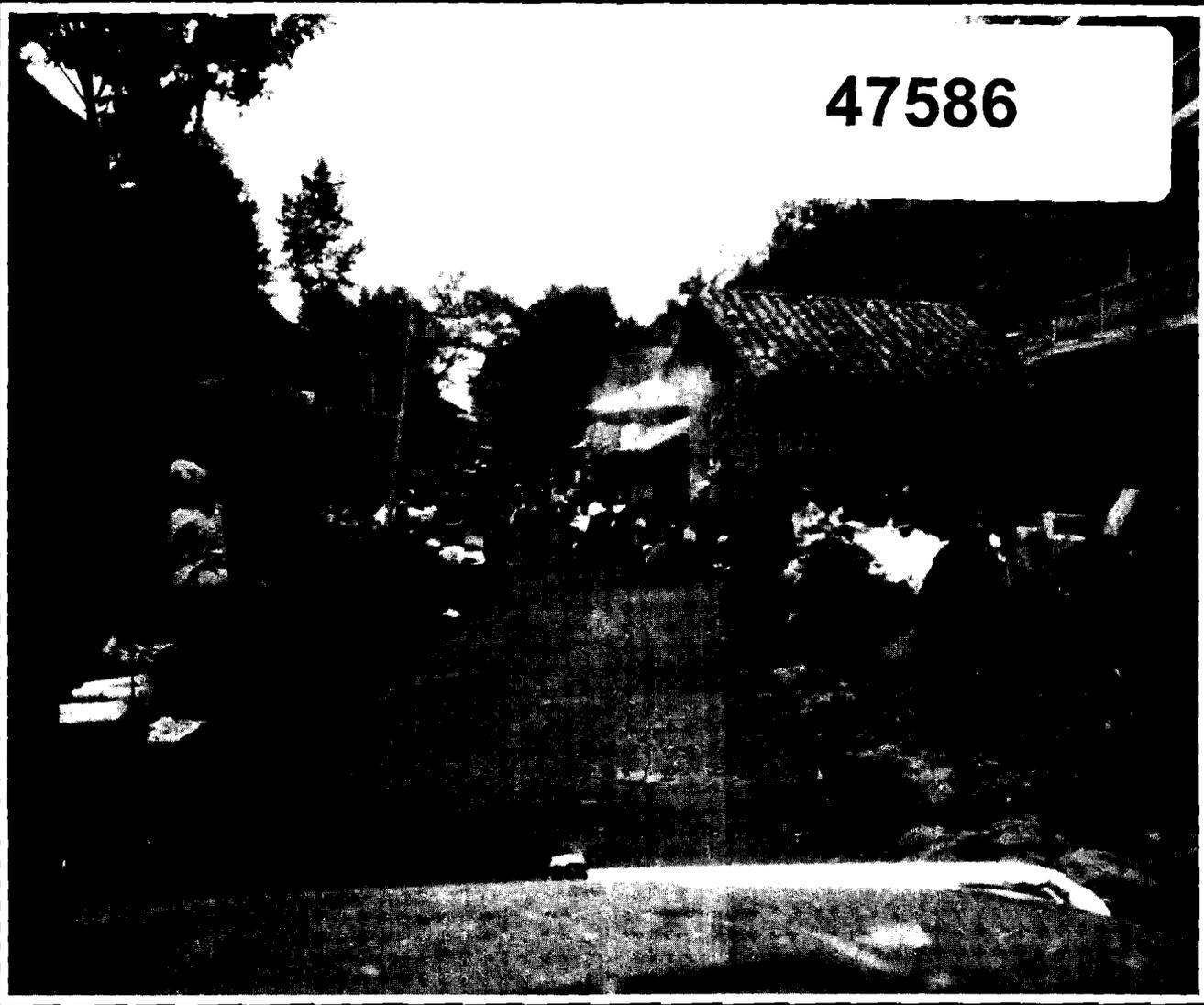


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China: Small Towns Development

A Review of International Experience in Planning, Financing and Management of the Development of Small Towns

Proceedings of a conference in Beijing, China
November 1995

Co-sponsored by:

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CONTENTS

Introduction	1
<i>John Burfield with Di Xu and Songsu Choi</i>	

PART I: THEME PAPERS

POLICY INSTRUMENTS

Technics	7
<i>Aprodicio A. Laquian</i>	

TOWN DEVELOPMENT FINANCING

Finance	17
<i>Hafiz Pasha & A. F. Aisha Ghaus</i>	
An Overview of Private Sector Financing of Urban Infrastructure Services.....	29
<i>David E. Dowall</i>	

URBAN SYSTEMS

Outside the Large Cities: What Role for Smaller Urban Centres?	39
<i>David Satterthwaite</i>	

TOWN LAND MANAGEMENT

The Management, Costing and Marketing of Town Land.....	65
<i>Alain Bertaud</i>	

NATIONAL URBAN POLICY

Urban Development Strategies, Planning and Decentralisation: Emerging Trends.....	79
<i>Emiel A. Wegelin</i>	

PROSPERITY AND SUSTANABILITY

Prosperity and Sustainability of China's Towns: Lessons from North and South.....	91
<i>John M. Courtney</i>	

ii China: Small Towns Development

Development and Sustainability — A Case Study in Shenzhen, China.....	99
<i>Xiaochen Meng</i>	
Policy Reform and Town Development in China.....	105
<i>Zhaoliang Hu</i>	

PART II: SUMMARY OF CHINESE WRITTEN CONTRIBUTIONS

OFFICIAL SPEECHES

Compiled by *John Burfield*

Background Policy Guidelines of the Reform of China's Small Towns.....	111
<i>Zhang Haoruo</i>	
Speech at the Opening Ceremony of International Seminar on China Small Towns Development	112
<i>Mao Rubai</i>	
To Bring Roles of the Agricultural Bank of China into Full Play and Promote Development of Small Towns in China	113
<i>He Linxiang</i>	
Promoting the Healthy Development of Urbanization in Rural Areas Abide by Scientific Law and Pattern	113
<i>Li Baoku</i>	
Basic Ideas on the Reform and Improvement of the Management System of Domicile China's Small Towns	114
<i>Mou Xincheng</i>	
Scientific Planning and Positive Guidance to Promote the Healthy Development of Small Towns	115
<i>Ma Kai</i>	
Effective Use of Science and Technology for Promoting the Socioeconomic Development of Small Towns	115
<i>Wang Baoqing</i>	
Observation on the Question of Reforming the Administrative Management System of the Small Town	116
<i>Gu Jiaqi</i>	
To Improve the Financial Management Systems of the Township Governments as an Important Precondition for Promoting the Development of Small Towns.....	117
<i>Ms. Gao Ying</i>	
Deepening Rural Economic System Reform to Quicken the Pace of Small Town Development...	118
<i>Wan Baorui</i>	
Small Town Construction-Reform on Small Towns Land Utilization System— Promotion of China's Rural Modernization Process	119
<i>Liu Wenjia</i>	
Establishment of a Set of Statistical Indicators and Urbanization Information Monitoring System for Rural Towns of China to Suit the Need of New Situation of Reform and Development.....	119
<i>Lu Chunheng</i>	

ACADEMIC PAPERSCompiled by *John Burfield*

On Development of Small Towns	121
<i>Fei Xiaotong</i>	
Development of Small Towns Is an Important Means for Agricultural and Rural Modernization in China	122
<i>Chen Xiwen</i>	
Urbanization: The Opportunities and Challenges Faced by Rural Development in China	122
<i>Du Ying</i>	
The Role of Government in Township Development and Its Policy Design	123
<i>Liu He</i>	
Problem of Planning and Construction of Small Towns	124
<i>Zou Deci</i>	
Small Towns Construction and Rural Modernization—on Road of Rural Modernization with Chinese Characteristics	124
<i>Gao Chengzeng</i>	
The Value Increment Profit of Land Capital with Its Allocation	125
<i>Tiejun Wie and Shou Yin Zhu</i>	
The Eastern Part Leads the Development of the Western Part and in a Bid to Push Forward the Urbanization of Rural Areas in China	125
<i>Bai Renpu</i>	
The Key Points in Establishing Statistical Index System for China Small Towns Development	126
<i>Zhou Yixing</i>	
Current Situation and Motivation of Land Market of Small Towns in Southern Jiangsu Province	126
<i>Yu Wenhua</i>	
Estimation of the Dual Urban-Rural Socioeconomic Structure Will Accelerate & Improve Urbanization in China	127
<i>Ye Shunzan</i>	

PART III: SUMMARY OF WORKSHOPS AND CONCLUDING REMARKS

Strategy Overview	129
<i>Andrew Hamer</i>	
Summary Remarks	133
<i>Katherine Sierra</i>	
Workshop Summary and Findings	137
<i>John Burfield</i>	

ANNEX: LIST OF PARTICIPANTS	141
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Introduction

John Burfield, with Di Xu and Songsu Choi

Background

Since the beginning of economic reform in the late 1970s, rural China has witnessed unprecedentedly large increases in agricultural productivity. During the same period, the economic growth in urban areas has created substantial demand for labor. As a result, more than 100 million rural surplus laborers seek their livelihood in the cities. However, this large influx of rural migrants has created tremendous pressure on land-use, infrastructure and services in towns and cities, particularly the large ones.

While the Central Government has consistently favored small towns development, few effective measures have been employed other than administrative instruments to control population growth in large cities. Numerous problems in small towns development, such as the lack of financing for infrastructure and social services, have not been effectively addressed.

In 1993, the Central Government established a working group under the Systems Reform Commission (SRC) to facilitate the development of small towns. This working group requested the World Bank to help examine and evaluate issues

and techniques for rational decision making in small towns development in China. The Bank, while agreeing to provide some limited support, secured a funding from the Swiss Agency for Development and Cooperation (SDC) for study tours and a conference to bring international perspectives to bear on the effort, and agreed to help manage such activities. The consultant, Urbaplan, was hired to provide the support for the activities.

Conference

The SRC, assisted by Urbaplan and the Bank, organized the Conference "China: Small Towns Development" in Beijing during November 13-17, 1995. More than 200 participants attended, consisting of policy makers, planners, academics and international experts. Nine theme papers by international and local experts commissioned by Urbaplan were presented. In addition, 34 official speeches and academic papers by domestic participants were addressed during the first two days of the Conference. The third day consisted of a field trip to the town of Shengfang, Hebei Province. Two workshops were held on the fourth day as follows: one focused on urban planning and land-use management, and the other on public and private financing issues. Each workshop

2 China: Small Towns Development

was attended by a large contingent of local government officials, professionals and academics, totaling more than 100 participants who contributed to lively discussions. On the fifth day, the conference concluded with presentations of summaries and findings.

This Volume

This volume consists of three parts. Part I contains the commissioned theme papers by international and local experts. Part II presents abridged versions of 23 of the written contributions by domestic participants, for which English translations were made available. Part III gives the summary of the workshops findings and concluding remarks.

Part I. Theme Papers

The nine commissioned theme papers addressed six themes of the conference: policy instruments; town development financing; urban systems; town land management; national urban policy; and prosperity and sustainability. Most of these theme papers by the commissioned experts drew upon general international experiences, rather than issues specific to China. The presentations were followed by open discussions, some of which are reported in Part II of this volume.

In the first theme paper "Technics", Aprodicio A. Laquian discussed the policy instruments that have been observed through experience to help small town development. He pointed out that the household registration (hukou) system which worked in the past in China will no longer work as effectively because China's economy has become more and more market oriented. Guiding direct rural-urban migration toward small towns would effectively accomplished more through employment creation, Laquian suggested. Provision of physical infrastructure (roads, energy, water, communications) also enhances small town development but is insufficient by itself to guarantee small town growth. He further noted that the lack of education, public health and sanitation services and social welfare programs is an important problem that migrants face in small towns. Finally, he concluded that technics of area-wide integration between rural and urban areas is one of the key policy measures that can be used for encouraging the development of small towns in China.

Hafiz A. Pasha and A. F. Aisha Ghaus, in their paper "Finance", addressed the financing issues for small towns development. They first reviewed the prospects and mechanisms available for financing the development of small towns in relatively low-income developing countries. Since small towns generally owe their existence to the presence of rural-urban linkages, they argued, an effort must be made to exploit the revenue-generation opportunities created by such linkages. A sound strategy for small towns is to select taxes which have relatively large, buoyant and immobile tax bases, and which involve low collection costs. Suggested candidates include head taxes, property related taxes, entertainment taxes, resource taxes, etc.. Moreover, the authors emphasized that inter-governmental transfers from higher levels of government should also be an important component of the revenues of small towns. On the expenditure side, the authors argued that small town governments should perform the functions to provide only the key basic municipal services in order to ensure that limited financial resource and capacity be used more effectively. Additionally, local governments must move towards recovering at least full operation and maintenance costs in services, such as water supply, by means of tariff systems which are relatively simple to administer. Finally, they suggested that potentially high benefits can be gained from improvements in the financial systems, information management, accounting standards and practices, staffing levels and qualifications, audit procedures, and expenditure planning.

The limited availability of government revenues to finance infrastructure will probably continue to hinder small towns development. There is a need to look for private sector involvement, which was the topic of David E. Dowall's theme paper "An Overview of Private Sector Financing of Urban Infrastructure Services". He argued that there are three important benefits of private financing to both local and central governments: (1) it could significantly enhance the efficiency and quality of service provision; (2) it conserves scarce public sector resources; and (3) it provides additional sources of capital for financing infrastructure investments. He noted, however, that the private sector would be willing to finance urban infrastructure services if the latter would generate profit directly, or they are required as a condition of profitable real estate development. Dowall then presented a range of methods and approaches that create these conditions for private sector financing of urban infrastructure services. These include

land privatization, development charges, leases and concessions, public and private partnerships, privatization of services, and so on.

Pursuing the theme of urban systems, David Satterthwaite's paper "Outside the Large Cities: What Role for Smaller Urban Centers?" discussed how and why small and intermediate urban centers developed and how governments can best devise programs for the development of such centers. The author first noted that each urban center has its unique possibilities and constraints for development, and that a government program to develop one particular urban center may not be appropriate for others. A nationwide or region-wide program for developing small and intermediate urban centers requires local inputs. Local governments know their local needs, potentials, and capacities and should be given the authority to make their own choices as to what should be developed. To ensure local accountability and fiscal and environmental responsibilities, these local choices should be made within a broader regulatory framework established by the higher level of government. The author further discussed the links between agricultural and urban development and pointed out that effective government policies to support agricultural growth may impact the economies of many small towns more than any explicit development policy for the towns themselves. Finally, the author briefly reviewed the relevant third world experience in developing small towns as a way to slow large cities growth. He concluded that making large investments in developing "small urban centers" is unlikely to achieve positive results if the reasons for differential growth are unclear.

On the topic of town land management, Alain Bertaud, in his paper "The Management, Costing and Market of Town Land" presented a framework which allows a local authority to define and quantify land development returns, costs and risks in a fast-growing small town. Because of the status of land tenure during the transition period towards a market economy in China, he suggested that the local authority of a small town should play the role of land developer in addition to its more traditional responsibilities concerning the provision of public services and the regulation of land use. He noted that the principle of land management for local government is not only to have the flexibility in adjusting its plan to changing demand, but also to provide land developers with the confidence to invest. Land man-

agement should rest on basic "land accounting", and ensure consistency between resources and planned use, and between supply and demand. He also discussed the cost recovery mechanism for different land-use types and presented an illustration of the land accounting system.

Emiel A. Wegelin's paper, "Urban Development Strategies, Planning, and Decentralization: Emerging Trends", discussed the experiences of national urban development strategies in the South and Southeast Asian regions. The global and regional economic and demographic trends support decentralization of government functions. He suggested that central governments must support the multi-sectoral investment planning (MSIP) process at the local level, adjust their legislative and regulatory frameworks accordingly, and provide capacity building support for such processes. He stressed, strategies of fiscal incentives to influence the location of investment work best in conjunction with MSIP processes, whereas they are less likely to be successful in isolation.

Social and environmental sustainability of small towns development is the theme discussed in John M. Courtney's paper "Prosperity and Sustainability of China's Towns: Lessons from North and South." Courtney first pointed out that prosperity and traditional cultural values are in conflict in the rapidly growing urban China, and rapid urbanization has brought a number of environmental problems. These problems are more serious in the larger cities. Acknowledging that the economy and the environment need not be in conflict, but are irrevocably interconnected, the author argued that small towns in China provide an opportunity to accommodate future urban growth in a quality urban environment. A focus for small town development should be the provision of access to environmental and social infrastructure, such as clean water, sanitation, transport, education and health services. The sustainability of development requires governments to integrate urban poverty mitigation and environmental upgrading into economic development initiatives, and responding to China's special social-economic conditions.

In her paper "Development and Sustainability: A Case Study in Shenzhen, China", Xiaochen Meng addressed the problems associated with the fast urban development and their impact on economic and environmental sustainability. She pointed out that the economic boom in Shenzhen

4 China: Small Towns Development

in the past 15 years has caused a series of problems such as the decrease of arable land, irrational land-use structure and wastage, environmental degradation, as well as social instability. To solve these problems, attention should be paid to the transfer from rural to urban land management systems, development planning, protection of arable land, and strengthening of various management and regulations. She illustrated several lessons learned from Shenzhen in land policy and urban management.

Also on the theme of prosperity and sustainability, Zhaoliang Hu, in his paper "Policy Reform and Town Development in China", evaluated the linkages between economic reform and town development in China. He noted that a series of reform policies have favored town development. These include rural economic reform, adjusting township classifications, and openness to the global economy at different levels. He further discussed the existing problems in the current system, such as the unbalanced development across China, the constraints of household registration policy, township enterprise distribution, and regulatory restrictions on town development. He concluded that China still has a long way to go in town development and implementation and improvement of policy reforms are very critical for its success.

Part II. Summary of Chinese Written Contributions

Part II contains the summary of the Chinese written contributions which include 12 official speeches and 11 academic papers. The official speeches were presented by Chinese government officials from the State Commission for Restructuring Economic Systems, Ministry of Construction, Ministry of Civil Affairs, Ministry of Personnel Administration, Ministry of Finance, Ministry of Agriculture, Ministry of Public Security, State Administration of Land, State Statistical Bureau, Agriculture Bank of China, State Commission of Science & Technology, and System Reform Commission. The academic papers were provided by professors and researchers from universities and institutes.

Administrative, professional as well as theoretical concerns from different perspectives were raised for small towns development in China which reflected the range of the speakers' backgrounds and experience. Problems were identified in the areas of local government administration, land management system, domicile control system, social security system, urban system planning, and so on. Major recommendations of these written contributions include: (1) strengthening the capacity of local government by relating financial and functional responsibilities in small towns; (2) regrouping of rural industries and combining resources towards concentrated development for small towns; (3) overhauling the domicile management system according to residence and occupation, and freeing migration within county jurisdictions strict controls being retained beyond county boundaries; (4) reforming the micro organization of the countryside and developing networks of cities and small towns; (5) improving technology and computerizing management systems; (6) pilot studies and projects to evaluate the urbanization strategy; (7) setting up standards for tax collection and management; and (8) developing a national statistical index system for small towns.

Part III. Summary of Workshops and Concluding Remarks

Three separate documents summarize the major findings and key conclusions of the conference and workshops. The strategy overview by Andrew Hamer presented the elements of a workable town development strategy for China. He stressed the value of private/public partnerships in developing infrastructure as well as the importance of greater local autonomy for town governments, in line with the more market oriented economy. He further emphasized that experiments of town development strategy in different locations should be coordinated and monitored in order to establish best practice experience. Katherine Sierra presented a summary at the closing of the conference and workshops. She noted that a major factor that holds back town development has been the deficiencies on the "software" dimension such as legal and regulatory frameworks and resource mobilization mechanisms. She stressed that the success of town development lies in giving responsibility to,

and demanding accountability at, the lowest levels of government rather than by infrastructure-led town development schemes. Finally, the major findings and conclusions of the conference and workshops were presented by John Burfield in Workshop Summary and Findings which is placed at the end of this volume.

Acknowledgments

This Conference and these proceedings would not have been possible without the efforts of a large number of people. In addition to the authors whose papers and speeches are printed in this volume, particular acknowledgments are owed to Mr. Li Tie of the System Reform Commission of the People's Republic of China for his efforts in coordinating the Chinese participants and in helping the creation of the conference agenda, to Ms. Zong Yan of the World Bank resident mission in Beijing for her strong support in organizing the seminar, and to hundreds of Chinese professionals, academics and administrators for their participation and contributions in the workshop discussions. Thanks also go to the Swiss Agency for Development and Cooperation for their generous financial support to the Conference.

PART I. THEME PAPERS

8 China: Small Towns Development

and social and personal disorganization. Environmentalists also do not like cities, pointing to the degradation of urban environments due to over-consumption and fascination with material things. Ideologically, both Communism and Confucianism have strong anti-urban biases. Political philosophers (including Karl Marx and F. Engels) also considered urban life dehumanizing, mechanistic and materialistic. They tended to romanticize the notion of small town life as being warm, nurturing and benefitting from the functioning of civil society.

There are a number of economists, on the other hand, who see large cities as good, arguing that they serve as the engines of rapid economic growth because of agglomeration economies, economies of scale and openness to global capital, human and material resources and markets. Some social scientists also like large cities, arguing that they bring about personality and social changes that favour autonomy and freedom, greater creativity, and a more rational rather than stultifyingly traditional attitudes and behaviour. Great cities, in popular thinking, are where great things happen. In engineering, architecture, communications and the arts, the greatest accomplishments of humankind are seen in large cities.

China has adopted the policy of encouraging the growth of small cities and town as an integral part of its economic and social reforms and opening up to the outside world. This policy was probably based on normative grounds because, as I said before, the scientific basis for favouring small town growth is still a very debatable issue.

From the early 1950s, when China's urban policy was implemented with the help of the household registration or hukou system and a system of incentives and disincentives, the policy worked quite well. With the exception of spurts of big city growth immediately after 1949, the Great Leap Forward and the aftermath of the Great Cultural Revolution, China's level of urbanization remained very low and for most of modern China's more than four decades, it remained way below 20 percent. In fact, during the Great Cultural Revolution (1966-76), China's rate and level of urbanization were much lower than its level of socioeconomic development warranted. This was mainly because internal migration was strictly controlled. Millions of urban citizens were even sent out to the countryside to learn from the peasantry, a policy that served to decongest the cities.

The household registration system has drastically changed since 1984 when peasants were allowed to leave the village and move to towns provided they did not rely on the state for their food and other benefits. This change accelerated with the success of China's economic reforms, especially the production responsibility system, which made rural households richer and enabled them to live in towns relying on their own resources. This policy change has triggered off one of the largest population movements in history.

In 1983, China had 2,786 small towns containing 62.3 million people. By 1985, the country had 7,511 small towns with a population of 166.3 million. The number of small towns exceeded 10,000 in 1988 and it continues to grow. There are an estimated 12,000 towns in China at present and if current trends continue, as many as 400 million people are expected to leave China's villages by the year 2000 and 200 million or more of these will be moving to small towns and cities.

The question uppermost in the minds of those interested in China's small town development, of course, is whether people currently living in small towns will stay there or they will move on to small, intermediate and/or large cities. The issue of China's "floating population" (liudong renkou) is of great concern to urban authorities, especially those in charge of family planning (migrants are known to ignore locally set birth quotas), housing (migrants occupy uncontrolled makeshift dwellings or live under bridges or on sidewalks) the police (migrants are associated with criminality and corruption), employment (migrants flood job areas), transport (migrants overload vehicles and clog railroad and bus stations), and environmental control (migrants throw their garbage around or they engage in enterprises that cause water, air and soil pollution).

Because of the problems mentioned above, Chinese authorities are hoping that migrants will stay in small towns and not float to cities. However, it is already known that from 10 to 20 percent of large city populations are migrants who are not officially registered in the urban areas they are living in. It is estimated that more than 1.2 million people in Shanghai, about 1 million in Beijing, 700,000 in Tianjin and almost a million in Guangzhou do not

have official hukou status in those cities. The proportion of unregistered migrants in other cities and towns is probably higher.

Lessons from China and Other Countries

China has not been alone in attempting to control the growth of human settlements by encouraging the growth of small towns and discouraging the growth of very large cities. A global review of such policies reveals that most of these were based on the normative notion that rural life was good and cities were bad. An interesting observation is that a review of such experiences clearly shows that many of these policies have not been very successful.

In the 1950s, many development planners, especially those working with international organizations such as the Food and Agriculture Organization, the World Bank and many bilateral aid agencies, came to the value judgment that the problem in developing countries was a rural one. This was based on the observation that in most of these countries the great majority of people live in rural areas. The programs of such international agencies objected to the so-called "urban bias" of most governmental policies which showed the biggest portions of development investments going to large cities. The value judgment was made that the way to achieve more equitable development is to invest in rural areas. If one can make life in rural areas comfortable and happy, then people will not migrate to cities. In other words, one can keep people down on the farm provided the benefits of the city are brought to them.

Experience has shown, however, that the measures needed to extend an urban quality of life to rural dwellers require massive investments. Villages and small towns do not have the economies of scale and agglomeration economies that account for accelerated economic growth. Their markets are too small to support commercial and industrial production that would, in turn, support the massive social and infrastructure investments needed to make them livable. Such schemes as integrated rural development, the "Green Revolution," farm to market roads, agricultural credit, agricultural extension, rural enterprise reforms, and rural community development have been tried in many countries. The current global judgment is that these schemes do not seem to have had too much positive effect because the global rates of urban growth continue to be almost twice as high

as rural growth rates and it is now expected that the world will become more than half urban by the turn of the century.

Still, it is useful to review what lessons have been learned in many countries all over the world on technics to develop small towns. Perhaps, from these experiences, China might be able to review its own small town development policies and strategy and come up with better solutions.

Migration Control

One of the most commonly used policy approaches to develop small towns is by controlling migration away from large cities and redirecting it toward small towns. Essentially, authorities try to prevent the movement of people to large cities with a system of incentives and disincentives. China, of course, is the main proponent of this technic.

Most efforts to prevent people from coming into large cities and to encourage them to go to small towns have failed. In the mid-1950s, for example, the Government of Indonesia tried to prevent people from migrating to Jakarta, the national capital. They introduced an Identification Card system that identified people born in the city. People who did not have the identification card were taken by bus to their province of origin. The authorities found the system unworkable because it was too difficult to monitor all the migrants. The system was also made more difficult by corruption of the local level officials and the police who were expected to implement the policy.

Indonesia has also tried to control migration through resettlement or "transmigration" schemes. Millions of people from the densely populated island of Java and Bali have been resettled in outer islands to form agricultural colonies. Evaluations of transmigration have generally been quite favourable, although the cost per migrant has been high. An important aspect of the evaluation (supported also by studies of the Malaysian Federal Land Development Authority schemes in Malaysia) is that success was often associated with the development of small towns that served as foci of the settlers' lives. Where small towns developed, often through spontaneous migration that supplemented the sponsored migration streams, the settlers were happier with the social and administrative services in the towns and they did not abandon the transmigration schemes.

Household registration systems to control migration have been used in the former Soviet Union, Vietnam, China, the Democratic People's Republic of Korea, Cuba, and many Eastern European countries. For a number of years, the migration of people in these countries was successfully controlled. However, because many of these countries are now in transition to market-oriented systems, the household registration systems are breaking down.

Studies of rural-urban migration in China are instructive in this regard. According to a study by Ren Suhua in 1989, migration in China takes the following patterns:

(a) The volume of rural-urban migration in China has been traditionally low. Between 1951-53, net annual city-ward migration was 33.1 per 1,000. This dipped to -17.6 per 1,000 in 1961-65 when the failure of the Great Leap Forward and the disasters that followed it forced the out-movement of 18 million workers and 26 million urban residents from cities to rural areas. From 1976-1986, however, net rural-urban migration had averaged 12.4 per 1,000.

(b) Chinese migration is mainly rural-urban. With the exception of the periods of 1961-65 and 1966-76, the bulk of Chinese migrants have moved from villages to towns and cities.

