ECONOMIC BASE

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Formulating strategies to enhance cities' prospects for economic growth in the global market-place is a relatively new challenge, but one increasingly imposed on urban government. Yet, despite the significant economic roles played by cities, they often receive less than they might warrant for their contribution to the national economy, negatively influencing their productive potential.

Key constraints on urban productivity include infrastructure deficiencies, inappropriate regulatory frameworks for urban land and housing markets, weak municipal institutions, and inadequate financial services for urban development. The cumulative effects of such constraints reduce the productivity of the urban economy, and, therefore, its contribution to macroeconomic performance.

Barriers to Urban Economic Growth

Infrastructure deficiencies can seriously constrain the productivity of private investment. In many cities of the developing world, inadequate energy and water supply, traffic congestion, and problems in telecommunications negatively affect the growth of productive activities. Inadequate collection and disposal of vast quantities of solid waste and the deterioration of air, water, and land have further negative consequences on the quality of life and the efficiency of the economy. Nearly all public infrastructure services constitute indispensable intermediate inputs to economic activity. If such services are unavailable or sub-standard, private enterprise is forced to provide these itself, increasing total investment requirements, while constraining productivity, profits, incomes, employment, at the same time as raising prices.

A second major constraint is the heavy cost of inappropriate regulatory policies. Regulations affecting the establishment of productive activities can seriously hinder the speed and efficiency of investment. Lengthy procedures for construction permits impose heavy additional costs. Other regulations, such as those governing the markets for land and housing, have less direct, but nevertheless significant impacts on productivity by increasing the costs of industrial and commercial inputs needed for production.

A third constraint on urban productivity is the weakness - both financial and technical - of municipal institutions. Many local authorities still have limited access to financial resources, and central governments are not always eager to grant them autonomy in financial matters. Recent financial crises have made this situation worse, especially in Latin America, where previously well-established municipal institutions have withered in the absence of central government financial transfers. Undue financial dependency adversely affects the operations of local authorities. Central control over public investment has frequently undermined local commitments and capacities to operate and maintain public infrastructure and services, directly affecting the efficiency of resource use. The failure to maintain infrastructure has reached crisis proportions in many cities, especially in developing countries, and maintenance has become a priority for development.

A fourth constraint on urban productivity and development is the inadequacy of financial services. Weak financial systems are unable to mobilize private savings, all too often requiring governments to utilize public resources to provide housing subsidies. The links between the financial sector and the urban economy go in both directions, as pressure for housing subsidies can have adverse macro-financial effects.

These constraints on urban productivity matter particularly because urban economic activities constitute a growing share of GDP. In the short term, the resumption of economic growth will depend in part on alleviating these constraints. In the long term, the economic future of urbanized and urbanizing countries will be closely linked to the productivity and growth of their urban economies. While the stakes are of national significance, reducing these constraints will depend increasingly on local policies and institutions.

Improving the productivity of the urban economy - and its contribution to macroeconomic performance - will require action at national and city levels to reduce the constraints, as well as sustained policy reform and increased efforts to strengthen urban institutions. It involves a shift in the role of central governments from direct providers of urban services and infrastructure to becoming ‘enablers’: helping create a regulatory and financial environment in which private enterprise, households, and community groups can play an increasing role in meeting their own needs. It will also require decentralization of responsibility and authority for urban finance and management of infrastructure to local levels, while providing adequate safeguards to ensure accountability. This is often a complex and politically difficult process, requiring the establishment of a productive and sustainable balance between local and central levels of government.

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Credit to Small Production and Vocational Enterprises - Jordan

Jordan’s Housing and Development Corporation has sought to improve income-generation for low-income groups through the establishment of new enterprises or the expansion of existing ones. Beneficiaries need to present a feasible venture, and are required to contribute at least 15 percent of the capital; women are given priority for loans with a 3-year payback period. A feasibility study by the applicant and the staff of the programme decides the granting of the loan, with attention focusing so far on food enterprises, arts and crafts, including traditional embroidery.

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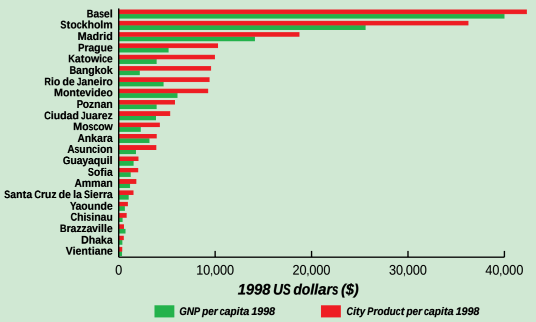
Cities generate more wealth per capita than national economies



Results of data collected in 1993 and 1998 show that the city product per capita is generally 10 to 30 percent higher than the Gross National Product per capita, showing that, in most countries, the bulk of economic activity is generated in cities. Since most data were collected in large to medium-sized cities, this trend might only apply to this range of cities. Small cities might not be as productive and may have a product equal or lower than the national product.

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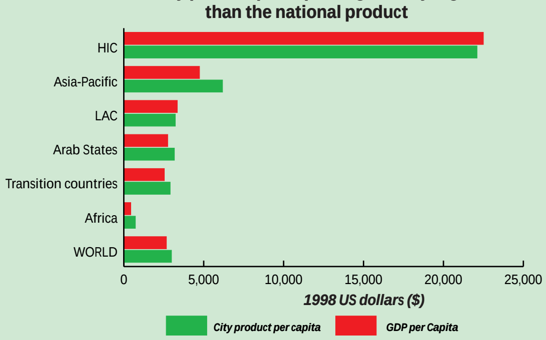

The city product is the ‘gross national product’ of the city, an estimate of city-level economic output. It is an important indicator of urban productivity providing a strong measure of the level of economic development of the city *vis-a-vis* the national level, and informing about the level of investment, the efficiency of public and private enterprises and the generation of productive employment.

Policy interventions

Strategies for reducing constraints on urban productivity include four elements that apply to regional cities of different sizes as well as capital cities:

a) Strengthening the management of urban infrastructure by improving the level and composition of investments, reinforcing institutional capacity for operation and maintenance, and seeking opportunities for greater private sector involvement;
b) Improving city-wide regulatory frameworks to increase land and housing market efficiency and to enhance private sector provision of shelter and infrastructure;
c) Improving the financial and technical capacity of municipal institutions through more effective application of resources and division of responsibilities between central and local governments; and
d) Strengthening financial services for urban development, ranging from micro-credit to municipal bond markets.

Building liveable cities requires buoyant, broad-based growth of employment, incomes, and investment. Promoting urban equity and social safety nets needs to be consistent with incentive systems that foster productive and competitive firms of all sizes. Local economic development strategies that promote diverse rather than dualistic growth, and which serve domestic as well as international markets, should be further explored in many countries.

Broadening the context for cooperation

Past urban development assistance programmes have focused on neighbourhood initiatives such as sites-and-services and slum upgrading in the 1970s, and municipal development and finance during the 1980s. Analysis of such assistance has revealed that city-wide impacts have been rare, and the pace of urban growth has far exceeded the intervention scale of such programmes. Today, there is a need to focus urban technical cooperation on city-wide development strategies, along with institution-building and high-priority investment programmes. Development assistance in the urban sector needs to be contextualized within broader objectives, particularly of socio-economic development and macro-economic performance.

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