Dancing with the demons of density: Urbanization in the 21st century

Sub-Saharan Africa and Asia will experience unprecedented growth in their urban populations over the next few decades. In Sub-Saharan Africa alone, cities will become home to an extra 400 million new residents within the next 25 years. Worldwide data on urbanization and incomes suggest that, on average, countries with a more urban population are also wealthier. According to Harris Selod, an economist at the World Bank, the growth of cities could be one of the greatest forces in the 21st century for ending poverty. But urbanization will sustain economic growth and development only with appropriate infrastructure investment, especially in transport, and only if the conditions for functioning land markets are met. His talk and the highlights in this newsletter cover new research and policy analysis, particularly in the land and transport sectors, that could put developing country urbanization on a productive trajectory.

Measuring urbanization and development is not as straightforward as previously thought

Urbanization, economic development and structural transformation have long been viewed as inextricably linked processes in which technological progress leads to re-allocation of labor out of agriculture, which, in turn, drives urbanization and economic development. This view suggests a country’s level of economic development is strongly positively correlated with its level of urbanization, and, that a country’s level of urbanization is strongly negatively correlated with the size of its agricultural sector. When urbanization is measured using official national definitions, Latin American countries are significantly more urbanized given their levels of development. But when using consistent cross-country data on urban populations, levels of urbanization in Latin American countries are much closer to the rest of the world.
Countries with weak land institutions may not reap the benefits of urbanization

The overwhelming majority of the world’s population does not have access to formal registration systems to enforce land property rights. It is estimated that between 60 to 80 percent of residents in Sub-Saharan Africa cities do not hold formal land property rights, and fast urban population growth — in the range of 3 to 5 percent annually — remains mainly informal. A simulation of the joint dynamics of land property rights and urbanization shows that the costly provision of land rights may result in both residential informality that can persist over time and suboptimal urbanization whereby cities are insufficiently productive given the negative externalities associated with land tenure informality. The simulation backs the intuition that those who benefit from the weaknesses of the land rights systems exercise political clout to prevent change, explaining why many developing countries are unable to push forward significant institutional reforms in the land sector. A more pragmatic approach could require accepting some levels of informality whereby the poor gain access to the city and informality is handled by improving the affordability of property rights.

Understanding urban land markets in West Africa

Policymakers are often at a loss when dealing with the complexity and sensitivity of dysfunctional urban land markets in West Africa. Most existing studies omit the 60-80 percent of city residents that live outside the formal system. This restrictive focus excludes some of the most pressing challenges to urbanization: uncontrolled informal urban expansion, the increasing scarcity of public land reserves to supply formal land for housing to accompany urban expansion (as was done in the past), massive conversions of customarily held land at the periphery of cities in a context of weak tenure security, and the increasing prevalence of land-related conflicts. The analytical framework in this book places land markets in a broader context that accounts for the diversity of tenure situations and the gaps between rules and practices, making it possible to study the processes of land use transformation, as well as the barriers faced by households to gain access to land.

Lessons for Latin America on road investments from Mexico

Latin America has the potential to stimulate growth through further transport investments given its huge infrastructure gap. Lessons regarding how much growth and what kind of investments may be needed can be learned from Mexico, a country that has invested heavily in transport infrastructure, with road transport accounting for most of freight transport, and some of the most important road connections linking the capital city with border crossings to the United States. This study investigates how road investments improved access to markets and how these changes affected the location of economic activities during the 1985–2016 period. It finds that a location facing a 10 percent increase in its access to domestic markets experienced a 1.6 to 2.1 percent increase in total employment, a 7 percent increase in output specialization, and a 3.4 percent increase in employment specialization. Interestingly, employment in commerce and services benefitted more from road improvements than employment in manufacturing.
Can public transit offset higher emissions caused by new roads in Beijing?

Expansion of road networks in urban areas alleviate congestion, speed up traffic, and lower atmospheric pollution. They also attract more car-trips. The combined effect often increases fuel use and emissions. A simple core-periphery model of Beijing shows CO2 from road expansion in the periphery is difficult to alleviate by improving transit in the urban core because switching from car travel to bus travel is not elastic enough, and while trips are drawn from car to bus reduce CO2, trips drawn from walking and bicycling to bus transport dilute the gains. Not expanding core roads and making transit in the periphery faster draws the population to the less-congested periphery. These policies add to urban sprawl, but offset CO2 from cars more effectively. Both policies can be effective in compact cities with denser cores or when gasoline prices are much higher.


