



# HABITAT III POLICY PAPER FRAMEWORK

## 7 – URBAN ECONOMIC DEVELOPMENT STRATEGIES

31 December 2015

*(not edited version)*





***This Habitat III Policy Paper Framework has been prepared by the Habitat III Policy Unit 7 members and submitted by 31 December 2015. It has followed the Habitat III Policy Paper Framework template<sup>1</sup> provided by the Habitat III Secretariat<sup>2</sup> to all Habitat III Policy Units.***

***Habitat III Policy Units are co-led by two international organizations and composed by a maximum of 20 experts each, bringing together individual experts from a variety of fields, including academia, government, civil society and other regional and international bodies.***

***The composition of the Policy Unit 7 can be consulted at [www.habitat3.org](http://www.habitat3.org)***

<sup>1</sup> Note by the Secretariat: In specific cases slightly changes to the Habitat III Policy Paper Framework template have been accepted such as addition of executive summaries, introductions, bibliography, etc. However all frameworks have been adapted to the three basic expected accomplishments: challenges, priorities and implementation. The Habitat III Policy Paper Framework template can be consulted at: [www.habitat3.org](http://www.habitat3.org)

<sup>2</sup> Note by the Secretariat: This Policy Paper framework has followed the main expected accomplishments: challenges, priorities and implementation. Subsections suggested in the template have been partly followed.





1. Challenges		
	1.1. Urban potential	<ul style="list-style-type: none"> <li>○ Cities are productive, drivers of growth; connectivity, knowledge and creativity</li> <li>○ New technologies will increase their potential further, though there is the question of how they benefit all, not only the wealthiest –smart cities</li> <li>○ National economic development has been and will be increasingly driven by cities: FACTS - decomposing growth by urban/ other</li> <li>○ Developing cities are young; key sites of economic development</li> <li>○ Migration to the city is seen by many as a pathway out of poverty; as an opportunity for individuals and their families.</li> <li>○ The goals of urban economic development are complementary. <i>Economic growth</i> of the city is a necessary but insufficient achievement. <i>Economic development</i> is a broader goal that includes resilience, inclusion, economic security, environmental sustainability as well as simple increases in employment and productivity. Cities are well placed to meet both objectives.</li> <li>○ Despite issues of urban food security and climate change mitigation, economic activities in cities are less exposed to weather and climatic risk, and urban residents have a wider range of economic and social options. Urban-based livelihood is a crucial means of climate adaptation.</li> <li>○ The world is already predominantly urban. The effort to deliver on Agenda 2030 objectives will succeed or fail in the cities of the world. In order for them to succeed, urban economies must create the wealth and employment to support investments in critical infrastructure and enhanced public services.</li> </ul>



		<p><b>... and urban success (to be defined):</b></p> <ul style="list-style-type: none"> <li>○ East Asia.</li> <li>○ Renaissance of some OECD cities</li> <li>○ World business centres: Mckinsey</li> <li>○ Progressive city governments help promote economic development (Latin America)</li> </ul>
	<p>1.2. The challenges</p>	<ul style="list-style-type: none"> <li>○ <i>High income countries:</i> <ul style="list-style-type: none"> <li>● Dealing with structural change (including transition toward a low-carbon economy)</li> <li>● Segments of the population marginalised in labour market</li> <li>● [rising income inequality] coupled with less tolerance of inequality</li> </ul> </li> <li>○ <i>Emerging and developing economies</i> [DIVERSITY OF CITIES –ANNEX]           <ul style="list-style-type: none"> <li>● Failure to generate sufficient quantity and quality of jobs and productive self-employment: this is the focus of the rest of the report</li> <li>● Recognize the heterogeneity of cities, the importance of understanding local circumstances and needs, and the danger of one-size-fits-all recommendations.</li> </ul> </li> </ul>
	<p>1.3. The employment challenge</p>	<p>○ <i>Facts:</i> recent historical experience of urban labour force growth, job creation, unemployment; Future projections; Table by world regions (ILO 2015)</p> <p>In developing regions, while there is a major challenge of youth unemployment and underemployment, unemployment rates are relatively low and not growing significantly. Historically, the majority of the workforce has earned their livelihoods in the informal economy. New entrants or those who lose formal wage jobs seek work in the informal economy, as they cannot afford to remain unemployed. In other words, there is a twin challenge in developing countries: to create more formal jobs and to enhance existing livelihoods in the informal economy</p>



