medellín. Compared with other Latin American countries, Colombia features a relatively more balanced distribution of economic activities. Bogotá, for example, contributes some 24 per cent to the national economy, while Medellín, the second-largest city, follows closely with a gross domestic product contribution of 9 per cent.

The growth of cities was often preceded by job and economic opportunities that stemmed from resource development of one kind or the other. Often the cities grew faster than anticipated, but the government was quick to react with planning and investment facilitating the absorption of rural migrants.

The growth of Barranquilla and Bucaramanga, for example, took place when Colombia opened up and developed its coal and oil and large hydrocarbon deposits in the 1980s. On the other hand, the development of large commercial agriculture and agribusiness was a big push force for small farmers who headed out to those and other growing cities.

Even when cities were planned, growth was sometimes faster than expected, demanding continuing and further efforts. In the 1950s, as Medellín was growing rapidly, there was a master plan put in place to guide it with the demarcation of a metropolitan region. Economic opportunities in manufacturing sectors, such as textiles, were nevertheless a powerful pull factor for the city to grow much faster beyond the bounds of its physical borders, causing sprawl and challenges for service delivery and transport systems. Nevertheless, the government policy of decentralization and the determined and pragmatic effort of Medellín in problem solving made it successful in addressing many of the challenges, making it known for its innovativeness and attractiveness to foreign direct investment.^a

^a See Ethiopian Development Research Institute and the Global Green Growth Institute, "Unlocking the Power of Ethiopia's Cities" (2015). Available at <http://static.newclimateeconomy.report/wp-content/uploads/2015/03/Unlocking-the-Power-of-Cities-in-Ethiopia.pdf>.

C2. Create functionally complementary cities

Not all cities in the urban system should specialize in the same economic activities. City specialization and complementarity may not emerge spontaneously, however, and, instead, need policy support. The national development plan can support city specialization by building on existing comparative advantages and sector-specific requirements (see sect. 2).

Some organic clusters of same-sector firms need only to be better supported through small programmes in finance or skill-building to grow in employment and value creation. Other economic sectors may need significant investment in infrastructure, worker training and workforce housing to incentivize initial clustering. Still other clusters are restricted by value chain bottlenecks – agricultural products do not yet meet the processor's requirements for quality or regularity; and standards of large retailers are not yet attainable by small and medium-sized enterprises. Owing to the highly specific needs of each sector and location, the role of analysis and stakeholder engagement in strategic policy development cannot be overstated.

Box 3.8: Linking economic sectors to regional focus or specialization in Indonesia

The Indonesia master economic transformation plan, designed to accelerate growth and modernization of the economy, runs from 2010-2025, with ambitious goals in per capita income and gross domestic product level. Key elements of the plan include value addition, production efficiency and innovation. There are seven priority economic sectors or industries (i.e., agriculture, mining, energy, industrial, marine, tourism and telecommunications), and these are connected to development corridors, each with a specific lead sector or resource as growth driver. The plan thus attempts to connect spatial specialization with sector priorities.^a

^a See Oxford Business Group, "Government master plan for Indonesia's industry" (2015). Available at <https://oxfordbusinessgroup.com/analysis/government-master-plan-indonesias-industry>.

C3. Promote connectivity between cities, with rural areas and within African subregions

Local economies cannot survive in isolation, and connectivity is linked to productivity. Urban-rural linkages have co-benefits for both sides. Regional linkages with neighbouring countries also have high potential benefits for knowledge-sharing, skills-building and economies of scale (see sect. 2, theme C).

National spatial targeting within the national development plan can build upon the economic potential of geographic linkages by investing in road and rail transport infrastructure to promote national and regional connectivity on the basis of growth poles and high potential supply chains. Targeted investment in transport corridors and areas with high growth potential can also unlock untapped natural and human resources, expanding the benefits of cities by linking them to rural and regional value chains.⁹⁰

C4. Ensure that special economic zones are connected catalysts of growth, rather than isolated enclaves

Linking special economic zones⁹¹ to cities is a way to deepen their benefits for the entire economy. The long-term benefits of special economic zones depend in part on knowledge spillovers and value chain linkages to the rest of the economy. Such spillovers and linkages form more easily when special economic zones are integrated into the urban economy.

Cities have advantages that are important to firms locating in special economic zones. These advantages include the components of agglomeration economies: economies of scale and the sharing of markets for inputs, labour and sale of final goods, easier matching of skilled labour and forward and backward linkages, and spillovers of knowledge and innovation. In addition, research has shown that special economic zones in isolated or lagging areas are less likely to overcome barriers to competition and attract top notch firms.⁹²

Special economic zones should therefore be planned in ways that connect them spatially, physically and economically to cities. Integrated planning for special economic zone-urban linkages will require coordination between special economic zone managing agencies, the infrastructure planning and budgeting process, education and training programmes and programmes targeting specific economic sectors and their value chains.

Box 3.9: Vision, goals and targets stage - Where to start?

Urban issues can begin to be incorporated into the vision, goals and targets stage in the following ways:

- (a) Set goals relating to urban jobs through priority sectors and their value chains;
- (b) Set targets relating to urban land use, urban mobility, housing and urban infrastructure, with a focus on removing barriers to urban productivity;
- (c) Consider private sector needs and preferences when setting geographically specific development targets.

⁹⁰ In large countries intraregional and suburban systems may emerge as part of the national urban system. In Nigeria, for example, urban agglomerations are identified in three main zones, South West, North and South East, and each is centred around transport corridors connecting cities such as Lagos and Ibadan (North West), Abuja, Kano, Kaduna and Jos (North) and Port Harcourt, Onitsha and Aba (South East). Investing to improve the connectivity within and between these corridors will drive trade, growth and integration at regional and national levels. See Robin Bloch and others, "Economic Development in Urban Nigeria", Urbanization Research Nigeria (London, 2015).

⁹¹ Special economic zones include export processing areas, industrial zones, free trade zones and other areas used to bolster specific economic activities through targeted policies and services.

⁹² David Harvey, "Reshaping Economic Geography: *World Development Report 2009*", *Development and Change*, vol. 40, No. 6 (Oxford, Blackwell Publishing, 2009), pp. 1269–1277.

Stage 3: Implementation strategies

“What makes planning is not the targets, which merely express what we would like to see happen, but the action that is taken to achieve these targets.”

– Arthur Lewis^a

^a W. Arthur Lewis, *Principles of Economic Planning* (Taylor and Francis Group, 1949).

Goal: To align, coordinate and fund activities to achieve targets affecting cities and urbanization, linking physical, economic and financial planning.

The national development plan is implemented through associated policies, which, in some countries, centre on a medium-term implementation strategy and, in others, involve a set of regional or sectoral policies. Too often, policies relating to cities are disjointed or underfunded, undermining economic growth. Two issues are critical for the achievement of the urban goals and targets in the national development plan: horizontal and vertical coordination and finance.

Even though subnational authorities are required by law or practice to prepare their own plans, implementation is often weak owing to capacity and financing constraints.⁹³ Local authorities in many African cities face twin challenges: first, they operate in urban economies dominated by informality or lack a strong productive economic base; and second, they lack the strategy or plan to transform them, as well as the resources and capability to implement their plan. In the context of business, they therefore risk both the formulation failure and the execution failure.⁹⁴ A national development plan process that strongly brings subnational actors into the fold can help to address these challenges and improve the overall implementation capacity.

Establishing a framework for coordination on urban issues

Coordination is critical at two levels: broad priority setting and specific implementation arrangements. Malaysia provides one example of coordination at both levels (see box 3.10). Coordinating urban issues within national development planning is essential, because the national spatial system is a complex and multisector phenomenon. Coordination on urban issues is itself multidimensional, requiring the following:

- Horizontal coordination at the national level, for example, between ministries, departments and agencies in the areas of economic development, infrastructure implementation and land regulation
- Vertical coordination between levels of government
- Public-private coordination.

⁹³ A study based on survey data about the Ghana 1996-2000 medium-term development plan carried out in six district assemblies observed that, although the district assemblies are required to prepare and implement their development plans, they hardly implemented the plan owing to a host of problems, including weak institutional structures, inadequate human and financial resources, chieftaincy and land disputes, low levels of commitment by stakeholders and ineffective teamwork. See John Mensah, “Problems of district medium-term development plan implementation in Ghana: the way forward”, *International Development Planning Review*, vol. 27, No. 2 (Liverpool, 2005).