UPCOMING EVENTS

- November 29, 2017: Sixth IMF/WB/WTO Trade Workshop (hosted by IMF)
- November 30: Policy Research Talk: Marital Shocks and Women’s Welfare in Africa

All upcoming events

ANNOUNCEMENTS

Announcing the Land Governance Assessment Framework (LGAF) Website
The LGAF is a diagnostic instrument to assess the state of land governance at the national or sub-national level. The participatory process draws on local expertise and brings together representatives from government, academia, civil society, and the private sector to assess and rate the quality of a country’s land governance along a comprehensive set of dimensions. Together with the accompanying analytical report, it serves as the basis for reaching consensus on priority areas for reform. In many cases this process has pushed land issues higher up on a country’s agenda and stimulated dialogue and consensus on key reforms among stakeholders. The LGAF has provided the basis for performance monitoring, which may feed into the Sustainable Development Goals. Experience with the framework has also guided the design of the Land Administration Quality Index in Doing Business. So far, the World Bank has partnered with over 40 countries to produce reports. For all country reports, scorecards and policy matrices, including a special section on India, please visit: www.worldbank.org/lgaf.

Research Digest on Education
The articles in this issue of the Research Digest contributed to the World Development Report 2018: Learning to Realize Education's Promise. They explore how the messages of the report apply in specific countries and situations, and focus on what is needed to improve the quality of education to equip students for life and work in a time of rapid change. Fall 2017 Issue

New brief on external financing gap for SMEs and how to address the finance problem
Why are Small and Medium Enterprises (SMEs), which offer employment to a large part of the labor force, more financially constrained than large firms? How can SMEs obtain better access to finance? Understanding the SME finance problem is critical because difficulties in obtaining finance can hamper invest and grow established small firms and launching new firms, thus hindering growth in economic activity and employment. Brief | Blog
Call for Papers for the Annual Bank Conference on Development Economics 2018: Political Incentives and Development Outcomes
The conference organizers are calling for papers that examine the link between politics and development. Possible topics include the implications of politics in public sector management and service delivery, aid effectiveness, social protection programs, management of natural resources, stability and inclusion in the financial sector, and firm performance and firm dynamics. Papers related to the larger conference theme are also welcome: understanding the behavior of political institutions including legislatures, courts, the executive branch, political parties, and elections.

Website

MEDIA AND BLOGS

Addressing the SME finance problem
All about Finance, 24 October 2017
Small and medium enterprises (SMEs) are the backbone of the economy, being the main contributors to employment in developing and developed countries. Despite their importance, access to finance is relatively limited when comparing large firms and is a major operating constraint for SMEs. The International Finance Corporation (IFC) estimates that to satisfy the demand by formal SMEs around the world credit had to increase between 900 and 1,100 billion U.S. dollars in 2011.

In a new policy brief (Abraham and Schmukler, 2017), we explore the obstacles to SME finance and some of the solutions that have been put in practice to try overcome them.

Read the blog by Facundo Abraham and Sergio Schmukler.

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Financial globalization: A glass half empty?
Let’s Talk Development, 23 October 2017
For many years, financial globalization has been promoted as a vehicle to raise living standards throughout the world, particularly in developing countries. However, a mounting body of empirical literature shows that in practice the effects of financial globalization have been overall mixed; financial globalization has only brought limited positive effects while it has also increased risks.

Read the blog by Sergio Schmukler and Facundo Abraham.

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Short-term impact of Brexit on UK exports
VoxEU, 22 October 2017
More than a year has passed since the UK voted for Brexit. This column analyses the short-term fallout of trade in goods due to potential changes in trade policies. It argues that if the UK fails to secure a new trade deal with the EU and must face tariffs with no preferences, total UK’s exports to the EU would drop by at most 2%. The impact is small because the EU’s import demand for UK exports is fairly inelastic, especially for products that that may face higher tariffs.

Read the blog by Hiau Looi Kee and Alessandro Nicita.