(c) Internal migration in China has involved mainly short distances. Since 1981, moves within the same province have made up about 78 percent of all movements.

(d) Internal migration until 1984, was primarily influenced by government policies. The study by Ren revealed that 23.2 percent of people moved because of job transfers, 8.8 per cent involved demobilized soldiers (a special type of job transfer), 6.8 percent were recent graduates being moved to their first jobs, 23.4 percent were moves made necessary by implementation of various government policies, 17.6 percent involved family members accompanying a person being transferred because of a job, and 20.2 percent involved students going to a school outside their place of original residence. Employment, therefore, was the predominant reason for internal migration.

Studies of internal migration in China prior to 1984 revealed that population movements were mainly influenced by government policies. Since the institution of economic reforms and opening up to

the outside world, however, internal migration in China has become more spontaneous. This means that migration patterns will probably not be so easily influenced by governmental measures in the future.

The hukou system in China worked in the past because people were dependent on benefits such as food rations, housing, education and other benefits which were conditional on having the right local household registration. As China becomes more market-dominated, however, people are able to get these benefits from the market and they do not have to rely on the hukou system. The system of "carrots" and "sticks" (incentives and disincentives) disappears with privatization and the flourishing of the market. The technic of migration control, therefore, will probably not work efficiently under market conditions.

Migration Data Bases

Although the hukou system in China may not be an effective instrument for controlling migration under free market conditions, it can still serve as an excellent data base for tracking peoples' movements and using the data derived from it for planning and administrative purposes. In a number of European countries, especially the Netherlands, general information on peoples' movements are tracked through a computerized system. Detailed information on the types of jobs being created in one place and supply of technical and professional labour in another enables human resource development planners to develop employment strategies.

Often, the migration data base can be added to a full-blown civil registration system that takes note of events in a person's life such as birth, marriage, divorce or death. In some countries, an individual may be given an identification number and the important events in his or her life can be tracked by computers.

The important thing is to disassociate the migration data base from migration control, which is seen by many as a violation of the basic human right to move.

Employment Creation

A more effective system for encouraging small town development is by creating opportunities for employment in small towns. Studies on the reasons for rural-urban migration have shown that the

real or perceived opportunity for employment constitutes one of the major motivations for moving.

The best arguments for the use of employment creation for encouraging growth in small towns have been made by Professor Fei Xiaotong whose studies in Wujiang County in Jiangsu Province in the 1930s revealed the important role played by small factories and other enterprises in small town development. Professor Fei stressed the importance of nonagricultural enterprises and small scale manufacturing and processing activities in enhancing and augmenting the income of peasants. He proved that historically, China progressed when small scale enterprises were encouraged and the country's rate of development suffered when small town enterprises languished. During the 1930s, for example, when cheap machine-manufactured silk became popular because of Japanese manufacturing, China's small town silk industry suffered tremendously and the country languished.

The importance of employment creation was also supported by the work of Professor E.A.J. Johnson in India in the early 1950s. According to Professor Johnson, small towns acted as the social and economic "bridges" that connected rural villages and cities together. In India and China, towns often served a very important marketing function. The rural farmers went to market towns regularly to sell their products and to buy their supplies, equipment and other needs. These commercial activities created a lot of formal and informal sector jobs in town, which tended to attract more people and added to the town's prosperity.

In a study of 36 small towns in six coastal provinces of China that I conducted in 1985 to 1989, I counted 2,546 small enterprises that had been established since economic reforms were started in the country in 1984. Of the small enterprises, 29.6 percent were established before 1976, 12.4 percent between 1977-1980, 15.2 percent between 1981-83, and 42.8 percent between 1984-87. It was clear from the study that the growth of small scale village and township enterprises in the 36 small towns grew very rapidly since 1984. The growth of these industries, in turn, coincided with the rapid growth of small towns.

Another important finding in my study of small town development is the fact that the great majority of these employment-creating enterprises were collectives (63.1 percent). Another 12.4 percent of

the enterprises were completely private business concerns. Only 23.7 percent of the enterprises were state owned and managed. Interestingly, many of the state enterprises were larger ones and were located in urban centres such as the Greater Beijing region, Hebei Province, Jiangsu Province and the Shanghai-centred region.

Based on the study mentioned above and observations from small town growth around the world, the following technics related to employment creation in small towns may be considered as very important interventions:

(a) Small town authorities can encourage small scale enterprises to locate in small towns by offering credit schemes. One of the most important needs of small scale entrepreneurs is capital. Entrepreneurs often do not have enough assets to serve as collateral when borrowing investment funds from formal sources. Public schemes to provide low-cost capital will encourage such entrepreneurs, whose success, in turn, will encourage the growth of small towns.

(b) Some small town authorities have encouraged enterprises by constructing work places, markets and other structures that they can avail of at reasonable prices. In Malaysia, for example, local government authorities have encouraged informal sector food sellers to locate in small towns by building kiosks or hawker stalls. In Indonesia, the simple expedient of closing a street in a town to allow a night market to be held there is a tremendous support for local entrepreneurs.

(c) Providing amenities and services to small scale entrepreneurs in small towns is also a good way of supporting small town growth. Reliable electricity supply, clean water, garbage collection and disposal and sanitation facilities are needed in markets and other centres of employment. Town authorities can invest in these services and amenities and get back their investments through user charges, taxes and fees.

(d) Technical assistance by small town governments to entrepreneurs and migrants can help to make them succeed. Such assistance is especially useful in the fields of small business management, product design, marketing, quality control, production techniques, and finding access to public services. With the success of the enterprises, of course, small towns also flourish.

Housing and Basic Urban Services

Studies of migration to small towns usually discover that many migrants encounter a number of problems upon arrival in their town of destination. In a survey of 7,676 migrants to small towns which I conducted in 1985 to 1989, 47.1 percent said they encountered some problems. In their order of importance, these problems were as follows: (a) difficulty of fitting into the new job, 71.6 percent; (b) difficulty in fitting into the new community, 63.3 percent; (c) difficulty in finding employment, 52.3 percent; and (d) difficulty in finding adequate housing, 48.6 percent. [Note: interviewees could give more than one answer].

The pattern of answers mentioned above shows that while housing seems less important than employment and community integration for new migrants, it was still a major source of concern. The housing problem is particularly difficult to solve because it requires a great deal of resources to find good housing. In fact, in the survey, it was found that the housing problem was still unresolved five years after the beginning of the survey for more than 37.1 percent of the people studied.

By the last year of the survey, it was found that almost 70 percent of the interviewees still had a housing problem. About 25.4 percent lived in rented accommodations belonging to their work units; 30.3 percent lived in public dormitories owned by the work unit (these were mainly young unmarried workers), and 11.3 percent rented private accommodations and doubled up with other people because private rents were too expensive. The housing difficulties in the small towns were seen in the fact that among married migrants who were accompanied by their spouses, 11.4 percent were still waiting for a housing allocation from their work units more than five years after the start of the survey.

Although housing may not be initially seen by migrants to small towns as a serious problem, it should be viewed as a medium and long term issue that town authorities need to address if they are to succeed in enhancing small town development. Housing is the most expensive investment of a family in its lifetime. Settling in a small town can be made easier if adequate housing and other basic urban services (clean water, sanitation, education, health) are made available. In China, these may be provided by the work unit. Town

authorities should make sure that housing and urban services are made available if they are to see their towns develop and grow.

The housing issue, of course, does not actually require the construction of houses and their distribution to people. From a review of various technics used in various parts of the world, the following approaches have been found to be useful:

(a) Sites and services may be made available to migrants to small towns instead of finished housing. In this technic, the town government or the work unit may allocate some land for housing and then provide basic services such as clean water, sewerage, drainage, a road network, garbage collection and disposal, etc. The people can then be encouraged to build their own houses on the serviced sites. In this way, the housing will not require too much capitalization from the very beginning. The housing recipients will also be able to build according to their needs, expanding the structure as the family expands and investing money in the dwelling when they can afford it.

(b) Housing can be provided by the work unit as close to the work site as possible. The high density housing (usually multi-storey) can be build on land owned by the work unit. There are a number of advantages to the work unit in this technic despite the fact that it may require considerable investment up front. For example, workers assisted with their housing will be more loyal to the organization. Living close by will also tend to diminish absenteeism. Socially, being able to walk or take a bicycle between home and work is, of course, beneficial to the environment.

(c) Housing in small towns can be made of indigenous materials and they can be constructed with appropriate local technology. If future homeowners have the necessary construction skills, they may be involved in the design and construction process and save some money. Upgrading of semi-finished dwellings has been found to be an effective strategy to cut down cost of housing. In a number of countries, maintenance and other housing costs can be significantly lowered if this is delegated to organized residents.

(d) Community organization and cooperative management among residents in a housing community can be used as a technic of lowering service costs, enhancing commitment to shared goals and making service delivery more efficient. Because rural-urban migrants may come from

different villages and other towns, it may be necessary to organize them into community groups. This may require the services of training community organizers and motivators who can facilitate community cooperation. This community organization is particularly useful in newly formed communities where people initially are strangers to each other.

(e) Housing and basic urban services may be used as effective instruments in a policy of "reconcentration" where rural households widely scattered in space can be brought together in dense settlements that can then be more efficiently provided with other urban services (piped water, flush toilets, health clinics, neighbourhood schools). This policy of reconcentration has been widely used in Cuba, for example, where five-storey walk-up apartments have been constructed for the rural people even in remote rural areas. By concentrating people in dense settlements, it became easier to extend services to them and to manage community life.

Areawide and Regional Planning

One of the main reasons for the failure of small towns as human settlements is that they are isolated from both their rural hinterlands and from other towns. Areawide planning has shown that when siting small towns, close attention should be paid to their linkages with rural areas, other towns and intermediate or large cities.

Often, there is a tendency for small town planners to consider a major function as the main basis for the creation of the town. Single purpose settlements, such as mining towns, tourist resorts, etc., are difficult to make sustainable if they are not linked with surrounding settlements. As much as possible, towns should be linked together functionally, i.e., comparative advantages of each town should be enhanced by networking.

It is most important for small towns and their rural and higher order urban settlements to be linked by a good system of roads, telecommunications, and services. The linkages provide the synergy necessary to make the different towns within a certain region far greater than the sum of their parts.

Infrastructures alone, however, will not guarantee the success of a small town. In the "growth centre" small towns strategy in Kenya, for example, government planners thought that roads, town

buildings, clinics and hospitals, schools and churches or mosques would be sufficient to attract people and keep them in the town. Experience showed, however, that even when these physical infrastructures and social superstructures were provided, sometimes failed to flourish. Employment opportunities, a sense of community, good local government leadership and other intangible factors seem to be more important as indicators of success in small towns than physical infrastructures.

That physical infrastructures are insufficient as a developmental technic is also exemplified in Tanzania's ujamaa village development scheme. In Tanzania, small town planners gave more emphasis to social organization and the fostering of community leadership than physical infrastructures. By stressing community development, cooperation and commitment to the ujamaa ideal, the small towns were able to mobilize the people for development.

Environmental Technics

One of the main concerns about small towns in China is the fact that the village and township enterprises on which the town's development depends are often the cause of environmental pollution. This is because these enterprises are too small and they do not have adequate capital to install the pollution control devices. Some small scale entrepreneurs also simply do not know enough about the negative effects their actions have on the environment. They dump acids, paints, used oil and other types of toxic waste into drains or open streams unaware of the deleterious effects of these substances on the environment.

An obvious intervention for countering environmental pollution in small towns is the establishment of local and national pollution control policies and standards and their strict enforcement in small towns. National and local legislation can be passed to control the polluting behaviour of local entrepreneurs. The policies and standards should be widely disseminated, especially information on the causes of pollution and the fines and penalties for polluting.

Authorities in small towns may also form technical assistance groups to inform small scale entrepreneurs about the environmental consequences of their actions and to give them advice on how to curtail polluting practices. Enterprises may be given

enough time to make the adjustments before they are penalized. Often, this positive and supportive approach works better than purely punitive measures.

While small towns may affect the physical environment directly, it is also possible to plan small towns so that they fit into the demands of the physical environment. In the Democratic People's Republic of Korea and in Cuba, for example, there is a severe shortage of arable land. To adjust to this environmental limitation, small town planners have sited new town settlements on steep hillsides, rocky promontories and unfertile terrain. The fertile valleys are reserved for agriculture and other productive enterprises. The towns, by adjusting to the demands of the physical environment, are able to become more ecologically adaptive, performing their administrative, political and social functions with minimal adverse effects on the environment.

Small Towns in Mega-urban Regions

The polarized view that pits small town development against mega-city development often ignores the fact that one of the best ways of encouraging small town growth is to link small towns with very large cities in the context of mega-urban regions. In a comparative study of Greater Beijing, Metropolitan Shanghai and Greater Guangzhou which I have been conducting since 1991, small towns on the periphery of mega-urban regions have been found to be thriving. In the beginning it was feared that such small towns within the mega-urban regions were merely destined to become satellite "bedroom towns" for commuters who work in the inner city. Further studies are showing, however, that these towns have their own identities, their own pattern of enterprise development and their own political and administrative dynamics.

Similar studies of small towns within the hinterland of Hong Kong and Macau are also showing rapid development rates in these settlements. Although these small towns mainly serve the food, labour and service needs of the large urban areas, their prosperity is remarkably local. The systems of local administration and urban management are also very particularistic.

In part, the autonomous development of small towns within large mega-urban regions might be due to the poor transportation services in China that prevent more efficient commuting. Because

the costs of going to the central city can be high in both monetary and time considerations, the small towns tend to develop with an inward focus. Perhaps, if and when rural-urban transport systems improve, the small towns will be swallowed by the mega-city.

Mega-urban region planning approaches in recent years, however, run counter to these trends. In many technologically advanced countries, mega-urban regions are being planned and developed as multi-nodal settlements. The preferred technic is "densification" or the concentration of people in smaller settlements. These densely inhabited settlements are, in turn, surrounded by productive agricultural green zones. They are also linked together with non-polluting transport systems that enhance economic and social integration.

A good example of this technic of integrating small town development into mega-urban region planning is seen in the Greater Vancouver Regional District in Canada. Greater Vancouver's vision is one of a central city surrounded by eight "regional town centres" that have their own autonomous character. The regional town centres are designed as densely occupied settlements where jobs, housing, shopping and cultural and social services are concentrated. The green areas between the centres are kept as productive farm lands where very intensive and technologically advanced "urban agriculture" based on hydroponics and intensive track gardening are practiced.

The decentralized mega-urban region planning approach is proving to be one of the most innovative technics in urban planning in recent years. In some ways, it may be seen as an attempt to achieve the social intimacy of the small town by integrating it within the complex reality of the mega-urban region. If this balancing act succeeds, small town development might continue with its positive effects.

Conclusions

The development of small towns in China has been an integral part of the country's national urban strategy as Chinese authorities have considered the positive and negative effects of small town life in their national development efforts. In some ways, policies on small towns have been heavily influenced by the debates on centralized or "command economy planning" or decentralized or "bottom up" planning. A country as large as China

is an extremely difficult one to govern. In the recent past, there has been a strong tendency to attempt to govern through centralized control, which, in turn, has resulted in negative effects on small towns growth.

China's adoption of the policies of economic and social reform and opening up to the outside world has had most positive effects and impact on small town development. The past decades have shown that people in small towns can pursue developmental activities that, combined together, result in rapid economic growth at the national level. Of course there have been some negative effects of small town development, such as uncontrolled internal migration, pollution, corruption. On balance, however, the release of the creative energies of millions of people in small towns have improved the quality of life of the majority of China's citizens.

A review of various approaches and technics for small town development in other parts of the world that China's current policies on small towns are strongly developmental. Small towns have boomed economically as their linkages with their rural hinterlands have increased. They have become good places to live as they have linked up with larger urban areas to take advantage of technological and social changes.

Looking at developments of small towns elsewhere, one may conclude that in the city of the future, people would not make too much of a dis-

inction between small towns and big cities. The information revolution is blurring physical distances as ideas rather than people travel. In the United States and Canada, the distinction between rural and urban residence is already blurred. Urban services that used to be hard to get in rural areas are now easily available. One can live in a very small rural hamlet and still be connected with the main city by telephone, fax, modems, e-mail and the Internet. Right now, these technological marvels may just be the stuff of modernist aspirations in China but it will not be long before they become reality. At that time, the technics discussed in this paper may come into full play and enhance the development of small towns.

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Urbanisation is proceeding at a rapid pace in most developing countries. For low and middle income economies of the world, the average annual growth rate of urban population is twice that of the overall population (see Table 1). This growth differential is even more pronounced in China, where the growth rate of urban population at 4.3 percent per annum is over three times the total population growth rate. This has led on the one hand to the emergence of 'mega' cities with populations in excess of 10 million and on the other hand to a vast multitude of small cities and towns at the rural-urban interface performing a wide variety of service and trading functions.

According to estimates of the World Bank for developing countries, over one billion people lived in 1992 in cities and towns with population of less than one million. The corresponding number for China is over 200 million, where such settlements have exhibited considerable dynamism and growth and have increased their collective share in urban population from 52 percent in 1970 to 65 percent by 1992. It is anticipated that over the next decade these cities and towns will have to accommodate an additional 160 to 200 million migrants from the countryside of China. Therefore, the success of future development and

modernisation efforts of the country will hinge crucially on the institutional and financial capacity of small towns of China to provide employment, housing and a modicum of basic municipal services to the large number of rural migrants.

The objective of this paper is to assess the prospects and mechanisms available for financing the process of urban development in small towns of relatively low income developing countries and to present the existing international experience in this area. Section 2 highlights the salient features of growth of small towns generally and derives implications regarding household levels of affordability, levels of demand for municipal services and potential local sources of revenue. Section 3 discusses issues of institutional structure and capacity and focuses in particular on the range and level of functions that can be performed efficiently by municipal governments in small towns. Section 4 highlights the problems of financial management relating to the operation of municipal budgets and the process of revenue administration. Section 5 describes the pattern of municipal finances in smaller jurisdictions and identifies major potential sources of revenue. Finally, Section 6 presents the conclusions.

TABLE 1
EXTENT OF URBANISATION IN DEVELOPING COUNTRIES

Country	Population (Million) 1992	Share of Urban Population (%) 1992	Average Annual Growth Rate (%) 1980-92	Overall Population Growth Rate (%) 1980-92	Population in Cities/Towns with population be- low 1 million (%) 1970	1992
Bangladesh	114.4	18%	6.2%	2.3%	53%	48%
India	883.6	26	3.1	2.1	68	66
Nigeria	101.9	37	5.7	3.0	74	71
Pakistan	119.3	33	4.5	3.1	51	47
China	1162.2	27	4.3	1.4	52	65
Sri Lanka	17.4	22	1.5	1.4	100	100
Egypt	54.7	44	2.5	2.4	47	48
Indonesia	184.3	32	5.1	1.8	58	64
Myanmar	43.7	25	2.6	2.1	77	67
Philippines	64.3	44	3.8	2.4	71	64
Thailand	58.0	23	4.5	1.8	35	40
Turkey	58.5	64	5.6	2.3	63	67
Brazil	153.9	77	3.3	2.0	51	49
Malaysia	18.6	45	4.8	2.5	85	76
Korea, Rep. of	43.7	74	3.4	1.1	25	27
Mexico	85.0	74	2.9	2.0	57	59
Low and Middle Income Economies	4610.0	36	3.7	1.9	59	63

Growth of Small Towns

Rural-Urban Linkages

Small towns generally owe their existence to the presence of rural-urban linkages. As agricultural development proceeds and the rural economy makes the transition from subsistence to market-based farming, the prospect for stronger urban-rural linkages increases greatly. This explains why the rate of formation of new towns and the rate of growth of existing settlements increases rapidly at intermediate stages of development, as is being observed currently in many developing countries, including China.

Smaller towns and cities often represent better locations for agro-based industrial activity in view of greater proximity to agricultural production centers and for the same reason are better equipped to provide services for the modernisation and improvement of agriculture. Linkages are both forward and backward in character. The latter arise from the marketing of agri-

cultural inputs like fertilisers, pesticides, tractors, agricultural machinery, etc., while the former involve wholesale trading in agricultural produce and agro-processing of agricultural raw materials. Initially, most of the economic activity in small towns is informal and small-scale in character of labor-intensive nature. Development of small towns at the rural-urban interface can potentially create a 'synergy' between the process of rural and urban development rather than a conflict.

Economic Base of Small Towns

Given the sources of growth of towns, the economic base of such urban centers consists primarily of trading and service activities for the rural hinterland. As such towns grow they generally progress to also performing industrial, administrative and cultural functions. Much of this development is spontaneous in character and needs to be supported by municipal authorities through provision of infrastructure which promotes rural-urban linkages.

Income Levels and Affordability

Small towns generally represent the first change of residence for rural migrants. There is evidence of the 'leap frogging' phenomenon whereby some migrants subsequently move on in search of better economic opportunities to larger cities. The likelihood of this is greater if the prospects for gainful employment at the initial location remain uncertain.

Income levels are generally low in small towns because human capital endowments of residents, consisting primarily of unskilled rural migrants displaced from agriculture, are limited and because of the nature of economic activity pursued at such locations which is characterised primarily by informal and small-scale modes of production. Poverty levels are high in small towns in relation to larger cities and per capita incomes are a fraction (1/2 to 2/3 usually) of the national average. The consequences are that levels of effective demand and willingness-to-pay for municipal services are low. Simultaneously, the tax bases relating to property values, incomes, value of sales, etc. are small and narrow in view of the need to exempt a high proportion of tax payers. The basic challenge confronting municipal governments in small towns is to raise enough revenues through taxes and user charges to finance the investment and on-going provision and maintenance of basic municipal services like drinking water, sanitation, roads, etc.

Potential Sources of Revenue

The international experience with regard to the development of municipal finances in small cities and towns is one of limited success in resource mobilisation in view of the lack of taxable capacity. Generally, the local tax to gross regional product ratios observed are below one percent. Conventional local sources of revenue like the property tax have small yields because residential property values (rent or capital values) are low, the tax base of large-scale industry is limited and taxation of commercial property is restricted by the high degree of fragmentation and informal nature of trading activities. In fact, in many countries, small towns with populations below 25,000 are not declared as rating areas for purposes of property taxation because of high costs of collection in relation to potential revenue yields. Land prices of publicly developed plots are also unlikely

to fetch large surpluses over development costs because of low real estate values in relation to those observed in metropolitan cities.

The search for revenues in smaller municipal jurisdictions, therefore, has to be oriented towards unconventional sources. This requires an understanding of the economic functions and base of such areas and the exploitation thereof of any revenue generating opportunities, frequently through the adoption of innovative tax instruments. For example, most urban jurisdictions in South Asia have found a large and growing tax base in the movement of goods from external (local and international) sources to within the municipal boundaries. A tax called octroi has been imposed on goods entering the jurisdiction for sale, use or consumption and collected from transport vehicles at posts located at the urban periphery. Even with small, flat rates of taxation, revenue collections from the tax are large and in many small towns account for over 60 percent of total revenues. However, the common implication of entry/exit taxes is that they tend to fall mostly on basic items like food, building materials, etc., and are, therefore, regressive in character.

Non-tax revenues also represent a promising source. The resource mobilisation strategy in this area ought to focus on the nature of rural-urban linkages. This will require relatively unconventional investments in urban development like farm services-cum-community centers, weigh bridges (at product markets), upgrading of public transport terminal facilities, recreational facilities (for rural households), construction of guest houses and development of markets for livestock products and for general trading purposes, etc., and the levy simultaneously of appropriate fees, licenses and rental charges. In many countries, there are significant examples of small, dynamic municipalities which generate almost half the revenues from such nontax sources.

Institutional Structure and Issues

Forms of Multilevel Government

The constitutional division of powers among various levels of government can be broadly categorized as unitary or federal. A unitary country has a single or multi-tiered government in which effective control, including decision making, of government functions rests with the central government. A majority of countries have adopted a unitary form of government. Examples of multi-

tiered unitary constitutions include Egypt, Japan, Korea, Indonesia, Turkey, Spain, United Kingdom and China. China, in fact, is a good example of a unitary government which is quite decentralised. In 1980 subnational governments secured significant autonomy from the central government and China can therefore be effectively considered a decentralised federation even though the legal structure continues to be centralised.

The federal form of government has a multi-tiered structure with decision making shared by all levels of government. This system is conducive to greater freedom of choice, political participation, innovation and accountability. Federal countries broadly conform to one of the two models, dual federalism and cooperative federalism. In the former, fiscal tiers are organised so that the national and state governments have independent authority in their areas of responsibility and act as equal partners. Local governments do not have any constitutional status and are simply extensions of state governments. In cooperative federalism various levels of government have overlapping and shared responsibilities and all levels are treated equally as partners in a federation. Canada, India and Pakistan broadly conform to the first model while United States and Brazil are examples of the latter.

There is a strong rationale for decentralised decision making on grounds of efficiency, accountability, manageability and autonomy. Ideally decision making should occur at the lowest level of government consistent with the goals of allocative efficiency. Thus the optimal size jurisdiction for different services will vary with the extent of economies of scale and benefit-cost spill-overs. Each public service should be provided by the jurisdiction having control over the minimum geographic area that would internalize benefits and costs of such provision.

Allocation of Responsibilities

Based on these principles of expenditure assignment and the guidelines discussed above the following options for decentralisation may be appropriate. Local public services that could be decentralised to local governments are presented in Box 2. These are services for which economies of scale are not a major consideration, political proximity is essential, no significant cost-benefit spillovers are anticipated, and distributional con-

Criteria for Expenditure Allocation

1. Efficient provision of public services:

Public services are provided most efficiently "by the jurisdiction having control over the minimum geographic area that would internalize benefits and costs of such provision." However, some degree of central control or compensatory grants may be warranted if: costs and benefits are realised by nonresidents; service requires area larger than a local jurisdiction for cost effective provision and administrative and compliance costs are high.

2. Fiscal Efficiency and Regional Equity:

Differential net fiscal benefit (imputed benefit from public service minus tax burden) arising from differences in the fiscal capacity of the local jurisdictions introduces fiscal inefficiencies and regional (horizontal) inequities. It has been argued that the national government should play a role to correct these.

3. Redistribution of real income:

while the predominant role of the national government in pursuit of vertical equity is well recognised, involvement of subnational governments in implementing specific programs is essential so that such programs can be tailored to meet individual jurisdictions' circumstances.

4. Provision of Quasi-Private Goods:

Public provision of essentially private goods like education, health etc., is justified on grounds of equity. Since benefits accrue mainly to residents of separate jurisdictions, such services are better provided by sub-national governments.

5. Economic Stabilisation:

It is customary to argue that federal government should be responsible for stabilisation.

Fiscal federalism literature provides broad guidance in delineating expenditure responsibilities among member units in a federation. These basic principles, presented in Box 1, are relevant even for unitary states. Based on these criteria a guideline can be devised as to which functions are best provided by national and by subnational governments respectively. Assignments of public functions to subnational (local or regional/state) governments can be based on various considerations like economies of scale, appropriate packaging of local public services to improve efficiency through information and coordination economies and enhanced accountability through voter participation and cost recovery, cost/benefit spillovers, proximity to beneficiaries, and consumer preferences.

Box 1

considerations are not important. Furthermore, these could be decentralised to local governments regardless of their size or financial capability.

In addition, land use planning, secondary education and public health are other local public services that could be decentralised to larger urban municipalities (population over 100,000.) These are services for which there is some degree of scale economy but government proximity to the people is important, distributional considerations are less relevant, and benefit spillovers are not serious.

The intent of this analysis is to present a framework for decentralization that could be implemented uniformly across a country to avoid potential controversies arising from nonuniform application. It is wrong to presume, however, that all subnational governments of a particular category and size in a developing country would be equally capable and interested in taking on particular functions. It is essential, therefore, to retain some element of flexibility regarding who does what and how it is done.