⁹⁴ Successful organizations need to align their strategies both on what they do (their value proposition) and how they deliver (motivated people and resources). The misalignment on either of these two principles would undercut their performance. See W. Chan Kim and Renee Mauborgne, “How Strategy Shapes Structures” *Harvard Business Review* (2009).

Box 3.10: Coordinating planning and implementation: Malaysia and Zambia

Development coordination is a challenge that is commonly faced by many countries, including those with a long practice of national development planning. There are three important conditions required for good coordination: first, a clear assignment of tasks and responsibilities along the planning cycle and its elements; second, a mechanism for information and resource-sharing and decision-making; and third, effective monitoring with a feedback loop to correct, improve and adjust.

Although not specifically focused on urban aspects, the experience of Malaysia highlights some positive lessons.^a

^a See Zainal Aznam Yusof and Deepak Bhattasali, "Economic Growth and Development in Malaysia: Policy Making and Leadership", Working Paper No. 27 (Washington D.C., World Bank, 2008).

The Economic Planning Unit is responsible for the formulation of national development plans and some sectoral master plans. The Unit, along with the Ministry of Finance and the Central Bank, constitute the centre for coordinating the macroeconomic policy initiatives. The Inter-Agency Planning Group is constituted from selected ministries and the three central agencies, and it is supported by technical working groups, which are actively engaged during the preparation of plans and in between the planning cycles.

Although lead agencies (usually ministries and departments) oversee the implementation of policies, state and local governments are in charge of land allocation and licensing, and therefore coordinating with them is critical in order to avoid delays in the implementation of mega projects, such as the Multimedia Super Corridor. The planning agency has two equally important arms: the Economic Planning Unit is responsible for the formulation of national development plans and some sectoral master plans and the Economic Implementation and Coordination Unit monitors progress in implementation. Monitoring is not only a sector issue, but also a spatial one, with a focus on rural development projects in this specific case.

Beginning during the first five-year development planning, the country adopted a multilevel governance committee structure at the national, state, district and village levels, with the committees charged with functioning as planners, administrators, implementers and evaluators. Two important tools commonly used throughout the nation were the Rural Economic Development Book, which contains the list of all projects under implementation, and an "Operation Room", in which projects are exhibited in colourful charts, graphs and pictures.^b

^b See A. B. Shamsul, "Development and change in rural Malaysia: the role of the village development committee", *Southeast Asian Studies*, vol.26, No.2 (1988).

African countries are exploring and experimenting with processes conducive to coordinating development planning and implementation. The recently launched seventh national development plan of Zambia shifted from a sector to an integrated approach by introducing multisector outcomes and outputs as plan targets and performance measures and aligning them with budget allocation. In so doing, they pushing sector agencies and ministries to work in clusters, rather than silos. These are early days and results are yet to be seen, but the shift marks a step in the right direction and provides opportunities for better integrating multidimensional themes such as urbanization into economic planning.

A mechanism set up to coordinate urban hard and soft infrastructure projects and their links with target economic sectors is a critical condition for the successful implementation of the urban components of the development plan. Whether it is a unit or agency, or simply a platform for information flow and exchange, a coordination mechanism should be fit-for-purpose, located at the appropriate level of authority and adequately resourced. Coordination should also be supported within the regulatory and legal framework.

Clarifying roles and responsibilities for implementation is crucial, because urban and regional development functions and competencies are spread among many agencies, authorities and ministries, as well as levels of government. Ambiguity, overlapping or discordant mandates are often the cause of delays and failure.

Coordinating between the various economic instruments with urban impact

Coordination mechanisms must be in place for all phases of the planning and implementation process:

- Alignment of national, subnational and sector plans
- Alignment of resources with plans
- Alignment of implementation by various ministries, departments and agencies in space, time, priorities and roles

Countries differ in their specific development planning processes, but most apply a similar set of planning instruments and policies to address key dimensions of development. Most common are infrastructure plans, regional development plans, spatial framework and/or national urban policies, sector plans and subnational development plans. The national development vision, which typically spans over one to three decades, is implemented through medium-term (3-10 year) plans and the annual budget. There are also cross-cutting and thematic strategies (e.g., spatial economic plans of South Africa; see box 3.13), and they, too, form part of the planning landscape. All these have to be orchestrated in order to link the vision and goals with programmes and projects and programmes and projects with financial resources.

At the subnational level, local authorities should integrate physical planning into social and economic planning, a gap often observed in African cities and among urban authorities. This, however, is changing. Uganda for example, through its planning guidelines, mandates its local authorities to prepare comprehensive and integrated plans aligned with sector priorities. South Africa has a strong emphasis on coordinating its economic planning with spatial plans. Egypt is exploring reforms to better coordinate subnational land allocation with sector and economic planning (see box 3.12).

Box 3.11: Aligning subnational land use planning with national policy in Egypt

The current 10-year plan of Egypt (2012-2022) features smart cities, science cities, industrial clusters and spatial development and transport system, but it is not clear if and how these are coordinated among themselves and with other sector plans. A lack of coordination at the subnational level, in particular in terms of gaining access to land, is a serious challenge. Solutions proposed by the General Organization for Physical Planning include establishing a super-commission at the national level to coordinate sector and spatial planning, preparing a national strategic plan as a coordinating framework, creating one national custodian of public land (National Centre for Planning State Land Use) and enacting a Unified Land Act to address the overlapping functions and conflicts.

The urban and regional development plan itself has multiple components led by various administrative and programming sectors or agencies covering, for example, regional economic policy, migration and settlements policy, urban development policy, housing policy, urban land development policy, social development policy and local administrative and governance policy. Although each is an area of competence managed by a specific ministry, department or agency, the coordination between them is essential to achieve the national urban and spatial policy and the national development goals.

Table 3.8: Different types of plans and their urban link

Planning instrument	Components	Relevant urban aspects
Macroeconomic framework	<ul style="list-style-type: none"> – Real economy – Fiscal policy – Trade – Monetary policy 	<ul style="list-style-type: none"> – Urban food and non-food imports ^a – Growth of non-resource sectors (diversification) – Investment and public expenditure management with implications for urban households and economies – Budget allocation to subnational levels – Tax and revenue reform and implications for subnational authorities – Undervaluation or overvaluation of currency, affecting the competitiveness of urban products in the global market
Economic sector plans	<ul style="list-style-type: none"> – Employment – Resource linkages – Structural transformation – Special economic zones 	<ul style="list-style-type: none"> – Location preference and land use planning – Local supply chain of priority economic sectors and clusters – Urban employment – Demand implications for services and housing – Urban growth
National spatial plan ^b	<ul style="list-style-type: none"> – Population distribution – Spatial pattern of public and private investment – Deconcentrating of industry 	<ul style="list-style-type: none"> – Primary and secondary cities – Growth centres – Connectivity between cities – Transport corridors
Local development plans	<ul style="list-style-type: none"> – Local investment promotion – Local business environment – Local economic projects and programmes – Local spatial development 	<ul style="list-style-type: none"> – Specialized cities – Productivity and attractiveness of cities – Urban job creation – Local tax revenue
National infrastructure plan	<ul style="list-style-type: none"> – Energy, transport, information and communications technology, water and sanitation 	<ul style="list-style-type: none"> – Long-term urban settlement pattern – Productivity and attractiveness of cities – Roles in national spatial system

^a Sector policies such as agriculture also have an impact on urban food imports.

^b Other urban policies, including national urban policy and housing and land policy, also play a role here in influencing the pattern of urban growth and human settlements.

Box 3.12: Mechanisms to coordinate sector and spatial policies in South Africa

In South Africa, sector policies are targeted at specific regions and locations. South Africa has four planning streams: national economic, spatial economic, provincial and local economic and sector economic development planning. The country fosters coordination by publishing a framework agreement and providing technical support to regions preparing plans. Planning involves an intersectoral process that involves sector departments, provincial governments, local government associations and key metropolitan councils. ^a

^a See South Africa, Economic Development Department, "Spatial, Sector and National Economic Planning". Available at www.economic.gov.za/about-us/programmes/planning-and-coordination/national-economic-planning.