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Against the tide: A look at the countries where poverty has been on the rise, despite falling global numbers

*Let's Talk Development, 18 October 2017*

The last quarter century saw remarkable progress against extreme poverty, globally. Between 1990 and 2013, the percentage of the world’s population living at or under $1.90/day fell from 35.3% to 10.7% - that is, from more than one in three people to approximately one in ten, planet-wide. Even in the shorter period between 2002 and 2013, the reduction was from 25.8% to 10.7%, meaning that about 850 million people moved out of extreme poverty during that decade alone.

Read the blog by Francisco Ferreira, Christoph Lakner, and Carolina Sanchez.

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Six Questions with Rohini Pande

*Development Impact, 18 October 2017*

Rohini Pande is Mohammed Kamal Professor of Public Policy at the Harvard Kennedy School, where she also co-directs their Evidence for Policy Design (EPoD) program. She has described her research as examining the economic costs and benefits of informal and formal institutions in the developing world and the role of public policy in changing these.

1. You have worked on a range of different topics – including rural banking and microfinance, governance, environmental regulation, son preference, and housing – but almost exclusively in one country, India. When you think about your broad research agenda, how do you think about the tradeoffs involved in focusing deeply on one country, vs exploring these topics in different places?

Starting with my PhD work on political reservations in India, I have been fascinated by the why and how of public policy in democracies and, in particular, how the political and social context shapes the choice of policy. I have also found that viewing problems of economic development through a political lens that engages with questions of power creates links across questions and topics that might before have seemed disparate.

Once you adopt this perspective, the advantage of focusing on a single country becomes apparent.

Read the blog by David McKenzie and Markus Goldstein.

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Trade agreements as public goods

*Let's Talk Development, 16 October 2017*

If a trade economist were abruptly woken up by somebody shouting, “preferential trade agreements” (PTAs), their first thought is likely to be “trade creation among participants and trade diversion away from those left out.” That is a measure of the influence of Jacob Viner’s classic book *The Customs Union Issue* on the profession, on the policy debate and on our attitude towards PTAs.

Brexit and the renegotiation of NAFTA have renewed interest in the impact of trade agreements and the consequences of undoing them. In a recent paper, Mattoo, Mulabic and Ruta (2017) and column (VOXEU), we use new information on the content of PTAs to examine their trade effects.
The 2017 global poverty update from the World Bank

Let's Talk Development, 16 October 2017

This year’s global poverty update from the World Bank is a minor one. Until reference year 2008, the World Bank published new poverty estimates every three years, and between 2010 and 2013 we released new numbers every year (see here).

A richer array of international poverty lines

Let’s Talk Development, 13 October 2017

Is poverty absolute or relative? When we think of (one-dimensional) income poverty, should we define the threshold that separates the poor from the non-poor as the cost of purchasing a fixed basket of goods and services that allows people to meet their basic needs? Or should we instead think of it as relative deprivation: as earning or consuming less than some given proportion of the country’s average living standard?

This is an old debate, and international institutions have made different choices. Whereas the European Union (through Eurostat) and the OECD typically rely on relative poverty lines — set at 50% or 60% of national median incomes — the World Bank has traditionally used an absolute poverty line, currently set at $1.90 per person per day, in 2011 PPP dollars. The World Bank’s motivation was to measure poverty across countries in a welfare-consistent way: We wanted the International Poverty Line (IPL) to correspond, as far as possible, to the same level of welfare, regardless of the country the individual lived in. PPP exchange rates were used to try to account for differences in the cost of living across countries, and the intention was that a line thus adjusted would capture the same levels of well-being, in a way that using half the median income in, say, Madagascar and the Czech Republic, never could. The specific value of the international poverty line was, by design, anchored on the poverty thresholds used by some of the world’s poorest countries (see Ravallion, Datt and van de Walle).

Can key facts statements outperform financial education?

All About Finance, 13 October 2017

Now that the Nobel Committee has decided to award the prize once again for work in behavioral economics, it is a good time to study the role of disclosure formats for effective consumer protection.

We partnered with CONDUSEF, the financial consumer protection agency in Mexico, and the Superintendent of Banks in Peru to test which types of product disclosures work best for savings and credit products by low-income consumers in Peru and Mexico.