		<p><i>o Formal sector employment</i></p> <ul style="list-style-type: none"><li>• Formal jobs are jobs with a recognisable employer, long-term contract with social protection contributions and other worker benefits.</li><li>• Productivity and income levels are much higher in formal sector employment than elsewhere.</li><li>• It is necessary that this productivity gain is reaped, by formal sector becoming a significant share of urban employment.</li><li>• Good employment conditions: Important that jobs meet ILO's [ILC 1999] decent work standards, while recognising that terms and conditions of employment depend on the level of development.</li></ul> <p><i>o The extent and role of informality:</i></p> <ul style="list-style-type: none"><li>• <b>Size:</b> Informal employment comprises more than one-half of non-agricultural employment in most regions of the developing world –<ul style="list-style-type: none"><li>▪ 82% in South Asia</li><li>▪ 66% in Sub-Sahara Africa, 65 per cent in East and Southeast Asia</li><li>▪ 51% in Latin America</li><li>▪ 45% in Middle East and North Africa</li><li>▪ 33% in six cities in China</li><li>▪ 10% in Eastern Europe and Central Asia</li></ul></li><li>• <b>Composition by Status in Employment:</b> In three of the five regions with data plus urban China, non-agricultural informal employment is almost evenly split between wage and self-employment. However, wage employment dominates non-agricultural informal employment in Eastern Europe and Central Asia while self-employment is dominant in sub-Saharan Africa.</li></ul>
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		<p>The urban informal workforce is comprised primarily of: construction workers/ domestic workers/ home-based producers/ street vendors/ transport workers/waste pickers</p> <ul style="list-style-type: none"> <li>• Informality and poverty: Evidence confirms a significant overlap between informal employment and poverty. <ul style="list-style-type: none"> <li>▪ Only one segment of informal workers – employers – enjoy average earnings above the national poverty line.</li> <li>▪ Hierarchy of average earnings: <ul style="list-style-type: none"> <li>▪ informal employers</li> <li>▪ employees</li> <li>▪ own-account workers</li> <li>▪ casual wage workers and domestic workers</li> <li>▪ home-based industrial outworkers (called homeworkers)</li> </ul> </li> </ul> </li> <li>• Within this hierarchy, women are disproportionately represented in segments with low earnings, as domestic workers and homeworkers (Chen et al 2005).</li> </ul>
	<p>1.4. Investment for employment</p>	<p>Underlying the employment challenge is an investment challenge to some extent. Investment levels have been too low to create jobs, and to create the urban physical and institutional fabrics that are conducive to job creation.</p> <p><i>o Levels and structure of investment</i> – Investment - private and public, residential and commercial, physical and human– has been too low. Investment structure tends to prioritise physical capital over the formation of human and social capital.</p> <ul style="list-style-type: none"> <li>• Hampered by land markets: Lack of clarity, inability to assemble parcels of land and the lack</li> </ul>