Vertical coordination

Subnational authorities need to be guided and supported when preparing their regional development plans. Aligning sector priorities and regional endowments is crucial for the country to fully exploit its comparative advantages and build competitiveness. Comparative advantages are, in the end, concrete and location-specific, and subnational authorities need the technical support of the sector ministries to realize these advantages.⁹⁵ Subnational governments will often need training and technical support to efficiently implement their development plans, including through direct support to prioritization, project development, contracting, budgeting and management.

Subnational coordination with national projects is also important. Many large urban projects are implemented through lead sector ministries, departments and agencies, but subnational authorities have a role in coordinating local resources, for example, regarding land or transport linkages. Involving subnational authorities at an early stage in urban infrastructure projects is important to plan for their implications for future growth and finance of the concerned city or urban area. The long-term viability of urban infrastructure hinges on cost recovery and operational budgets, and subnational authorities have key inputs to make.

Coordination on urban development projects

Growing cities need urban development to keep pace with population growth in order to avoid skyrocketing prices, informal expansion and overcrowding. Urban development involves both public sector and private sector responsibilities. Consider both infill and greenfield projects: failure to adequately coordinate all development components can lead to urban dysfunction and economic malaise.

Table 3.9: Roles in urban development

Planning and budgeting roles for infill development/redevelopment	Planning and budgeting roles for greenfield development
<ul style="list-style-type: none"> – Landholders engagement – Permitting and collection of development fees – Land pooling and subdivision – Real estate development, including social housing, market housing and non-residential – Upgrading of transport, sanitation, water and drainage infrastructure – Expansion of public services, including solid waste collection, health, education and safety – Operations, upkeep, maintenance and reinvestment of infrastructure and public services 	<ul style="list-style-type: none"> – Urban planning: plots, public space, infrastructure – Land rights, purchasing, expropriation – Permitting and collection of development fees – Development of multi-modal transport infrastructure – Development of water infrastructure – Development of electricity infrastructure – Development of sanitation and drainage infrastructure – Expansion of public services, including solid waste collection, health, education and safety – Real estate development, including social housing, market housing and nonresidential – Operations, upkeep, maintenance and reinvestment of infrastructure and public services

⁹⁵ Some countries pair sector and regional priorities within a strategic planning framework in order to exploit comparative advantages of their diverse regions. In some other cases, countries pursue programmes that support local specializations. The Ghana programme One District One Product and the Malaysia programme One District One Industry are examples.

Critically, the urban spatial economy is built upon two fundamental components: land use and transportation. Any national or subnational ministry, department or agency attempting to intervene in one of these components must coordinate with the other or risk economic failure.

Box 3.13: Examples of coordination failures in urban development

- Municipal street investment occurs in one location, while a national housing agency places affordable units in a separate location
- Arterials and highways are constructed; private landowners build up all land before local streets and connectors can be planned
- Roads, housing and electricity are extended to an area without proper drainage investment, resulting in flooding
- Workforce housing is constructed by one agency, while the industrial park is constructed by another; they are on opposite sides of the city
- A gated community limits access to streets used by lower income commuters, cutting them off from employment
- High-rise housing is built along a major freight route without additional transport investment, tripling freight transport times owing to congestion.

Improved coordination can avoid such failures. The mechanisms for coordination should be established during the national development planning process, avoiding time-consuming bureaucracy that can bog down urgent action and, instead, increasing information-sharing and collaboration.

Enlisting the private sector

Private sector actors should be engaged on the basis of their role in the development process. Private sector actors participate in national development as investors, contractors on public projects, enterprises in the urban economy, advocates for specific populations and intended beneficiaries from development. In addition to their input, identifying constraints and setting priorities during the analysis stage, private sector actors will be instrumental in designing and committing to the implementation strategy. Full engagement is critical for policy success, as seen in the case of Morocco (see box 3.15).

Firms in target economic sectors play a dominant role in meeting urban job creation targets. Consultations with existing domestic firms can help to shape strategies for sector expansion. In newly emerging economic sectors, consultations should involve domestic and foreign investors. Such consultations can help to coordinate public and private investment in location and timing, leading to higher return on investment for both sides.

Box 3.14: Aligning public programmes with private sector needs and input in Morocco

Economic development in Morocco is driven by the private sector, but government, through sector strategies and infrastructure investment, plays a pivotal role. Because implementation depends heavily on the active response and engagement of the private sector, public-private coordination is the cornerstone of these strategies. Government proactively uses its fiscal and economic management tools to invest in strategically located cities and industrial zones, while the private sector responds to the incentives and market forces. Government leadership in policy, investment in infrastructure, human resources development and research signal strategic direction and commitment and crowd-in private sector investment, thus creating synergy between the two.^a

The Green Morocco Plan illustrates public-private investment coordination. The Plan was initiated to modernize agriculture and enhance the income of small farmers in ecologically challenging areas, while boosting value addition and meeting the growing urban food market needs and seizing export opportunities. The Government made a series of reforms, including in land tenure, water and taxes, mobilized a leading agriculture research institution to support the development goals of the Plan and reorganized and stepped up coordination within the rural development and agriculture sector.

The private sector led the consolidation and the improvement of large-scale irrigation projects and the management and the provision of services associated with them, while small farmers were able to gain access to State-funded extension services and participated in a range of projects designed to enhance productivity, social services and income. The Government also established five trade associations with a focus on technology, production inputs, exports, logistics and packaging, human resource development and branding and quality management. These institutional arrangements fostered collaboration between public and private actors within a national development strategy framework.^b

^a See Business Wire, "Morocco launches wide-ranging industrial acceleration plan", 3 April 2014. Available at www.businesswire.com/news/home/20140403005956/en/Morocco-Launches-Wide-Ranging-Industrial-Acceleration-Plan.

^b Mohamed Badraoui, "The Green Morocco Plan in relation to Food Security and Climate Change", International Conference on Food Security and Climate Change in the Dry Areas, 1 to 4 February 2010 (Amman, International Centre for Agricultural Research in the Dry Areas, 2010).

Financial planning for implementation

One of the underlying reasons for development planning is to increase savings and marshal resources to their best use to achieve faster growth and development. The quality of investment planning and its financing is a yardstick for national development plan quality and its likelihood of implementation. A disconnect between planning and financing is a recipe for failure. Development plans, through investment planning, project financing and budgeting, strive to mobilize domestic and external financial resources, but also expand the capacity of the economy to meet the demand for human capital, physical capital and goods and services resulting from the expected increase in investment. Cities play a crucial role, both requiring and generating resources in that process.

No mandate should be created without the funding to achieve it. National development plan implementation strategies must carefully prioritize and phase programmes and projects to match the reality of available resources, financing options and revenue tools. In turn, the implementation strategy should be matched by national and sectoral budgeting. The regulatory framework must also be adjusted to facilitate effective resource allocation and support fit-for-purpose financing and revenue instruments.

Urban and spatial implications of investment priorities

Financial resources are always limited, and there is no shortage of projects. Prioritizing projects is crucial to direct scarce resources to projects and programmes that have the greatest impact. Factoring in the unrealized potential of the urban economy can assist in prioritization to support economic growth.

The economic life of infrastructure projects such as roads, bridges and rail lines transcend generations. Street grids and infrastructure networks are the skeleton of the urban structure and they will serve as the foundation for urban productivity and liveability. Urban infrastructure investment has a lock-in effect for decades to come, making design decisions extremely strategic. Prioritization and design should consider whether, in total, such investment contributes to the urban vision of efficient, connected, compact and integrated urban space.

At the national level, the distribution of projects and investment will also have a spatial impact. The national development plan investment plan is in part the result of consolidated sector, regional and local investment plans. Investment priorities will have implications for the productivity of various economic sectors, as well as for cities and the national spatial system. Determining the geographic spread of projects and programmes between various cities and rural areas is important to have an idea of the ways in which resource allocation will affect cities and the national spatial system and whether it will help to achieve the type of system prescribed by the national urban policy, spatial framework or spatial vision.

Considerations for timing, prioritization and long-term cost implications of urban projects

Projects and programmes have financial implications that should be factored into the national development implementation plan in terms of prioritization and timing. Realistic cost estimates of proposed projects and programmes can be obtained by engaging with implementing ministries, departments and agencies directly. Financial planning for urban projects can also involve development banks and other potential lenders, as well as private sector developers.

The timing of urban programme and project implementation is often dictated by the financial resources available. Planning with realistic cost implications in mind can avoid disjointed programmes in which components that should be paired (e.g., land development rights and infrastructure) are separated owing to funding constraints. Combining realistic budgeting with time-based spatial phasing can avoid cities that are full of half-completed projects. Instead, urban programmes can focus resources in a logical sequence.