In a lab experiment, low-income consumers were assigned a financial needs profile — such as having to make two withdrawals per month from a savings account and two balance inquiries — and then incentivized to choose the product that best fit their needs. In each round of the experiment, we tested different methods for providing summary product information.
In Mexico, we tested comparative tables; in Peru, we tested a key facts statement (KFS) designed by the financial institutions; and in both countries we tested:

1. Current marketing materials gathered from financial institutions during sales visits by actual consumers
2. A simplified KFS that used behavioral insights to facilitate comparison shopping.

Read the blog by Xavier Gine and Rafael Keenan Mazer.

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The latest quantitative research on education in South Africa (and what it tells us about the rest of the world)

*Development Impact, 12 October 2017*

Richer countries have more research published about them on average, which means that African countries tend to have fewer studies about them. But South Africa far outstrips the rest of the continent. In the sample of Das et al. (1985–2005, so a bit dated now), 46 percent of all publications from Sub-Saharan Africa were from South Africa, as you can see below. So I was thrilled to be in South Africa last week and see a vibrant research community doing research on the economics of education in South Africa, at the Quantitative Applications in Education conference at the University of Stellenbosch’s Research on Socio-Economic Policy group. Below is a rundown of just some of the interesting findings; follow the links for the full presentations.

Read the blog by David Evans.

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The future of jobs and skills: A gloomy or glowing scenario for the less skilled workers?

*Let’s Talk Development, 12 October 2017*

Fears abound that automation and other advanced technologies will lead to job losses for lower-skilled workers in emerging economies and exacerbate inequality. Each new wave of technological progress is met with dire predictions. The most critics argue that the unprecedented pace of technological change today will have more dramatic effects on the future of work as new technologies (including robots and artificial intelligence) are increasingly replacing more educated workers and more cognitive and analytical work. At the same time, many economists argue that technology adoption will significantly increase firm productivity and result in job expansion, at least in the medium run under certain policy conditions. The impacts of technology adoption on overall employment and on the skills composition of occupations are ultimately an empirical question.

Read the blog by Rita Almeida, Ana Fernandes, and Mariana Viollaz.

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Deep trade agreements as public goods

*VoxEU, 12 October 2017*

Trade agreements have extended their reach well beyond tariff reduction, to policy areas such as investment and competition policy. This column shows that the deepening of trade agreements has contributed to trade growth among members and had a positive spillover effect on trade with non-members. The reason is that, differently from tariffs, these new provisions are often non-discriminatory and, hence, have a public good aspect. Undoing deep agreements is likely to be painful for all.

Read the blog by Aaditya Mattoo, Alen Mulabdic, and Michele Ruta.
A celebration of Richard Thaler’s Nobel Prize and a new field – Behavioral Development Economics

*Let’s Talk Development*, 11 October 2017

Could a parent’s decision to vaccinate a child depend on a free bag of lentils? The premise seems implausible: immunization can be a matter of life and death, and a bag of lentils is worth only a dollar. Yet a randomized controlled trial in India showed that a gift to parents of a 1 kg bag of lentils and a set of plates can dramatically raise the percentage of children protected against major disease ([Banerjee et al. 2010](#)). Providing a quality immunization camp alone increased the percentage of fully immunized children from 6% to 18%. The addition of the lentil and plate ‘incentives’ raised the figure to a whopping 39%. How can we explain the outsize effect of a gift of everyday household items?

The answer comes from behavioral economics, a discipline that develops more realistic models of the human actor to improve explanation and policy design ([Demeritt and Hoff 2017](#)). This past Monday, Richard Thaler was awarded the Nobel Prize in economics for his work on human irrationality and the policy ‘nudges’ that harness irrationality to improve well-being. As the third recently awarded Nobel Prize for behavioral work (after Daniel Kahneman in 2002 and Robert Shiller in 2013), the award is another signal of the economic discipline’s turn towards the investigation of psychological and sociological influences on decision-making.

Read the blog by Karla Hoff and Allison Demeritt.