Potential Services by Local Governments

- Water Supply
- Fire protection
- Primary education
- Public Health
- Refuse collection
- Neighbourhood parks and recreation
- Street/roads
- Local transit
- Traffic management
- Local libraries
- Local Bylaws enforcement

Box 2

Issues in Management, Planning and Coordination

The main factors which impinge on the capacity of local governments and which are instrumental in determining their efficiency and effectiveness relate to accountability, autonomy, and administrative capacity. Accountability for local services in developing countries is generally poor. This can partly be attributed to the unclear functional responsibilities whereby a number of agencies are involved in the provision of the same service. For example, in some countries state governments' provision of services such as primary education and preventive health overlap and duplicate services provided by local governments. These creates inefficiencies in the

allocation and use of public resources and require a high level of effective inter-agency coordination which is rarely forthcoming.

The same problems arise because of fragmented service provision in which different parts of a service are provided by different agencies. For example, development planning and implementation functions may be separated from operation, maintenance and cost recovery functions. Finally, there is lack of financial accountability due to the weak link between the cost of local services and perceived payment of local taxes.

Another issue that arises is the lack of local autonomy in planning, development, administrative and financial matters. This arises particularly in "dual federalism" in which local governments are considered only an extension of the provincial governments. In some countries local government budgets are approved by the higher tier of government. This gives the state government control over local development projects and finances, including resource mobilisation. Furthermore, state/provincial governments in some cases have control over administrative matters like hiring, transfers, etc., of local council staff. This further affects the efficient working of local governments.

Finally, lack of administrative capacity, reflected in inadequate staff level and poor quality, is also a problem constraining effective local government functioning in developing countries, especially in small towns. Altogether, it seems that local governments in smaller towns and cities should perform all the functions (development, maintenance, cost recovery, etc.) related to the provision of only a few of the basic municipal services like water supply, sanitation, public health and intra-urban roads. This will ensure that the limited financial resources and institutional capacity are not stretched too thinly. The objective of small town governments must be to do a few things and do them well. Other services like education, health, residential plot development, etc., may be left to higher levels of government. This is, in fact, the commonly observed pattern for most developing countries. The available international data indicates that on the average almost 90 percent of the municipal budget in small towns is accounted for by administrative overheads and costs of services like water supply, sanitation and roads.

Financial Management

Institutional Capacity and Staffing Levels

In most municipal governments, especially in smaller jurisdictions, the major constraints to financial management in terms of the operation of budgets (flow of income and expenditure) and revenue administration is the low quality of human resources available for performing this function. This is the consequence of limited resources and of the public sector remuneration structure which is uncompetitive in relation to the private sector. The accountant in a small municipal government is usually a low level government functionary with limited professional credentials and training. Revenue administration is also underdeveloped with inadequate recording of taxpayers and billings. Frequently, this function has been privatised and handed over to contractors. Contracting systems vary ranging from fixed commissions to pre-emption of revenue beyond a committed level of income. Privatisation has proved to be efficient in raising revenues or reducing costs as long as the bidding processes for appointment of contractors remain competitive.

Accounting Standards and Practices

Financial practices are generally based on single entry cash accounting on an annual basis. The financial systems are traditional in character and elaborate procedures of documentation have been established primarily to facilitate financial control and prevent leakages of funds. The financial records are usually structured by a chart of accounts which identifies main service categories and within each category separates costs of staff (establishment), supplies (contingencies), repairs and new works (development expenditure). There is very little emphasis on development of management information systems to facilitate financial decisions.

Financial management reforms within local governments must include, first, improvements in billing and collection. Separation of basic functional responsibilities between assessment, record-keeping and collection is needed. Financial records frequently do not show clearly who should be billed and by how much. Also, the gains from computerisation are high. Second, there is little recognition of the need for proper cost accounting by service to enable correct pricing decisions. Many maintenance items appear as devel-

opment expenditure and hence the usefulness of the accounting system is reduced. Third, budgetary control operates as a blunt tool with little regard for overall targets and priorities. Financial control also needs to be extended to more effective cash flow management and creditor/debtor management.

Expenditure Planning

Expenditure planning is seldom undertaken in a multiperiod framework. Budgeting of expenditures tends to focus on detail rather than on strategic decisions. Consequently, municipal budgets, especially in small towns, are of little use as planning documents. The link between expenditure and income raising decisions, which forms the basis of budgeting, is generally not clear.

In many local governments, particularly those with elected councilors, the practice is for available funds (especially for development) to be allocated, more or less, equally among wards on the basis of considerations of equity. This leads to a fragmentation of the development effort and a strong bias against investments in trunk infrastructure. Also, project-approval procedures tend to be bureaucratic and cumbersome in character and involve little economic appraisal in terms of costs versus benefits.

Audit Procedures

The audit function is centralised usually within the relevant department at the state/provincial government level. The primary focus of audits is to assist the municipal administration in maintaining accurate accounts and protect against fraud, misappropriations and waste. Audit manuals generally exist and specify the normal checks. However, the overall planning of audit and the auditing standards to be applied are not clearly defined. Furthermore, auditing techniques such as systems audit and statistical sampling are not used.

Revenue Administration

Revenue administration has generally not been given the priority it deserves in view of the limited tax base available to small municipal governments. The incentive to raise collections is reduced in the case of local governments which rely heavily on subventions and grants-in-aid from higher levels of government. In addition, the in-

ability to achieve economies of scale raises costs of collection in relation to revenues generated and weakens the case for investments in tax administration. Consequently, in most small municipal governments departmental collection is fragmented and ineffective. The response is either the handing over of this function to a higher level of government or privatisation through appointment of contractors. The former runs the risk of reducing fiscal autonomy while implied costs and scope for taxpayer harassment in the latter case may be high. It is essential that even small municipal governments develop an adequate tax administration which can be deployed to collect revenues efficiently from a few major sources.

Altogether, the potential gains from improvements in financial management by municipal governments are high. This will not only help in mobilising more resources but also in utilising them more efficiently for maximum impact on the level and quality of services provided.

Municipal Finances

To finance their expenditure liabilities, local governments have access to two major sources of income. These can broadly be categorised into locally raised revenues and external revenues. Local governments generally have fiscal powers to raise revenues from various taxes, user charges and other sources like licences, fees, rental income etc. Substantial variation exists in the pattern of financing of local services among different cities in developing countries. Taxes usually finance the highest proportion of local expenditures. For a sample of 50 small cities in developing countries, the average share of tax revenues is 45 percent. Nontax revenues consisting of user charges, fees, licenses, rental income, etc., have a share of about 30 percent and the remainder, 25 percent, is accounted for by external revenues like grants-in-aid and revenue-sharing transfers from higher levels of government.

Tax Assignments

The extent of self-reliance of local governments crucially depends in the allocation of fiscal powers. The division of revenue sources among different levels of government constitutes the tax assignment problem. Once expenditure assignment has been agreed on, tax assignment and design of transfers become critical elements in matching expenditure needs with revenue means at various levels of government. Proper arrangements

Criteria for Tax Assignments

- Taxes suitable for economic stabilization should be centralized; lower level taxes should be cyclically stable.
- Unequal tax bases between jurisdictions should be centralized.
- Taxes on mobile factors of production should be centralized.
- Residence-based taxes, such as excises, should be levied by subnational governments.
- Taxes on completely immobile factors should be levied by local authorities.
- Benefit taxes and user charges can be levied appropriately by all levels.
- There should be efficiency in tax administration, that is, the level of government likely to have the best information on a tax base would be the level responsible for levying taxes on such a base.
- Revenue means should be matched as closely as possible to revenue needs. Thus, tax instruments to further policy objectives should be assigned to the level of government having the responsibility for provision of the service.

Box 3

prevent overdependence of lower levels of government on intergovernmental transfers, which can otherwise distort local spending priorities. Criteria used for the assignment of taxes are given in Box 3. Broadly speaking, these emphasize equity (consistency of revenue means with expenditure needs) and efficiency (minimizing resource cost).

Major Potential Local Taxes

Based on the above principles, the major potential local taxes are presented in Box 4. These broadly include taxes on resources, property, sales, bads/sins and user charges. Taxes on resources is a good local government instrument because of the immobile nature of the tax base. Taxation of real estate is suitable to recover costs of public service provision related to properties. If the tax base is harmonised, single-stage sales tax can be levied by any level of government and can provide a broad-based and buoyant source of revenue for local governments also.

Most local governments rely heavily on property related taxes (including taxation of rental values and transfers). Sales tax, levied in various forms, is also an important source of revenue. As mentioned earlier, in some South Asian countries, like Pakistan, octroi (an entry tax) constitutes the single largest source of local revenue. Besides these, popular local taxes include taxation of vehicles, gasoline and entertainment.

The choice of which local taxes to exploit in small municipal jurisdictions depends upon the size, buoyancy and mobility of the respective tax base, incidence (burden by income group) and ease of collection. These characteristics are highlighted in Box 5 for different local taxes. The largest potential tax bases are likely to be observed in the case of entry/exit taxes and surcharges followed by taxes on sales or production. In small towns the tax bases of entertainment taxes, transport taxes, taxes on 'bads', etc., will generally be small.

The most dynamic tax bases are likely to be observed in the case of entertainment taxes, property-related taxes, 'sin' taxes, taxes on sales and surcharges. As opposed to this, the tax base for head taxes, resource taxes and exit/entry taxes will tend to grow slowly. As highlighted earlier, local taxes ought to be levied on immobile bases. This problem is likely to be most severe in the case of entry/exit taxes, transport taxes, taxes on production and sales. This will weaken the case for imposition of such taxes. From the viewpoint of ease of collection, which is of particular importance in small towns with limited capacity for tax administration, the best taxes are resource taxes, entertainment taxes, entry/exit taxes and surcharges.

Altogether, based on the characteristics of different taxes, the prime candidates for levy by small town governments are property-related taxes, entertainment taxes, head taxes, resource taxes, taxes on animals and surcharges. This, of course, presumes that such taxes fall within the domain of local fiscal powers. Also, there will always be exceptions and in particular towns, depending upon the nature of the regional economy, imposition of other taxes may well be justified.

Potential Local Taxes

Property Related Taxes

- Tax on Annual Rental Values
- Tax on Capital Values
- Tax on Transfer of Property

Entry/Exit Taxes

- Octroi
- Export Tax

Entertainment Taxes

- Tax on Cinemas
- Tax on Dramatic and Theatrical Shows
- Tax on Feasts
- Tax on Advertisements

Head Taxes

- Tax on Professions, Trades
- Tax on Hearths
- Tax on Births and Marriages
- Poll Tax

Transport Taxes

- Registration and Annual Tax on Non-Mechanised Transport
- Registration and Annual Tax on Motor Vehicles

Resource Taxes

- Royalties
- Conservation Charges

'Sin' Taxes

- Betting and Gambling Tax
- Tax on Lotteries
- Tax on Race Tracks
- Tax on Alcohol
- Tax on Delinquents

Taxes on 'Bads'

- Taxes on Motor Fuels
- Effluent Charges
- Congestion Tolls

Taxes on Production

- Excises

Taxes on Sales

- Single-Stage Sales Tax

Taxes on Transactions

- Contracts Tax

Taxes on Animals

- SIBox 2 aughter Tax
- Livestock Trading Tax

Surcharges

- Personal Income Tax
- Sales Tax

Characteristics of Different Local Taxes In Small Towns

Type of Taxes	Size of Tax Base	Buoyancy of Tax Base	Mobility of Tax Base	Incidence	Ease of Collection
Property-Related Taxes	Small/Medium	Medium/High	Low	Progressive	Low High
Entry/Exit Taxes	Large	Low/Medium	Medium/High	Regressive	Medium/High Medium
Entertainment Taxes	Small	High	Low	Progressive	Medium/High High
Head Taxes	Medium/Large	Low/Medium	Low	Regressive/ Neutral	Low/Medium Medium/High
Transport Taxes	Small	Medium/High	High	Neutral	Medium Low
Resource Taxes	Small/Medium	Low	Low	Neutral	High Medium/ High
'Sin' Taxes	Small/Medium	Medium/High	Low/Medium	Regressive	Low/Medium Low
Taxes on 'Bads'	Small	Low/Medium	Low	Progressive	Low/Medium Low
Taxes on Production	Low/Medium	Medium/High	Medium/High	Regressive/ Neutral	Medium Medium
Taxes on Sales	Medium/Large	Medium/High	Medium/High	Regressive/ Neutral	Low Medium
Taxes on Transactions	Small	Low/Medium	Low/Medium	Progressive	Low Low
Taxes on Animals	Small	Low/Medium	Low	Neutral/ Regressive	Medium Medium/High
Surcharges	Large	Medium/High	Low	Progressive	High High

Box 5

User Charges and Pricing Policies

A proper pricing policy which recovers costs is a pre-requisite for adequate and efficient provision of urban services. However, the concept of self-sustained provision of services is, by and large, underdeveloped in developing countries. Traditionally, there has been an absence of a strong commitment to direct cost recovery through user charges. The pattern of financing of local expenditure is a manifestation of this as only about 20 percent of expenditures are financed directly in a sample of about 50 cities analysed. This proportion is much lower in the case of social sectors.

The major issues in cost recovery in most countries relate to the ability and willingness by beneficiaries to pay for service provision and the administrative feasibility of collection. Since income levels, in general, are low, especially in small towns, and the nature of services provided by local governments like water supply and public health are 'basic' in character, governments generally lack

the political will to pursue an aggressive cost recovery policy. The situation is exacerbated by the low willingness by beneficiaries to pay, given the generally low quality of service provision. In addition, issues of cost recovery in some centralised economies, like China, go beyond simply raising the level of user charges. Charges for most urban services like water, sewerage, housing, public transportation, etc. are all linked inextricably to the wage policy. With privatisation some countries have experienced the process of collection of charges, and the experience is mixed. As a pragmatic principle, small town governments must move towards attaining at least full operations and maintenance cost recovery with the help of tariff systems which are relatively easy to administer and less prone to leakages.

Intergovernmental Fiscal Transfers

On the whole, there is a strong case for fiscal equalisation because it allows the replication of the financial structure of a unitary state in a

federalism while promoting decentralised decision making. Thus, efficiency and equity considerations coincide. The design of arrangements for transfers is also of prime importance. Criteria for such transfers are presented in Box 6.

Intergovernmental fiscal transfers may be in the form of revenue-sharing, grants or fiscal equalisation transfers depending on the rationale. If the purpose of the transfer is to correct the problem of fiscal imbalance, unconditional grants or revenue sharing based on "the derivation principle" or the point of collection are generally advocated. If the transfers are made to correct fiscal inequities or inefficiencies arising from a lack of common minimum standards than the desirable form of transfers is conditional, nonmatching grants because they do not affect subnational incentives for cost recovery while ensuring compliance with the higher government objectives. Open-ended conditional matching grants are the most appropriate kind of transfer to correct for interjurisdictional spillovers while fiscal equalisation transfers may be justified to remove differences in net fiscal benefit across jurisdictions.

In practice, however, the design of intergovernmental transfers is not entirely consistent with the economic norms enunciated above. This is particularly true for grants. For instance, equalisation transfer to eliminate differential net fiscal benefits among jurisdictions or selective open-ended matching transfers to compensate benefit spillovers are hardly tried in developing countries. Revenue sharing and conditional grants are the most popular mode of transfers. Examples of taxes shared with local governments include property tax, personal income tax, turnover tax, VAT, liquor tax and excises. The transfers are generally made on the basis of population, per capita income, collection (origin), equal shares, fiscal gap, etc. As a whole, the form of fiscal transfers from higher levels of government to small towns should be a combination of revenue-sharing transfers plus fiscal equalisation grants. Given the limited taxable capacity of smaller towns, the share of fiscal transfers in total revenue should generally decline with an increase in municipal status and population size. Intergovernmental transfers are an important source of revenue for local governments in most developing countries. The economic rationale for transfers is presented in Box 6.

Rationale for Fiscal Transfers

Fiscal Imbalance

A fiscal gap may arise because of structural imbalance between the assignment of revenue sources and of expenditure responsibilities. Such imbalances usually exist due to limited or unproductive tax bases and high level of federal/state taxation which limits local revenue-rising potential.

Fiscal Inequity and Inefficiency

Redistribution, an important objective of fiscal policy, is best performed by the federal government. However, in a federal system "redistribution in kind" through the provision of certain 'merit goods' like education, health, social security is undertaken by lower tiers of government. These levels of government due to inappropriate tax assignments, factor mobility and tax competition may underprovide such services and achieve the equity objectives in only a limited manner.

Furthermore, common minimum standards for public services in a federation are advocated on economic efficiency grounds. Common minimum standards help reduce interregional barriers to factors and goods mobility and thereby contribute to efficiency gains. Given these goals of equity and efficiency, justification exists for transfer of funds to the lower levels of government.

Inter-jurisdictional Spillovers

Spillovers usually occur because the benefit of a locally provided good or service itself spills beyond the local jurisdiction to benefit those not contributing to the costs of its provision. Examples include air and water pollution control, locally educated students who relocate, etc. Intergovernmental transfers can be used to correct for inefficiencies arising from such spillovers.

Fiscal Harmonisation

Net fiscal benefits may vary between different jurisdictions because of factors like differences in fiscal capacity and natural resource endowment, differences in unit costs, etc. The presence of such differences encourages fiscally induced migration and leads to externalities like unemployment, congestion, etc. Therefore, to promote efficiency and equity of the federal system, fiscal equalization transfers may be justified.

Stabilisation

Intergovernmental transfers can also be used to help achieve economic stabilisation objectives. Grants could increase in periods of slack economic activity to encourage subnational expenditures and diminish during the upswing of the economic cycle.

SOURCE: Shah (1994).

Box 6

Sources of Capital Funding

Municipal governments in most developing countries have limited access to capital funding for financing upfront development costs of lumpy in-

Elements of Design of Fiscal Transfers

- 1) *Autonomy*: The subnational governments should have complete independence and flexibility in setting priorities and should not be constrained by uncertainty associated with decision making at the center. Formula-based revenue sharing or block grants, for example, are consistent with this objective;
- 2) *Revenue Adequacy*: Subnational governments should have adequate revenues to discharge designated responsibilities;
- 3) *Equity*: Allocated funds should vary directly with fiscal need;
- 4) *Predictability*: The grant mechanism should ensure predictability of subnational government's share by publishing projections.
- 5) *Efficiency*: The grant design should be neutral with respect to subnational government's choices of resource allocation to different sectors or types of activity;
- 6) *Simplicity*: The subnational government's allocation should be based on objective factors over which the individual units have little control;
- 7) *Incentive*: The proposal design should provide incentives for sound fiscal management and discourage inefficient practices. For example, there should be no specific transfer to finance deficits.

The above criteria, in certain cases, may be conflicting and therefore, a grantor may have to assign priorities to different factors in comprising policy alternatives.

SOURCE: Shah (1994).

Box 7

vestments in infrastructure. In Pakistan, local councils, especially the small town committees, are compelled to finance development expenditures through revenue surpluses only and access to the domestic capital market is precluded. Such restrictions imposed by state/national governments are motivated, first, by the desire to control the process of credit expansion and the money supply in order to achieve the goal of macro economic stabilisation and, second, by the perception that many local governments are prone towards financial indiscipline and are likely to borrow in excess of their debt repayment capacity thereby running the risk of default. These perceptions are slowly changing but it is unlikely, that, even in the presence of greater financial liberalisation, small town councils will be allowed significant access to capital markets.

Some countries have established arrangements for capital funding for local projects through development transfers from higher levels of government through unconditional or matching grants or project-specific assistance. These transfers are generally discretionary in character and it is difficult for local governments to base their development plans on these flows of funds. In other cases municipal development funds (or banks) have been established. The general experience, however, is that the demand for such funds at near-market rates by small local governments remains low and the benefit from such schemes usually accrues to the richer councils.

Investment Incentives

Given the relatively low public costs of providing municipal services in smaller towns as compared to metropolitan cities and the likelihood of less pollution, environmental degradation, congestion, etc., a case can be made for diverting private investments to the former locations for creating greater employment opportunities and thereby attracting a greater share of rural migrants to smaller towns.

Various approaches have been adopted to counterbalance locational disadvantages to private investors by offering incentives. In many countries fiscal concessions are offered for location of investments in backward areas. These include tax holidays on profits taxes, customs duty exemption on imported machinery, exemption from production or sales taxes, etc. However, in many cases these concessions lead to distortions and emergence of tax havens. The alternative approach has been the offering of investment grants or subsidised provision of public services. The general conclusion is that for investment incentives to be successful in inducing development of small towns, these have to be selective and carefully targeted in character, otherwise they tend to become diluted or are misused.

Conclusions

The principal conclusions that emerge regarding the development of municipal finances in small towns are as follows:

- (i) Given the fact that most small towns come into existence because of urban-rural linkages, an effort must be made to exploit the revenue-generation opportunities created by such linkages. This

may require resort to innovative tax instruments and development of nontax sources by unconventional investments in urban development like farm services-cum-community centers, public transport terminals, markets, etc., and the levy simultaneously of appropriate fees, licences and rental charges.

(ii) Local governments in smaller towns and cities should perform all the functions (development, maintenance, cost recovery, etc.) related to the provision of only the key basic municipal services like water supply, sanitation, public health, roads, etc. This will ensure that the limited financial resources and institutional capacity are not stretched too thinly. Also, of vital importance to the effective functioning of local governments is the establishment of a legal framework for administration and a clear demarcation of functions and lines of responsibility.

(iii) Potential gains from improvements in financial management by municipal governments are high. These include reforms in financial systems, data and information management, accounting standards and practices, staffing levels and qualifications, audit procedures and expenditure planning. In addition, revenue administration needs to be strengthened and the scope for privatisation of this function examined. The focus of revenue administration should be on a few promising sources.

(iv) A multitude of local taxes are potentially available to municipal governments. In small towns, the strategy should be to select taxes which have relatively large, buoyant and immobile tax bases and where the ease of collection is high and costs of collection are low. Prime candidate taxes for levy generally by small town governments are head taxes, property-related taxes, entertainment taxes, resource taxes and surcharges on taxes of higher levels of government. In the case of individual towns, however, imposition of other taxes may be justified in line with the nature of the regional economy.

(v) As a pragmatic principle, small town governments must move towards attaining at least full operations and maintenance cost recovery in services like water supply and sanitation with the help of tariff systems which are relatively simple to administer and less prone to leakages.

(vi) Intergovernmental transfers from higher levels of government should be an important component of the revenues of small towns. These transfers should generally be a combination of revenue-sharing transfers plus fiscal equalisation grants. Share of fiscal transfers in total revenue may decline with an increase in municipal status and population size.

(vii) Investment incentives need to be offered to divert and generate private investment in small towns. However, these incentives should be selective and carefully targeted in character to have the maximum impact.

These are some of the conclusions based on the available international experience in the area. Implementation of the above recommendations will enable small towns to play a more effective role in attracting the inflow of rural migrants and providing them with productive employment, housing and access to basic municipal services.

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An Overview of Private Sector Financing of Urban Infrastructure Services

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Introduction

China has the world's largest population, approximately 1.2 billion people. Of the total, only 28 percent or about 324 million live in urban areas. China's low level of urbanization reflects its planning and development policies which seek to maximize resources available for industrial development by increasing the labor force participation rate and holding down urban infrastructure investment. Since the 1950s, planners have controlled migration and population growth through a variety of programs. However economic reforms and institutional changes now make it more difficult to control population movements and as a result, China's rate of urbanization is accelerating. During the 1980s urban population growth increased at an average of 4 percent per annum. In the 1990s, urban growth rates exceed 6 percent [Courtney, 1995].

New policy directions taken during the 1980s have removed many of the constraints to small town development such as permitting individuals, families or production units to invest capital in tertiary activities for profit. Now rural towns and villages contain numerous small businesses and provide a range of commercial services. Many small towns are starting to attract industry. Continued urban growth and economic development requires enormous investments in

urban infrastructure, specifically transportation, telecommunications, energy, water supply, waste collection and treatment, housing schools and public health services. Unfortunately, given current governmental policies, most of the small towns and villages are unable to generate sufficient financial resources to provide infrastructure. Changes in government policies and programs are needed to enable local governments to mobilize resources to finance infrastructure and urban services. However, public financial resources such as central government transfers or locally generated taxes are unlikely to keep pace with urban development requirements. An alternative source of financing for urban infrastructure is to tap the private sector. This paper outlines a variety of promising alternative techniques for mobilizing private sector capital.

The Benefits of Private Sector Financing of Urban Services

The private provision of urban infrastructure services yields three important benefits to local and central governments: 1) it significantly enhances the efficiency and quality of service provision; 2) conserves scarce public sector resources; and 3) it provides additional sources of capital for financing infrastructure investments. This section of the paper reviews the long-standing arguments for the

Sector	Low Income		Middle-Income		High-Income
	Coverage		Coverage		Coverage
	1975	1990	1975	1990	1990
Power generation (Kilowatts(ooo)/million persons)	41	53	175	373	2,100
Telecommunications (Lines/1000 person)	3	6	33	81	442
Sanitation (Percentage of population covered)	23	42	44	68	95+
Paved Roads (Kilometers/million persons)	308	396	1,150	1,335	10,106
Water (Percentage of population covered)	40	62	54	74	95+

Source: The World Bank, World Development Report, 1994.

public provision of infrastructure services and discusses the new view of infrastructure provision which stresses private sector provision.

The prevailing wisdom over the years has been that urban services are best provided for by local governments [Bahl and Linn, 1992]. Most economic arguments stress the fact that urban public services are largely natural monopolies and are subject to significant externalities. Some services such as water supply, wastewater collection and treatment, schools, and security are so important and confer such significant public benefits (often referred to as "merit goods") that they should only be provided for by government. Public infrastructure services are typically so expensive that they are beyond the financial capacity of private businesses. Even if such systems could be financed through tariffs, it may be difficult to exclude non-payers from using them. These arguments have profoundly shaped urban public policies around the world and led to the proliferation of urban infrastructure services during the late 1800s in Western Europe and North America and the current massive expansion of infrastructure in Asia and Latin America. Table 1 illustrates trends in infrastructure coverage for low-, middle- and high-income economies for 1975-1990.

Improving Infrastructure Efficiency

In the 1980s, public finance experts and economists began to seriously reassess arguments for the public provision of infrastructure services [Savas, 1982 and Roth, 1987]. Engineers and economists looking at various infrastructure systems discovered that government-provided infrastructure services were poorly planned and managed. Case studies revealed widespread inefficiency. Infrastructure service output is frequently lost. Infrastructure systems are poorly maintained, and infrastructure services are underpriced resulting in fiscal drains for governmental units. Electrical power supply losses are typically two to three times higher for poorly run public corporations than for the most efficient private corporations [World Bank, 1994]. Water losses often exceed 50 percent of water production in old poorly run municipal corporations. In Africa, nearly one third of the roads built in the past 20 years are now useless due to inadequate maintenance. During the 1980s electrical power tariffs in developing countries were sufficient to cover only 60 percent of the actual costs of operating new systems.

Over the past 15 years, studies of infrastructure provision and management in developing as well as developed countries have pinpointed widespread inefficiencies and poor quality service. The consensus view of infrastructure economists is that the widespread inefficiencies

of infrastructure provision in developing countries is the result of weak or inappropriate economic incentives built into existing institutional and organizational structures. Extensive international experience directed toward improving the efficiency of infrastructure service delivery suggests that reforms should emphasize modifying the incentives which infrastructure managers face so as to enhance their performance. Most recommendations center on introducing commercial principles to infrastructure provision and increasing competition between service providers [Kessides, 1993].

Private provision of infrastructure services is an important aspect of the overall reform of the sector. Private provision of infrastructure introduces commercial discipline into the operation and management of infrastructure services. Increased efficiency is due to a number of factors including: 1) clarity of objectives of the private operator; 2) management autonomy of operator; 3) accountability of operator to his investors; 4) provision of managerial incentives to operator; and 5) competition from other firms or potential operators.