Project prioritization should be informed by a cost-benefit analysis or estimate of return on investment. Cities and urban programmes often require high-cost investment, such as a dense network of streets, piped sanitation systems and rail-based transit. The economic benefits of urban investment, however, is also very high and, in compact cities, it serves a high concentration of people and firms efficiently. The economic impact of urban projects can be measured in terms of growth, productivity, direct and indirect jobs and public revenue. Spillover benefits from urban programmes manifest in overall urban attractiveness to investment and a skilled workforce, especially in large cities (see box 3.5).

Urban investment needs and revenue streams are typically mismatched in time, posing a significant challenge for growing cities. Most urban projects have high upfront fixed costs and the economic benefits and resulting public revenues may follow many years or even decades later. This makes innovative financial planning a critical element of a national development plan that leverages urban productivity.

In addition to high upfront costs, many urban projects are long term and require multi-year funding that includes a budget for operation and maintenance. The deterioration and the destruction of infrastructure such as roads or water and sewer lines often result from the cumulative neglect of maintenance and rehabilitation. In the long-run, the neglect of maintenance and rehabilitation is

costly and inefficient, not only because it results in poor economic performance, but also because adequate investment in repair and maintenance can delay or avoid costlier failures and replacements. Ongoing capital investment for upkeep must be factored into budgeting for national development plan implementation.

Box 3.15: Matching subnational mandates with adequate funding and capacity

Cities are the drivers of national economic growth and productivity, but inadequate financial management can threaten their economic dynamism. Subnational authorities are increasingly responsible for planning and managing urban services and infrastructure, but are chronically underfunded, lack the capacity to raise revenues and rely heavily on national transfers. The per capita budgets of most African cities are too low to meet the demand of their rapid growth, and they lack technical and/or legal capacity to increase own-source revenue.

Constrained subnational budgets leave few options for strategic investment to support urban economic development, and budgeting may not reflect national development plan priorities or even their own subnational development plans. Instead, subnational budget submissions may be based on a wish list of projects with little connection to national priorities and without a sound strategic framework.

National guidelines paired with technical advisory support are required to bring subnational or regional development plans in line with sector and development priorities. Subnational governments often require support in basic revenue collection, budget management, contracting and procurement, economic planning and, eventually, engagement with public-private partnerships, borrowing and bond issuance. African cities in the majority of the continent are not yet in a position to gain access to capital markets or to issue municipal bonds. First, cities need to build their revenue base, enhance their tax collection capacity and balance their books. Subsequently, the laws regulating local government finance should slowly be updated to facilitate credit rating, municipal borrowing and other financing methods.

Bridging the financial gap with financing and revenue tools

Given the challenges and the opportunities associated with financial planning for urban projects, it is critical to consider a variety of financing options and revenue tools to support the implementation of national development plan goals. The following should be considered in constructing a financial implementation plan:

- **Basic financial management, especially by subnational entities.** Cities hold huge productive potential and commensurate potential to generate public revenue. However, good financial management is a prerequisite for achieving such public revenue. This includes complete and up-to-date tax registries and user-friendly payment systems, supporting compliance with taxes and fees. It also includes accuracy of budgeting and control in budget execution. Success in the basics of financial management sets cities up to generate revenue and opens the door to creditworthiness and borrowing. Basic financial management is therefore critical for both overcoming the challenges of high upfront investment costs and leveraging cities' potential to create a sustainable revenue stream for continued investment.
- **Private financing and public-private partnerships.** Much of the basic investment required for well-functioning cities is in public goods that require public funding. Nevertheless, some projects, in particular services that generate user fees and economic development projects, may be developed to attract private sector funding. While public-private partnerships can help to bridge the investment gap, they require a sound regulatory environment that protects the public sector from excessive risk and institutional capacity for urban authorities to negotiate with their private sector counterparts.

- **Grants and loans.** Grants and loans play an important role in urban projects. The benefits of large urban projects are deferred or spread over a long time horizon, while the costs are up front and lumpy. Loans are therefore a viable option of financing provided future returns of the projects are higher than the interest rate of the loan. Cash flow and project lifecycle are critical to determine the debt payment schedule and viability. Both the total cost of urban projects and the yearly financing needs have to be determined and presented for budget decisions. The total cost allows for benefit/cost analysis in order to determine whether the long-term financial requirements are in tune with the expected economic growth and total project benefits. The annual financing costs allow authorities to plan for the cash flow needs of projects against revenue sources. Loans from national and regional development banks can sometimes be structured to meet the unique needs of urban financial flows, where revenue may take a long time to manifest.
- **Land value capture.** Investment in growing cities increases urban land values. Taxes on the increased value of land are considered by economists to be some of the most efficient taxes with the smallest negative impact. In fact, under the right rate structure and legal framework, land value taxes can discourage speculation and encourage efficient development patterns. Land value capture is well suited for growing cities because land values tend to increase rapidly, and revenue can be reinvested or used to repay loans on needed infrastructure. Land value capture tools include annual taxes on land value, capital gains taxes on property sale, betterment levies used to directly pay for infrastructure or services, fees for or auction of development rights and the lease or sale of public land.
- **Incentives to and regulations on private sector developers.** Zoning and permitting can include mandates or incentives relating to the inclusion of desirable features within development projects. For example, some cities require developers to include a set percentage of units at sales rates that are affordable to poor households. Regulations on the subdivision and the development process can also allow for privately built infrastructure but require that it meet specific standards and eventually be transferred to public sector ownership. Incentives for developer contributions to publicly beneficial infrastructure and services can include lower permitting fees, tax abatements, an expedited permit review process or higher allowable building densities. Development standards and fees should be determined for an entire metropolitan area by the same regulatory body in order to avoid a race to the bottom between neighbouring jurisdictions attempting to compete for development.
- **Reduced cost of urban infrastructure and services through good spatial planning.** Compact and connected development can provide infrastructure and services at a lower per capita cost. Shorter distances for trunk water, sewers and electrical lines create savings. Whereas sprawling development leads to a reliance on single occupancy vehicles, denser development makes transit and non-motorized transport more competitive and financially solvent, as well as slowing the ever-rising need for road space. Services such as education and health care, delivered in compact and connected urban areas, can leverage economies of scale, serving a larger population with a single facility. While per hectare infrastructure requirements are high in dense urban environments, per capita costs are lower. Dense development has the added benefits of facilitating agglomeration economies that enhance urban productivity and preserving agricultural land, which is often threatened by urban peripheral sprawl.

Box 3.16: Implementation strategies stage: where to begin?

Urban issues can begin to be incorporated into the implementation strategies stage in the following ways:

1. Establish a process or forum for all actors (national, subnational and private) engaged in urban land and real estate development to coordinate and share information
2. Establish a department or agency to work with major private sector investors in cities to achieve urban goals
3. Prioritize efforts to improve subnational financial management, including revenue enhancement

Stage 4: Monitoring and evaluation

The objective of monitoring and evaluation is to track progress, adjust as needed, and distil lessons for subsequent planning processes. Because cities and national spatial systems are complex, multisectoral and ever-changing, it is especially critical to monitor and evaluate policies and programmes attempting to affect urban issues. The national development plan will involve myriad project activities; monitoring will help to ensure that the planning and implementation machinery is working smoothly following the planning cycle and project schedules.

Goal: To track and understand the ways in which policies are succeeding or failing to enable cities to achieve their economic potential and drive structural transformation

Monitoring focuses on the process of programme activities and tracking progress towards outcome measures and targets, allowing for adjustments in the design of an ongoing project. Benchmarking is useful for comparing progress across time, countries or cities (e.g., see box 3.18 on India). Evaluation allows policymakers to see what worked and what did not, measure the impact of projects and distil lessons for use in the design of future policy.

Box 3.17: Benchmarking municipal services in India

India has rolled out a suite of benchmarks on water and sanitation municipal services. The idea is to maximize the economic return of investment in urban infrastructure by directly linking it with impact measures reflecting access and quality improvement of urban services. According to the system, data will be periodically collected and reported by operational units managing utilities and services and analysed by relevant municipal departments. The results would then be fed into the policy and planning process and inform decision-making and planning.^a

^a See Government of India, Ministry of Urban Development, "Improving urban services through Service Level Benchmarking", working paper (New Delhi, 2010).