		<p>of affordable land</p> <ul style="list-style-type: none"><li>• Failures in other markets (capital, utilities)</li><li>• Poor business environment</li><li>• Complementary public investment lags</li><li>• Low investment priority in human capital (health, education and skills)</li></ul> <p><i>o Lack of public infrastructure and services</i></p> <ul style="list-style-type: none"><li>• Urban economic development and the investment driving it will flourish only if supported by infrastructure, utilities, and public services. FACTS</li><li>• Transport infrastructure linking all areas in the city, adjacent population centres and their hinterland is important for both industrial and agricultural development</li><li>• The urban self-employed, especially in the informal economy, also require support by infrastructure, utilities and public services – and access to public space</li></ul> <p><i>o Urban sprawl and inefficient land use</i></p> <ul style="list-style-type: none"><li>• Cities derive strength from connectivity and density</li><li>• Extensive unplanned suburban development, often in the form of extremely dense informal settlements, has resulted in untenable journeys to work and services for many working poor. This pattern exacerbates congestion, reduces environmental quality and productivity, and erodes the quality of life for urban workers. Whether in the wealthiest, highest productivity cities, or the megacities of the global south, the poor travel hours both to and from work due to the location of affordable housing and the capabilities of transit infrastructure.</li><li>• Lack of density also weakens business-to-business connectivity</li><li>• Urban economic development is therefore intrinsically linked with the structure and form of the city.</li></ul>
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	<p>1.5. Competitiveness for jobs</p>	<p>There is a lack of understanding among urban managers and decision makers about how productive employment is generated and how it is possible to support decent work.</p> <ul style="list-style-type: none"> <li>o Most jobs are created by firms and individuals, rather than governments</li> <li>o A key motivation of job creation is to meet demand, both at home and elsewhere</li> <li>o Successful participation in regional or international division of labour (i.e. competitiveness) is crucial to the creation of a large number of productive jobs <ul style="list-style-type: none"> <li>• Competitiveness tends to develop in a particular industry due to resource endowment and localised beneficial conditions</li> <li>• Apart from infrastructure and cost-adjusted labour skills, local policy and regulation matter for competitiveness.</li> </ul> </li> <li>o The basis of decent work is productive employment. Rights and social protection legislation alone cannot support decent work.</li> </ul>
	<p>1.6. Governance for employment</p>	<p>City governments and the resident stakeholders in their economy face significant challenges and opportunities but often lack the mandate, resources and institutional partnerships to work strategically on the complex challenges facing the local economy. In many jurisdictions, local governments have neither the mandate nor independent sources of revenue to support economic development. Local stakeholders in the business community, educational institutions, and local government do not collaborate on strategy and fail to leverage each other's resources to support critical investments. And the working poor in the informal economy, who in many cities comprise the majority of the urban workforce, are not represented in policy-making and rule-setting processes. As no single stakeholder has the resources to achieve economic development independently, this lack of institutional capacity is a barrier to solutions and development</p>





		<p><i>o The authorizing environment: Fragmented authority:</i></p> <ul style="list-style-type: none"><li>• Institutionally: between central government ministries/ regional government/ urban authorities</li><li>• Spatially: Many cities are in metropolitan regions that have competing mayors, outdated boundaries etc.</li></ul> <p><i>o Public finance: Over-arching problem of lack of resources for the scale of the task.</i></p> <ul style="list-style-type: none"><li>• Estimates of scale of urban infrastructure financing needs TABLE (UNCTAD 2014)</li><li>• Local governments' role and autonomy in fiscal affairs, especially in developing countries in South Asia and Africa, are very limited (UCLG 2010). For instance, locally raised revenue accounts for only 1.5% of total revenue in Bangladeshi, India and Pakistan; and in ten Middle Eastern and Western Asian countries, expenditures by local governments are less than 5% of total public expenditures (Zhang 2015).</li><li>• This has resulted in a large vertical fiscal imbalance between the fiscal capacity of local governments and their spending responsibilities. Administrative decentralisation, urbanisation, globalisation, climate changes and international mandates such as SDGs have further exacerbated this problem.</li></ul> <p><i>o Public sector capacity:</i></p> <ul style="list-style-type: none"><li>• Many local governments are weak not only in terms of jurisdictional powers and resources but also in terms of: human resources; municipal public service appointed by central governments; lack of managerial and technical skills.</li></ul> <p><i>o Partnership building</i></p> <ul style="list-style-type: none"><li>• In spite of increased reference to partnerships, there is still a lack of real commitment to working in partnership</li><li>• The lack of platforms for partnership building is part of the problem. Fundamentally, however, it is the lack of appreciation of the legitimate interests and resources that the other stakeholders can lay claim that lies at the heart of the problem.</li></ul>
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2. Priorities		
	2.1. Introduction	<ul style="list-style-type: none"> <li>○ <i>The foci</i> of this report are: to generate more jobs and work opportunities in a city; to enhance existing jobs and livelihoods; and to ensure that all citizens (including low-income, low-skill, informal workers and in-migrants) have access to income earning opportunities.</li>   <li>○ <i>Prioritization of policies</i> requires               <ul style="list-style-type: none"> <li>○ Recognition of local circumstances and careful diagnosis of the characteristics of individual cities</li> <li>○ Due concern for:                   <ul style="list-style-type: none"> <li>▪ equity and social justice</li> <li>▪ sustainability, including environmental responsibility and resilience</li> <li>▪ social and economic inclusion, including empowerment of disadvantaged groups</li> <li>▪ democratic accountability</li> <li>▪ contribution to SDGs 2030</li> </ul> </li> <li>○ Mitigation of critical constraints                   <ul style="list-style-type: none"> <li>▪ land market failure</li> <li>▪ infrastructure gap and financing gap</li> <li>▪ human capital</li> <li>▪ institutional capacity</li> </ul> </li> <li>○ Effective exploitation of synergy and linkages effects                   <ul style="list-style-type: none"> <li>▪ Economic growth is key to job and wealth creation</li> <li>▪ Productivity improvement underpins wage growth</li> <li>▪ Entrepreneurship is a key source of economic growth</li> <li>▪ Both wage growth and asset-based income strengthen livelihoods</li> <li>▪ Urban density and spatial form has implication on multiple fronts</li> </ul> </li> </ul> </li> </ul>