Conserving Scarce Public Sector Resources

During the 1970s and 1980s many OECD governments became concerned about their large and growing budget deficits [Butler, 1985]. Consequently, throughout the 1980s, a main emphasis of economic policy was to control public spending and borrowing [OECD, 1991]. With borrowing restricted, many subnational units of government have not been able to keep pace with growing demands for infrastructure. Real, inflation adjusted, expenditures on infrastructure investment and maintenance have fallen dramatically. Given the lack of public sector capital to finance and operate infrastructure, many local and central governments started transferring responsibilities for infrastructure services from the public to the private sector. For example, in the U.S. many cities have shifted solid waste collection and management to private sector firms. In such cases, local governments no longer need to allocate public funds to support the operation of solid waste management services [Savas, 1982]. Responsibilities for highway construction or transportation has been shifted to private companies, through concessions and BOT (build-operate-transfer) systems [Gómez-Ibáñez and Meyer, 1993]. In other cases, governments are shifting operating responsibilities for water supply and wastewater collection and treatment systems to private firms by granting such firms

concessions or long term service/management contracts [Kessides, 1993]. Shifting infrastructure service provision responsibilities to private sector firms helps local and national governments to conserve scarce resources and to better target their limited resources on activities or services which only they can provide.

Attracting Private Capital to Infrastructure Investment

In response to restrictions on local and central government indebtedness central and local governments have looked towards the private sector for infrastructure investment capital. Over the past ten years, a multitude of new financing tools have been developed to attract and channel private funds into infrastructure projects. Private financing of infrastructure service provision can be accomplished in a number of ways including: 1) negotiated private contributions (development exactions) where a private developer pays for the infrastructure systems needed to support new development; 2) formation of joint ventures between public and private sectors to provide infrastructure services; 3) contracting out of services (the contractor would then finance the purchase or leasing of equipment to provide the service); 4) provision of long term leases or concessions; 5) privatization of infrastructure services; and 6) private commercial or bond-based loans to governments or public utilities.

Motivated by concerns about inefficient infrastructure provision, the lack of public sector financial resources, limitations on public sector borrowing and by changes in technology, financing methods and institutional practices, the private provision of infrastructure services is rapidly expanding around the world. Over the past ten years private sector provision of infrastructure is gaining acceptance and the share of urban services now provided by the private sector is increasing. As of 1993, private investment in developing country infrastructure was averaging \$15 billion per year. Private sector financing of all kinds currently accounts for about 7 percent of total infrastructure financing in developing countries. Over \$60 billion dollars on BOT projects have been financed between 1982 and 1995 [Public Works Financing, 1993]. During the next five years, the share of private sector financing is expected to increase to 14 percent of developing countries' infrastructure financing [World Bank, 1994]. The dramatic growth in private sector financing reflects the increasing attractiveness of such investments and the signifi-

cant changes in institutional environments which permit such forms of financing. The public sector benefits created by private sector financing of urban infrastructure services is clear. The next section looks at the private sector benefits.

Why the Private Sector May Be Willing to Finance Urban Infrastructures Services

There are essentially two conditions under which the private sector may be willing to provide or finance urban infrastructure services: 1) if it can earn a profit on the provision or financing; and 2) if the provision or financing of the service is a condition for approval of real estate development. If urban service provision follows market principles, businesses may be willing to finance urban infrastructure on purely commercial terms. Tariffs for infrastructure services must be high enough to provide adequate cashflows to cover operating and maintenance costs, amortize capital investments and provide net revenues as a return on invested capital. Private investors are particularly concerned with their rights to set and modify tariffs, the length of their contracts and the level of competition they are likely to face. If these issues can be satisfactorily addressed, governments can successfully attract private firms to provide and operate urban infrastructure services. There are now many examples of companies around the world who are interested in providing urban services to cities and local governments—solid waste collection, electricity, water supply, wastewater collection and treatment, telephone services, roads, airports, etc. [Kessides, 1993].

Beyond contracting out, offering operating concessions, structuring joint ventures or privatizing services, local governments frequently require the private sector to provide urban infrastructure as a condition for gaining development approval [Altschuler and Gómez-Ibáñez, 1993]. Even if urban services are not provided for on a profit-making basis, real estate development companies are willing to provide such services if they are a condition of project approval. In many countries, local governments require that developers pay or directly provide urban infrastructure services as a condition of project approval. For example, developers have been required to provide road improvements, construct subway stations, pay urban service fees or exactions as part of the project approval process. In some instances when a private sector firm is purchasing land from the government, infrastructure provision is included as part of the compensation for the land. In all cases

where private developers agree to provide or pay for infrastructure, they do so because the economic benefits they gain from real estate development exceed the costs of the new development. If the costs of development exactions are excessive or not commensurate with the benefits of the project, developers will refuse to provide the services and not go forward.

Specific Methods and Approaches for Private Sector Financing of Urban Infrastructure Services

This section provides an overview of the principal methods used by central and local governments to foster the private provision and financing of urban infrastructure services. The techniques include: land privatization, development exactions, special assessment and benefit assessment districts, certificates of participation, private contracting of services, leases and concessions, BOT, public private partnerships, the privatization of services, commercial bank financing, infrastructure funds and private bond financing. Each section describes the technique, provides examples of where it is used and discusses key implementation issues.

Land Privatization

Many local governments, whether they are in transition or market economies, rely on the sale or long-term lease of government land to finance infrastructure provision. Most of China's larger cities have considerable experience in selling the development and use rights to urban land parcels [Dowall, 1993]. In most cases, local governments identify their land resources and package sites for competitive tender. Developers bid for sites based on their development potential, location, marketability and requirements for infrastructure provision. Payments for land-use rights are frequently paid "up-front," so that the local government can use the proceeds to finance needed infrastructure investments. In some cases, bidders for sites make bids which include both cash payments and commitments by the bidders to build specific infrastructure facilities [World Bank, 1994]. A major advantage of using land privatization to finance infrastructure is that it allows government to retain control of the operation and management of local infrastructure systems. Land privatization is likely to be highly marketable in high growth areas.

The municipal sale of land and/or land use rights is commonplace all over the world. Transactions have been registered in Shanghai, Tianjin, Beijing,

Guangzhou and Fuzhou in China. Land privatization is common in Hong Kong, Singapore, and Seoul as well as in North America and Western Europe. Former socialist countries in Central and Eastern Europe are experimenting with land privatization, and numerous demonstration projects have been successfully carried out in Russia, Ukraine, Hungary, Poland and Bulgaria. The financial potential of using land sales to finance infrastructure is enormous. In Guangzhou during the 1980s, over \$120,000,000 worth of infrastructure was financed by real estate development corporations [Dowall, 1993].

Land sales are complex transaction which require considerable technical skill to successfully completed. Most cities start by preparing a land privatization strategy which is based on a urban development program, inventory and selection of sites, a step-by-step process of soliciting, evaluating and negotiation of bids. Land privatization programs typically require about one to three years to complete and require expertise in urban land-use planning, site evaluation, real estate market and financial analysis and law [Dowall, 1991]. While these skills are frequently available in large metropolitan areas, they may be lacking in small towns. Staff training will be critical to ensure successful land privatization outcomes.

Development Exactions

Many local governments in North America use development exactions to finance infrastructure development. The surge in the use of exactions can be largely explained by rising concerns on the part of citizens that growth pay its own way, growing environmentalism and demands for costly mitigation of adverse environmental impacts, citizen resistance to new taxes, cutbacks in federal aid to local governments, growing concerns about lagging infrastructure and the increased usage of fiscal impact assessment to measure the probable fiscal consequences of new urban development [Altschuler and Gómez-Ibáñez, 1993].

The most common form of development exaction is the levying of impact fees or charges on new development. The typical practice is for the mandated exactions to be paid by the developer as a condition for receiving a permit for development. Exactions may be financial or in-kind. In the U.S. local governments set these fees or charges in relation to the actual infrastructure impact that a new project will impose on infrastructure systems.

Great care is taken to ensure that the new development will pay its own way, and that existing residents not be forced to subsidize infrastructure investments needed for new development.

A wide range of development impact fees are used in the U.S. A survey by Purdum and Frank [1987], found that exactions are levied for the following urban services: police and fire stations, parks, roads, schools, water lines, water treatment facilities, sewerage collection and treatment facilities, solid waste collection and disposal, and affordable housing. The actual payment made by the developer is either based on a formula (using an impact fee calculation) or through negotiation. A 1991 survey of impact fees and exactions in 100 U.S. cities (mostly California) indicates that fees for new housing averaged \$12,000 per unit and \$54 to \$76 per square meter for commercial buildings [Nicholas and Pappas, 1991]. Exactions ranged between 5 to 10 percent of total development costs.

A critical consideration in designing and implementing development impact fees is whether they are reasonable and whether the developer can afford to pay them. In a market economy, the answers to these questions are complex and depend on the incidence of the impact fees—that is, who ultimately pays them, the developer, the buyer or renter of the new facilities or the land owner. If the developer knows that he must pay the fee, he will typically try to pay less for the land, and the incidence may fall on the land seller. If the developer can't get a reduction in the price of the land, then he will try to push the cost on to the purchaser of the new units. If this can't be done, then the developer will earn a lower profit. In centrally planned economies with land ownership vested with the state, the incidence of development impact fees and charges may be more directly linked to the land and therefore the use of land privatization and development exaction methods of infrastructure financing should be closely coordinated. The main concern about using development fees and charges is not to try to overload the developer with too many fees and charges. If the fees are too high, it may be impossible for developers to profitability build and sell projects. Research on residential redevelopment projects in large Chinese cities clearly illustrates the problems associated with trying to levy very high exactions [Dowall, 1994]

A significant advantage of using development exactions is that they do not require the surrender of government control of infrastructure service provision to the private sector. The government merely has to adopt a program of development exactions. The fees can be collected up-front or they can be combined with developer-initiated special/benefit assessment districts.

The economic and financial analysis required to design development impact fees and exactions is relatively complex. Small towns and villages will require significant technical assistance and training. Model ordinances and methods for potential application should be developed.

Developer-Initiated Special/Benefit Assessment Districts

A number of local governments around the world have developed programs of special or benefit assessment districts to finance the provision of infrastructure [Porter, *et. al.*, 1992]. Usually initiated by real estate developers, a district is formed (usually an area which is coterminous with a new real estate development project) and the land and property within the district is taxed to finance durable infrastructure investments. While special assessment districts are quasi-governmental entities, in economic terms they are very close to being private interest entities—property owners or lessors make payments to retire debt borrowed to finance infrastructure improvements. Such districts are very common in the United States. In California, Mello-Roos Districts, created in 1982 are used by private developers to establish small taxing districts which require future owners or lessors of land to pay for infrastructure improvements [Beatty, *et. al.*, 1995]

Management control and operation of infrastructure systems remains with the local government. Cities usually require developers to establish districts as a condition for development approval. Creating such districts will require enabling legislation and careful financial analysis to determine assessment amounts and schedule of payment. In small towns financial and legal expertise may not be available, requiring technical assistance and training.

Certificates of Participation

Some forms of infrastructure such as buses, trains, small power plants and other forms of infrastructure which are suitable for collateral can be financed by leasing arrangements. Private investors purchase certificates of participation or equipment trust certificates— financial instruments backed by physical assets. Ownership of the infrastructure is held by a trustee as collateral, and the user makes lease payments which in turn are used to pay debt service. At the end of the lease period, the infrastructure is transferred to the infrastructure operator.

Certificates of participation methods are well suited for financing small infrastructure elements where local governments are allowed to negotiate long-term leases. This may not be the case in China. Legal and financial research is necessary. Legal and financial expertise is required to negotiate acceptable lease agreements should they be permitted.

Private Contracting for Services

The previously described mechanisms for privately financing urban infrastructure services are ones which allow the government to continue to actively operate and manage service provision. Private contracting of services shifts the day-to-day responsibilities for service provision on to private contractors. Many local governments around the world have begun to contract infrastructure services out to private companies. It is found to be a flexible and cost-effective tool for increasing the quality and user-responsiveness of services. In such cases the government offers, by way of competitive bidding, the right to provide the city with some defined service. The private contractor is given a right to exclusively provide the service for a fixed period and is allowed to levy charges for such services.

According to the World Bank, there are three types of contracts— performance agreements, management contracts and contracting out. The type which should be used depends on the infrastructure activity and the specific objective or goal of contracting. If contracting is being used as a vehicle to finance new or expanded services, operating contracts which specify services to be provided, tariffs to be collected and periods of performance may be appropriate. To ensure that performance levels are maintained and that users get value for money, contracts should be periodically

reviewed. By stipulating that agreements will be periodically reviewed, contractors will face competitive pressure from potential bidders to maintain low prices and high quality of service (Baumol, Panzer and Willig, 1988).

A major factor which will determine the relative success of contracting out is whether tariffs for services are adequate to provide a return of costs and leave the contractor with an appropriate profit. If government-set rates are too low, few contractors will be willing to bid to provide services. If tariffs are not increased to adequate levels, governments may have to subsidize the costs of service provision in order to attract contractors. Experience with the contracting out of bus services in developing and developed countries suggests that the efficiency gains from contracting out are greatest when services are not subsidized by government [Meyer and Gómez-Ibáñez, 1993].

Designing and implementing a contracting out program is highly complex. Small cities and towns lack adequate economic, technical, financial and legal expertise. Technical assistance, training and the preparation of demonstration projects would be appropriate.

Leases and Concessions

Surveys by the World bank indicate that leases and concessions for infrastructure are increasingly common in developing [World bank, 1994]. Thirty-seven countries have been identified as using leasing and concessions as a means of infrastructure provision. Leases and concessions differ from simple service contracts in that they are for longer periods and typically require a large financial commitment on the part of the operator. Under a lease, the government typically provides capital facilities and the contractor operates the equipment. The operator pays the local government or public utility a fee for using the equipment and it has the exclusive right over the contract period to collect the revenue stream (from user tariffs). In France, leases have been used for decades for providing water supply to urban areas. Other developing countries have also starting using leases for private provision of water supply.

Concessions are similar to leases and incorporate all of the same elements but place more financial responsibilities on the contractor to provide additional infrastructure investments. Whereas in the case of lease, the contractor would operate and

maintain an existing water supply system, under a concession, the contractor would be required to provide specified extensions and expansions or replacements of a water supply system [Triche, Mejia and Idelovitch, 1993]. Concessions arrangements are used to provide urban transportation, water supply and wastewater collection and treatment, and telecommunications.

As in the case of contracting out, leases and concessions are very complex transactions to effectively structure. Small towns and villages are unlikely to have the professional expertise necessary to design and negotiate such transactions. Again, extensive technical assistance and training will be needed to implement leases and concessions.

Build Operate and Transfer (BOT)

The BOT approach is starting to be widely used to privately finance the provision of urban infrastructure. According to *Public Works Financing*, approximately 150 infrastructure projects worldwide had been funded up to 1993, and another 360 projects were in the pipeline worldwide. The funded projects have a combined value of \$63 billion. The pipeline projects have an estimated value of \$235 billion [Public Works Financing, 1993].

BOT is a form of concession, where a private entity enters into a contract with the government or the utility to construct an infrastructure facility and operate it for a fixed period of time (15 to 25 years is common). During this period, the contractor collects user charges and fees from users of the facility. The design of the facility, the term of the operating period and the user tariffs and escalations, and what constitutes an acceptable return on invested capital (usually 15-20 percent) are part of the negotiated BOT agreement. BOT projects are developed by large private corporations with experience in the provision of specific infrastructure facilities (electric power, roads, transit systems and water and wastewater facilities). BOT projects are typically financed with a combination of equity (the company investing in the project puts in its own capital) and long-term private debt [Augenblick and Custer, 1990].

Structuring BOT agreements is extremely complex. Experience with projects reveals that it is better to start with smaller less complex and risky projects. However, the transaction costs for putting BOT projects together is very high and relatively insensitive to project scale. Therefore very small projects may not be financially feasible for BOT financing.

For large projects, the risks are many and varied. Delays and cost overruns are common and will impact tariff structures and operating terms. Recent controversies in India and Thailand spotlight the complexity and high stakes that big high profile projects take on. It is of paramount importance that the underlying BOT contract enforceable and clear. Provisions are needed for dealing with disputes. Some contracts rely on international arbitration, using third party bodies to referee claims. Some contracts use the laws of a third party country. For example a BOT project between an Indian and German firm might use English law to determine contract provisions.

Attempting to introduce BOT financing into China's small towns and villages may be difficult given the extreme complexity of the transaction. Also given the high transaction costs associated with BOT financing, it may be difficult to structure projects in small towns. Given these limitations it may be more fruitful to look at regional approaches to BOT projects which could be carried out at the Provincial or subprovincial level.

Public Private Partnerships for Infrastructure Provisions

Another approach to attracting private capital to finance infrastructure development is to form new corporations or utilities to provide infrastructure services. Instead of using leases, concessions or BOT methods, a local government would form a corporation with private investors. The local government would typically contribute land, existing infrastructure system and/or cash to the partnership. The private partner would bring expertise and capital on the enterprise. The partnership agreements specifically define the roles of the public and private sector partners. The agreement provides a framework for financing operations, capital investments and sharing in the cashflow of the project.

Local governments in North America have established numerous partnerships to build and operate infrastructure systems [National League of Cities, 1987]. Parking structures are commonly built and operated by partnerships as are railway companies, and hotels and visitor centers. Partnerships provide the public sector with more active control of the infrastructure activity than would often be the case with long-term leases, concessions or BOT projects. They require a high level of sophisti-

cation and professional expertise to effectively perform the duties of a partner. Small towns may lack the professional skills and therefore technical assistance and training will be required to help localities structure public-private infrastructure partnerships.

Privatization of Infrastructure Services

An obvious option for financing urban infrastructure systems is to privatize existing services through divestiture. Under this approach, infrastructure systems are transferred to private entities. The process usually entails packaging systems for sale through competitive tender. Prior to tendering, the precise rights and obligations of the private entity is defined, including the scope of services, the right to set tariffs (usually regulated by a utilities commission), and obligations to provide services to customers in the service area [Kessides, 1993]. Care must be taken to ensure that private entities do not exclude unprofitable routes or subsystems from service, that they provide an adequate level of service and that rates reflect actual costs of service and provide the operator with an adequate return on invested capital. Divestiture activities have increased dramatically over the last ten years. Evaluations of many of these privatizations suggest that substantial efficiency gains result from divestiture. Obviously, divestiture frees up considerable public sector financial resources once infrastructure services are shifted off the public budget. Between 1988 and 1992, infrastructure privatization proceeds generated \$21 billion in developing countries [Sader, 1993].

Privatizing public infrastructure systems requires careful and extensive financial and technical analysis. In most cases, governments have retained independent expertise to package infrastructure systems for privatization. Once the divestiture has taken place, professional burdens are significantly reduced and are generally limited to public utility oversight and regulation.

Tapping Commercial Banks

Large private infrastructure service providers typically have direct connections with private commercial banks. If local governments can attract these large enterprises to purchase, lease or operate infrastructure systems, then access to private commercial credit should not be difficult. On the other hand, commercial banks are less interested

in lending directly to municipalities (or if they are willing it is usually for short time periods). To help developing country local governments attract private capital, multilateral and bilateral agencies have developed loan guarantee programs. If commercial lenders are provided with guarantees of repayment, they may be willing to make long-term loans to local governments and parastatals. The Government of Thailand has recently established a loan guarantee program for 10 cities. The guarantee facility will initially start with \$75 million and it will lend between 5 and 8 times this amount to municipalities. Eventually the program is expected to leverage up to \$1.2 billion in loans for water supply, wastewater collection and treatment and other environment-related infrastructure projects [World Bank, 1994].

To fully exploit funding opportunities, local governments will need to tap both domestic as well as foreign sources of capital. Given the enormous demands for infrastructure in China and other developing countries, it is clear that domestic sources of funding must be developed. A transitional step is to develop national level infrastructure banks to mobilize domestic savings and channel funds toward infrastructure projects. In Japan, for example, the Japan Development Bank has tapped postal savings accounts to provide long-term financing for infrastructure development. Municipal banks in Europe have also successfully mobilized savings and used these funds to finance infrastructure projects. There is less experience in developing countries, but India's new Infrastructure Leasing and Financial Services Corporation and its more traditional Housing and Urban Development Corporation are working to sell their municipal loans to private financial institutions once municipal borrowers establish adequate credit histories [World Bank, 1994].

Infrastructure Funds

Several developing countries have established government-sponsored infrastructure funds to generate equity capital to finance infrastructure projects. Typically, governments advance funds in order to attract private capital. Pakistan and Jamaica have both established funds to support energy-related infrastructure. Indonesia has set up a Regional Development Agency to handle the transition from grant to debt-funded local infrastructure projects [World Bank, 1994]. Private funds have recently started to operate internationally. These funds tap pension funds and other large in-

stitutional investors. They spread risks by investing in a range of projects across a number of countries. A major barrier to the expansion of private capital into infrastructure financing is the lack of information and institutional frameworks to support high-value long-term investments.

Private Bonds

If countries have functioning bond markets, institutional investors such as insurance companies and pension funds can be tapped to finance infrastructure projects. Revenue bonds, which are used to finance new projects, use the cashflow from infrastructure operations to pay interest and return advanced capital to bond holders. They have been used to finance toll roads in Mexico and a power plant in the Philippines. As domestic stock and bond markets evolve, it will be easier to tap domestic savings. Bond markets are well-established in OECD countries and they play a significant role in financing municipal infrastructure projects. In some cases, bonds are issued for specific projects. In others, a pool of bonds are issued to cover several projects, which may be located in more than one jurisdiction.

Prognosis for Increasing Private Sector Financing of Infrastructure

Over the past five years private sector financing of infrastructure projects has dramatically increased. Several structural changes suggest that these trends will continue and likely accelerate. First and foremost, the demand for financing capital is enormous and will continue to grow in developing countries, particularly Asia, requiring that private sources of capital be tapped. Second, the capacity and willingness of governments to fund infrastructure through central government grants or loans is declining, and local governments and utilities need to develop alternative sources of private capital. Third, infrastructure operators are under increasing pressure to operate systems according to commercial principles and such changes will make infrastructure project attractive opportunities for financing and lending.

The rate of increase in private sector infrastructure financing will greatly depend on how quickly institutional environments develop and adapt to the requirements of private lenders. Such changes are required in the administrative capacity of infrastructure and economic development institutions and in domestic capital markets. Initial financing by the private sector have been on-off

projects, using project-finance techniques like BOT. In the next stage, countries typically establish specialized infrastructure financing institutions and reform commercial banks which then start to fund infrastructure projects. In the last stage, institutional and individual investors purchase bonds or stocks which are traded on domestic stock and bond markets.

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Outside the Large Cities; What Role for Smaller Urban Centres?¹

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Most books, articles and research reports about urban issues in the South are about capital cities or large cities. Most of the concern expressed about urban problems is for large cities. But only a small proportion of the population in the South live in large cities - see Table 1. In fact, far more people depend on what can be termed 'small and intermediate urban centres' than on large cities. Either they live in small- and intermediate-sized urban centres or they live in rural areas but depend on these urban centres for shops, markets, and services.

This paper will consider the importance of small and intermediate urban centres both for their inhabitants and for their surrounding rural populations. It will discuss how and why they developed. It will also discuss how governments can best devise a special programme for such centres and the links that must be forged with rural and agricultural development. The biases against smaller urban centres in government's macro-economic and pricing policies will also be described as will the costs of improving basic service provision. So

	Total population (millions)	Number of Urban Agglomerations	Percent of total Urban Population
10 million plus inhabitants	98.5	8.	6.9
5 - 9.99 million inhabitants	113.3	15	7.9
1-4.99 million inhabitants	280.2	148	19.5
Less than one million	943.5	c. 30,000	65.7
Total urban population	1,435.5		100.0

Based on data in United Nations, World Urbanization Prospects: the 1994 Revision, Population Division, New York, 1995.

Table 1

too will the possible role of small and intermediate urban centres in helping to control the growth of large cities.

In this paper, the term 'small and intermediate urban centre' will be used to include all urban centres except for national capitals and for other urban centres which have concentrations of economic activities which are of national importance. This rather loose definition is chosen deliberately, since this paper wants to stress the importance of considering urban centres within their national context. In addition, this is not to imply that there are necessarily similarities in different urban centres categorized as 'small' or 'intermediate'.

The Uniqueness of Each Centre

Governments and aid agencies have become more interested in 'small and intermediate urban centres'. This is usually because they hope that these centres will take some of the pressure off the large cities. There are many special government programmes for small and intermediate urban centres. But their success will depend largely on whether they help develop untapped potential or under-utilized resources within these urban centres. There is no point in encouraging the development of tourism or industry in urban centres which have little potential to attract tourists or industries.

It is not easy to identify the urban centres with potential and ascertain the government actions needed to release this potential. The main reason is the uniqueness of each urban centre--so a government programme to develop one urban centre may be totally inappropriate for others. Historical studies show the phenomenally rich and diverse set of reasons for the development of different urban centres.

Many urban centres first developed because they were chosen as centres for provincial or state government or centres of military control. Others developed because new businesses developed there linked to prosperous commercial agriculture nearby or to the demand for goods and services generated by those earning an income in agriculture. Some urban centres developed as road or rail transport centres; others because they became the constituency of a prominent politician who steered public investments and public enterprises there; and others because enterprises there successfully exploited one specialized niche in a regional, national or international market--for

instance tourism, mining, or timber. Others developed because they were well located close to a metropolitan centre and became favoured locations for new industrial, commercial or recreational enterprises linked to that metropolitan centre. Others developed because their location was judged to be the right place to develop 'defence' industries. Some examples of the factors underlying the development of different urban centres are given in Box 1. Ismailia in Egypt would not have developed into an urban centre of more than 200,000 inhabitants if the Suez Canal had not been built. The concentration of industry in Rae Bareilly in India owes far more to the fact that it was in the parliamentary constituency of the late Mrs. Gandhi when she was Prime Minister than it does to any inherent advantage the urban centre offers to industries. Pereira's development was much helped by the prosperous farmers living nearby. Owerri in Nigeria would be far smaller and less prominent if it had not been chosen as capital of a new state in 1976.

The histories of different small and intermediate urban centres reveal the complex mix of local and regional factors--and often national and international factors--which influenced their development. In regions with long histories of settled population and of commercial agriculture, urban centres usually have long histories. For example, India has always been a predominantly rural nation and yet most of its urban centres have long histories. While India's urban population increased more than 500 percent between 1901 and 1981, the number of urban centres increased by only 77 percent; since very few urban centres decline to the point where they lose their status as 'urban centres', this suggests that most existing urban centres in India were also urban centres in 1901.² In fact, in many regions, a very high proportion of urban centres actually have histories which are centuries old.³

In most nations, there is often a surprising degree of similarity between a list of today's urban centres and a list of administrative centres founded many decades or even centuries ago. Box 2 give some examples.

Of course, there are many new urban centres in regions being settled for the first time. Many areas have been settled in the last 40-50 years which were previously either uninhabited or sparsely populated; the search for new farmland and pasture, timber and minerals has usually been the reason. Many governments have

Examples of Influences on the Development of Some Urban Centres

ISMAILIA (Egypt): With around 175,000 inhabitants in 1975, it had been established some 100 years earlier as the headquarters for the Suez Canal Authorities when Egypt was under British rule. The Suez Canal Authority remains the largest employer while small scale shipbuilding, light manufacturing and service industries also provide employment.

OWERRI (Imo State, southeast Nigeria): with some 9,331 inhabitants in 1953 and 90,000 in the late Seventies, the modern urban centre dates from 1901 when the colonial (British) government established a small military/administrative headquarters there. Much of its early development related to the location there of public services and facilities—a native court, government station, barracks, prison, school. It became a provincial headquarters in 1914 but was bypassed by the railway; other urban centres nearby developed stronger economic bases. The residency and consulate of the Province moved to Port Harcourt in 1927. But with the creation of Imo State in 1976, many civil servants, professionals and traders came to Owerri since it was chosen as the new state capital. It became the centre for numerous state and Federal government departments, parastatal organizations and corporations.