At a macro level, the main question for monitoring and evaluation is about the productivity of economic sectors, cities and the national spatial system.⁹⁶ From that perspective, indicators and analysis can be organized in terms of impact (realized productivity), as well as the outcomes and the processes required to achieve that impact. Countries have different evaluation practices and terminologies, and the details of monitoring and evaluation plans and indicators will be based on national development plan goals, targets and programme logic. Some general examples of the urban topics covered within process, outcome and impact monitoring and evaluation are given below.

⁹⁶ See Paul Krugman "Productivity isn't everything, but in the long run it is almost everything. A country's ability to improve its standard of living over time depends almost entirely on its ability to raise its output per worker", in *The Age of Diminished Expectations: US Economic Policy in the 1990s* (Cambridge, MIT Press, 1994).

Table 3.10: Topics for monitoring and evaluation

	Topics covered in process monitoring and evaluation (tools, systems and processes)	Topics covered in outcome monitoring and evaluation (intermediate results)	Topics covered in impact evaluation (so what?)
A: Sector Targeting	<ul style="list-style-type: none"> – Urban job-creating sector-specific plans developed and targeted – Private sector engaged in planning and implementation 	<ul style="list-style-type: none"> – Targeted assistance to priority sector firms delivered, including infrastructure and services, access to land, access to financing, technical skilled improved, access to a well-matched workforce 	<ul style="list-style-type: none"> – Urban firm productivity – Informal sector integration – Urban unemployment decreased – Employment in high productivity economic sectors – Value added in exports
B: Productive Cities	<ul style="list-style-type: none"> – Urban planning capacity strengthened – Advance plan for growth prepared – Financing strategy for future growth prepared – Urban regulations revised to make urban plans compatible with good practice – Local financial system upgraded – Land registry updated and implemented – Online services introduced in the areas of land management, urban services and local tax – Housing programme initiated – Public capital investment plan and bankable projects prepared – Infrastructure maintenance plan funded 	<ul style="list-style-type: none"> – Serviced industrial clusters – Increased density and connectivity – Multimodal urban transport system improved – Access to urban public services improved – Public private partnerships strengthened; project financing improved – Increased share of low income housing in new development – Public revenue improved 	<ul style="list-style-type: none"> – Per capita value added – Local gross domestic product contribution versus population share – Agglomeration economies – Public capital (or core infrastructure component) per capita – Energy efficiency – Share of foreign direct investment and/or export sector – Housing affordability/ decreased formal housing shortfall – Private sector investment – Commute times and congestion

<p>C: National Spatial System</p>	<ul style="list-style-type: none"> – National urban policy and/or spatial framework – Governance and financing framework for metro areas and regional development – Regional development plans – Legislative and institutional framework for special economic zones – Inter-city transport links planned and financed 	<ul style="list-style-type: none"> – Secondary and tertiary cities with economic development plans – Fiscal and administrative decentralization – Secondary and tertiary cities with connectivity allowing increase in firm location options and efficiency in logistics for value chains for priority economic sectors – Better connectivity between cities, special economic zones and industrial clusters 	<ul style="list-style-type: none"> – Primacy reduced – Firm and employment growth of target economic sectors in target locations – Urban differentiation and changes in city size distribution – Industrial share of cities outside the prime city – Inter-city and regional trade
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In addition to monitoring and evaluation relating to the national development plan and its implementation strategies, specific programmes and projects will be monitored and evaluated by relevant ministries, departments and agencies on the basis of their logical framework, activities and intended outcomes.

Roles in monitoring and evaluation and data collection

Monitoring and evaluation is resource-intensive and data-intensive and must have dedicated staffing and funding. While some programming may be able to include monitoring and evaluation within the implementing agency, often an external evaluation agency can provide both expertise and objectivity. Economic data such as local or metropolitan GDP or measures of productivity may be better handled through national or state statistics offices. Such economic indicators require training and the ability to coordinate to collect data from regulators and official agencies. They also need to be modelled on the basis of common standards and acceptable methodology, and therefore demand professional staff. Others, for example, those related to social development indicators and employment, or slums, can be piggy-backed on health and demography surveys. Still others must be paired with programme activities, including many urban services and infrastructure.

Big cities in middle-income countries with a strong practice or tradition of local economic development planning and investment promotion may have a dedicated unit and competent staff to collect and publish city-specific economic data. That, however, is not on the horizon for small and many mid-sized cities. In that case, pulling resources to set up a research unit or outsource to an existing research institute will improve data comparability among cities and regions.

The roles and responsibilities for data collection should be context-specific, but one general approach is presented below.

Table 3.11: Urban data-collection responsibilities by topic

	Subnational agencies	National and sector ministries, departments and agencies	National statistics or research institutes
A: Sector Targeting	On topics of: <ul style="list-style-type: none"> – Target sector access to serviced real estate – Firm constraints in priority economic sectors – Quality or condition of sector-specific infrastructure – Informal economy – Local sector performance indicators (start-ups, employment, value added) 	On topics of: <ul style="list-style-type: none"> – Major infrastructure – Special economic zones 	On topics of: <ul style="list-style-type: none"> – National sector performance indicators (employment, value added) – Supply chains – Trade – Enterprise surveys – Human capital
B: Productive Cities	On topics of: <ul style="list-style-type: none"> – Land use – Land markets – Infrastructure and services delivery – Mobility, mode share and congestion – Housing – Municipal finance 	On topics of: <ul style="list-style-type: none"> – Competitiveness – Industrial clusters – National infrastructure and housing programmes – Performance on subnational mandates 	On topics of: <ul style="list-style-type: none"> – Subnational gross domestic product – Cost of living – Firm productivity, direct and indirect costs (utilities, transport, regulation) – Informal housing – Urban poverty and inequality – Doing business indicators
C: National Spatial System	On topics of: <ul style="list-style-type: none"> – Freight and logistics connections – Regional development 	On topics of: <ul style="list-style-type: none"> – National infrastructure – Comparative urban productivity and attractiveness – Decentralized finance and distribution of transfers 	On topics of: <ul style="list-style-type: none"> – Migration and demographics – Industrial deconcentrating – Transport corridors – Domestic and regional trade

Data specific to cities and the deficit of subnational data

A major challenge of mainstreaming urbanization into national development planning is collecting good-quality data on indicators at the subnational level. Although the role of cities and urban areas as an engine of economic growth is commonly acknowledged, including in planning documents, data relating to economy and productivity at the subnational level are hard to find. When available, they are often incomplete, non-standardized and sometimes inaccurate. For example, subnational GDP data, if measured, is measured using different techniques for various cities (sometimes even within the same country), making benchmarking and national spatial planning difficult.

Without city-specific data, it is nearly impossible to confidently draw conclusions about policies and programmes to address urban productivity and the functionality of the national spatial system. The need for city-level data therefore cannot be understated.

Given the importance of urbanization for the future growth and development of Africa, and the dearth of data and information to make informed decisions, planning and budget allocations, governments may find it timely to begin collecting basic economic and spatial data for major cities, metropolitan areas and transport corridors. Such data will have knock-on benefits in the context of other initiatives, such as the localization of the Sustainable Development Goals, climate change and policy reform issues, such as land and municipal finance. African countries will benefit from the expansion of and the improvement in data collection and analysis for a very long time.

Fortunately, some data may already be available from national statistics agencies that need only to disaggregate existing economic or household survey data at the city or metropolitan level. Other data relevant to cities may be available from public service agencies, tax collection agencies, permitting agencies or even mobile phone companies.

Box 3.18: Organization for Economic Cooperation and Development Subnational Statistical Database

The Organization for Economic Cooperation and Development has invested continually in a statistical database of subnational regions and metropolitan areas of its member countries. It covers 40 demographic, economic, labour and social indicators for 2,000 regions and 281 metropolitan areas in 34 countries.^a

^a Available at <https://search.oecd.org/cfe/regional-policy/regionalstatisticsandindicators.htm>.

To achieve success in subnational data quality and availability requires investment in capacity, coordination between subnational and national actors, and incentives for sharing information and data to make it widely accessible to users involved in policy research. The national, regional and continental alignment of data definitions and repositories (see box 3.19, on OECD) can leverage returns to scale, boost coordinated planning and facilitate benchmarking.

Box 3.19: Monitoring and evaluation stage: where to begin?

