



Helpdesk Research Report

Benefits of urbanisation in Asia

Evie Browne

11.02.2014

Question

What benefits does urbanisation bring for poverty reduction in Asia? Identify lessons learned and potential roles for donors.

Contents

1. Overview
2. Benefits of urbanisation
3. Lessons from the literature
4. Donor roles
5. References

1. Overview

This report reviews selected literature on urbanisation in East, South and South-East Asia, and draws out its developmental benefits and lessons for donors. There is a strong evidence base on urbanisation and urban poverty in the academic and economic literature, but it mostly looks at the development challenges of increasing urbanisation. In Asia-Pacific, as in other areas, urbanisation is leading to increased poverty and deprivation (UN-HABITAT, 2013). The major facets of urban poverty are slum-dwelling, limited access to services, vulnerability, and environmental issues and climate change (UN-HABITAT, 2013). Since the literature largely takes a negative or problem-solving approach to urbanisation, it is more difficult to find evidence on benefits it brings. Few donors have explicit urban development strategies, and there is little evidence on what works in leveraging urbanisation (Satterthwaite & Mitlin, 2013, p.1).

The strongest positive derived from urbanisation is that it is **highly effective for economic growth**, as it produces economies of scale for businesses, fosters an innovative environment, and pays higher wages and dividends. There is also some evidence that cities reduce rural poverty, and bring greater access to services, higher wages, greater life expectancy and opportunities. This report did not review literature on economic growth specifically but only on urbanisation.

The literature consistently identifies **local government as the most important institution** in urban policy and development. These actors have close connections to their environs and are likely to make appropriate decisions. However, they are often hampered by a lack of funding released from central government. Where local governments have managed urbanisation successfully, this is often seen in terms of ensuring equality and rights for the marginalised, and ensuring equal access to the benefits a city can bring.

It is **unclear what role donors can play** in this largely internally-driven process. Donors may find it hard to engage directly with urban government institutions, as they tend to work through national governments and intermediaries. Programmes are likely to engage with a large number of actors in a complex set of relationships. There are no widely agreed approaches for donors, but there is some suggestion that it would be appropriate to fund community-driven projects, and to provide research and capacity training.

Negative connotations of urbanisation

There is a strong link between urbanisation and national economic growth, but the Asia-Pacific is urbanising faster than any region has done before, and is experiencing increasing urban poverty (UN-HABITAT, 2013). Globally, rural poverty declined in the 1990s while urban poverty rose (UN-HABITAT, 2013). Rapid urbanisation in Asia-Pacific means the urban population has grown faster than the cities' capacity, often leading to unsafe, low-quality, and/or informal employment (Hildebrand, Kanaley, & Roberts, 2013). Cities may increase inequality, as urban dwellers experience higher wages and living standards, while urban poor and rural dwellers do not (Hildebrand et al., 2013). Reflecting this line of thought, both China and India have policies aimed at slowing down rural-urban migration, as they perceive unplanned urbanisation as potentially negative (Kundu, 2009).

Although cities may produce economic growth, they have increased inequality and created new pockets and types of poverty within the city (Hildebrand et al., 2013). There are serious sustainability and environmental concerns about urbanisation, with the poor the most exposed to hazards (Hildebrand et al., 2013).

2. Benefits of urbanisation in Asia

The examples below are all drawn from literature on Asia, but the principles apply broadly across most urban centres.

Economic growth

Cities are recognised as centres of economic growth and as central to reducing overall levels of poverty (Hildebrand et al., 2013). There is a strong link between urbanisation and increased GDP (Mathur, 2013, p.38). UN-HABITAT emphasises that 80 per cent of South-East Asia's GDP comes from its cities, despite housing only 42 per cent of the population (UN-HABITAT, 2013). The broad issues of cities in South-East Asia are explored in a recent book published by ISEAS (Yap & Thuzar, (Eds.), 2012). The book suggests that cities drive economic growth, but that they need a variety of enabling factors such as a supportive state which facilitates research and development, builds infrastructure, and creates industry clusters (p.2). Turok and McGranahan (2013) argue in a recent peer-reviewed article that it is not urbanisation per se that induces economic growth, but rather the institutional environment, policies, markets and infrastructure.