PEREIRA (Colombia): With 328,000 inhabitants in 1985, it was founded by a group of entrepreneurs in the mid-19th century in what was then an inhospitable jungle. At that time, forests in the region around it were being cleared by thousands of settlers and with rich volcanic soil, cocoa, sugar cane and coffee became the dominant crops. As coffee became the dominant export of Colombia, the region around Pereira grew rich. Pereira shared this prosperity with a booming commerce and agro-industry and local businesses re-invested their profits in such industries as textiles, clothing and electrical equipment. A further boost to its development was its

choice as capital of a newly designated province in the mid Sixties. These and the fact that it was on the crossroads for the highways linking the region to Colombia's three largest urban centres explain its growth to become the region's largest urban centre. In 1951, it had 76,262 inhabitants but by 1985, there were 328,000, including nearly 96,000 in Dos Quebradas, a separate municipality which developed next to Pereira, across the Otun river.

RAE BARELI (India): With over 90,000 inhabitants by 1981, this has become an important industrial centre and a commercial and service centre for its region. It owed its early development to selection as a district headquarters and a centre for the colonial army under British rule in the mid-19th century. It was a station on one of the earlier railway lines. But it remained a relatively poor, small urban centre, reflecting the poverty of most farmers in its region. With just under 17,000 inhabitants in 1901, it grew very slowly and still had under 30,000 inhabitants by 1961. But during the seventies, it attracted some large government-owned industries which meant an unprecedented expansion and diversification of its economy. The main reason why government-owned industries set up there was that it was the main urban centre within the parliamentary constituency of the late Mrs. Gandhi who at that time was the Prime Minister of India.

SOURCES: Forbes Davidson, 'Ismailia: from masterplan to implementation', *Third World Planning Review* Volume 3, No 2, May 1981; Geoffrey I. Nwaka, 'Owerri, development of a Nigerian state capital', *Third World Planning Review* Volume 2, No 2, Autumn 1980; Julio D. Davila, 'City profile: Pereira-Dos Quebradas' in *Cities* Volume 5, No 1, February 1988; and Harikesh Misra, Chapter 5 in Jorge E. Hardoy and David Satterthwaite (Editors), *Small and Intermediate Urban Centres: Their Role in Regional and National Development in the Third World*, Hodder and Stoughton (Europe) and Westview (USA), 1986.

Box 1

sponsored such colonizations but there is usually an additional spontaneous and uncontrolled colonization movement which may be larger than official programmes. Examples of settlement in previously uninhabited or sparsely inhabited regions are evident in the eastern regions of Peru, Bolivia

and Ecuador, in Amazonia and in southern Nepal (in the Terai region), and in many parts of Indonesia and Malaysia. Some of the most rapidly growing cities over the last 30-40 years are those which grew as administrative, service or processing centres in these newly settled areas.

Similarities Between Contemporary Urban Centres and Old Administrative Centres

LATIN AMERICA: Most national and provincial capitals were founded under colonial rule - including all ten of today's largest cities/metropolitan centres, all of which were founded by the year 1580 (Mexico City, Sao Paulo, Rio de Janeiro, Buenos Aires, Bogota, Lima, Santiago, Caracas, Guadalajara, Monterrey). All national capitals in the 20 Latin American nations and in Jamaica and Trinidad and Tobago are colonial foundations with the exception of the capital of Brazil. Thirteen were founded in the 16th century (although Mexico City had an indigenous precedent), two in the 17th century, five in the 18th century and one in the 20th century. With two exceptions (Brasilia and Quito), they are their nations' largest urban centre. All national capitals which were founded during the colonial period were important administrative centres under colonial rule as sites of Viceroyalties (Mexico City, Lima, Buenos Aires and Bogota) in the 16th to the 18th century and/or sites of regional legal courts (*audiencias*) and headquarters of universities.

NORTH AFRICA: The basic outline of current urban patterns was established during the colonial period. The colonial extractive economies, which were well established in the 19th century, tended to concentrate urban development in port cities - reviving old ports like Algiers, Tunis and Alexandria and creating new ones like Casablanca, Ismailia and Port Said. The urban centres that developed in the interior were essentially centres for military control or served the mining of a resource or (gradually) expanding European agriculture.

EAST AFRICA: Virtually every urban centre which had 20,000 or more inhabitants by the mid-seventies had been an established colonial administrative station by 1910. The size, location and distribution of urban centres in East Africa today is almost entirely the product of British and German decision making prior to the First World War. In Tanzania, 17 of the 18 urban centres with 20,000 or more inhabitants were originally colonial townships; 12 of them were on the railway lines developed under colonial rule to transport cash crops to ports for export.

TWO REGIONS IN INDIA: In three districts in Karnataka state which have urbanized rapidly in the last 70 years (Bangalore, Mysore and Mandya), virtually all urban centres had been the administrative centres set up by the British colonial government in the mid 19th century. The two most important administrative centres established by the British in the 19th century are much the largest urban centres today. In three districts in Uttar Pradesh state, which have not urbanized rapidly (Rae Bareli, Sultanpur and Pratapgarh), the three largest urban centres today were the only military cantonments, the only district headquarters and the first municipalities under colonial rule in the 19th century. Most other urban centres are also subdistrict headquarters designated as such in the 19th century.

SOURCES: Janet Abu-Lughod, chapter on 'Urbanization in North Africa' in B.L.J. Berry (Editor), *Patterns of Urbanization and Counter-urbanization*, Sage Publications, 1975; Jorge E. Hardoy, 'Two thousand years of Latin American urbanization' in Jorge E. Hardoy (Editor) *Urbanization in Latin America: Approaches and Issues*, Anchor Books, New York, 1975; H.N. Misra 'Rae Bareli, Sultanpur and Pratapgarh Districts' and B.S. Bhooshan, 'Bangalore, Mysore and Mandya Districts' in Jorge E. Hardoy and David Satterthwaite (Editors), *Small and Intermediate Urban Centres: Their Role in Regional and National Development in the Third World*, Hodder and Stoughton (UK) and Westview (USA), 1986.

Box 2

Although so much of the literature on cities in Africa, Asia and Latin America talks about 'rapid urban growth', in fact a considerable proportion of the urban centres there are not growing rapidly while many have hardly grown at all in recent decades and some have actually had declining populations. A growth in employment opportunities (or the possibilities for survival) usually fuels the growth of an urban centre.⁴ A stagnat-

ing or declining economy will usually mean slower population growth or even no growth or population decline. Urban centres in any region or nation can be likened to businesses and each of them compete with each other for investments and expenditures. Their economic growth (and their population growth) is related to their success or failure in this competition. The literature on urban centres concentrates too much on the ones

which grow rapidly and fail to reflect the range and diversity of all urban centres, including the diversity in their population growth rates.

There are hundreds of urban centres which have stagnated with little or no population growth or even population decline in the last 40 years. There are also dozens of urban centres which were once cities of great importance in their nation but then declined as other urban centres grew more rapidly. Box 3 gives some examples.

To state that every urban centre is unique may be stating the obvious. But it is necessary to do so because so many inaccurate generalizations have been made about 'urban centres' or specifically about 'small and intermediate urban centres' which imply that they are not unique. Several authors have generalized about 'the social and economic functions of small and intermediate urban centres'. Drawing on these generalizations, advice is then given to governments on how to develop special programmes for these urban centres.⁵ But urban centres are so diverse that few generalizations are accurate. Some do have enormous untapped economic potential while others have little or no potential. The potential sometimes has little to do with the size of the urban centre. And an urban centre's potential can change; for instance, when coffee prices are high in the world market, many urban centres in coffee growing areas have more potential to expand and diversify than if coffee prices are low.

But there are hundreds of industrial estates in small and intermediate urban centres around the world which lie empty or only partially used; these estates were often built at great expense. They were built without careful evaluations of the potential of each centre to attract and sustain industrial development. There are dozens of factories in small urban centres which were located or pushed there by governments to 'decentralize' industry which have either closed or are currently producing very expensive goods, because the location was chosen for political reasons. Developing tourist facilities in small urban centres now seems more common than developing industrial estates--but this too will waste scarce public investment if done with no evaluation of the real potential of each centre to attract tourist expenditures. Some intermediate-size urban centres are also seeking to develop "technopoles", research parks or other sites to attract high-technology industry or services.

Certain authors have also claimed that generalizations can be made about the rates at which small or intermediate urban centres grow⁶--and it is common to find statements such as "small and intermediate urban centres are growing faster than larger cities" in the general literature. But this too does not stand up to detailed examination. To test this, an analysis was done of population growth rates for small and intermediate urban centres for two or more intercensus periods in Mexico, Peru, Ecuador, Tanzania, the Sudan, Kenya, Colombia and Pakistan and for several intercensus periods in regions in Argentina, North and South India and the Sudan. Moreover, this found no valid generalizations for such centres within nations or for international comparisons. In each instance, there was a large range of population growth rates among the different urban centres with no correlation between the size of the urban centre and the population growth rate. The only exception was the obvious tendency for population growth rates to slow for the very large cities - because the larger the population at the beginning of the time period, the larger the denominator and thus the lower the growth rate.

In conclusion, many small and intermediate urban centres had comparable historical roles under colonial rule and often under postcolonial rule as administrative or military centres. Many such centres have strong links with commercial agriculture. Many have considerable potential to develop larger and more diversified economies. But the extent of such common influences and their importance relative to other influences varies so much as to caution against generalizations. If governments want to develop these urban centres, they must design policies which encourage the development of each urban centre's unique needs and potentials. Each urban centre will have its own resources, development potential, skills, constraints and links with its surroundings and with the wider regional and national economies.

The Role of Local Government

If the possibilities and constraints on development are so specific to each urban centre (and region), then there is need for local input in designing any nation-wide or region-wide government programme for small and intermediate urban centres. Without local input, how can national or pro-

Examples of Cities Whose Importance in Their National Economies Has Declined

NORTH AFRICA: Many of the great historical cities of the Islamic period (9th - 15th century) were inland, reflecting the importance of land trading routes--Meknes, Fez, Tlemcen, Constantine, Kairouan, Marrakesh being examples. These generally had little role in the colonial economies which were largely based on mineral and agricultural export. Such illustrious cities as Tlemcen, Kairouan and Fez found their economic bases of handicraft production and trade systematically undermined by the new commercial firms in the ports which grew to serve the colonial economy.

BRAZIL: Under Portuguese colonial rule, in the late 16th and 17th centuries, urban centres developed to serve the sugar plantations producing for export in the North-East. By 1600, Salvador/Bahia was the most important and prosperous urban centre and the national (colonial) capital. With Brazil's economy firmly based on the export of sugar, cotton, hides, and fine woods from the North-east, Sao Paulo, today Brazil's largest city, was only a small frontier town. The gradual decline in the European sugar market during the second half of the 17th century shifted the economic centre south. Rio de Janeiro grew as the port serving the mines and it became the national capital in 1762. As gold deposits became exhausted, coffee exports became the main commercial activity and the coffee boom helped develop the urban economy in the South-East with the expansion of railroads increasing the importance of certain centres, notably Santos (a major port) and Sao Paulo.

HAMADAN, IRAN: Hamadan, with approximately 150,000 inhabitants in 1978, became famous as one of the cities on the silk route during the 11th and 12th centuries, but collapsed when invading armies over-ran it in the early 13th century. Its role as a major commercial centre was restored in the second half of the 19th century with the flow of goods between Britain and British controlled India through Baghdad, Hamadan and Tehran. It has long been famous as a centre for leather goods and carpets. But as Iran became an independent nation-state with its economy

based on oil export and industrial development, Hamadan lost its role as an important transport and manufacturing centre; it was by-passed by the new interregional rail and road systems built during the thirties and forties. By 1976, its role as a subnational administrative centre (it became a provincial capital in 1966) and a centre for public services had become more important than its traditional commercial and manufacturing activities.

POTOSI, BOLIVIA: Around 1640, Potosi was the largest city in both North and South America with some 140,000 inhabitants, and its rich silver deposits were a symbol of wealth around the world. During its peak years, silver mining there stimulated the economies in other regions with mule raising in central Argentina (the mules were crucial for transporting minerals and people and they were sold in the markets of Tucuman and Salta), mercury (quicksilver) production in Huancavelica (Peru), wines from Central Chile and Western Argentina and food from the lower and warmer valleys around Sucre and Cochabamba (Bolivia). Potosi was never an important religious, administrative or educational centre but was an important stop on the old land route connecting Lima-Callao (Peru) with Buenos Aires (Argentina) via Huamanga (Ayacucho), Cusco, Puno, La Paz, Oruro and Potosi and then Jujuy, Salta, Tucuman, Cordoba and Buenos Aires. As silver became increasingly difficult and more costly to mine, Potosi's population declined, as did the regional economies it had stimulated. It experienced a brief revival in the late 18th century with the import of improved extraction technologies, but then it declined to 26,000 inhabitants in 1854 and 21,000 in 1900. Today it has around 45,000 inhabitants and mining is still the main economic base.

SOURCES: Janet Abu-Lughod, chapter on 'Urbanization in North Africa' in B.L.J. Berry (Editor), *Patterns of Urbanization and Counter-urbanization*, Sage Publications, 1975; Jorge E. Hardoy, 'Two thousand years of Latin American urbanization' in Jorge E. Hardoy (Editor) *Urbanization in Latin America: Approaches and Issues*, Anchor Books, New York, 1975; and Hiromasa Kano, 'City development and occupational change in Iran: a case study of Hamadan', *The Developing Economies*, September, 1978.

vincial governments understand local needs, make best use of local resources or tackle local constraints?

This implies the need for decentralization of power and resources. If assessments of development possibilities are so unique to each centre, it is local governments (mostly located in small and intermediate urban centres), not national governments based in the capital city, which should articulate local needs (from their area of jurisdiction) and influence resource allocations at higher levels. Only through representative local governments is such an articulation of local needs likely to take place. No national ministry or agency can know the specific needs of each locality and the preferences of its population.

Local assessments of available skills and resources and the monitoring of changes over time requires strong, competent and representative local government. This is probably the most essential element of a national programme for small and intermediate urban centres and it brings with it many developmental advantages. As a review of the experiences with decentralization noted, centralization can bring some heavy costs:

"A ministry of agriculture that applies crop production quotas to all areas of the country without taking regional variations in soil and climate conditions into account... hinders production and wastes resources. When central planners design rural development projects in the national capital without thoroughly understanding local, social, economic, physical and organization conditions, they often generate opposition among local groups or encounter such apathy that the projects are doomed to failure at the outset. Overworked and cautious central finance officers, who typically are responsible for approving even petty expenditures for local development projects, often release funds for agricultural projects so late in the fiscal year that optimal planning times are missed. ...Central administrators cannot know the complex variety of factors that affects the success of projects in local communities throughout the country. In their attempt to cope with this uncertainty, they create highly centralized and standardized procedures; or through fear of making mistakes, they do nothing about urgent decisions that are essential for implementing local projects and programs".⁷

Competent and representative local governments can mobilize local resources more effectively than higher levels of government. But they

are more likely to do so if they receive a share of resources rather than simply acting as tax or revenue collectors for higher levels of government.

Building a stronger and more effective local government demands the reversal of policies apparent in many nations in the last 20 - 30 years. It must reverse the tendency for national government to impose severe limits on local government's revenue-raising powers and to take for itself the more lucrative and easily collected taxes. And as stated by United Nations recommendations on small and intermediate urban centres, it also demands a clear definition of the constitutional and legal status of local governments (which is often still lacking) and the establishment of clear lines of authority and responsibility.⁸ As suggested in the current debate in Latin America on decentralization and democratization, this also implies a more representative local government with the ability to generate considerable consensus on local development initiatives.⁹

Again, there are no general recipes on how to increase local government revenues. The fact that the employment base and economic trends can differ greatly even for urban centres within the same region suggests a need for considerable flexibility as national governments revise their definition of the activities that local governments can use to generate revenue. For instance, a small urban centre with a prosperous (and growing) agricultural market could use market fees or bus-park charges to raise funds to improve services and facilities in the market. A centre with a developing tourist trade could utilize a "bed tax" for hostels, hotels and boarding houses. Local taxes on beer, liquor and tobacco have proved important sources of revenue in many instances¹⁰ and have the additional advantage of raising prices for goods whose overconsumption produces serious health problems. Broad-based sales taxes can provide substantial revenues for local governments but few national governments allow their use;¹¹ however, care must be taken not to tax basic commodities since this would fall very heavily on poorer groups. A property tax can fit much better both with ability to pay and extent to which public infrastructure and services are used. While relatively complex to collect, it has the advantage that many local governments already have the power to use it and already derive some income from it. Support from national government may be needed to increase the tax-yield, not least because local property owners will oppose this. Cadastral surveys and tax assess-

ments are often out-of-date and the revenues collected are far below potential yields. Up-to-date cadastral surveys also help in physical and land-use planning.

But it is not only local governments which deserve support from higher levels of government. In many nations, local associations or cooperatives can implement certain development initiatives. For example, an association or cooperative of farmers might become responsible for local road or bridge upkeep or electricity supply while local parents and teachers associations might help raise funds to maintain the school and supply it with books or equipment. Perhaps the possibility of government support for such groups has been given too little consideration--especially where local government is particularly weak. It is usually a short term measure; richer governments often try to exploit private groups like parent-teachers associations by demanding that they meet certain costs formerly met by government. But it may provide a valuable stop-gap.

Thus, one of the main justifications for a government programme on small and intermediate urban centres is not related to these urban centres in themselves. It is about how local levels of government can respond to local needs and the ways in which these needs can be met. It is also about mobilizing local resources for national and regional development. To achieve this requires a long term programme by national government to help build institutional capacity, revenue base and skilled personnel at local level. Clearly, this must be backed by better censuses and surveys to provide the information for local development plans so these are more geared to local needs, resources and potentials than the 'standard packages' for all smaller urban centres so often proposed and implemented by national governments. Obviously it must be matched by regulations and controls which encourage fiscal responsibility and accountability to the citizens within their jurisdiction. It must also be matched by environmental controls which ensure no decentralization to these centres of polluting industries that are seeking to avoid the stricter regulations (or their application) larger cities.

Given the scarcity of resources and the time needed to build stronger and more competent local governments, national governments could try out innovative approaches in selected urban

centres and their surrounds. This can allow their effectiveness to be assessed before a commitment is made to a national programme. For instance, national government could support a scheme whereby inhabitants in one particular urban centre could choose to 'pay' local taxes or fees by working a set number of hours in local development projects; appropriately set exchange rates between the number of hours of labour contributed in lieu of local taxes could ensure that measures to increase local revenues do not fall heavily on lower income households. As in government's use of private associations to fulfill certain tasks, this can easily become highly exploitative but it is far less likely to be so if local governments are elected and are generally viewed by most of the local population as having as their main concern, the interests of the locality. If local nongovernment organizations are encouraged to represent local groups and interests, this too can provide a check on mis-use of power and resources.

National government might also support local government schemes to generate employment in slack agricultural periods of the year. Public works with substantial long-term paybacks but which are unattractive for private investors could be especially important. For instance, activities such as rural feeder road construction or maintenance, bus-park surfacing or maintenance, reforestation plus watershed management, installation of water pipes, construction or maintenance of flood control or irrigation channels can provide seasonal employment and much-needed income supplements to many lower income households. Important social and economic benefits could be achieved at relatively low costs.

In most instances, national government will have to work out revenue-sharing arrangements with local governments. One relatively simple way to transfer resources from central to local levels is an annual block grant to each small or intermediate urban centre (or each local government area) based perhaps on population size and an assessment of need. The use to which the grant is put would be decided locally (within broad guidelines) for projects relating to social and economic development. This has been done for many years in Indonesia through the INPRES programme, although no evaluation of this programme and the extent to which local populations felt that their needs were being addressed was found. Similar kinds of block grant are also being tried in some Latin American countries, as part of decentralization and democratization processes.

Pools of skilled personnel and specialized equipment could be shared by groups of local governments or local associations; this could lower considerably the cost to each of purchasing and maintaining equipment and paying professional salaries which they cannot individually utilize all year. Groups of local governments could also share accountants, engineers and road construction equipment. Governments in smaller urban centres can also borrow equipment or seek professional advice from governments in larger urban centres nearby; there are examples to draw on where this has been done.¹²

While such suggestions might seem somewhat removed from a discussion on small and intermediate urban centres, in fact they are of central importance in promoting social and economic development within and around such urban centres. They are also of central importance in increasing the attraction of such centres to productive investment. As Johannes Linn notes:

"the quality of management by the urban authorities may have an important effect on whether and how a city grows... Among the elements of urban management at issue here are: the provision of adequate public utilities for industry and commerce; the existence of a well functioning urban transport system for the speedy distribution of goods and services; availability of developed land for new wholesale and retail; a good communications system (telephones and postal); and a public administration that minimises efficiency losses and compliance costs for regulations and taxes."¹³

In summary, national government must not generalize about the kinds of activities which should be developed or promoted in small and intermediate urban centres. They must develop the capacity of governments located in such centres to make their own choices as to what should be developed, based on local needs, potentials and capacities but within broader regulatory frameworks that ensure local accountability and fiscal and environmental responsibility.

The links between agricultural and urban development

Few governments appreciate that productive, intensive agriculture can support both a prosperous rural population and rapid growth and diversification in the economies of small and intermediate urban centres. Increases in the value of agricultural production can go hand in hand with

rising prosperity for most of the local population and rapid urban development within or close to the main farming areas. (Box 4) But this increase in agricultural production can also go hand in hand with rapid impoverishment for most of the local population so many move out of the area to fuel the growth of large cities (Box 5).

At least four factors are critical in determining the balance between the two extremes and the extent to which growing agricultural production helps stimulate urban development within the same area: the structure of land ownership, the type of crop or livestock raised, the use to which profits are put, and government's policy on the price of crops.

To take first the question of land ownership, if there are many farmers making a good living by intensive farming on relatively small farms (as in Box 4) with relatively equitable land ownership, there is a very strong stimulus to growth in local urban centres as businesses meet farmers' needs. If a few farmers or absentee landowners own most of the land and there is rural labour surplus (which is usually the case), land owners can keep wages very low for agricultural labourers. This lessens these labourers' level of consumption and thus level of support for local shops and services. This is the case in many plantations where agricultural production is highly profitable for the owners yet relatively few local people receive reasonable incomes and there is little support for businesses in urban centres nearby. Large landowners may increasingly push small, subsistence farmers off their land as in the case illustrated in Box 5.

Many studies of the impact of the Green Revolution in rural areas in Asia and of the development of commercial farming in Latin America have shown that increasing agricultural production and productivity can mean impoverishment for many rural dwellers. Inequitable land-owning structures are usually the principal cause.

The type of crop or animal raised also influences the number of jobs and the incomes they generate. The amount of labour needed per hectare of land can vary by a factor of 100 or more for different agricultural products raised under different circumstances. At one extreme, pastoralists may need 100-200 hectares or more of land per person to generate enough income to survive. At the other extreme, an intensively cultivated farm of only one or two hectares provides a reasonable living for entire families in many parts of the

world.¹⁴ There are also cases of families surviving on what they produce on landholdings as small as one tenth of a hectare.¹⁵

Cattle ranching in Uruguay illustrates how extensive agricultural production and inequitable land ownership can minimize employment generation in rural areas and small market towns. The concentration on cattle ranching for export in the late

Positive links between agricultural, rural and urban development

The development of the Upper Valley of Rio Negro and Neuquen in Argentina illustrates the possibility of positive links between agricultural, rural and urban development. Within a 700 square kilometre fertile river valley, total population has grown from approximately 5,000 inhabitants in 1900 to over 300,000 in 1981. Although growth and diversification of agricultural production have been the main 'engine of growth', more than 80 percent of the Upper Valley's population live in urban centres with 5,000 or more inhabitants.

A hundred years ago, the first colonists had just begun to grow crops. The establishment of a military fort there in 1879 provided the nucleus for the first town and provided much of the demand for food and fodder. But the Upper Valley's prosperity began to grow when a railway linked it to Buenos Aires in 1899 and gave local farmers access both to the national and the international markets and when government investment in a dam and flood control/irrigation system encouraged intensive agriculture.

For the first quarter of the twentieth century, there was very rapid immigration to the region, including many immigrants. Initially, alfalfa was the main crop but this was gradually replaced by fruit trees—especially apples and pears. The landowning structure was relatively equitable; most of the land came to be farmed by farm-owners with sufficient capital to invest in intensive production. Relatively small farms producing a good income were the norm.

The growing number of prosperous farmers provided a considerable stimulus to local urban development. Despite its small area of only 700 square kilometres, no single, dominant urban centre emerged. A chain of urban centres developed around railway stations, running along the river valley. Each had shops and businesses selling to farmers in their immediate vicinity while they shared amongst them specialized businesses and government offices serving the

whole valley's population.

Growing agricultural production also stimulated many urban-based enterprises. First, cold storage plants were built. As fruit crops usually ripen within a relatively short period of time, this brings enormous demands on the transport system over a small portion of the year. Cold storage plants allowed the packaging and transporting of fruit to be spread over a longer period. In addition, industries developed to produce packing material and boxes for the fruit and to produce cider, apple juice, jams, and dried or tinned fruits. Industries also grew to support the farmers, including a large agricultural chemicals factory and a factory producing machines for preparing land and picking fruit.

In 1957, the two 'national territories' in which the Upper Valley was located became provinces. This meant a considerable increase in the power and resources available to the provincial government and one of the Upper Valley's urban centres was a provincial capital. This in turn also stimulated and supported urban development as the administrative machinery grew to cope with its increased responsibility—although this stimulus was largely confined to the provincial capital.

In recent years, the Upper Valley has experienced economic problems. Perhaps the most notable was in the second half of the Seventies when the economic management of the (then) military government made the Argentine currency strong against the currencies of countries which bought Argentine farm exports, thus greatly reducing farmers' returns. But it does illustrate how rapid growth in agricultural production can be accompanied by rapid growth in employment linked to agriculture and rapid growth in urban population.

SOURCE: Mabel Manzanal and Cesar A. Vapnarsky, 'The development of the Upper Valley of Rio Negro and its periphery within the Comahue Region, Argentina' in Jorge E. Hardoy and David Satterthwaite (Editors), *Small and Intermediate Urban Centres: Their Role in National and Regional Development in the Third World*, Hodder and Stoughton (UK, 1986) and Westview (USA, 1986).

19th and early 20th centuries is one reason why Uruguay is among the world's most urbanized nations with so much of its urban population concentrated in the national capital, Montevideo. Cattle ranching often goes with an inequitable land owning structure since it produces good returns on capital but very low returns per hectare. In Uruguay, a combination of cattle ranching and inequitable land owning structures meant that only a tiny proportion of the rural population earned a good living.

Cattle ranching requires far less labour than crop cultivation; one family with one or two agricultural workers can look after cattle on several thousand hectares. Rather than having one or two households making a good income from agriculture every 5-10 hectares (as intensive crop production) one or two households make a very high income every 500-1000 hectares. There is little

stimulus for small urban centres because there are too few rural dwellers nearby with incomes to spend, save or invest in such urban centres' shops and services. Businesses in these urban centres also received little of the business from rich cattle ranchers who usually dealt directly with banks, export houses and industrial and transport enterprises in Montevideo. Shops and firms in small urban centres close to the cattle ranches could not provide the range of goods and services that the relatively few, rich families wanted.¹⁶ Farming in the Upper Valley (Box 4) was completely different because many small, relatively well-off farmers bought goods and services from local enterprises and stimulated local urban development.

Another example of the influence of land owning structure and crop type is provided by the Northeast of Brazil. The Northeast has long been a re-

**Growth in agricultural production,
rural poverty and out-migration:
The case of Cruz das Almas**

In Cruz das Almas in the Reconcavo region of Northeast Brazil, most farmers cultivate cassava (the main subsistence food crop) and citrus fruits or tobacco as cash crops. Small amounts of other food crops are grown for family consumption.