Urban issues can begin to be incorporated into the monitoring and evaluation stage in the following ways:

1. Establish and fund national-level staffing or agency to oversee urban statistics. Basic data will include city or metro-level gross domestic product and other economic indicators, land use in cities, mobility and congestion, housing and infrastructure and urban/local revenue. Begin where data exist or where disaggregation is easier from existing sources.
2. Begin to collect or report data to measure urban productivity.
3. Engage urban experts in established processes for mid-term policy review and adjustment.



Way forward

Applying an urban lens in national development planning



Countries vary not only in their level of development and urbanization, but also in the way that national development planning is organized and the degree to which urbanization is already considered and addressed. It is therefore impossible to provide any one-size-fits-all recipe or road map. Nevertheless, a few simple institutional actions can be proposed as first step, as follows:

1. Appoint a senior urban adviser within the national development plan agency.
2. Appoint a senior urban economist within the national ministry for urban development.
3. The two senior advisers can take the following steps:
 - a. Commission an urban review, with a view to identifying strategic policy issues to be taken up in national development planning cycles. The major themes outlined in this guidebook can help to guide such a review;
 - b. Initiate a policy working paper series on identified issues;
 - c. Propose amendments to the national development plan process to strengthen both the urban policy content and the implementation and coordination aspects of the policy process;
 - d. Initiate a programme on urban indicators and benchmarking, with a focus on carefully identified and selected data sets covering the key urban and economic development themes identified in the urban review. A long list of indicators is contained in the annex to this guidebook. Three to four indicators per theme can be chosen that work for the country context by considering feasibility and utility. This can be expanded to cover more indicators over time. A starting point can also be looking at census data, household surveys and other studies and identifying those readily available or those useful and easy to disaggregate.

Within the national development plan framework, urban and economic issues can be better integrated by expanding the mandate and content of what is regarded as “urban sector” to include an economic development thrust and mainstreaming urban issues as cross-cutting theme intersecting, in particular relevant economic policies and sector strategies. Mainstreaming urban issues into economic policy can follow the substantive themes in this guidebook, asking targeted questions about each one (see table 3.12).

Table 3.12: Key questions for mainstreaming urban issues into economic policy

Economic sector targeting	Productive cities	Productive national spatial system	Coordination and finance for implementation
<ul style="list-style-type: none"> – Which economic sectors will create urban jobs and generate structural transformation? – Which sectors will leverage and harness urban demand for domestic sector growth? – How can cities add value to rural products through forward and backward linkages? 	<ul style="list-style-type: none"> – What are the biggest barriers to the productivity and the competitiveness of urban firms? – What level of investment in urban infrastructure is needed to make cities drivers of structural transformation? – How can urban investment and programmes be prioritized to best leverage urban economic advantages and aligned with national development priorities? – What components of urban management require national-level support and/or coordination? 	<ul style="list-style-type: none"> – Where, within the national spatial system, can investment most cost effectively achieve economic growth? – Where, within the national spatial system, will target economic sectors generate growth? – Which cities and towns require which types of investment in order to support target economic sectors? – How can industrial parks and special economic zones leverage existing geographic advantages for competitiveness and to facilitate spillover benefits to the rest of the economy? – How can connective linkages best bolster value chains and a productive system of complementary cities and towns? 	<ul style="list-style-type: none"> – What mechanisms can be established through the national development plan process to allow for coordination between the many public and private actors engaging in the development of cities? – How can subnational authorities be better supported to manage cities in ways that align with the national development plan? – Within cities and the national spatial system, how well are public and private investment currently coordinated and how can they be better aligned? – How can investment in cities better leverage private sector contributions? – How can the potential public revenues arising from cities be better harnessed for public investment?

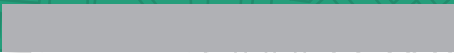
These issues cannot all be addressed in a single five-year plan. Depending on the unique development context of a country, various areas of focus are more relevant in the short, medium and long term. Following is one example of how countries may wish to phase these areas of focus.

Short term: Broaden the conceptualization of the “urban sector” and bring jobs to the centre. Urban jobs should be a primary consideration in any programming aimed at improving cities. Job creation should be central to urban programmes, notably housing and infrastructure and local economic development. Housing sector policy should focus not only on alleviating slums, but also on creating jobs in construction and its upstream and downstream linkages. Housing programmes can be brought to scale in cities by leveraging the potential of the private sector, including household savings and the building value chain. If done with the urban poor in mind, improving access to land and housing finance not only stimulates the housing market, but also helps to achieve the goals of inclusive growth and prosperity.

Medium term: Consider the spatial impact and requirements of sector planning, pairing spatial planning and sector targeting, and coordinating investment between the public and private sectors to effectively meet the needs of both target economic sectors and cities. Aligning spatial planning and sector targeting in some cases may mean the better connecting of industrial and economic zones with existing cities, while, in many other cases, it may entail fit-for-purpose investment in target cities in order to meet the needs of firms in priority economic sectors and that of the growing urban population in targeted cities or urban areas.

Longer term: Lay the groundwork for the ways in which cities and the national spatial system will perform for the economy of the future. Goals can include a system of cities with complementary functions, including both large, diverse and smaller specialized cities that will operate efficiently to maximize productive benefits to firms and overall economic competitiveness. In practical terms, that involves identifying strategic spatial locations such as cities and urban linkages, including regional corridors, on the basis of their economic potential. That can be followed by targeted investing, especially in connective infrastructure and secondary cities, with the aim of gradually diversifying not only the economy, but also the urban structure itself by creating a hierarchy of cities and settlements that are connected and complementary. Planning for the national spatial system should recognize that economic realities make continued investment in the prime city and big cities imperative for the foreseeable future. Spreading development to rural areas and fostering urban rural linkages, however, including by promoting market towns, secondary cities and growth pole strategies, is necessary. Such spatial strategies need to be aligned with economic sector priorities and backed up by a long-term policy framework and infrastructure investment plan. Long-term planning would be an ideal instrument for crystalizing these ideas.

Improving the integration of urban themes into the national development planning process can begin immediately. This guidebook can be used to highlight entry points for cities and urban issues at each stage of the planning process. The United Nations can provide technical assistance in operationalizing the recommendations found in it.



Annex

Sample indicators for analysis and benchmarking



Indicators and benchmarks

Indicators are a set of questions or variables used to collect data to inform analysis. They can include descriptive, qualitative and quantitative data. Benchmarks are measurements for tracking progress against a comparator. These are often quantitative (e.g., manufacturing share of gross domestic product), but they can also be qualitative (grades according to the Public Expenditure and Financial Accountability framework). Benchmarks can be self-referential, comparing progress of a single city or country over time, can be used to compare a country with other countries, in particular those with success in the benchmarked area, or both. Often benchmarks can be used to provide both a baseline (the initial measurement) and a target (the measure of success or achievement of a goal).

Indicators can be useful during both the analysis stage and monitoring and evaluation to track progress. Indicators to be used for analysis should shed light on the role of cities and urbanization in national development. Indicators that reveal already obvious issues (e.g., informal housing in cities) may be good for benchmarking progress, but less informative for analysis.

Benchmarking against comparator economies can be useful in setting targets for the national development plan. Many of the indicators below have been selected because they are already available from a range of countries. When identifying countries for comparison and orientation, one approach can be adopted from an industrial action plan proposed for developing countries by Justin Yifu Lin, former Chief Economist at the World Bank. According to Lin, “Policymakers should select dynamic growing countries with similar endowment structures and with about 100 per cent higher per capita incomes or about the same per capita income level 20 years ago. They must then identify tradable industries that have grown well in those countries for the past 20 years.”^a The idea is to compare the success of target economic sectors with countries that have successfully gone through a similar change process when they were at a similar stage of development to African economies. Within Africa itself, middle-income African countries, such as Morocco and South Africa, which, through deliberate industrial policy and national development planning, have steered industrial growth could provide lessons and benchmarks.

^a See Justin Yifu Lin, *The Quest for Prosperity: How Developing Economies Can Take Off* (Princeton University Press, 2012).

Benchmarks are used to track progress. Ideal benchmarks are easily quantified, already monitored and comparable among countries and/or cities. Benchmarks should ideally reference data that are widely available in countries and points in time. Specific goals and targets, however, may require tailored indicators. Important subnational indicators may not be widely available, in particular on the issue of cities and urbanization. In such cases, establishing and funding a national statistics tracking programme that meets the needs of national development plan benchmarks will be necessary. A national-level agency can ensure that indicators are standardized among cities and regions.