The UNDP strategy paper Hildebrand et al. (2013, p.10) lists some of the reasons why cities in Asia-Pacific experience economic growth. Cities experience productivity gains from:

- Innovation – ongoing scientific and technological advances.
- Trade and market liberalisation.
- The globalisation of information, technology, capital and, to a lesser extent, labour.
- Tax and regulatory reform in both developed and developing countries.
- The growth of industrial and service industries whose productivity is enhanced by agglomeration economies¹.
- Increasing agricultural productivity that has reduced the need for rural labour.
- Investments in skills and education, health, and infrastructure, that enable increased productivity and rising wages and standards of living.

Agglomeration of economic sectors is complemented by improved infrastructure and space for creative innovation (Kraas, 2007). People living in cities tend to have higher wages, and city economies have higher productivity (CLC, 2013).

Reducing rural poverty

Cities can drive down rural poverty by increasing rural labour demand and through remittances to rural home areas (Hildebrand et al., 2013). Migration to the city provides a route out of poverty for many (Mathur, 2013).

Cali and Menon (2009) present an analysis of how urbanisation in India (1981-1999) affected the surrounding rural areas. This paper uses district-level panel data to do an economic analysis. They show that urbanisation reduced rural poverty by three to six percentage points, a positive but not strong impact. This is divided into first and second round effects. First round effects are when rural poor migrated to urban centres and ceased to be rural poor; either they ceased to be poor at all or they became urban poor. Second round effects impact the welfare of those who remain in rural areas and are considered positive spillovers. These effects are stronger on reducing rural poverty than first round effects, and the strongest impacts are on the poor closest to the poverty line, rather than the very poor (p.28). They identify six areas in which urbanisation reduces rural poverty:

- Backward linkages: cities increase demand for rural goods, which is typically met from the local area.
- Rural non-farm employment: diversification of livelihoods; some rural dwellers may be able to commute to the city to work, some households can specialise in a commodity required by the city, and new markets open up, e.g. for transport.
- Remittances: reducing resource constraints and protecting against agricultural shocks.
- Agricultural productivity: fewer people available to work means higher agricultural wages.

¹ Agglomeration economies are those in which businesses gain benefits from being located in close proximity. Economies of scale and costs of production may decline significantly.

- Rural land prices: higher demand to turn rural land into residences. May benefit landowners but not the poor.
- Consumer prices: lower prices in the city may benefit the rural poor with access to sell to those markets.

Access to services

There are mixed reports on urban access to services. In Asian megacities, there is an aggregate trend towards improvement in health and education (Kraas, 2007). Cities allow for economies of scale in service delivery, for example by connecting a large number of households to water using only a short length of pipe (CLC, 2013). If access to services is good, households can develop better human capital outcomes and can increase their health, education and productivity (Turok & McGranahan, 2013). However, education enrolment rates are largely similar across rural and urban settings (CLC, 2013).

Urban populations are not homogenous, and the existence of a high density of services does not mean that all people have equal access. A recent study demonstrates that maternal health inequality differs across urban contexts, and that in many cases large sections of the population are excluded (Matthews et al., 2010). Barriers to access include geographical, financial, discrimination, or inadequate medical supplies. Service delivery and poverty in urban slum areas tends to be worse than in rural areas (CLC, 2013).

Environment

Most literature on urbanisation emphasises the serious environmental consequences of cities. These range across air, water and soil pollution; sewage and waste disposal problems; human health problems; and ecological erosion (Kraas, 2007). However, Kraas (2007, p.14) also identifies that there may be some possible environmental advantages to urbanisation. These include:

- Decreased land consumption and optimised land use patterns.
- More efficient resource use.
- Recycling.
- Closer monitoring and management of environment and biodiversity.
- Sustainability policies.

3. Lessons from the literature

Good governance

The literature emphasises that **urban and local government institutions** are likely to be the main actors for urban development. Their capacity and capabilities vary widely across the region, and are frequently dependent on the **drive and vision of particular leaders** (Hildebrand et al., 2013). This paper emphasises that city mayors and civic leaders are frequently innovative and act as advocates for their city, and that this role should be leveraged. For example, mayors from across the world come together under UN-HABITAT'S 'Safer Cities' programme to pledge their support for reducing crime and violence in their cities (Gupte, 2013).

Good urban governance is possibly the most important factor in developing sustainable urbanisation (Hildebrand et al., 2013). Local-level formal and informal institutions form the basis for enabling urban environments, including their political relationships with regional and national institutions (Gupte, 2013). For more specifics on urban governance, please see Walton (2011).

A major challenge for governance is that **informality is increasingly the norm** for urban centres (Kraas, 2007). Informal settlements and economic sectors, along with informal networks and institutions, mean that conventional forms of governance are not necessarily appropriate or effective (Kraas, 2007).