		<ul style="list-style-type: none"><li>▪ Connectivity is central to improvements in productivity</li><li>○ Sensitivity to timing and lags<ul style="list-style-type: none"><li>▪ Today's infrastructure development determines future efficiency of energy use and environmental sustainability</li><li>▪ Individual capital projects take three to ten years to implement.</li><li>▪ Human capital takes 10-20 years to develop</li><li>▪ Private investment can be more quickly implemented than public one</li></ul></li><li>○ Economic development and the built form of cities should evolve simultaneously. Cities and their economies exhibit measurable change over the course of decades. But business confidence, built on the demonstration of fair and competent public administration and the commitment to long-term sustainable investment in strategic infrastructure, can change relatively quickly. When it does, it will have a direct impact on investment and employment.</li><li>○ The potential of cities is released if people are enabled to invest – in developing skills, livelihoods, businesses and their homes -- and to benefit from such investments and the connectivity – the intensity of economic and social interactions – that cities offer. The principal role of public policy is to support the development of human potential, while seeking to compensate for market failures and providing safeguards to facilitate human and business interactions.</li><li>○ Many of the necessary policies are formulated at the national level. These include fiscal and legal systems that are well-functioning, macro-economic stability, and a business friendly regulatory environment.</li><li>○ The financing of basic services – health, education, access to clean water and other utilities,</li></ul>
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		<p>policing – are often national responsibilities. But their delivery is dependent on local authorities. Both theory and practice support a higher level of local autonomy and accountability in service provision.</p> <ul style="list-style-type: none"> <li>○ At the urban level, the enabling environment has two key elements. One is that individuals have the economic and institutional environment required to realise private investments. The other is that connectivity is achieved and put to productive use, this in turn requiring that land is used efficiently and that infrastructure and regulation enables movement between places and markets – home to work, and business to business.</li> <li>○ Policies to achieve the enabling environment fall into six broad classes: enabling markets to work; infrastructure and service provision; urban finance; long-term urban planning; business support initiatives; urban governance and government capacity (in fiscal and human terms).</li> </ul>
	<p>2.2. Enabling markets to work</p>	<ul style="list-style-type: none"> <li>○ Access to regional and international markets for capital, labour, product and technology plays a critical role in enlarging employment opportunities and increasing earnings for cities and their hinterland. Macro-economic policies need to strike the right balance between liberalization and nurturing of domestic industries. Removing infrastructural and institutional barriers at local level is an important part of gaining this access.</li> <li>○ Investments in urban structures – residential and work places -- are long-lived, and investment requires long-term city-wide land use and infrastructure plans, clarity of tenure and clear and enforceable legal rights. Clear and enforceable land titles are important for economic development as these enable land and buildings to serve as collateral. They also facilitate the assembly of parcels of land for development. Tradability of land rights increases land use efficiency.</li> </ul>