Traditionally, farmers chose their mix of crops to match the availability of family labour; hiring labour is too expensive for small farmers. Those with the smallest holdings usually grew tobacco. Although low prices from an exploitative marketing system ensures a low return for the work put into cultivating it, tobacco produced the highest income per hectare. This is more important than the highest return on labour, if you only have a small plot. On small holdings with free family labour, maximizing income per hectare guides the choice of crop mix. But it is common for one or more members of the family to migrate to a city, as family size grows too large for the farm's income. Cash sent to those on the farm from family members in cities are important for many households. But as family members do move away from the farm, so too the mix of crops is adjusted as less family labour is available.

Encouraged by government and supported by favourable prices, citrus production has grown at the expense of cassava and tobacco production. However, citrus production requires less labour and more capital than cassava and tobacco. As citrus cultivation expands, the demand for labour declines and small farms are absorbed by larger farms. This has resulted in a sharp increase in migration out of the area. Between 1960 and 1975, there was a rapid drop in the number of tenants and sharecroppers, suggesting that they were forced out as part of the process of land concentration.

In this instance, government policies to encourage growth in agricultural production encouraged increasing concentration of landownership and increasing migration out of the area, mostly to large cities. In effect, such policies have encouraged an increase in wealth for a few and impoverishment for many. The example shows how government policies to stimulate agricultural development may increase rather than decrease people's migration to cities--although the stated objective of many agricultural development policies is to slow such migration.

SOURCE: William S. Saint and William D. Goldsmith, 'Cropping systems, structural change and rural-urban migration in Brazil', *World Development* Vol 8 (1980) pp 259-272.

gion associated with great poverty (especially in rural areas, many of which are prone to regular droughts). The flight of poor people from this region has done much to fuel the rapid growth of large cities in the Southeast of Brazil and the settlement of Amazonia. But the root cause of poverty in the Northeast is not a lack of land. A World Bank study shows that there are nearly one million farms or sharecropped plots in the Northeast which provide an acceptable standard of living for farmers.¹⁷ There are also "nearly 30 million hectares of under-utilized land of similar if not superior quality on the estates" on which "nearly another million families could achieve comparable living standards".¹⁸ Most of this land is un-used or under-utilized but it is the property of large landowners; only four percent of landowners own more than half the agricultural land and only one in four families dependent on agriculture owns the land they work.

If this land were transferred to those with no land or too little land, this would provide adequate incomes for perhaps another million families. The smallest farmers in the region

'employ 25 times more labour per hectare on their land than do the largest farms and obtain vastly higher productivity levels. The smaller farms (less than 50 hectares) cover only 10 percent of the agricultural land, produce over 25 percent of the region's sugar, cotton and rice and 40 percent of the beans, corn and manioc. Yet two million agriculturally dependent families own no land at all while an area of land the size of France is un- or under-utilized.'¹⁹

Once again, this shows the importance of agricultural land owning structures to the question of small and intermediate urban centres. If unutilized and underutilized land was transferred to those lacking land with farm sizes sufficient to allow a good living, it would bring a major stimulus not only to agricultural production (which would help feed city populations) but also to small urban centres there.

Ironically, it is in the Northeast of Brazil that one of the longest running and best known government initiatives was launched to develop a 'backward' area. During the sixties and early seventies, special incentives attracted hundreds of new factories to the Northeast while many existing factories expanded their operations. But this did little or nothing for the rural poor. Most of the new jobs were in the largest cities within the richest states. One analysis of this

programme (and other government programmes that had preceded it) suggested that groups outside the Northeast were always the main beneficiaries and those that did benefit within the Northeast were not among the poor and did not need government help.²⁰ The cost to government of steering industry into this region was also enormous--the equivalent of US\$15,000 for every job created.²¹ Consider what might have been achieved if this same sum were spent on purchasing unutilized and underutilized land and allocating it to those with no land or inadequate land. Indeed, such a programme would probably have proved far cheaper as those who received the land paid back part of the cost, when their farms began to generate a good income.

The stimulus from a growth in agricultural production to local urban centres can also be removed by profits being steered elsewhere. This might simply be the result of absentee landowners or foreign owners of cash crop plantations. One example was the vast Gezira scheme developed by the Anglo-Egyptian condominium government in the Sudan to produce good quality cotton for Lancashire Mills and to lessen the cost to the British government of maintaining the colonial government. Between 1925 and 1950, the company managing the scheme and the government received good returns. But the tenant farmers received a very low return for the crops they produced and so had little or no income to spend. This meant little stimulus for trade, commerce and industry in local urban centres.²²

The potential stimulus from agricultural production to local urban centres can also be removed by government influence on prices for crops. A study of agricultural pricing in Thailand, Egypt, Argentina and Pakistan found that government intervention in setting prices for crops had the effect of taxing the farm sector with large income transfers to urban areas.²³ In Pakistan, low urban food prices have helped keep low wages in industry which, combined with low prices paid for cotton and other raw materials, helped maintain export industries' competitive position in the world market.²⁴ Studies in the late seventies showed that farmers in many sub-Saharan African nations were receiving less than half the world market value of their crops from government crop purchasing agencies. For example, one of the main reasons for the rapid decline in cocoa production in Ghana was the heavy tax imposed on farmers by the government through the Cocoa Marketing Board's pricing policies; obvi-

ously this too has an impact on rural incomes and thus on the development of urban centres in or close to the cocoa growing areas.²⁵

Ironically, most of the advice given to Third World governments on how to develop their smaller urban centres (so often by Western consultants) says little or nothing about the influence of different types of crop and landowning structures on these centres. Indeed, many consultants see the problem of backward regions stemming from a lack of small urban centres. Their solution is the creation of 'articulated hierarchies' of settlements (including small urban centres). But this is muddling cause and effect. Small urban centres with buoyant economies develop because there are sufficient people and businesses with incomes to spend and capital to invest in their shops and businesses. If government builds some small urban centres because no such centres exist in a backward region, this does not provide these urban centres' shops and businesses with customers. As United Nations Recommendations on this subject commented,

"there is no obvious economic or social rationale behind the often recommended policy for governments to create an articulated hierarchy of small and intermediate centres in backward areas."²⁶

Creating or imposing an 'articulated hierarchy' of urban centres does little or nothing to deal with the most fundamental causes of poverty and lack of development in so many regions—poor or depleted soil, inequitable land owning structures (including perhaps many absentee landowners) or lack of investment in flood control, irrigation and other essential infrastructure. If governments can support growing agricultural production and intensification and full use of good quality land while at the same time preventing inequitable land ownership structures, they will do far more to stimulate the economies of many small urban centres than any explicit policy for these centres.

Social and spatial biases in government priorities

Virtually every government policy, action or expenditure has some influence on the spatial distribution of investments and jobs, and through this, on the spatial distribution of population (both rural and urban). Some of the most powerful influences on the spatial distribution of investments and jobs come from government policies which have

no explicit urban or rural goals, i.e., policies aimed at reducing deficits in balance of payments or keeping inflation in check. Many 'nonspatial policies' such as macroeconomic and pricing policies, transport tariffs and taxation systems and factors such as the relative strength of national, subnational and local levels of government are important influences on which urban centres develop rapidly and which do not. It is important to understand how these factors influence the spatial distribution of jobs and investments because of the conflict between nonspatial and spatial policies. It may be that a government's economic and fiscal policies are indirectly a major cause of the rapid growth of the capital city, yet at the same time, another ministry or department in the government is trying to slow this rapid growth.

The extent to which government policies and actions can help concentrate population in capital cities is illustrated by the case of Lima in Peru (Box 6). With 4.4 million inhabitants in its metropolitan area in 1981, it was 10 times the size of Peru's next largest city, Arequipa.

Import substitution policies have often helped concentrate industries in large cities. Many governments supported the development of industries in their own nations to substitute for goods previously imported. In most instances, the effect was subsidizing industrial investment in the largest cities. One of the reasons for the growth of many of Latin America's largest cities (also now among the world's largest cities) was the support given by governments to import substitution after 1930. In Brazil, the states of Sao Paulo and Rio de Janeiro (with the two largest metropolitan centres) have benefited most from government incentives to promote import substitution while some of the poorest, most rural states benefited least.²⁷ In Nigeria, in recent decades, indirect subsidies from national trade policies have favoured enterprises in Lagos (with more than 5 million people in the conurbation) and the region around it.²⁸ In Thailand, one reason why Bangkok grew to become much the largest city in the country was that it received most of the benefits of the import substitution policies during the 1970s. By the end of the sixties, protected industries were given full duty exemption on capital goods and raw materials. Most of these industries were located in Bangkok.²⁹

For countries which export agricultural crops, the exchange rate of their national currency against those of nations to which they export affects farmers' incomes. An 'overvalued' national currency (perhaps kept that way by the Ministry of Finance to cheapen imports) reduces returns for farmers producing export crops. One reason for rural-urban migration in Nigeria during the seventies was that oil exports kept the exchange rate of the Nigerian naira high against the currencies of nations which had previously been major markets for its agricultural exports. This led to extremely unattractive prices for export crops and lowered the costs of imports, including imported basic foodstuffs. Rural incomes suffered and so did the economies of small and intermediate urban centres which had served as markets and centres for goods and services for the rural population. Some urban consumers benefited.³⁰ Similarly, during the second half of the seventies, the Argentine peso became increasingly strong against the US dollar and the currencies of other nations to which Argentina exported, seriously affected the income of farmers producing export crops.³¹

A study of spatial development in Mexico illustrates how various government policies helped ensure that Mexico City Metropolitan Area remained the main focus for rural-urban migration throughout the 1950s and 1960s.³² The Federal District (the central part of the metropolitan area) received the highest share of public investment in transport, water and power, a 'disproportionately large share' of total outlays on education and subsidized prices for wa-

ter, corn, electric power, diesel fuel and public transport.³³ Furthermore, railroad freight rates "were structured to favour routes to and from Mexico City" while property in the Federal District "was relatively undervalued for tax purposes and other states were taxed at relatively high rates".³⁴ Mexico City or the wider metropolitan area also received many of the new industries encouraged by the Federal Government's import substitution policy.

Thus, many government policies and expenditures whose objectives are social, economic or political have strong spatial effects. Many have helped to cause very rapid growth rates in the largest city or cities in recent decades. Changes to these policies could help promote the development of small and intermediate urban centres. As Andrew Hamer stresses:

"eliminating sectoral distortions may do more for decentralized development than all the myriad spatial efforts conventionally proposed by Third World policy makers."³⁵

But the fact that social or economic policies do have strong spatial influences is not in itself the issue. The issue is whether such spatial influences are judged to be contribute to or work against other social and economic development goals. If governments do want to stimulate urban development away from their large cities, they must consider how nonspatial policies contribute to or conflict with this goal.

Capital City Bias: the Case of Lima, Peru

Lima has received a disproportionately high share of infrastructure and public investments, a response to the more vocal political pressures in the capital and greater awareness of the extent of public service lags in Lima than elsewhere. Utilities such as water and domestic electricity have been subsidized more heavily in Lima. In an attempt to rationalize the invasion of land by squatters seeking to build their own housing, the government has supplied free lots in many peripheral areas to migrant households; mortgage finance has been heavily subsidized with most of the loans made in Lima. Until very recently, gasoline was priced far be-

low the world price, again benefiting Lima because two thirds of the country's motor vehicles are concentrated there. Food prices have also been subsidized, shifting the internal terms of trade against the rural areas and resulting in heavy government support for the food import bills for urban consumers. The persistent overvaluation of the currency harmed the agricultural areas and natural resource regions (i.e. the periphery) by eroding their export potential and subsidizing the main focus of import demand, Lima itself.

SOURCE: Harry W. Richardson, 'Planning strategies and policies for Metropolitan Lima', *Third World Planning Review* Volume 6, No 2, May 1984.

Basic Service Provision

Government expenditures on low-cost housing, urban infrastructure and services have usually been concentrated in the largest city or in a few large urban centres--although in recent years, several governments have steered more investment to smaller urban centres.³⁶ Many such projects have been partially funded by international aid agencies and these have also been concentrated in the largest cities, even if in recent years certain aid agencies have consciously sought to fund more projects in small and intermediate urban centres. Certainly, only a small proportion of the inhabitants of small and intermediate urban centres have water piped to their house and household and human wastes removed. In most nations, only a small proportion of houses are served by paved roads and storm drains. Few of the neighbourhoods within small and intermediate urban centres have within them first aid posts, dispensaries or other services to provide their inhabitants with primary health care. Most small urban centres have very inadequate or no public provision for emergency lifesaving services.

Most small cities and urban centres have environmental problems arising from a lack of piped water supplies or water sources used for human consumption being contaminated, lack of provision for drainage and for the safe disposal of excreta and lack of provision for garbage collection and disposal.³⁷ For most nations, smaller urban centres are likely to have a much lower proportion of their populations served by piped water systems and by sewage systems than larger cities. For instance, in Argentina, the smaller the urban centres, the higher the proportion of households lacking piped water and connections to sewers. The average for urban centres with 200,000 to 500,000 inhabitants is approximately 18 percent lacking piped water and 60 percent lacking connection to sewers. The average for urban centres with 5,000 to 10,000 inhabitants is over 40 percent of households lacking piped water and more than 90 percent lacking connection to sewers.³⁸

Public provision for water supply and for removal of household and human wastes does not necessarily cost more in small urban centres, compared to large urban centres. This was highlighted in the recommendations given to governments by the United Nations which stressed that per capita costs

in such provision were not necessarily higher in smaller urban centres and cost recovery was not necessarily lower.

"The economies of scale in providing such physical services as protected water supplies and hygienic disposal of household and human wastes have been much overstated in development literature. If the appropriate technology is chosen, and a suitable organization is set up for operation and maintenance, per capita costs in small and intermediate urban centres can be lower than in large urban centres. Many options are available to match the wide range of physical conditions, social preferences and economic resources found in different settlements."³⁹

In regard to public transport, governments have perhaps underestimated the extent to which appropriately designed and managed systems can be largely self-financing. But with these and other public services and facilities, the possibilities for improvement largely depend on a level of skilled personnel and resources at local government level which is rarely apparent.

There is also the need to improve service provision to rural inhabitants and small and intermediate urban centres are the best locations for many services. For governments intent on reaching a higher proportion of rural citizens with health care, health education and preventive health coverage and more options for education and training, an increase in services and facilities within many small and intermediate urban centres will be needed. While primary health care units often need to be located in villages, small or intermediate urban centres will usually be the best location for hospitals (first referral level) and for coordinating and managing local schools and health care centres. Similarly, primary schools for rural citizens may be best located in rural settlements but as education at secondary and higher levels expand, many of the schools and colleges will be best located in small and intermediate urban centres.

In education, there is an evident need to lessen the centralization of school curricula. School programmes are often uniform for entire nations; rarely do they make allowances for local and regional needs and resources. Skill training appropriate to local development possibilities is even rarer, although there are notable exceptions such as the Tiradentes project in Brazil. As Max Neef notes, vocational training, as traditionally practiced in most countries of Latin America

"discriminates in the sense that it tends to benefit the large metropolitan areas more than the small cities, towns and villages. Furthermore....the orientation and content of any vocational training curricula has to be determined by - and adapted to - regional and local characteristics, and not by the extrapolation of national and global trends."⁴⁰

What distinguishes the Tiradentes project from most other programmes for small or intermediate urban centres was the extent to which it was based on locally articulated needs and local skills and resources. The municipality has some 10,000 inhabitants, divided into two urban districts and a rural area of poor soils. In recent decades, its economy stagnated after a period of splendour when gold was mined nearby. The Tiradentes project sought to build on old traditions of craft skills and to allow the older generation, skilled in crafts, to pass on their knowledge to younger apprentices. The project had many other aspects such as the preparation of an exhibition of photographs of Tiradentes taken during the past one hundred years, and the formation of a Guild of the Artisans. The relevance of this project to other urban centres is not so much what was done but how its plans were based on the resources of that particular municipality and on the needs of its inhabitants.

One important but rarely discussed aspect of small and intermediate urban centres is the role of such centres as a focus for social life and social contacts in their area. In a review of some 400 papers and articles on small and intermediate urban centres in Africa, Asia and Latin America,⁴¹ few considered this aspect. But in many nations or regions, there are likely to be friendship, kinship and family links between many rural inhabitants and those in small and intermediate urban centres. Such centres may be the place where young people in the area socialize and where there are opportunities for engaging in sports and recreation, and attending religious services and festivals. It is within many such centres that the culture of the area has its most concentrated expression. Simply because such aspects are less tangible and less researched than the potential for increasing agricultural production, it does not mean that their role in making smaller urban centres desirable places to live and work should be underestimated.

Small Urban Centres - and controlling the growth of large cities

Many governments in the South have adopted special programmes for small and intermediate urban centres in the last fifteen years. These programmes go under many names, for instance special programmes for 'secondary cities', 'intermediate cities', 'medium size cities' 'growth centres', and 'migrant interceptors'. Some government programmes for small and intermediate urban centres serve national political goals, for instance consolidating population in a border area. In others, they are seen as supporting local or regional development, serving a new land colonization programme or the exploitation of some natural resource. But most have a primary or secondary goal of diverting growth away from the largest city (or cities).

One of the most ambitious plans to control the growth of large cities was launched in Egypt in the second half of the seventies. Cairo was declared 'overcongested'. So, too, was the city of Giza nearby (which is part of Metropolitan Cairo) and Port Said. These cities were to have their population *reduced* by the year 2000. Various other urban centres and areas were declared 'saturated' and were to have no more population growth. Meanwhile, most of the growth in population between 1978 and 2000 was to be in various satellite cities around Cairo and Alexandria, in the zone beside the Suez Canal and the so called 'virgin areas' (including the Red Sea Coast, the New Valley to the south, the Sinai and the area around Mirsa Matruh on the Mediterranean coast). These four 'virgin' areas were to have 14 million people by the year 2000.

At first sight, such an ambitious plan has considerable appeal. Cairo is very congested and its growth is taking place over valuable fertile land; because only 4 percent of Egypt is fertile land, the loss is particularly serious. The cost of implementing even a part of this plan would be prohibitively expensive. To get 14 million people to leave the crowded cities, the Egyptian government would have to develop the virgin areas. Hundreds of thousands of jobs would have to be created in order that tens of thousands of businesses would be persuaded to set up there. But most businesses would never set up in these 'virgin areas' because they need the labour force, the infrastructure, the goods and services and the contacts with government agencies which can only be found in or close to Cairo or Alexandria.

The government could never afford to develop these virgin areas to the point where tens of thousands of new businesses would set up there. There is already evidence of reluctance on the part of businesses to move to the large new satellite cities around Cairo. But a more worrying implication of such a plan would be that it would starve all other cities, municipalities and rural areas of investment funds. While relatively few people are being persuaded to move to virgin areas at great expense, conditions elsewhere--where most of Egypt's population lives--would deteriorate.

Many Third World governments are investing considerable sums of money in developing small and intermediate urban centres to try to slow the growth of their largest cities. However, if governments are concerned about slowing down the growth of large cities or stimulating the development of smaller urban centres, they must look at why the large cities are growing rapidly and many small urban centres are not. As noted earlier, governments' macro-economic and pricing policies, their sectoral priorities and the fact that local government remains weak and ineffective may be the real reasons. Investing large sums in developing some 'small urban centres' will not achieve much, if the more fundamental causes are not addressed.

Box 7 lists some reasons why modern industries and service enterprises become concentrated in one large city.

In relatively poor and un-industrialized nations, a government's spending large sums of money trying to steer industries to locations which will not suit them can damage the economy. Many of their industries will need to be in or close to the largest city. If they are producing consumer goods, costs are often greatly reduced by being close to the largest consumer market. Because most nations' largest city is also their port, costs are also cut if they import machinery or inputs or they export some of their output. Large cities also have a greater variety of skilled people and specialized services. Perhaps they are the only cities with sufficient water and reliable electricity supplies. As Bertrand Renaud points out, only in relatively large cities can many specialized enterprises exist - for instance specialized business services, shippers and jobbers, financial offices, legal offices, trade unions, repairs, specialized printing, consulting firms, equipment leasing firms, labora-

tories and professional schools. For many businesses, these are more important than cheap labour.⁴²

A lot of research has tried to establish the 'optimum size' for a city, i.e., the size at which a city has all the specialized enterprises noted above but none of the disadvantages of very large cities. Some researchers have claimed that cities with 140,000 inhabitants are the 'optimum size' while another has claimed that the optimum size is between 1 and 2 million inhabitants.⁴³ Such figures make no sense because each city has its own unique advantages and disadvantages many of which do not relate to its size but do relate to its location and to the costs of drawing on certain resources nearby. Take the question of getting a water supply. The cost of obtaining water varies enormously from place to place; for some cities of (say) 1 million, the cost of doubling the water supply so that heavy industry can expand is not so great; they are close to a major river or have large ground water reserves which can be tapped without depleting them. Doubling water supply in other cities of 1 million inhabitants can be very expensive if there is no water source nearby. In short, it is not only size which determines such costs.

One very important reason for an over-concentration of industries and commercial and financial businesses in large cities is that they are not charged for the costs they generate there. The discussion about the optimum size for a city forgets that most of the benefits of the large city go to businesses while most of the costs are dumped on poorer citizens. Major industries and commercial or financial businesses often get all the advantages. They get the water they need, the telephone service, electricity and solid waste collection, usually from government utilities. Their roads are paved and are served with storm drains--paid for by government. In most cases, they pay little or nothing to dispose of their wastes; hence industries pollute the air and dump untreated wastes into nearby water bodies or into the sewage or drainage system. Their professionals and senior management usually live in neighbourhoods which also receive water, telephones, electricity, roads and garbage collection.

Meanwhile, low-income people live in areas with few or none of these public investments and services. They often live in areas having the most air and water pollution. They suffer most from traffic congestion, because they live in the worst located areas. If governments charged the rich

**Factors which create or consolidate
the primacy of one large city**

Historical Factors

a) Creation of a nation-wide administrative hierarchy with power highly centralized in primate capital city

b) Initial development of a commercial economy based on the export of mineral or agricultural products which focused development on ports (which were also usually capitals). If profits were steered out of the nation (eg. foreign owned plantations or mines) the low incomes of the labour force meant little demand to support urban enterprises in the producing areas

c) For many nations in Africa and some in Asia, the colonial legacy created the necessity for centralized government control because of a fragile national unity at Independence (and thus primacy of the national capital).

d) Concentration by Governments on industrialization and on achieving sectoral planning targets; again the existing primate city was often the only one with the infrastructure and services and pivotal position on national and international transport routes.

e) The dominance, in nations achieving independence, of one political party with a strong support from urban union and labour interests with headquarters or constituencies based in the capital city

Current Factors

a) Businesses in the primate city not being charged the full cost of the publicly provided infrastructure and services they use and the costs they generate - including not having to pay for the disposal of wastes or the control of air and water pollution

b) Centralization of power and resources within national government. Governments in other cities lack power and resources to be able to compete with primate city for new investments since they cannot provide the infrastructure and services that new businesses need.

c) Investments in infrastructure (eg roads, railways, power, water supply, ports, airports, phones and telecommunications.....) favouring primate city--and its region.

d) Concentration of richer income groups in or near primate city--so this remains the major consumer market. Part of this may be due to the unwillingness of executives, professionals and skilled labourers to move away from the primate city because only here is there the quality of services and facilities that they desire.

e) The government's macro-economic and pricing policies having net effect of subsidizing investments and consumers in the primate city

f) Industrial and service sectors not having developed to the point where decentralization of some activities (eg branch plants, routine administration, research, distribution) can take place spontaneously

g) Necessity for major enterprises to have close contact with national government agencies (eg to acquire licenses for imports or government contracts) which in turn is linked to the scale and nature of government involvement in production and trade

h) A national economy strongly integrated into the world market which may focus attention on major port cities --which for historical reasons are primate cities.

i) Nations which remain depend on cash crop or mineral exports so primate city dominated urban system: imposed by colonial rule remains the one which best serves the economic model and export crop dominated interregional transport system.

j) National capitals have to have various institutions and activities associated with being the centre of government for a 'nation state' - eg government ministry head offices, offices of public agencies, national legislative, executive and judicial institutions, foreign embassies and all the higher order goods and services which all these require. Few if any of these can be located away from the national capital. In predominantly rural nations, just these can create a 'primate city'. In addition, in relatively rural nations, demand for higher order services such as insurance, international banks and other

"producer services" and higher order consumer services such as travel agents and specialist medical services can be so small with demand for them so concentrated in the national capital that they also help reinforce primacy.

N.B. This is not a complete list and the extent to which some or all of these are relevant to one particular nation will vary greatly, as will their relative importance.

Box 7 (continued)

the full cost of all the public investments from which they benefit, government revenues would increase enormously. If governments charged industries for the full cost of the roads they use and air and water pollution they generated, again, government revenues would increase and pollution levels would fall. If governments charged businesses for part of the cost of supplying the residential areas of their workforce with basic services, this revenue combined with that from full cost recovery from the rich would pay for improving conditions for poorer groups. But more importantly, the increased cost for major businesses in large cities would also encourage them to consider whether certain smaller urban centres might not be cheaper and better places for their factories or offices. Perhaps governments' failure to fully charge large businesses located in the major cities for the costs they generate and the costs of servicing them is one of the most important reasons that these businesses remain so concentrated in such cities.

Thus, the best long term strategy to slow the growth of the largest cities and to stimulate the development of small and intermediate urban centres is a combination of four elements. The first is stronger, more competent, more representative local government. With more funds, more trained personnel and more realistic local development plans, they can attract and support more new businesses and improve the quality and quantity of basic services. The second is a more productive and more diversified agriculture with actions also to tackle problems of un- or under-utilized land held by large landowners and poorer groups' access to land. The third is adjustments to macro-economic and pricing policies so these do not have the effect of 'taxing' the poor and those outside the largest cities and subsidizing the

rich within the larger cities. The fourth is the point noted above, making middle- and upper-income groups and businesses in large cities pay for the costs they generate.

In many of the richer and more urbanized nations in the South, there are greater possibilities for a more decentralized pattern of urban development. In most countries in the North there has been population movement away from many (or most) of the largest cities, especially those cities that grew to become the largest ports and industrial centres. There is an increasing proportion of businesses outside large cities, in small urban centres or 'greenfield sites' outside any urban centre or along major highways. There is some evidence of this also taking place in parts of Brazil, Argentina, South Korea and Mexico, usually in and around the richest and most urbanized regions (see Box 8). Again, this more decentralized pattern of urban development will be greatly encouraged by the strategy sketched in the previous paragraph.

Population deconcentration within core regions

Important "counter-urbanization" or "counter-metropolitanization" trends have developed in all the world's wealthiest and most urbanized nations, including some in "the South." This implies an almost universal tendency for a more decentralized pattern of urban development within market or mixed economies above a certain per capita income, although there is great variety in the scale, nature and timing of these trends. It is also worth noting that "counter-urbanization" and "counter-metropolitanization" trends were generally weaker in Europe and North America during the 1980s, compared to the 1970s.⁴⁴ Also, the increasing globalization of the world's economy is increasing the economic primacy of some existing primate cities within their national urban systems—essentially where primate cities develop an increasingly important role within the world economy. In other economies, however, most of the new enterprises linked to global markets are outside primate cities. Primacy is generally reinforced within the command and control centres of the world economy and within the cities which are important international centres linking their national or regional economy with the global economy.⁴⁵

For many of the world's largest cities, part of the slowdown in their population growth is explained by a rapid growth in population and production

just outside their boundaries, with much of this production intimately connected to enterprises still within its boundaries. In general, all major cities or metropolitan centres experience a decentralization of population and of production as they grow. This generally begins with suburban housing being developed at ever greater distances from the city centre and then a widening commuting field and an increasing concentration of enterprises in suburban locations or in belts around the metropolitan area. But the speed of this decentralization of people and enterprises and its spatial configuration seems to vary greatly from city to city and to change over time. There are also recent examples of city centres attracting new enterprises other than those that concentrate in central business districts and also new residents.⁴⁶

This rearrangement of production within cities is perhaps best understood in terms of three sets of factors with different spatial implications. These are factors that

- encourage a movement of enterprises out of major cities, metropolitan areas or even wider metropolitan regions, discourage new ones locating there, and cause a decline in the enterprises that are concentrated in central cities;
- still concentrate enterprises within or close to metropolitan areas (or urban regions) but outside the central city; and
- encourage enterprises back into central cities.