Decentralisation

Strong local governments are better able to manage cities (Hildebrand et al., 2013). Administrative decentralisation must be accompanied by financial decentralisation. Gupte (2013) notes that, in most countries, responsibilities are more decentralised than revenues or fundraising capacity. Local governments also need the capacity to monitor and oversee private sector investment, as this is a major driver of growth (Gupte, 2013). Many countries in Asia have implemented strong decentralisation to good effect (Kundu, 2009). Decentralised governance has allowed some cities to invest in the capital market, secure high credit ratings and use this to invest in infrastructure as well as attract private investment (Kundu, 2009). Further independence may result in more appropriate local decisions (Kundu, 2009).

Equality

UNDP highlights the example of Shenzhen in China, which is a success story of growth, experiencing 27 per cent annual growth in urban GDP (Hildebrand et al., 2013, p.39). It has concurrently implemented social security and public health insurance, which have helped to keep its Gini coefficient down to 0.3 (Hildebrand et al., 2013, p.39). Similarly, Vietnam has pursued policies of **active redistribution** in cities by targeting infrastructure, education and investment to regions with high growth potential (Mathur, 2013, p.69). The profits from urban centres are then redistributed through public transfers to rural areas.

Rights

The formal **recognition of slum settlements** is a first step in improving their living conditions. Gupte (2013) notes that in Mumbai, 99 per cent of people living in a notified slum had access to water, while fewer than one per cent did living in a non-notified slum. The MDG Global Monitoring Report 2013 recommends granting residency and tenancy rights to slum dwellers (CLC, 2013). In the Philippines, providing formal land tenure to those in informal settlements has triggered the provision of better services (UN-HABITAT, 2013). Private and public companies, and the residents themselves, are more willing to invest in the area if land tenure and residency rights are secure (UN-HABITAT, 2013). Women usually do not have inheritance and property rights in customary societies, so granting land rights can be an important step for gender equality (UN-HABITAT, 2013).

Programmes

There are numerous programmes for urban-specific issues, including environmental issues, poverty, slums, violence, childcare, skills training for employment, and land use. Slum upgrading programmes are very common as these are areas of concern for most cities (Kundu, 2009).

Satterthwaite and Mitlin (2013, p.75) suggest that the most significant poverty reduction measures for urban areas are: cash transfers; national housing programmes with subsidies; informal settlement upgrading; reforms to promote market systems of resource allocation; decentralisation of government; public accountability.

4. Donor roles

Few donors have an explicit urban policy, and the study of poverty reduction has largely focused on rural poverty (Satterthwaite & Mitlin, 2013, p.1). There is little evidence on what roles donors have played in managing urbanisation or on what roles they might play. The literature highlights that **local government** is the key actor in managing urbanisation, and as such, external or international donors may not be of much assistance. Where they can play a role is likely in supporting local governments.

Even where donors do engage, they may have little chance of being able to reduce urban poverty. Factors limiting their effectiveness include (Satterthwaite & Mitlin, 2013, p.113):

- They cannot change structural conditions.
- They have to work through intermediaries (health centres, water suppliers, etc.).
- Funding has to be agreed with national governments, who may have different priorities.
- They need to support and empower local governments, which may be unpopular with national governments.
- They have little contact with the urban poor.

There is little disaggregated data available on the big agencies' rural/urban funding split. The World Bank has played a leading role in upgrading informal settlements, and championing the role of cities, but its interest has waned in recent years (Satterthwaite & Mitlin, 2013, p.110). Most donors prioritise rural poverty over urban poverty; where urban initiatives take place they are often to do with economic growth rather than poverty reduction (Satterthwaite & Mitlin, 2013, p.111). Development assistance agencies have displayed no signs of coherent urban policy, although they have supported plenty of fragmented initiatives which bring some benefit (Satterthwaite & Mitlin, 2013).

In a paper presented at the Asia 2015 conference, Jack (2006) recommends that City Development Strategies (CDS) are developed. These should complement PRSPs and can be a useful coordination tool between national and local development priorities. In 2006, eight countries in Asia had CDS². Donors can support the **research and development of city plans**; Phnom Penh's was carried out jointly by the Municipality of Phnom Penh, UN-HABITAT, the Asian Coalition for Housing Rights, the Solidarity for the Urban Poor Federation, and the Urban Resource Centre, and funded by a combination of donor and community funds (Jack, 2006).