		<ul style="list-style-type: none"><li>○ The working poor in the informal economy tend to work in either a) public spaces such as streets, open areas, construction sites and b) private homes, often in slum and squatter settlements. To make their livelihoods productive, the working poor need secure workplaces with basic infrastructure services. This requires regulated access to public space and de facto tenure and upgrading of slum and squatter settlements.</li><li>○ Land-use regulation – of plot size, floor area ratios, building standards – must be appropriate for the urban context and the level of national development. In particular, a characteristic of efficient land-use is high density occupation. Subject to environmental and congestion concerns, regulation should accommodate high density development and mixed land uses. An efficient and affordable transport system and non-motorised transport modes are essential for the mitigation of potential adverse effect of high density on livability, and a reduction in a city’s carbon footprint.</li><li>○ The residential housing stock matters for urban economic development for a number of reasons.</li><li>○ The quality of housing shapes the productivity of its inhabitants (present and future generations). Its location determines accessibility to jobs. It is, in many cases, the main asset people hold for security and for retirement. And, in a rapidly growing city, construction (residential and business) is a major source of employment.</li><li>○ Policies to enable a supply of decent housing require that land (and clarity of title) is available; regulatory standards are appropriate; and complementary markets, in particular the mortgage market, are functional. The housing policy framework should target housing affordability, mixed income, mixed uses, and proximity to the public transport network.</li></ul>
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	<p>2.3. Infrastructure and service provision</p>	<ul style="list-style-type: none"> <li>○ The provision of infrastructure within the city is necessary to its efficient functioning. Transport infrastructure in particular is essential to achieving the benefits of connectivity and avoiding the costs of congestion. The demands of urban density and climate change mitigation place a priority on public transport [and walking/ non-motorised transport such as cycling]. Particular attention needs to be given to the transport needs of the working poor.</li> <li>○ Business also needs connectivity to the rest of the nation and world, through transport networks, ports, airports and telecommunications.</li> <li>○ Urban economies in the developed world are generally able to rely completely on basic infrastructure (adequate volumes of potable water; responsibly managed sewerage, reliable electrical power, and telecommunications) provided by the public sector.</li> <li>○ In the developing world, however, significant infrastructure gaps [Table] compel industries reliant on water, power and transit to often have to invest inordinately in their own costly infrastructure in order to guarantee reliability. This goes against the economies of scale in service production and provision. Nor is it good for equity and effective governance.</li> <li>○ To close the infrastructural gap requires substantial increase in infrastructure investment, in which the contribution of private capital will be crucial (UNCTAD 2014).</li> </ul>
	<p>2.4. Urban finance</p>	<ul style="list-style-type: none"> <li>○ A predictable, secure and substantial source of revenue is necessary for city government to support services and infrastructure at the level required for urban economic development.</li> <li>○ Funds may come from central government or from local sources. Local sources play an important role as they connect citizens to local government, enabling them to hold local</li> </ul>



		<p>governments accountable for budgetary allocation and their outcomes (Devarajan et al 2007). (Box 1 comparing Morogoro and Kitchener) This can avoid a governance trap: with heavy dependency on central mandates and allocation, citizens become disinterested in what local governments do, which in turn weakens the incentives of local governments to do well in meeting public needs and the incentives of citizens to pay local taxes and fees and to monitor the performance of local governments.</p> <ul style="list-style-type: none"><li>○ Local autonomy needs to be balanced against the risk of tax competition between cities bidding local tax rates down to sub-optimally low levels. This may involve central government setting minimum local tax rates</li><li>○ There is a strong case for implementing taxation of land values. Ethically, since urban land derives its value from its location in the city and from public investments in the city as a whole, rather than from the actions of past or present owners of the particular piece of land. Economically, since a land value tax is less likely to be damaging to productive activity than corporate taxes or business licensing fees. And administratively, since it can be based on a land cadaster (necessary also as part of ensuring clarity of ownership and tenancy rights).The administrative challenge of building and maintaining a land cadaster is acknowledged.</li><li>○ Complex mixtures of fees and charges on business are highly inefficient and can deter growth of firms. They should be replaced by simpler and more transparent tax instruments.</li><li>○ Where large scale infrastructure development is required, qualified local governments should be allowed to raise additional resources. Three particular methods have shown great potential, including municipal borrowing (either through bank loans or municipal bonds), public-private partnerships, and land-based commercial activities (Farvacque-Vitkovic and Kopanyi 2014;</li></ul>
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		<p>Peterson 2009). Tripartite partnerships - between local government, the private sector, and communities of the urban poor - are another approach to explore: they have been effective in slum upgrading schemes with the urban poor contributing their labour.</p> <ul style="list-style-type: none"> <li>○ To enable local governments to make better use of these financial instruments, however, it is necessary to introduce monitoring mechanisms and to strengthen the institutional capacity of local governments: see Box 2 on strengthening local tax systems.</li> </ul>
	<p>2.5. Visioning and land-use planning</p>	<ul style="list-style-type: none"> <li>○ A vision for the long-run development of the city, set in the context of national economic development strategies, is necessary in order to guide private investment decisions as well as public actions. There is risk that 'coordination failure' will deter investment unless investors have clear expectations about likely development of different areas of the city.</li> <li>○ This vision should be articulated in both urban economic development strategies and urban spatial and infrastructure development plans. Steps have to be taken to make such strategies and plans credible, including regular adjustments over the time.</li> <li>○ Infrastructure investments that lead, rather than lag, private development should be considered.</li> <li>○ To prevent costly speculative investment, however, infrastructural projects have to demonstrate value for money.</li> <li>○ The role of urban strategies and plans should be supportive, rather than directive, of private investment. They should recognise the risks attached to being overly rigid, with built-in flexibility.</li> </ul>