New research on public private partnerships in education in Liberia and Pakistan

*Future Development* blog, 5 October 2017

If you want to use public money to fund private provision in education, make sure you get the details right. That is the message from the extensive literature on vouchers. Now, two new papers — a Center for Global Development (CGD) report focused on Liberia and a World Bank report on Pakistan — dramatically increase what we know about such publicly-funded, privately-provided schemes in education, how they can be structured, and what we can learn from them. These public-private partnership (PPP) schemes allow entrepreneurs to tailor their schools to the local environment, allowing for considerable social benefit. But, the “best” international school operators may be spending a lot of money for nothing. Instead, schemes that rely on local entrepreneurs do as well, if not better.

Mechanisms that allow for “fair-play” in the market for education are scarce, and evaluations of such mechanisms are scarcer still. Below, I’ll discuss why these studies are exceptional, how they examined fair play, and what the results were.

Read the blog by Jishnu Das.

Vocational training vs. apprenticeships: A Ugandan showdown

*Development Impact*, 4 October 2017

Youth employment is a significant and pressing development issue. But it’s not clear what governments can do. There have been several metareviews of active labor market policies, including a recent one by David, and they’re fairly depressing — showing not much impact at all. Into this fray, however, comes a new paper by Livia Alfonsi, Oriana Bandiera, Vittorio Bassi, Robin Burgess, Imran Rasul, Munshi Sulaiman, and Anna Vitali. And it offers some hope.
A new twist on the inverse scale-productivity relationship in African agriculture

Let’s Talk Development, 3 October 2017

One of the most storied topics in agricultural economics, dating back to Chayanov’s work on Russian peasants published nearly a century ago, is the inverse relationship between scale (in terms of farm or plot size) and (land) productivity — commonly known as the IR.

If smallholders are in fact more efficient than their larger counterparts, governments should encourage redistribution of land. The existence of the IR could further temper concerns around plots becoming smaller or, more broadly, “small” plots, shown to be managed more often by females and poorer farmers.

Today, we share our new paper on the topic and the conclusion that the IR is a statistical artifact in our study area in Uganda, driven by measurement error in farmer-reported crop production. We are the first, along with Desiere and Jolliffe, to provide such evidence, and we do so by ruling out several previous hypotheses on the IR.

Learning to realize education’s promise

Let’s Talk Development, 28 September 2017

The 2018 World Development Report (WDR), Learning to Realize Education’s Promise, launched this week. While it draws on research and collective experience — both from within and outside the World Bank — it also draws on the personal experience of the team members, including the two of us. What inspires the focus on learning for all is that we both have seen the possibilities of widely shared learning, but we’ve also seen what happens when those possibilities aren’t fulfilled.

How to leverage the time children spend out of school for learning

Development Impact, 27 September 2017

Every year, a child lives 8,760 hours (that’s 24 hours times 365 days). Let’s say she sleeps 9 hours a night. That leaves 5,475 hours awake. How many of those does she spend in school? Official compulsory instructional time for primary school ranges from under 600 hours (Russia) to nearly 1,200 hours (Costa Rica) in the OECD database. Actual days may be significantly fewer with school closures and teacher absenteeism. In many low- and middle-income countries, school days are at the low end of that due to short school days. That means that only between 10 and 20 percent of children’s waking hours are spent in school.

At the same time, the World Development Report 2018 argues convincingly that there is a global learning crisis, with too many children failing to learn foundational skills — like functional reading — in school. Clearly there is a need to improve the quality of schooling. But at the same time, why not leverage those other 80 to 90 percent of waking hours?
One way that parents try to use those extra hours is by paying for out-of-school tutoring. This is prevalent in many countries. But because parents pay for private tutoring, it creates a particular burden on the poorest children and their families. And some evidence suggests that it may create disincentives to teach during the school day (since teachers themselves are often tutors), as in Jayachandran (2014).

Read the blog by David Evans.

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A crisis in learning: 9 charts from the 2018 World Development Report

The data, 26 September 2017

There’s a crisis in learning. The quality and quantity of education vary widely within and across countries. Hundreds of millions of children around the world are growing up without even the most basic life skills. The 2018 World Development Report draws on fields ranging from economics to neuroscience to explore this issue, and suggests improvements countries can make. You can get the full report here and to give you a flavor of what’s inside, I’ve pulled out a few of the charts and ideas that I found most striking while reading through it.

Read the blog by Tariq Khokhar.