Satterthwaite and Mitlin (2013, Chapter 3) highlight some of the approaches which have been used by official agencies to reduce urban poverty, at local, national and international levels. They note that most agencies use a **blended approach**, negotiating with many actors and competing priorities, which can make the process complex. Gupte (2013) supports this by noting that urban governance consists of a complex set of interactions between institutions and actors. Kraas (2007) identifies that it is necessary to have an extremely interdisciplinary, intercultural, multi-stakeholder-oriented approach.

² Vietnam, Yemen, Cambodia, Nepal, Sri Lanka, Mongolia, Pakistan and Bangladesh.

Most of the responsibility for urban areas lies with local or city governments, while national governments' responsibility for economic policy and redistribution is also important (Satterthwaite & Mitlin, 2013). In general, public sector approaches have shifted from supply-side to demand-led activities. UNDP agrees that **urban governance** is the main institution on which urban development relies (Hildebrand et al., 2013). Although city governments hold the most fruitful possibilities for reducing urban poverty, donors have little contact with them as they tend to work through national governments (Satterthwaite & Mitlin, 2013). Donors are thus removed from connecting with the institutions most likely to have real impact.

The World Bank, USAID and others have conditioned loans on acceptance of increased Floor Space Index numbers, meaning taller buildings with more stories are built (Kundu, 2009). This has been welcomed by local governments as it increases the value of land. However, it also pushes the poor out to the fringes of the city (Kundu, 2009).

In Gupte (2013) donors supported participatory research into children's experiences of cities. UNESCO and the Child-Friendly Movement have helped children's voices be heard in urban planning and development processes, making the cities safer, more accessible, and so on. Another example in Mumbai is an NGO-supported School Excellence Programme, which has improved teaching and management with training and regular scorecards (Gupte, 2013).

Lessons for donors

UNDP outlines some elements of its strategy for engaging with urban development in the Asia-Pacific region (Hildebrand et al., 2013):

- National level: facilitate policy dialogue and mainstream urban issues into policy. Asia-Pacific leaders often conceptualise urbanisation as a problem rather than a solution.
- Local level: focus on peri-urban areas and secondary cities, targeting urban governance; land administration and management; quality job growth; and inclusion strategies

It identifies that good practice in donor-assisted projects has included projects which are **flexible**, have **integrating frameworks** and are **multi-sectoral** (Hildebrand et al., 2013). These have generated better outcomes than more narrowly focused projects. Gupte (2013) supports this, stating that successful approaches bring together local and national agencies with civil society. The most successful projects are the ones which integrate with existing government programmes and where local management is strong (Hildebrand et al., 2013).

Yap and Thuzar (Eds., 2012, p.9) draw together recommendations from a series of urbanisation workshops in Southeast Asia. The most pertinent of these for donors is recognising that many local governments lack capacity to deal with climate change, and are unable to take advantage of the economic and development opportunities offered in cities. Thus they suggest that **research** and **training** for local governments would be an appropriate and useful strategy.

Jack (2006) makes several recommendations for donors' specific actions:

- Build on successful **experiences** already developed in Asia. There are numerous programmes which could be scaled up.
- Generate better, locally rooted, **information** for planning, negotiating and monitoring. Donors can support the collection of data and research at the city level.

- Create genuine, long-term working **partnerships** which centrally involve the poor. Donors can help bridge the gap between the poor and government authorities.
- Focus upon **integrated development solutions**. Donors can link sectors together with holistic planning.
- Improve **regulatory frameworks** to encourage participatory urban development. Slum upgrading is a high priority, which can be accomplished with community participation.
- Decentralise **resources and capacity** to match decentralised responsibilities. Donors can help ensure regulatory frameworks allow for fiscal decentralisation.
- Improve **capital financing** for urban development. Donors can develop further capital financing.