	<p>2.6. Business support initiatives</p>	<p>Engagement in business support services such as workforce training, technology, financial assistance, and sectoral initiatives can be valuable:</p> <ul style="list-style-type: none"> <li>○ Such services should be targeted at carefully diagnosed market failures.</li> <li>○ They require a high level of expertise to operate successfully, and can be expensive failures in the absence of such expertise. Prior consultation with potential beneficiaries as well as other stakeholders should improve the outcome. In addition, capacity building in this area needs to receive high priority.</li> <li>○ Where they are not universal, care needs to be taken that they are not merely benefiting one group at the expense of others.</li> <li>○ Support should be provided to both formal and informal businesses</li> </ul>
	<p>2.7. Urban governance</p>	<p>In some places urban governance needs strengthening. Principles are:</p> <ul style="list-style-type: none"> <li>○ Government should be accountable to the population of the city</li> <li>○ There should be clarity of authority, with the division of responsibilities between levels of government made clear, and each layer of government empowered to meet its responsibilities.</li> <li>○ The spatial span of control should be appropriate, with city-wide policies and public goods undertaken by a city-wide authority, and local services provided at a more decentralized level.</li> <li>○ Capacity and expertise needs to be developed at all levels.</li> <li>○ Ability to work with the private sector, education institutions and community development partners in formulating local economic development strategies requires a pro-business and pro-partnership culture</li> <li>○ Recognition and integration of the livelihoods of the working poor will make those livelihoods more productive and urban economic growth more inclusive.</li> </ul>



3. Implementation		
	3.1. Introduction	<p>To develop action-oriented recommendations, this part will focus on the six priority areas identified in the previous section. The rationale is that taking actions in these areas should enable us to address this report's key concern, namely the creation of productive jobs and the enhancement of livelihoods through the strengthening of urban economies. However, in the context of decentralisation and globalisation, it would be impossible to implement the strategies advocated here without the support of different stakeholders at different levels, including local, national, regional and international ones.</p> <ul style="list-style-type: none"><li>○ Cities are classical small, open economies. With few exceptions, they are price takers, and vulnerable to changing international and national economic forces.</li><li>○ Local governments operate within the large development environment that is shaped by national authorities, regional trade mechanisms and international treaties and agreements. They have to balance initiatives with collaboration with multiple stakeholders.</li><li>○ The international community can play an important role in supporting further decentralization (acknowledging the crucial role of local governments in urban economic development), the capacity building of local governments (especially in designing land-based tax regimes, financing local infrastructure and services, supporting economic development, achieving a compact, transit supportive urban form) in order to support economic development, sustainability and cohesion.</li><li>○ Agreement by international development agencies to collaborate and coordinate with local governments in the delivery of international development programs will be valuable too.</li></ul>