Most of the indicators below are outcome and impact indicators. Process indicators will be tailored to the specific activities of implementation programming and qualitative methods, such as surveys and focus groups, that can yield insight into organization and institutional reasons behind successes and challenges. While national statistics agencies should be involved in measuring and tracking many of the impact indicators listed below, independent monitoring and evaluation firms and experts can provide useful assistance to individual programme and project monitoring and evaluation.

Indicators relating to economic sector targeting

Indicator	Description/relevance for urban issues and the national development plan	Possible data sources - methodology notes	National or subnational?
Currently prioritized economic sectors and their labour intensity	Labour-intensive economic sectors are critical to pair urban growth with employment growth and structural transformation.	Classification of economic sectors by labour intensity can be found in Basu, S.R., <i>Retooling Trade Policy in Developing Countries: Does technology intensity of exports matter for GDP per capita? Policy issues in international trade and commodities</i> (forthcoming) (Geneva, United Nations Conference on Trade and Development (UNCTAD)) (download data from www.tradesift.com/about-ts/productGroups/pg_unctadSkill.aspx)	National
Leading, lagging, emerging and declining economic sectors: economy-wide and in cities	This will shed light on how individual economic sectors are contributing to gross domestic product (GDP) and employment in the urban economy and economy as a whole, information that is critical for sector prioritization. Sectors at the intersection of national and urban economies are of special interest.	National statistics; methodology for sector classification in annex A of Elisa Muzzini and Aparicio, <i>Bangladesh: The Path to Middle-income Status from an Urban Perspective</i> (Washington, D.C., World Bank, 2013).	National
Per capita imports of foodstuffs and trend	Many African countries have become net food importers. Food imports are not problematic, unless they are due to declining performance in economic sectors in which the country has the potential to competitively produce, especially in the face of rising urban demand for processed and packaged food. Most countries are both producers and importers. For example, Nigeria is the continent's leading rice consumer, but also a major producer.	United Nations Comtrade database	National
Percentage of exports (by value) classified as mineral fuels and primary commodities and trend	The dominance of raw commodities in exports is a sign of job-poor economic growth, which fails to leverage the economic potential of cities.	United Nations Comtrade database; classification based on Basu, S.R. (forthcoming) UNCTAD publication	National
Ratio of raw to processed food exports and trend	Urbanization provides both a larger market for processed food and a larger workforce for value added economic sectors. Increasing capacity to process agricultural products will manifest in the mix of exports. (Exports are easier to track by type than domestic consumption.)	United Nations Comtrade database	National

Indicator	Description/relevance for urban issues and the national development plan	Possible data sources - methodology notes	National or subnational?
Percentage of exports (by value) classified as low-skill labour-intensive; percentage classified as medium-skill labour-intensive; trends	A growing urban workforce allows for the increasing production of low and medium-skilled manufactures to meet rising demand. Unproductive urban economies, however, are based more on consumption than production (rising net imports), signalling problems for the inclusiveness and sustainability of growth. Exports are easier to track than total production and reveal the capacity of labour-intensive sectors.	United Nations Comtrade database; classification based on Basu, S.R. (forthcoming) UNCTAD publication	National
Labour intensity of industrial sector	Industry can be a pathway to structural transformation and out of poverty if it absorbs enough labour.	World Development Indicators: ratio of industry employment share (percentage of employment) to industry value added (percentage of GDP)	National
Manufacturing value added share in GDP	Manufacturing is a reliable pathway to structural transformation and links an urban workforce to productive transformation.	World Development Indicators	National
Mortgages as percentage of GDP	A limited mortgage market restricts the demand for housing and impedes the housing market. A well-functioning housing market is imperative for urban development and job creation.	Housing Finance Africa	National
Housing price/income ratio	Housing in African cities tends to be excessively expensive, compared with purchasing power, signalling the inability of supply to meet demand.	Housing Finance Africa and World Development Indicators; method, <i>Economic Report on Africa 2017</i> , p. 101	National
Share of firms in non-tradable economic sectors	At low levels of economic development, non-tradable sectors are characterized by lower productivity and are less able to contribute to economic growth, given that they are limited by domestic purchasing power. The dominance of non-tradables in local economies signals a lack of urban competitiveness.	Enterprise surveys; methodology for tradable versus non-tradable classification, see Somik Vinay Lall, J.Vernon Henderson and Anthony J.Venables, <i>Africa's Cities: Opening doors to the world</i> (World Bank, 2017) p. 13; informal economy data from national statistics or World Development Indicators.	Both
Policies to boost innovation in urban areas and their success	The economic power of cities is due in part to their facilitation of the innovation process. Policies and programmes to support research and development, tech start-ups, technology transfer and financing for new ideas can leverage this power.	Expert interviews; national or local data on start-ups; programme evaluations	Both
Urban poverty headcount	Urban poverty is a measure of urbanization without growth or without jobs, that is, a broken linkage between urbanization and structural transformation.	World Development Indicators; subnational poverty database	Both

Indicators relating to the performance of cities ^{97a}

Indicator	Description/relevance for urban issues and the national development plan	Possible data sources; methodology notes	National or subnational?
Cities' representation in national economic policy	To fully leverage the economic potential of cities and urbanization, they should be mainstreamed into the national development plan and related policy documents.	National development plan document review	National
Subnational gross domestic product (GDP), share versus population share, trend	This is a measure of the economic productivity of the city and how it compares with cities of similar size and the national economy. If the share of GDP of cities is rising faster than their share of population, they are becoming increasingly productive. If the reverse is true, it may signal that diseconomies are setting in.	National statistics	Local
Informal employment as percentage of non-agricultural employment	The inability of the city to create formal sector jobs is an indication of the underperformance of the urban economy.	World Development Indicators; national statistics	Both
Cost of living, compared with cities at similar income levels	Cost of living often reflects urban efficiency and the productivity of the urban economy.	Mercer Cost of Living Index; Economist Intelligence Unit; World Development Indicators, with methodology from Shohei Nakamura and others, "Is Living in African Cities Expensive?", Policy Research Working Paper No.7641 (World Bank, 2016). Available at http://documents.worldbank.org/curated/en/429961468185035012/pdf/WPS7641.pdf .	Both
Urban public investment versus urban population growth	Investment is a determinant of growth and is especially important as cities develop to meet basic requirements of the urban economy, including transport, electricity and sanitation.	National statistics; budget review	National (urban areas) or local
Percentage of firms identifying electricity as a major constraint	Access to electricity is a major constraint to urban firms and an indicator of underinvestment in the urban economy.	Enterprise surveys	Both

^{97a} Many of the indicators in this section are measured at the local level, meaning that cities will be selected and measured. Primary and secondary cities are a good place to start. The performance of these cities has significant impact on the performance of the economy as a whole and its ability to transform.

Indicator	Description/relevance for urban issues and the national development plan	Possible data sources; methodology notes	National or subnational?
Land administration index	Sustainable and inclusive urban growth requires clarity of land rights and efficient land development. Land administration is often a major constraint to urban productivity in African cities and can create long-term spatial dysfunction.	Doing business	National
Cadastral coverage, accuracy and percentage updated	An up-to-date and accurate cadaster is critical for implementation of land use planning and for establishing clear land rights.	Cadastral office expert interview	Local
Days for firms to obtain a construction-related permit	This is an indicator of the ease of formal real estate development.	Enterprise surveys	Local
Unbuilt urban space	The amount of land left unbuilt in the city is a measure of economic density; high amounts of unbuilt urban space signals low economic density and can undermine agglomeration economies.	<i>Atlas of Urban Expansion</i> . Percentage of urban unbuilt space = "Urbanized open space" / "Urban built up area" - metrics from <i>Atlas of Urban Expansion - 2016 Edition</i>	Local
Share of residential areas laid out before development	The degree to which residential areas are planned and laid out before they are built is a measure of the effectiveness of urban planning.	<i>Atlas of Urban Expansion</i>	Local
Percentage of the urban population living in slums	The ability of the urban formal housing stock to accommodate population growth is a measure of urban prosperity, urban institutions and urban investment.	World Development Indicators	National
Urban population with access to electricity, improved sanitation, improved water source	This is a measure of the inclusiveness of urban services and whether urban public investments are keeping pace with urban population growth.	World Development Indicators	National
Existence of regulations effectively preventing private developers or landholders from limiting street access (e.g., in gated communities)	Allowing private developers to create segregation leads to a vicious cycle of urban exclusion and unequal opportunities. A well-functioning city is inclusive in its land use and transport connectivity.	Local permitting office expert interview	Local
Level of integration of informal housing	Segregation limits structural transformation, trapping urban residents in poverty.	Local leaders' expert interview; Google Earth; measure the access of informal settlements to the central business district by distance and accessible transport; measure the size of informal settlements and their level of separation from formal neighbourhoods.	Local