5. References

- Cali, M., & Menon, C. (2009). *Does urbanisation affect rural poverty? Evidence from Indian districts*. SERC Discussion Paper 14. Spatial Economics Research Centre.
<http://www.spataleconomics.ac.uk/textonly/serc/publications/download/sercdp0014.pdf>
- CLC. (2013). *Urbanisation and Development: Achievements, Challenges and Options*. Jointly presented by the Centre for Liveable Cities and the World Bank Theatre, Monetary Authority of Singapore, 6 May 2013. Centre for Liveable Cities, Singapore, Lecture Series.
http://www.clc.gov.sg/documents/books/WB_CLC_report.pdf
- Gupte, J. (2013). *Urban Settings as an Opportunity for realizing all Child Rights*. South-South Cooperation for Child Rights Working Papers 4. UNICEF ROSA and UNICEF EAPRO.
http://www.ids.ac.uk/files/dmfile/Unicef_urban.pdf
- Hildebrand, M., Kanaley, T., & Roberts, B. (2013). *Sustainable and Inclusive Urbanization in Asia Pacific*. UNDP Strategy Paper.
<http://www.undp.org/content/dam/rbap/docs/Research%20&%20Publications/poverty/RBAP-PR-2013-Strategy-Paper-Urbanization.pdf>
- Jack, M. (2006). Urbanisation, sustainable growth and poverty reduction in Asia. *IDS Bulletin*, 37(3), 101-114. <http://www.eldis.org/vfile/upload/1/document/0708/doc21179.pdf>
- Kraas, F. (2007). Megacities and global change in East, Southeast and South Asia. *Asien*, 103(4), 9-22.
http://www.asienkunde.de/content/zeitschrift_asien/archiv/pdf/A103_Kraas.pdf
- Kundu, A. (2009). *Urbanisation and Migration: An Analysis of Trends, Patterns and Policies in Asia*. Human Development Research Paper 2009/16. UNDP. http://mpra.ub.uni-muenchen.de/19197/1/MPRA_paper_19197.pdf
- Mathur, O.P. (2013). *Urban Poverty in Asia*. Study Prepared for the Asian Development Bank. Asian Development Bank.
- Matthews Z., Channon A., Neal S., Osrin D., Madise N., Stones, W. (2010). Examining the “Urban Advantage” in Maternal Health Care in Developing Countries. *PLoS Med* 7(9): e1000327. doi:10.1371/journal.pmed.1000327
- Satterthwaite, D., & Mitlin, D. (2013). *Reducing Urban Poverty in the Global South*. Routledge.

Turok, I., & McGranahan, G. (2013). Urbanization and economic growth: the arguments and evidence for Africa and Asia. *Environment and Urbanization*, 25(2), 465-482.
<http://eau.sagepub.com/content/25/2/465.full.pdf+html>

UN-HABITAT. (2013). *Addressing Urban Poverty, Inequality, and Vulnerability in a Warming World*. Asia-Pacific Issue Brief Series on Urbanization and Climate Change No. 1. UN-HABITAT and UNDP.
<http://www.undp.org/content/dam/rbap/docs/Research%20&%20Publications/poverty/RBAP-PR-2013-Urbanization-Climate-Change-Issue-Brief-01.pdf>

Walton, O. (2011). *Helpdesk Research Report: Urbanisation and Governance*. Birmingham, UK: GSDRC, University of Birmingham. <http://www.gsdrc.org/docs/open/HD759.pdf>

Yap, K. S., & Thuzar, M. (Eds.). (2012). *Urbanization in Southeast Asia: Issues & Impacts*. Institute of Southeast Asian Studies. <https://bookshop.iseas.edu.sg/publication/1243>

Key websites

- ELDIS – Urban poverty: http://www.eldis.org/go/topics/resource-guides/poverty/urban-poverty#.UvNvZ2J_vuw
- World Bank – Urban development: <http://www.worldbank.org/en/topic/urbandevelopment>
- Centre for Liveable Cities, Singapore: <http://www.clc.gov.sg/index.htm>

Expert contributors

David Satterthwaite, International Institute for Environment and Development
 Kioe Sheng Yap, Cardiff University
 Jaideep Gupte, IDS
 Priya Deshingkar, University of Sussex

Suggested citation

Browne, E. (2014). *Benefits of urbanisation in Asia* (GSDRC Helpdesk Research Report 1082). Birmingham, UK: GSDRC, University of Birmingham.

About this report

This report is based on three days of desk-based research. It was prepared for the Australian Government, © Australian Government 2014. The views expressed in this report are those of the author, and do not necessarily reflect the opinions of GSDRC, its partner agencies or the Australian Government.

The GSDRC Research Helpdesk provides rapid syntheses of key literature and of expert thinking in response to specific questions on governance, social development, humanitarian and conflict issues. Its concise reports draw on a selection of the best recent literature available and on input from international experts. Each GSDRC Helpdesk Research Report is peer-reviewed by a member of the GSDRC team. Search over 400 reports at www.gsdrc.org/go/research-helpdesk. Contact: helpdesk@gsdrc.org.