	<p>3.2. Specific actions in six key areas</p>	<p>To achieve focus and impact, we recommend three specific actions (for different stakeholders) for each of the six priority policy areas identified in Part 2. Tentatively, these are as follows:</p> <p><i>o Enabling markets to work</i></p> <ul style="list-style-type: none"> <li>• Macro-economic reforms of various markets: (1) land markets (titling, legal clarity, building and land use regulations); (2) construction sector (corruption, procurement, barriers to entry); (3) access to finance (mortgage markets).</li> <li>• Lighter business regulation (registration, formalisation, barriers to entry)</li> <li>• Facilitation of foreign trade and investment</li> </ul> <p><i>o Infrastructure and service provision</i></p> <ul style="list-style-type: none"> <li>• Formulation of medium- and long-term infrastructure development plans. Balance the efforts to meet the infrastructural needs of both businesses and households, with awareness of both inter-personal equity and environmental constraints.</li> <li>• To actively explore tripartite partnerships between the government, the private sector and local communities of the poor in infrastructure provision</li> <li>• Giving local governments greater discretionary power in resource allocation and the setting of service standards regarding infrastructure. Balance this with the setting of service floors and spending targets.</li> </ul> <p><i>o Urban finance</i></p> <ul style="list-style-type: none"> <li>• To increase the role of land value taxation to support municipal services and infrastructure; explore alternative ways of capturing land value uplift to complement property or land value tax.</li> <li>• Implementation of greater fiscal decentralisation; giving borrowing powers to qualified local governments</li> </ul>
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		<ul style="list-style-type: none"><li>• Actively explore private-public partnerships for infrastructure investment; give careful consideration to the distribution of costs and benefits of such investment.</li></ul> <p><i>o Strategic and land-use planning</i></p> <ul style="list-style-type: none"><li>• Develop medium- and long-term City Development Strategies and use these to coordinate land use, sectoral growth, infrastructure, and investment planning (including skills). Coordinate such strategies with national development strategies.</li><li>• Review of building and land-use regulation with a view to encouraging density, connectedness and the transition towards a low-carbon economy and society.</li><li>• Clarify and enforce land rights</li></ul> <p><i>o Business support initiatives</i></p> <ul style="list-style-type: none"><li>• Adoption of a pro-business stance and capacity building of local officials in this regard. Local planners and decision-makers need to understand their tradeable sectors in regional and international markets and investigate whether there are specific actions that might improve their competitiveness. Identify comparative advantages and priority areas for investment to leverage and further develop the existing assets of the city.</li><li>• Tailoring support to the differing needs of different types of business, including the SMEs and the informal sector.</li><li>• Incentivising the formalisation of informal businesses and employment.</li></ul> <p><i>o Urban governance</i></p> <ul style="list-style-type: none"><li>• Clearer demarcation of boundary of competencies between central, state, metropolitan and local governments</li><li>• Adoption of governance structures and procedures that give different stakeholders (including the private sector, universities, the trade unions, the informal sector, etc.) real</li></ul>
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		<p>voice and influence in decision making</p> <ul style="list-style-type: none"> <li>• Strengthening of the monitoring and evaluation mechanisms of government programmes; enhancing transparency through measures such as e-government.</li> </ul>
	<p>3.3. Indicators of successful implementation, monitoring and evaluation</p>	<p>Possible distinction between three types of indicators: procedural, structural and socioeconomic outcome.</p> <p><i>o Procedural:</i></p> <ul style="list-style-type: none"> <li>• Formulation and publication of Urban Economic Development Strategy and Spatial Development Plan, etc.</li> <li>• Publication of legislation on foreign direct investment, use of private sector investment in infrastructure development, transfer of property rights, etc.</li> <li>• ...</li> </ul> <p><i>o Structural:</i></p> <ul style="list-style-type: none"> <li>• Shares of local governments in total public revenue and expenditure</li> <li>• Locally-raised revenue as percentage of local revenue</li> <li>• Shares of formal employment vs informal employment</li> <li>• Structural changes by GDP and employment over time</li> <li>• Increase in the proportion of renewables in energy sources over time</li> <li>• ...</li> </ul> <p><i>o Outcomes</i></p> <ul style="list-style-type: none"> <li>• Social and economic indicators disaggregated by geography, age, and sex by local, national, and global urban observatories (i.e. employment, education, income, etc.)</li> <li>• Urban infrastructure and services provision (i.e. transport connectivity, potable water,</li> </ul>



		<p>sewerage, solid waste collection, housing, etc.)</p> <ul style="list-style-type: none"> <li>• Security (i.e. crime rate, etc.)</li> <li>• Environmental sustainability (i.e. air quality, GHG emissions per capita, per capita urban green areas, land use density; resilience measures adopted, etc.)</li> <li>• Urban economy (i.e. GDP per capita; annual growth rate of GDP; job creation, formal economic units creation, access to credit, etc.)</li> <li>• Urban governance: local government budget, capital investment per capita, etc.</li> </ul> <p><i>o Monitoring and evaluation mechanisms</i></p> <ul style="list-style-type: none"> <li>• National census and annual statistics</li> <li>• Local urban observatories</li> <li>• Household surveys</li> <li>• Labour force surveys</li> <li>• Business climate surveys</li> </ul>
	<p>3.4. Analysing financial resources required and instruments for their sustainability</p>	<ul style="list-style-type: none"> <li>o Between US \$1.9 and US\$3.1 trillion additional investments are needed annually to realise the SDGs. While it is unrealistic for increased public investment to fill the gaps, available investible private capital is in far excess of needed investment to do so (UNCTAD 2014).</li> <li>o Total investment in economic infrastructure – power, transport, telecommunication and water and sanitation- in developing countries needs to rise from the current level of \$1 trillion per year to between \$1.6 trillion and \$2.5 trillion annually over the period 2015- 2030.</li> <li>o Economies at different income levels have markedly different participation by different kinds of financial sources, reflecting their differing ability to attract private capital and aid [TABLE]. The proportion of private capital in SDGs sector investment is about twice as high in developed</li> </ul>