The scale and importance of the first of these sets of factors has long been evident and carefully documented (summarized in Box 8). What is less well documented, especially in the South, is the fact that it has become common to have a decentralization of population and of production away from the central city (and even its inner suburbs) but with a continued or increased concentration of population and of production within the metropolitan area or wider region. Judged nationally, this remains an increased concentration of population and economic activity within what might be termed "core region" but a decreased concentration of population and economic activity within the core region itself. In most major cities in the North and many in the South, there has been a declining proportion of the population living in the central city and the outward sprawl of the urban agglomeration, especially along major roads and highways. This has prob-

ably gone furthest in the United States where population densities in outer suburbs are generally much lower than in Europe and where many enterprises have also developed close to major highways outside the central areas. Some of the most innovative and successful concentrations of enterprises are not in cities but concentrated along major highways (for instance the firms along Route 128 in Massachusetts) or in Silicon Valley. This has led to new terms such as the "100 mile city" where there is no obvious "central city." Decentralization of production and of urban population within core regions can also be seen in the rapid growth of smaller cities that are close to the major cities or metropolitan areas as these attract both industrial and service enterprises that previously would tend to concentrate in major cities. Regions with good quality transport and communication networks encourage this, as does the "just-in-time" system which needs some physical proximity.

One of the most remarkable examples is the region bounded by Sao Paulo, Belo Horizonte, Rio de Janeiro and Porto Alegre in Brazil which includes a great range of cities of different sizes, many of which have been successful in attracting new enterprises that previously would have concentrated in the major cities. Many such cities are within 200 km of Sao Paulo's central city and have many advantages and few disadvantages when compared to investment in Sao Paulo itself. Private investment in Greater Sao Paulo was discouraged by the well-organized trade union movement, pollution, transport problems and a lack of suitable land sites. Investment in cities nearby was encouraged by a whole range of factors including better roads and telecommunications, the availability of land and fiscal incentives in the smaller cities. The decentralization of production was also boosted by the promotion and support of the government in information technology in Campinas and in the aeronautics industry in Valle del Paraiba.⁴⁷ Motor vehicle companies such as General Motors, Volkswagen and Mercedes Benz have chosen different small cities within this region.⁴⁸ However, this model of a region with a diverse but highly integrated urban system and a declining importance for any dominant city, depends on good transport and communications system and good quality infrastructure and services available in different cities. Many of the largest cities in the South remain more concentrated, because of poorer transport and communications system. As scarce infrastructure and

Factors that can encourage a more decentralized pattern of urban development

Economic factors

A combination of the growth of new consumer industries which do not need to be close to major city centres or ports and good quality infrastructure and services available in smaller cities where land and other costs are also cheaper both for enterprises and for their staff and where the city is linked to a national highway system and (often) an airport closeby.

Business support services like banking, development credit agencies, technical assistance facilities, etc. in urban centres other than primate city to assist in the 'birth' and development of local firms and good cultural/entertainment/recreation facilities for managers, executives, professionals and skilled labour

Industrial and retail/wholesale/service sector within a nation with a size, diversity and concentration of units within single enterprises to allow the decentralisation of branch units or routine operations (e.g., accounts, billing...) outside large cities to lower production costs or better tap markets there

Good interregional transport and communications systems (e.g. telephones, cellular phones); when combined with advanced systems of management and control linked to sophisticated communications systems, this allows the spatial dispersion of large enterprises' activities (each seeking location best suited to its operation) with no loss of management/control of whole enterprise from head office.

Decaying economic base of what had been the main industrial centres which may also prove unattractive locations for most new industrial or service enterprises

Successful, high value intensive agricultural production, especially if this creates good incomes for a large number of people and/or forward and backward multiplier linkages supported

Strong and successful tourist industry in smaller towns and in rural areas linked to beaches, parks, lakes, rivers... (although great variety in the extent to which the incomes/profits are captured by enterprises within the small towns as against travel agents, transport firms.... in nearby cities).

Social factors

A combination of relatively high per capita incomes and equitable income distribution nationally - so in areas other than that around the primate city, demand for goods and services encourage businesses to locate there.

High level of literacy and education among the inhabitants of urban centres other than the primate city including higher education located there - plus active regional/local business communities

High levels of crime, violence, pollution and congestion in major cities which encourages firms to invest elsewhere and those able to afford to choose where to live to move to other areas.

Influential labour movements developing in existing industrially developed areas which businesses can avoid if they set up elsewhere and reduce labour costs as a result

A high proportion of particular age groups with incomes who prefer to live outside the major cities and have the means to do so, e.g. retired people and families with young children

Institutional and policy factors

Decentralized political structure which includes strong and efficient local government for urban centres other than primate cities and a good database to inform prospective investors about local climate/water availability/resources

Businesses and middle and upper income groups in large cities being charged the full cost of the publicly provided infrastructure and services they use, and also businesses not being allowed to dump solid and liquid wastes (including toxic wastes) and pollute the air.

No need for businesses seeking permission to invest or import or export to have long negotiations with government agencies, located in primate city

N.B. Many of these factors have contributed to a decline in population in many large cities or metropolitan areas in the North and many seem to be acting in many of the South's most urbanized and industrially advanced regions within nations.

skilled labour tend to be concentrated in large cities, so modern economic activity clusters around them.⁴⁹

Some concluding comments

In most nations, there are many small and intermediate urban centres where there is little or no possibility that strategic public investments or supports will stimulate development. Some have too poor or depleted a resource base. Others have stagnant or declining economies because enterprises no longer sell goods or services at a competitive price or because demand for them has declined and there is little practical possibility of finding more buoyant alternatives. The appropriate public response to such problems needs to be place-specific and case-specific. But the widely used policy of steering some public enterprises to small and intermediate urban centres only for them to struggle to survive because of inappropriate locations and poor supporting infrastructure and services, or the policy of giving a large subsidy to private enterprises to move there, are unlikely to tackle the causes of such centres' problems. Indeed, in many instances, they may have little or no effect on alleviating the poverty of such centres' inhabitants, despite the high cost to the government.

In considering the problems of large cities or of small urban centres, one must not forget that it is people's needs, not urban centres' needs, which is the real concern. It is easy to muddle the two. As Charles Gore states in an analysis of regional problems, it is very common for social problems located in cities and regions to be muddled with the problems of those cities and regions or a confusion of 'place prosperity' with 'people prosperity'.⁵⁰ This confusion is evident in much of the advice given by 'small and intermediate urban centre' specialists to governments.

It is also evident in government policies. Many of the goals of such policies are explicitly 'spatial', e.g., to reduce the concentration of urban population in the capital city. If the proportion of urban citizens living in the capital city fell, this could be counted as 'a success'. But this 'success' might be associated with increasing poverty and economic stagnation. Certainly in Argentina, the decline in recent years in the proportion of urban citizens living in Buenos Aires has been partially the result of a decline in national output, an increase in social inequality and a decline in the capacity of the metropolitan centre to generate new jobs.⁵¹

The reasons for inappropriate 'spatial goals' is not simply ignorance. Many businesses would face large increases in costs if they were charged realistic prices for the public infrastructure and services they used and were prohibited from dumping untreated wastes. Many special government programmes on small and intermediate urban centres are merely cosmetic operations to give the impression of government activity and concern. Indeed, some seem no more than attempts to disguise the increasing centralization of power in national government with the decline in the power and resources available to local government.⁵²

The whole subject of 'human settlements' which brings in metropolitan centres, large cities, small and intermediate urban centres and rural settlements is very poorly understood outside a narrow group of specialists and researchers. Such people talk of 'urban systems'⁵³ because it is only possible to make sense of an urban centre if its role in relation to other urban centres is understood. Thus, the 'urban system' is all the urban centres and the movements between them of goods, people, information and capital. The critical connections between urban centres include roads, railways and sometimes aircraft but also all forms of telecommunications.

Since people, resources and economic activities are distributed in space around a region or nation, it is through the 'urban system' that they are connected. This 'urban system' and its connections with rural settlements provides the backbone on which all development projects or programmes are planned. Yet governments and aid agencies still tend to treat 'urban development' or wider 'human settlements' issues as if they were a sector in their own right with their own ministry or division. 'Human settlements' are viewed as being a convenient, discrete component of development so that, like agriculture or industry, responsibility for planning and implementing projects or programmes can be left to one agency. This hardly aids the needed coordination between investments in infrastructure and investments in agricultural or industrial projects. It ensures that 'human settlements' receive a low priority since investments in them produce less visible and measurable results than investments in agriculture or industry. Meanwhile, professionals' understanding that each nation's human settlements and their many complex interlinkages are the physical

context within which all investments are made is rarely reflected in national plans and government structures.

It is only through the urban system and its links with smaller settlements that farmers can be reached with agricultural extension services, inputs, credit, storage, marketing and processing. Similarly, only through an urban system and its links with smaller settlements can governments increase the proportion of the population reached with health care, education, postal and telephone services, emergency lifesaving services and so on. It is through the urban system that both agricultural and nonagricultural enterprises have access to interregional and intraregional transport and communications systems. Finally, this paper has argued that it is through the different levels of local government (most of which are located in small and intermediate urban centres) that local needs and resources are best assessed, most development initiatives efficiently implemented and most multisectoral development programmes coordinated.

The role of small and intermediate urban centres within national and regional urban systems and national production is usually given scant attention. Obviously the development roles of such centres cannot be considered in isolation from those of larger urban centres or those of the rural economy. Small and intermediate urban centres (however one chooses to define them) are merely part of a range of different-size settlements within any nation or region. An understanding of trends in terms of changes in population or in economic structure within such centres can only be achieved through an understanding of the role of each particular centre within the wider system.

Special government programmes for small and intermediate urban centres must be based on the understanding that each centre will have its own unique mix of resources, development potential, skills, constraints and links with the surrounds and the wider regional and national economy. Of course, the potential for development--or constraints on development--change over time. Among the reasons for such change might be changes in the national economy or government's macroeconomic policies or the world market. Governments cannot afford to view too narrowly their 'small and intermediate urban centres'. Nor can they afford to ignore contributions that people, citizens, businesses and local governments based in such centres may make to

more realistic local development plans, to the mobilization and better use of resources and to agricultural development

NOTES AND REFERENCES

Background

Table 1 gives examples of the proportions of national populations and national urban populations living in small and intermediate urban centres. It shows how a lot of urban citizens do not live in large cities, even if the trend in most nations has been towards such increased concentration, at least until recent years [2]. India provides an interesting example. India's urban problems are virtually always urban problems in Calcutta and Bombay. But these two cities contain little more than 10 percent of India's urban population. Even taking India's twelve largest urban centres each with more than a million inhabitants in 1981, they contained only one quarter of India's total urban population. In 1981, Havana (Cuba's capital) contained just 30 percent of Cuba's urban population. In 1985, Colombia's capital (Bogota) contained only 20 percent of its urban population while Bogota plus the next three largest urban centres contained just 43 percent of total urban population. These and other examples in Table 1 suggest that a very large 'urban population' live outside large cities.

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PROPORTION OF NATIONAL AND URBAN POPULATION IN SMALL AND INTERMEDIATE URBAN CENTRES (Selected nations)

Country	% of national population in		% of urban population in		
	Small and inter-mediate urban centres	Large urban centres	Small and inter-mediate urban centres	Large urban centres	
Kenya	7.5	7.7	49.5	50.5	(1979)
The Sudan	12.3	5.3	69.0	30.1	(1973)
Tanzania	8.7	4.6	65.9	34.0	(1978)
India	16.8	5.8	75.5	24.5	(1981)
Pakistan	17.4	10.9	61.5	38.5	(1981)
Colombia	40.5	30.7	56.9	43.1	(1985)
Cuba	46.3	19.8	70.0	30.0	(1981)
Ecuador	23.7	25.6	47.9	52.0	(1982)

N.B. Cross country comparisons are invalid since the choice as to which urban centres are 'large' is made within the urban context for each country. Note 3 gives more details and lists the sources for the statistics.

TABLE 1

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The Management, Costing And Marketing Of Town Land

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The Growth of Small Towns

In China, the population of small towns is growing at a very uneven rate. Some small towns are growing at the astonishing rate of 20% per year, others at a high rate of 5 or 6% a year, others are stagnating, some might be losing population. The methodology explained in this paper concerns only the towns which are growing at a fast rate -more than 4% a year. Land development investment is made necessary by fast demographic rate. But international experience shows that **investment in infrastructure and land development does not create growth**. It is certainly possible to develop land in advance of anticipated demographic growth, but developing land for more than, say, 3 years anticipated growth is extremely risky and has no economic justification.

Demographic growth requires land for town expansion but it also requires a higher level of infrastructure investment per capita, and higher operation and maintenance costs. A town which grows at 20% a year doubles in area in 3.5 years, a town growing at 10% doubles in 7 years and a town growing at 5% doubles in 14 years (assuming the density stays constant).

Of course a very high demographic historical growth rate is no guaranty that this growth rate will continue in the future. The demographic growth rate is only an indicator of economic growth which in turn depends on many factors which are independent from the control of the local authority. For this reason small towns' Local Authorities have to be very cautious in investing in infrastructure for future growth.

Why Land Management?

In China, because of the status of land tenure during the transition period toward a market economy, the local authority of a small town is obliged to fulfill the function of a **land developer**. This is no trivial matter. A city like Zhili Town in Zhejiang Province which has been growing at around 20% per year (town proper) during the last 10 years, required to develop about 300 hectares of land to accommodate the demographic and economic growth between 1985 and 1994 for an additional population of about 25,000 people. This would be considered a very large and complex land development project even in cities where a land and a financial market already exist.

The Local Authority of a small fast-growing town should function as a land developer until this function is taken over by specialized private develop-

ers. This will happen when enough land has been converted from agricultural to buildable land and when enough land leases have been issued to create a land market between users. In China the transition period during which the Local Authority have to play the developer role may last another 10 years. Of course Local Authorities should play the role of land developer in addition to their more traditional responsibilities concerning the provision of social services, the operation and maintenance of utilities and the regulation of land use.

The following remarks illustrates the methods that a small town could use to fulfill this role of land developer. I insist that these methods are useful only for towns with a demographic growth rate of more than 5% a year.

In small towns with fast growth, Local Authorities cannot be expected to finance out of their own savings their requirement for infrastructure. They have no choice but either to borrow to finance their needs or to let the environment deteriorate for lack of adequate infrastructure. In the later case, ultimately, the bad quality of the environment will discourage growth and will prove very costly to clean up, certainly much more costly than if the town has been well managed from the start. Therefore Local Authorities should learn the preconditions which will give them the **possibility to borrow** to finance their growing need for infrastructure. To be able to borrow, Local Authorities should prepare the following:

- a) a credible land management system and
- b) financial projections based on sound cost-recovery principles

Professor Dowall in his paper given to this conference "An Overview of Private Sector Financing of Urban Infrastructure Services" describes the financial instruments which are available to a Local Authority to finance its infrastructure and its land development needs. The method described below allow a Local Authority to define and quantify what these needs might be.

Too often, Local Authorities, when confronted with fast growth, content themselves in operating what are called "Ponzi schemes". A Ponzi scheme is an operation which allows financing current expenditures with current revenues without taking into account the future liability represented by the flow of current revenues. For instance a Local Authority may receive a lot

of revenues during a given period by selling land use rights. But each land use right sold involve a future expense for the Local Authority in terms of construction of trunk infrastructure, treatment plants, provision of social services, refuse dumps, etc. If the Local Authority spends its current revenues to pay for liabilities incurred in the past, it will become bankrupt as soon as that growth slows down only slightly. Borrowing money to develop infrastructure will increase the risk of bankruptcy. The principles and methods described below are aimed at avoiding this type of problem.

Principles of Land Management

The management of land should be driven by anticipated demand for land fueled by economic activities. A successful land development scheme depends on the confidence that end users will have in the developer, in this case the Local Authority. In establishing the regulatory framework under which the land market will operate there is a contradictory need for **flexibility and certainty**.

Flexibility. Land-use plans are never established on a "scientific" basis. They are only a projection based on the planner's judgment of future land users demand for land and infrastructure. The end users and as a consequence their demand for land, are not known at the time the plan is prepared. The real effective demand might be quite different from what was anticipated. There is no point in forcing land users to modify their demand in order to fulfill the plan. Land users in small towns have the choice to move to another town where land and infrastructure have been planned to meet their needs. The Local Authority should therefore show flexibility in adjusting its plan to changing demand. The use of simple computer models greatly helps adjusts land-use plans rapidly while maintaining financial viability.

Certainty. Land users need to have confidence to establish their business on land that the Local Authority has developed. This requires certainty. Land users should be certain that the Local Authority will not change the terms of the lease, the nature of the development rights given to them, the delivery of infrastructure promised, in particular in terms of water, water treatment, drainage, electricity and telecommunication. Any change made in the terms of the contract given

by Local Authorities to land users will weaken its credibility and eventually will cause financial problems by slowing economic growth.

Land management rests on basic "**land accounting**" techniques. The base of the accounting system is of course the area of the land to be developed and the cost of developing it and the market value of the area of land which would eventually be sold. It is important to distinguish the difference between "cost" and "value". Too often in China the two terms are used synonymously. Costs are what it cost to develop the land. Value is what land user are ready to pay for the land which has been developed. We should aim of course to develop land with a value higher than the cost to develop it. But this relation should not be taken for granted. The cost of developing land might at times be higher than what the user wants to pay. If it is the case, the Local Authority will go bankrupt. In the accounting system described hereafter land development costs and land values are calculated independently. Developed land costs are calculated based on the quantity of civil work and financial cost which are required, land values are based on what land users are currently paying for land with equivalent characteristics. The model could at times show negative land values. It means that the project as designed could not be implemented without incurring a loss to the Local Authority.

Of course both land values and development costs change over time. Some changes, such as inflation can be anticipated with a certain degree of certainty, at least in the short terms. Change in demand and therefore land values are more difficult to anticipate. A large supply of developed land in adjacent towns may result in a drop of developed land value. Whatever the uncertainty in changes in values and costs, these changes have to be guessed but explicitly expressed in the land development accounting system.

It is important to insure **internal consistency** between land-use types, regulations and demography, and projected demand for different land use type, for infrastructure and for social services. A land accounting system for developing, for example, 100 hectares of land may include more than 400 parameters. The value of some of these parameters will be based on estimates—such as the rate of inflation or the value of a given plot of land—other will be based on quantities—such as area of roads, length of water pipes, densities, etc. It will be important that the value of all these parameters be internally

consistent. For instance that the amount of water provided by the water system be consistent with the projected density of jobs and population, that the financial costs be consistent with the length of construction time and the projected inflation rate, etc. **The use of computer models** is necessary to insure this internal consistency. The use of computers facilitates internal consistency, it does not permit to calculate what will be the exact value of the land developed. This value will always be estimates themselves based on surveys.

Finally, for each type of land use the **cost recovery mechanism** which will be used has to be established in advance. For instance the cost of developing land for schools or for industries will be recovered in different ways which have to be anticipated. The cost of developing land for school might be recovered through a surcharge on the cost of residential land, or a surcharge on the cost of residential and industrial land, or through a tax on development paid by all enterprises and households in the town. Whatever the system selected, it has to be explicit and become part of the accounting system.

Cost recovery may vary for each type of land use, it can be direct or indirect. Refer to David Dowell's paper for the different mechanisms which could be used.

- a) Direct recovery through
 - i) land sale or land lease price
 - ii) user fees
- b) Indirect recovery through tariffs

The Components of Land Development Models

To illustrate the use of a land accounting system briefly described above we have prepared a land development model based on current and anticipated land use in Zhili Town in Zhejiang Province. The figures are only for illustrative purposes. The model is composed of 2 parts:

- a) A current land-use map and a projected land-use map
- b) A table, itself divided into 3 parts:
 - i) land user/ builder model
 - ii) land developer model
 - iii) cash flow

The main role of this model is to ensure the internal consistency of the parameter. Given the assumptions made on demand and inflation, the model typically provides an answer to the following questions:

- a) what will be the need for external borrowing for the project?
- b) What could be the price charged for developed land for different users to recover all the costs of the project?
- c) what would be the effects of land use changes on the financial viability of the project?

This type of land-use models are built in 3 steps:

- a) Building of a geographical data base
 - i) creating adequate land classification
 - ii) establishing building restrictions by land-use type
 - iii) designing boundaries between zones and designing infrastructure network
- b) Establishing cost-recovery principles, and demand for land and floor space;
 - i) explicit cost recovery method for each type of infrastructure and for each type of use;
 - ii) anticipated sale price for developed land of different types based on demand
- c) Calculating development cost, of revenues through sale of land use rights or leases, cash flow, borrowing needs.

Conclusions

The methodology described above will not solve all the problems of fast-growing small towns. But it could avoid financial difficulties in the future, and it should allow Local Authority to borrow with a minimum of risks for both the borrower and the lender. Borrowing in turn should allow to develop a much healthier environment and a more efficient infrastructure, fostering more economic and demographic growth in the small towns in the long run.

The methodology explained above should be disseminated to all the Local Authorities of small towns experimenting in fast growth. A manual and a software adapted to Chinese conditions should be developed and training sessions organized. Training sessions should not be limited to the use of land development models but could also include the use and dissemination of appropriate technology for the development and construction of infrastructure, for waste management, and for the operation and maintenance of city infrastructure. Financial institutions should make funds available for the financing of infrastructure in small towns. Loans would be made to Local Authority who prepare land development projects which would be appraised by lending institutions. Appraisals techniques would also have to be developed in China for this type of lending.

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8 November, 1995

Technical Annex

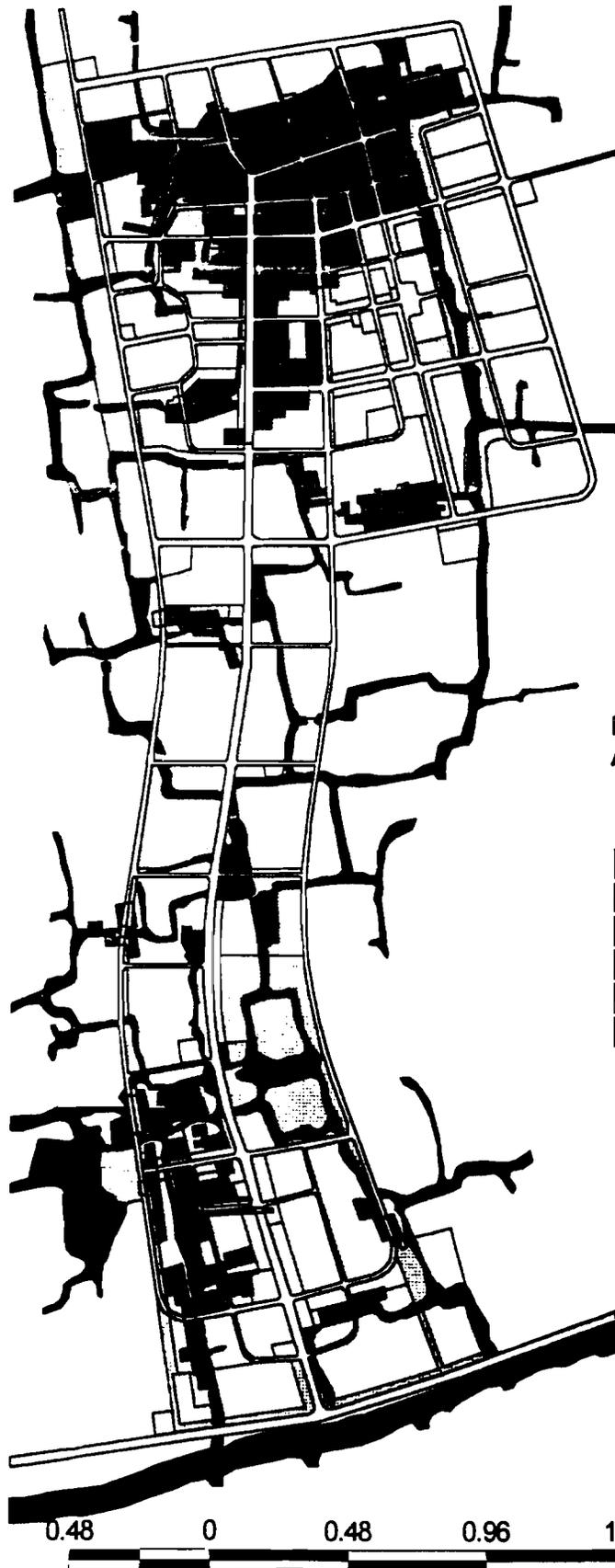
The management, Costing And Marketing Of Town Land

by

Alain Bertaud

**Example of a Land Development Model
which could be use for the development of small towns in China**

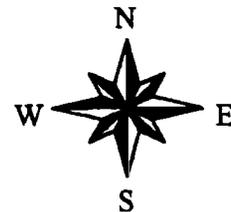
1. Some small towns in China are growing at a very fast rate. The local authority responsible for land development need a tool to develop land which would insure that they recover through the sale of land use leases the full capital cost of infrastructure and social services. At present most towns have a land development plan, but very few are projecting their revenues and expenditure in a systematic manner. The current annex, based on a real case in China, illustrate the simple methodology which could be used to link current land use plans, to expected developed land market prices, infrastructure expenditures and financial cash flows.
2. The following example is based on a real land development plan provided by the town of Zhili in Zhejiang Province. The land use parameters are the ones measured from the map. The market price for various type of land and buildings are not real. They are provided only for illustration purpose.
3. The annex includes the following documents:
 - a) Map 1: Existing Urban Area and future extension
 - b) Map 2: Projected land use
 - c) Map 3: Detail of land Use Classification
 - d) Table 1 : Summary Land Use corresponding to development Map 1 and 2
 - e) Table 2 : Builder Model: Purchase of developed land
Based on different type of land use and market price this model calculate the average price for developed land which could be recovered from developed land
 - f) Table 3: Land Use model:
This part of the model calculates the number of people and density of the total site to be developed;
 - g) Table 4: Land Developer Model
This part of the model calculates the cost of infrastructure per salable square meter and compare it to the average developed land cost obtained in table 2.
 - h) Table 5: Land Developer Cash flow
This part of the model calculates the quarterly expenditure and income, the need for borrowing per quarter, and the financial rate of return of the operation.
 - i) Graph 1: Implementation schedule;
This graph shows the projected implementation schedule for expenditure and revenues
 - j) Graph 2 : Land developer cash flow: this graph shows the need for borrowing per quarter and the financial surplus or deficit of the project.