Indicator	Description/relevance for urban issues and the national development plan	Possible data sources; methodology notes	National or subnational?
Percentage of firms paying for security and cost to firms (percentage of total sales)	Privatization of security is a measure of inclusion. High levels of privatization indicate inadequate public safety and high levels of deprivation in vulnerable groups.	Enterprise surveys	Both
Walkability ratio	The level of street connectivity is an enabler of agglomeration economies, multiplying the ease of connections that create urban productivity. Walkability is also a measure of an inclusive city.	<i>Atlas of Urban Expansion - 2016 edition</i>	Local
Leapfrog development	The percentage of urban development that occurs without connectivity to the existing built up area is a measure of how quickly urban productivity is being undermined by failures of planning and land use management.	<i>Atlas of Urban Expansion</i>	Local
Urban automobile ownership per capita, compared with countries with similar income level/distribution	This is an indication of urban reliance on single occupancy vehicles for travel, which is, in turn, a measure of urban sprawl and connectivity.	Global consumption database	National
Traffic congestion during peak hour	Congestion is a constraint on agglomeration economies and creates costs for urban enterprises and workers.	Percentage increase in journey time for a typical commute in peak hour congestion versus free flow; can be measured with a field test or surveys.	Local

Indicators relating to the national spatial system

Indicator	Description/relevance for urban issues and the national development plan	Possible data sources; methodology notes	National or subnational?
Spatial targeting in national policy, mechanisms and evaluation of success	Governments often attempt to achieve spatial balance or regional equity through spatially targeted investments and/or policies. If lacking a strong economic rationale, however, such policies can fail to deliver the desired impact and lead to wasted resources.	Policy document review	National
Urban primacy	African countries are often characterized by excessive primacy: a single large city and many much smaller cities and towns. This causes overcrowding in the only economically productive location, failure to contribute on the part of too-small cities and a lack of location options for firms.	World Development Indicators: percentage of urban population in largest city; city-size distribution (national statistics)	National
Presence or extent of specialized cities	Economically specialized cities can provide the benefits of localization economies (same sector clustering), while avoiding some of the diseconomies of very large cities. A well-functioning system of cities may offer a variety of cities with competitive advantages in specific economic sectors or subsectors, enabling optimal firm location choice.	National statistics or expert interview; consider whether there are secondary cities with a significant share of employment or value added in sectors such as agro-processing, finance, higher education and research, international trade, manufacturing, natural resources beneficiation or public administration.	National
Sector concentration	Clustering can hold economic benefits, but if the majority of clustering takes place in only one city (or few cities), diseconomies of scale can set in. The ability to deconcentrate is a measure of a more balanced system of cities.	National statistics: sector share (value added, number of firms or employment) by subnational region for all leading and prioritized economic sectors	National
Regional infrastructure integration	Infrastructure integration within regional economic communities can link cities with larger markets and bring opportunities for knowledge-sharing, specialization and economies of scale.	Africa Regional Integration Index – infrastructure integration ranking	National
Quality of domestic trade infrastructure: roads, rail and warehouse facilities	Inter-city and urban-rural linkages are critical for a well-functioning national spatial system, allowing for complementarities and low transaction costs.	Logistics performance index: percentage of respondents rating quality of infrastructure as high or very high for roads, rail and warehousing/ trans-loading facilities	National
Breakage and spoilage during domestic shipping	The quality of inter-city and rural-urban transport infrastructure can affect trade and transaction costs and competitiveness in domestic markets against imports.	Enterprise surveys	National

Indicators relating to coordination for plan implementation

Indicator	Description/relevance for urban issues and the national development plan	Possible data sources; methodology notes	National or subnational?
Engagement of key urban stakeholders in national development plan formulation, implementation and monitoring	To mainstream urban issues into the national development plan, key urban stakeholders must be engaged at every stage of the process, helping to identify priorities, construct strategies, partake in implementation and contribute to monitoring and evaluation.	Expert interviews	Both
Existence of forums for regular dialogue, information-sharing and coordination: horizontally among national level ministries, departments and agencies with mandates relating to urban issues, and vertically between national and local ministries, departments and agencies	Implementation can become disjointed and lead to unintended outcomes without adequate coordination, especially on urban issues, as they tend to be multisectoral and closely linked.	Expert interviews	Both
Extent of private sector financed and/or implemented projects within cities contributing to national development plan implementation.	Alignment of public and private investment is critical for national development plan success. This is particularly the case in cities and the national spatial system.	Expert interviews and public versus private investment figures	Both

Indicators relating to finance for plan implementation

Indicator	Description/relevance for urban issues and the national development plan	Possible data sources; methodology notes	National or subnational?
National development plan - budget alignment	The national budget is a primary tool for achieving the national development plan. If the vision includes cities as drivers of development, this must be reflected in the budget.	Public Expenditure and Financial Accountability assessment scores on policy-based budgeting; national planning and ministry of finance expert interviews; document review; consider measures to ensure national and ministry, department and agency budget alignment and their effectiveness; Have previous national development plan investment targets been achieved?	National
Public investment in infrastructure as percentage of gross domestic product (GDP); share of urban investments versus population and forecasted population	Africa is characterized by inadequate infrastructure investment, and this is true particularly in growing cities. Investment averages at between 3 and 4 per cent of GDP in developing countries, but is higher in rapidly growing economies in Asia. ^a	Budget review; World Development Indicators for urban population estimates; Department of Economic and Social Affairs of the United Nations Secretariat for urban population forecasts	National
Maintenance of urban infrastructure	As cities grow, they need both new investment and investment in state of good repair for existing infrastructure, in particular at the core.	Local metrics of state-of-good repair or level of service of urban infrastructure; requirements to factor operations and management into investment costs; percentage of national and subnational capital budgets used for repair and reinvestment	Local, national if available
Property tax revenue as percentage of GDP and other measures of land value capture	Urban investment can be more sustainable if a portion of the increased values to plots arising from public investment is captured. Property taxes are useful for land value capture and well suited for subnational revenue generation. Property taxes constitute only 0.6 per cent of GDP in developing countries and more than 2 per cent of GDP in developed economies. ^b	Budget review; subnational property tax ratios (registration completeness, valuation, collection); subnational revenue raised from land value taxes, land lease or sale, betterment levies, developer exactions and sale of development rights, among others	Depends on revenue authority
Subnational budgets	The mandates of subnational entities often expand more quickly than their budgets, leading to urban underinvestment and decline.	Subnational expenditures per person + trend; subnational capital expenditures per person + trend	Local

Indicator	Description/relevance for urban issues and the national development plan	Possible data sources; methodology notes	National or subnational?
Subnational own-source revenues as percentage of GDP; subnational access to investment tools	Local governments cannot bridge the gap between the investment needed and funds available without access to external funding; however, they often lack creditworthiness or the capacity to manage donors and investors. Subnational taxes in developing countries are 2.3 per cent of GDP, compared with 6.4 per cent in industrial countries. ^c	Budget review; ability of major subnational authorities to manage donor grants, attract major investor, manage public-private partnerships, borrow from private banks and issue bonds, qualitative data from expert interviews; quantitative data from donor evaluation, credit ratings and annual investment amounts	Local

Source: Authors.

^a See the World Bank and Development Research Center of the State Council, the People's Republic of China, *Urban China: Towards efficient, inclusive and sustainable urbanization* (Washington D.C., 2014).

^b See Ehtisham Ahmad, Giorgio Brosio and Caroline Pöschl, "Local Property Taxation and Benefits in Developing Countries – Overcoming political resistance?", *Asia Research Centre Working Paper 65* (London, London School of Economics, 2014).

^c See Roy W. Bahl and Richard M. Bird, "Subnational Taxes in Developing Countries: The Way Forward", *Institute for International Business, Working Paper No. 16* (Institute for International Business, 2008)