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A better way to train small business owners: using psychology to teach personal initiative

Africa Can End Poverty, 22 September 2017

Billions of US dollars have been spent — by governments, microfinance organizations, and NGOs — on training the owners of small businesses. Traditional programs typically aim to teach practices such as record-keeping, stock control, and simple marketing. But while these do seem to improve the performance of small businesses, most result in little real change, making the impact hard to detect.

So, when in late 2012 we were approached to design the impact evaluation of a training program to be offered in Togo under a World Bank loan program, we proposed that the program they had planned — the International Finance Corporation’s (IFC) Business Edge program — be tested against an alternative.

The alternative approach came from partnering with psychologist Michael Frese, who had been working on a personal initiative training program to develop behavior associated with a proactive, entrepreneurial mindset, rather than on teaching basic business skills. The idea is to coach small business owners in ways to innovate and differentiate themselves from other businesses, both to anticipate problems and to constantly look for new opportunities to take up so they can overcome obstacles and be self-starting.

Read the blog by David McKenzie and Markus Goldstein.

All World Bank blogs.

List of New Policy Research Working Papers

- **8209.** *Oil Discovery and Macroeconomic Management: The Recent Ghanaian Experience* by Mahamudu Bawumia and Håvard Halland
- **8210.** *Information Disclosure and Demand Elasticity of Financial Products: Evidence from a Multi-Country Study* by Xavier Giné, Cristina Martínez Cuellar, and Rafael Keenan Mazer
- **8211.** *Firm-Level Decomposition of Energy Consumption in Turkish Manufacturing Industry* by Sebnem Sahin
- **8212.** *Municipal Pooled Financing of Infrastructure in the United States: Experience and Lessons* by Lili Liu, Michael De Angelis, and Sally Torbert
- **8213.** *Demand and Supply Curves in Political Markets: Understanding the Problem of Public Goods and Why Governments Fail Them* by Stuti Khemani
- **8214.** *Economic Growth in Guinea and How to Accelerate It* by Abdoul’ Ganiou Mijiyawa
- **8215.** *Technological Change and the Labor Market in Argentina and Uruguay: A Task Content Analysis* by Ignacio Apella and Gonzalo Zunino
- **8216.** *Fiscal Incidence in Belarus: A Commitment to Equity Analysis* by Kateryna Bornukova, Gleb Shymanovich, and Alexander Chubrik
- **8217.** *The Socioeconomics of Fish Consumption and Child Health in Bangladesh* by Susmita Dasgupta, Mohammed Golam Mustafa Tapas Paul, and David Wheeler
- **8218.** *Product and Factor Market Distortions: The Case of the Manufacturing Sector in Morocco* by Jean-Pierre Chauffour, and Jose L. Diaz-Sanchez
- **8219.** *Revisiting the National Innovation System in Developing Countries* by William. F. Maloney
- **8220.** *Who Escaped Poverty and Who Was Left Behind? A Non-Parametric Approach to Explore Welfare Dynamics Using Cross-Sections* by Leonardo Lucchetti
- **8221.** *Labor Policy and Digital Technology Use: Indicative Evidence from Cross-Country Correlations* by Truman G. Packard, and Claudio E. Montenegro
- **8222.** *Corporate Debt Maturity in Developing Countries: Sources of Long- and Short-Termism* by Juan J. Cortina, Tatiana Didier, and Sergio L. Schmukler
- **8223.** *Introducing a Performance-Based School Grant in Jakarta: What Do We Know about Its Impact after Two Years?* by Samer Al-Samarrai, Unika Shrestha, Amer Hasan, Nozomi Nakajima, Santoso Santoso, and Wisnu Harto Adi Wijoyo
- **8224.** *Political Economy of Reform* by Stuti Khemani
- **8225.** *Prospects of Estimating Poverty with Phone Surveys: Experimental Results from Serbia* by Vladan Boznic, Roy Katayama, Rodrigo Munoz, Shinya Takamatsu, and Nobuo Yoshida
- **8226.** *Roads and the Geography of Economic Activities in Mexico* by Brian Blankespoor, Théophile Bougna, Rafael Garduno-Rivera, and Harris Selod
- **8227.** *Regressive or Progressive? The Effect of Tobacco Taxes in Ukraine* by Alan Fuchs and Francisco Meneses