		<p>countries (approx.75%) as those in developing countries, whereas the contribution of foreign direct investment (FDI) in developing and transition economies is twice as high as that in the least developed countries (LDCs).</p> <ul style="list-style-type: none"> <li>○ One possible financing option is to increase the share of private sector contribution in developing countries to the level of developed countries by accelerating the growth rate of private investment. For LDCs, in order to fill the investment gap, doubling the growth rate of private investment (to 15% per annum) would still require the tripling of public investment (including aid) in the next 15 years (UNCTAD 2014).</li> <li>○ How to channel private investment into SDGs related areas is a crucial question. For LDCs and other vulnerable economies, however, public sector investment, especially in climate adaptation, health and education, will remain the main option.</li> </ul>
	<p>3.5. Analysing linkages with the Agenda 2030</p>	<p>Some of the Agenda 2030 goals have direct relationship with Sustainable Urban Economic Development, including:</p> <ul style="list-style-type: none"> <li>○ Goal 6. Ensure availability and sustainable management of water and sanitation for all.</li> <li>○ Goal 7. Ensure access to affordable, reliable, sustainable and modern energy for all.</li> <li>○ Goal 8. Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.</li> <li>○ Goal 9. Build resilient infrastructure, promote inclusive, and sustainable industrialization and foster innovation.</li> <li>○ Goal 11. Make cities and human settlements inclusive, safe, resilient, and sustainable</li> <li>○ Goal 12. Ensure sustainable consumption and production patterns.</li> <li>○ Goal 13. Take urgent action to combat climate change and its impacts.</li> </ul>



### **Box 1: Compact Cities**

Cities in different stages of development have, in general, very different conditions with respect to infrastructure and location of residents and jobs. These conditions can only be changed overtime, but they can have a huge impact on urban economic development. Hence, urban economic strategies should be linked and embedded in the long term strategic city plans and take into account and consider the benefits in city efficiency that may come from an upgraded infrastructure and the proximity between residents and jobs.

In this context, the concept of the compact city emerges in opposition to the sprawling city. Compact cities are, in general, linked to higher population densities and to a somehow constrained city area. Although these conditions are important, they should be augmented by other conditions such that density comes together with quality of life. Density enables and requires compatible public transportation systems, and when associated with mixed use and mixed income may lead to vibrant, healthier, safer and more diversified neighborhoods with more walking and non-motorised trips. Quality and green public spaces are also essential ingredients of these denser neighborhoods and there should be compatibility between both the planned infrastructures and higher densities.

In order to obtain over time compact cities, a number of public policy instruments should be used specially land use management and regulations. The benefits of a compact city are many, such as energy efficiency, shorter trips, more people interactions, a more physically active population, vibrant and safer neighborhoods, greater economic activity and more employment opportunities. Compact cities also bring advantages to the city administration as the infrastructure and public facilities are utilized more intensively, city maintenance is facilitated, fewer trips to collect garbage are required, among other benefits.





## Box 2: Strengthening Local Tax Systems

The strengthening of local tax systems should focus on collecting higher taxes on property (property tax, tax on real estate valuation when it is generated by urban action, whether by public works or administrative actions, such as changes in land use) and lower taxes on productive activities (taxes on economic activities and gross income tax, among others). This can be an important incentive for the establishment of companies and businesses in those municipalities, thus generating an incentive to the creation of jobs.

In addition, by applying correctly taxes levied on assets rather than taxing productive activities, which end up raising the prices of goods and services, impact on wealth distribution can be maximised. Taxes based on heritage are more progressive than those based on consumption, which are regressive (Lincoln Institute of Land Policy 2015). The level of property value-based levies must consider the local population's ability to pay.