织里 XILI

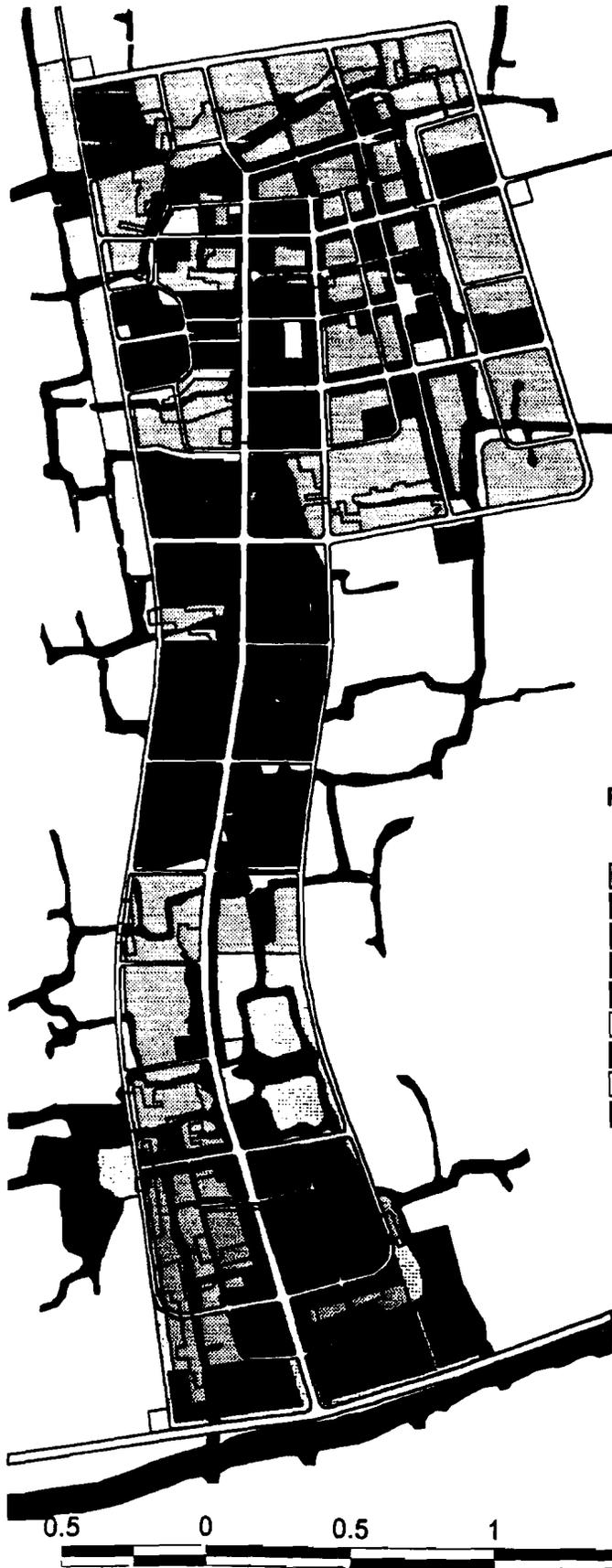
EXISTING URBAN AREA
AND FUTURE EXTENSION

-  ROADS
-  PARKS & FOREST
-  CANALS
-  EXISTING URBAN AREA
-  PROJECTED URBAN



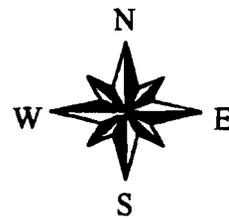
0.48 0 0.48 0.96 1.44 1.92 2.4 Kilometers

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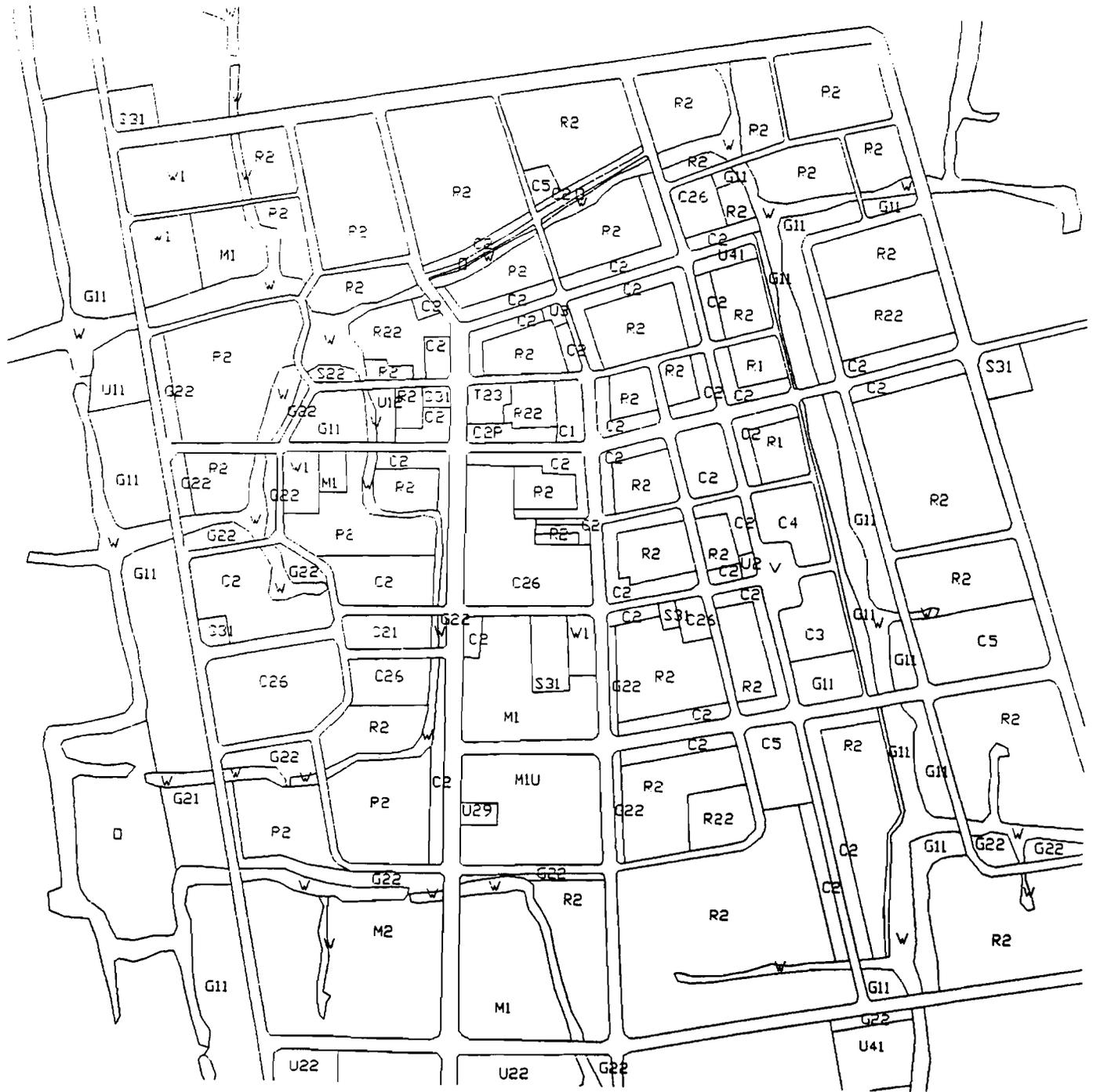
PROJECTED LAND USE

	RESIDENTIAL = 141Ha - 25%
	COMMERCES = 48Ha - 8%
	INDUSTRIES = 99Ha - 18%
	FACILITIES = 15Ha - 3%
	UTILITIES = 16Ha - 3%
	PARKS & FOREST = 57Ha - 10%
	CANALS = 104Ha - 18%
	ROADS & PARKINGS = 83Ha - 15%



0.5 0 0.5 1 1.5 2 2.5 Kilometers

XILI - LAND USE ATTRIBUTES



8-Nov-95

TABLE 1: SUMMARY LAND USE CORRESPONDING TO DEVELOPMENT MAP 1 AND 2

	Map ref.	Existing Town (1995)		Projected Town (2000)		To be developed (2000)	
		ha	%	ha	%	ha	%
A. Salable land		43.05	88.14%	287.48	50.98%	244.43	49.01%
<i>of which:</i>							
Commerce	C2	9.65	22.4%	33.01	11.5%	23.36	9.6%
Markets	C26	3.22	7.5%	15.07	5.2%	11.85	4.8%
Industry 1	M1	5.91	13.7%	59.86	20.8%	53.95	22.1%
Industry 2	M2		0.0%	23.17	8.1%	23.17	9.5%
Warehouse	W1	0.03	0.1%	15.61	5.4%	15.59	6.4%
Residential 1	R1	1.16	2.7%	5.91	2.1%	4.74	1.9%
Residential 2	R2	23.08	53.6%	134.86	46.9%	111.78	45.7%
Total Salable land		43.05	100.0%	287.48	100.0%	244.43	100.0%
B. Non Salable Land		22.04	33.86%	276.39	49.02%	254.35	50.99%
<i>of which:</i>							
(i) Community facilities		2.76	4.24%	15.48	2.75%	12.72	2.55%
<i>of which:</i>							
Government offices	C1	0.52	18.8%	0.52	3.4%	-	0.0%
Cultural facilities	C3		0.0%	2.72	17.6%	2.72	21.4%
Sports	C4		0.0%	1.33	8.6%	1.33	10.4%
Hospital	C5	0.21	7.4%	4.76	30.8%	4.56	35.8%
Schools	R22	2.03	73.7%	6.15	39.7%	4.12	32.4%
total (i)		2.76	100.0%	15.48	100.0%	12.72	100.0%
(ii) Parks and open spaces		0.32	0.49%	57.47	10.19%	57.15	11.46%
<i>of which:</i>							
Parks	G11	0.32	100.0%	36.33	63.2%	36.01	63.0%
Forest	G21		0.0%	1.31	2.3%	1.31	2.3%
Environmental prot.	G22		0.0%	19.61	34.1%	19.61	34.3%
Tourist rest area	S22		0.0%	0.22	0.4%	0.22	0.4%
total (ii)		0.32	100.0%	57.47	100.0%	57.15	100.0%
(iii) Utilities		2.08	3.20%	12.64	2.24%	10.56	2.12%
<i>of which:</i>							
Utility: water	U11	1.09	52.4%	2.60	20.5%	1.51	14.3%
Utility: power	U12	0.35	16.8%	1.95	15.4%	1.60	15.2%
Utility: transport 1	U22		0.0%	2.50	19.8%	2.50	23.7%
Utility: transport 2	U29	0.24	11.6%	0.24	1.9%	-	0.0%
Utility: telecom	U3	0.12	5.8%	0.57	4.5%	0.45	4.2%
Utility: waste water	U41	0.28	13.4%	4.19	33.2%	3.91	37.1%
Utility: Others	U9		0.0%	0.59	4.6%	0.59	5.6%
total (iii)		2.08	100.0%	12.64	100.0%	10.56	100.0%
(iv) Roads & transport		12.56	19.30%	86.57	15.35%	74.01	14.84%
<i>of which:</i>							
transport & square	S21		0.0%	1.28	1.5%	1.28	1.7%
Parking	S31	1.02	8.2%	3.75	4.3%	2.72	3.7%
Transport terminal	T23	0.49	3.9%	1.47	1.7%	0.98	1.3%
Roads	V	11.05	88.0%	80.07	92.5%	69.02	93.3%
total (iv)		12.56	100.0%	86.57	100.0%	74.01	100.0%
(v) Canals & ponds	W	4.32	6.64%	104.23	18.48%	99.90	20.03%
Total non salable land		22.04	33.86%	276.39	49.02%	254.35	50.99%
Total Project Area		65.10	100.00%	563.87	100.00%	498.77	100.00%

2-Apr-96

TABLE 1 - BUILDER MODEL: PURCHASE OF DEVELOPED LAND

Figures provided below are for illustrative purpose only and do not represent real case nor recommendation

ITERATION : 1

a	b	c	d	e	f	g	h	i	j	
Map reference:					C2, C26	M1, M2, W1	R1	R2		
A. Housing Market Price				units	Commerce & Markets	Industry & warehouses	Residential 1	Residential 2		Data Input Sources
10	Sale Price of Usable Floor Area		Y/m2		2,000	650	1750	1450		
11	Usable Floor Area per Unit		m2		200	300	120	65		
12	Average Unit Sale Price		Y		400,000	195,000	210,000	94,250		
13	Number of floors		n		2	2	2	5		
14	plot size		m2		80	400	240	70		
15	Individual property? (y or n)				y	y	y	n		

B. Construction Cost

19	Construction Cost of floor Space		y/m2		1000	450	1200	950		
20	Ratio Usable/Gross Floor Area		/		100.0%	100.0%	100.0%	86.0%		
21	Gross Floor Area		m2		200.00	300.00	120.00	76.47		
22	Cost of Construction per Unit		y/u		200,000	135,000	144,000	72,647		
23	Design, Supervision & Management (DS&M)		%		6.0%	6.0%	6.0%	6.0%		
24	Profit margin of House developer		%		12.0%	12.0%	12.0%	12.0%		
25	Interest during construction (IDC)		%		5.0%	5.0%	5.0%	5.0%		
26	Total DS&M, Profit, and I.D.C.		\$		64.857	35.743	38.340	18,089		

C. Developed land Price

30	Price of developed land per dwelling Unit:		Y/du		135,143	24,257	27,660	3,514		
31	Floor Area Ratio		/		2.50	0.75	0.50	5.46		
32	Salable land per dwelling Unit		m2		80.0	400.0	240.0	14.0		
33	Purchase price of salable Land		Y/m2		1,689.29	60.64	115.25	250.97		
35	Percent of salable land for each type		%		14.4%	38.0%	1.9%	46.7%	100.0%	
37	Average Purchase Price of									
38	Developed Salable Land		Y/m2					383.2		

TABLE 2 - LAND USE MODEL

Figures provided below are for illustrative purpose only and do not represent real case nor recommendation

A. Land Use		land area		floor space		
		%	ha	%	m2	
46	Total Area		498.77			
47	Non Salable land					
48	(i) Community Facilities	2.55%	12.72			
	(ii) Parks and Open Space	11.46%				
49	(iii) utilities	2.12%	10.57			
50	(iv) Roads & transport	14.84%	74.02			
51	(v) Canals & ponds	20.03%	99.90			
52	Total Salable land	49.00%	244.40			
53	of which:					
54	Commerce & Markets	7.06%	35.19	11.43%	879,800	
55	Industry & warehouses	18.62%	92.87	9.05%	696,600	
56	Residential 1	0.93%	4.64	0.30%	23,160	
57	Residential 2	22.39%	111.69	79.23%	6,100,691	
58						
59	Total	100.00%	441.61	100.00%	7,700,251	
60		Household size	number of units	% population	%	Density(p/ha)
61	B. Planning Indicators					
62	Commerce & Markets	1.0	4,399	26.49%	4,399	8.00%
63	Industry & warehouses	0.5	2,322	13.98%	1,161	2.11%
64	Residential 1	5.0	193	1.16%	965	1.76%
66	Residential 2	5.0	9,691	58.36%	48,455	88.13%
67	Total :		16,605	100.00%	54,980	100.00%
68	Gross Residential Density (p/ha)					110
69	Gross Floor Area Ratio		1.54			

2-Apr-96

TABLE 3 - LAND DEVELOPER MODEL: PURCHASE OF UNDEVELOPED LAND*Figures provided below are for illustrative purpose only and do not represent real case nor recommendation*

ITERATION: 1

A. Total Sale Price of Developed Land				Area (m2)	alable m2	Total Yuan
8	Commerce & Markets			351,932	1,689.29	594,513,889
9	Industry & warehouses			928,710	60.64	56,319,612
10	Residential 1			46,435	115.25	5,351,690
11	Residential 2			1,116,896	250.97	280,304,944
12	Total Sale Price of Developed Land			2,443,973	383.18	936,490,135

B. Cost of Off Site Infrastructure				Cost (Y)	% recovere directly	Total Recovered	Y/m2 salable	Y/m2 gross
17	Roads						0	0.00
18	Water Supply						0	0.00
19	Sewerage			10,000,000	25%	2,500,000	1.02	0.50
20	Storm Drainage						0	0.00
21	Electricity			10,000,000	25%	2,500,000	1.02	0.50
22	Community Facilities						0	0.00
23	Sewerage Treatment			10,000,000	10%	1,000,000	0.41	0.20
24							0	0.00
25	Others						0	0.00
26	Off site infrastructure base costs:			30,000,000		6,000,000	2.46	6.01
27	Design & Supervision %	8%		2,400,000		480,000		
28	Ph\$ysical Contingencies "	10%		3,240,000		48,000		
29	Interest During Construction	5%		1,782,000		2,400		
30	Total Off Site Infrastructure Cost			37,422,000		6,530,400	2.67	1.31
31								
32	Total off site costs to be recovered from site:					6,530,400	2.67	1.31

C. Cost of On Site Infrastructure				Cost (y)		y/m2 salable	y/m2 gross
35							
36	Land Fill			10,000,000		4.09	2.00
37	Site Preparation and Leveling			20,000,000		8.18	4.01
38	Primar\$ and Secondar\$ Roads			100,000,000		40.92	20.05
39	Internal roads and footpaths			10,000,000		4.09	2.00
40	Water Suppl\$			40,000,000		16.37	8.02
41	Sewerage			50,000,000		20.46	10.02
42	Storm Drainage			50,000,000		20.46	10.02
43	Electricit\$			50,000,000		20.46	10.02
44	Street Lighting			50,000,000		20.46	10.02
45	Communit\$ facilities (construction)			50,000,000		20.46	10.02
46	Landscaping			5,000,000		2.05	1.00
47						0.00	0.00
48	Other					0.00	0.00
49	on site infrastructure base cost			435,000,000		177.99	87.21
50	Design & Supervision %	5.0%		21,750,000		8.90	4.36
51	Ph\$ysical Contingencies "	10.0%		45,675,000		18.69	9.16
52	Interest During Construction	5.0%		25,121,250		10.28	5.04
53	Land Developer Profit	20.0%		105,509,250		43.17	21.15
54	Total on Site Infrastructure Cost			633,055,500		259.03	126.92

D. Summar\$ of Infrastructure cost to be recovered from site					y/m2 salable	y/m2 gross
57	Total off site costs to be recovered from site:			6,530,400	2.67	1.31
58	Total on Site Infrastructure Cost			633,055,500	259.03	126.92
59	Relocation costs:			100,000,000	40.92	20.05
60						
61	Total infra. cost to be recovered from site:			733,055,500	299.94	146.97
62	Total recovered from sale of developed land:			936,490,135	383.18	187.76
63	Market value of undeveloped land:			203,434,635	83.24	40.79

29-Mar-96

TABLE 4 - LAND DEVELOPER CASH-FLOW

ITERATION : 1

A. EXPENDITURE		Data Origin:
7	Total Cost of Off Site Infrastructure:	=lab_3/F32
8	Total Cost of on Site Infrastructure	=lab_3/F354
9	Profit	=-lab_3/F53
10	Interest during construction (IDC)	=-lab_3/F52
11	Cost of on site infra net of profit and IDC	=SUM(F8 F 10)
12	Relocation	=lab_3/F59
13	Undeveloped Land Value:	=lab_3/F63
		812,390,035

B. INCOME		=lab_3/F62
16	Sale of Developed Land:	936,490,135

C. BORROWING		8.00%
18	Rate of Interest	8.00%
19	Projected Yearly Rate of Dollar Inflation	1995 1996 1997 1998 1999
		4.00% 4.00% 4.00% 4.00% 4.00%

22	e	f	g	h	i	j	k	l	m	n	o	p	q	r	s	t	u
21	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
22	Oct-95	Jan-96	Apr-96	Jul-96	Oct-96	Jan-97	Apr-97	Jul-97	Oct-97	Jan-98	Apr-98	Jul-98	Oct-98	Jan-99	Apr-99	Jul-99	Oct-99
25	1%	3%	12%	37%	55%	67%	78%	86%	84%	96%	99%	100%	100%	100%	100%	100%	100%
26	1%	4%	10%	24%	40%	52%	62%	69%	75%	80%	85%	90%	93%	95%	98%	100%	100%
27	0%	0%	0%	6%	14%	28%	47%	65%	84%	94%	99%	100%	100%				
28	5%	60%	80%	90%	100%												
30	0%	0%	0%	0%	0%	1%	2%	4%	7%	12%	20%	33%	60%	87%	97%	100%	100%

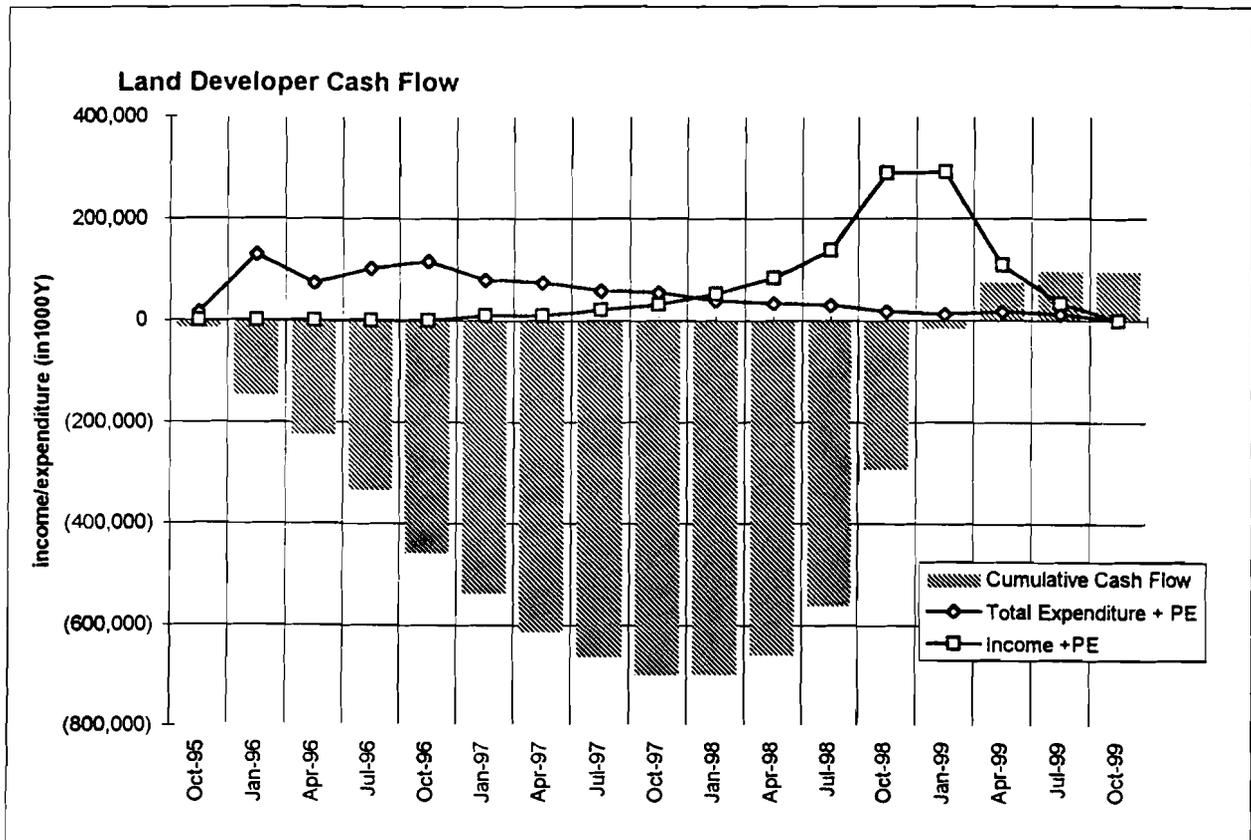
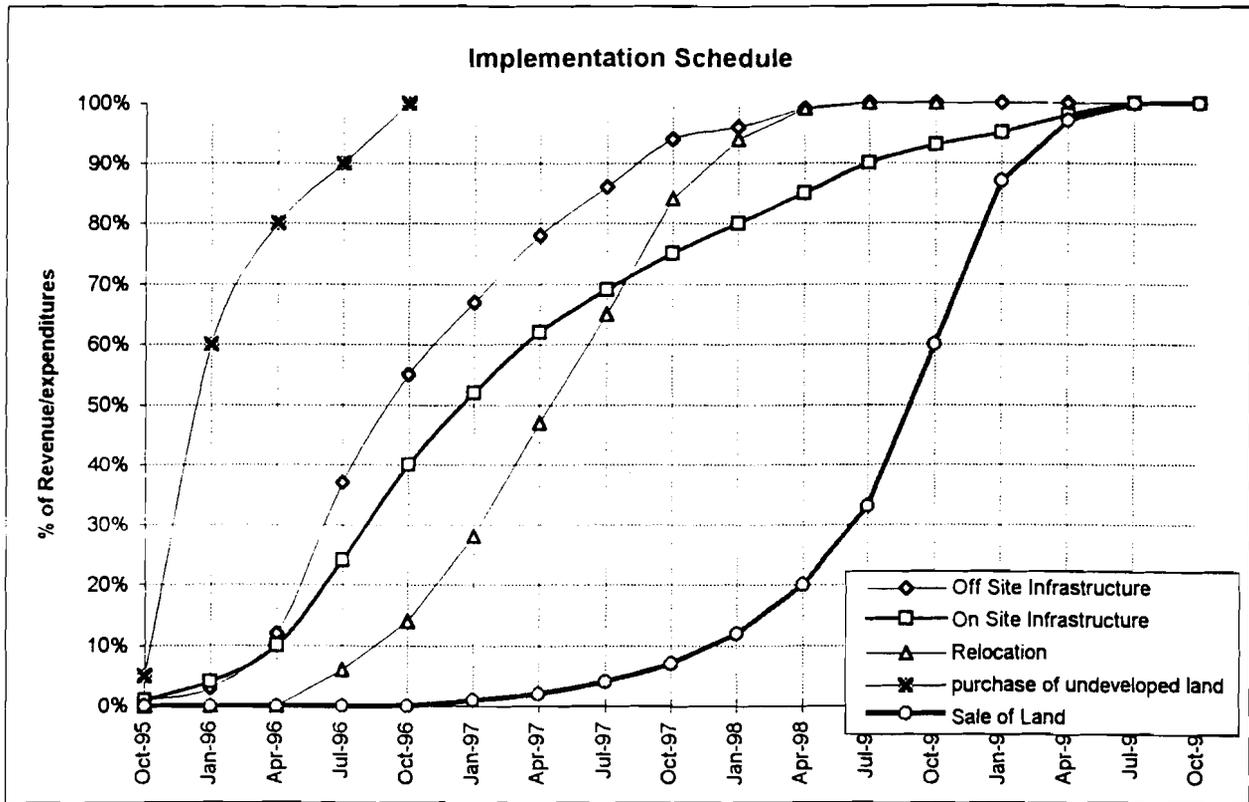
E. Expenditures Implementation Schedule
In 1,000 Y.

34	Off Site Infrastructure	65.3	130.6	587.7	1,632.8	1,175.5	783.6	718.3	522.4	522.4	130.6	195.9	65.3	0.0	0.0	0.0	0.0
35	On Site Infrastructure	5,024.3	15,072.8	30,145.5	70,339.5	80,388.0	60,291.0	50,242.5	35,189.8	30,145.5	25,121.3	25,121.3	25,121.3	15,072.8	10,048.5	15,072.8	10,048.5
36	Relocation	0.0	0.0	0.0	8,000.0	8,000.0	14,000.0	19,000.0	18,000.0	19,000.0	10,000.0	5,000.0	1,000.0	0.0	0.0	0.0	0.0
37	purchase of undeveloped land	10,171.7	111,889.0	40,688.9	20,343.5	20,343.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
38	Total Expenditures	15,261.3	127,092.4	71,420.2	98,315.6	109,906.9	75,074.6	69,960.8	53,692.2	49,667.9	35,251.9	30,317.2	26,186.6	15,072.8	10,048.5	15,072.8	10,048.5
39	Price Escalation (PE)	150.4	2,516.9	2,132.1	3,932.8	5,522.6	4,549.2	4,970.5	4,381.3	4,582.2	3,631.6	3,452.8	3,269.8	2,049.1	1,478.5	2,388.2	1,706.8
40	Total Expenditure + PE	15,411.7	129,609.3	73,552.2	102,248.2	115,429.5	79,623.9	74,931.3	58,073.5	54,250.2	38,883.5	33,769.9	29,456.3	17,121.9	11,527.0	17,460.9	11,755.3
41	Income Implementation Schedule																
42	Income from Sale of land	0.0	0.0	0.0	0.0	0.0	9,364.9	9,364.9	18,729.8	28,094.7	46,824.5	74,919.2	121,743.7	252,852.3	252,852.3	93,649.0	28,094.7
43	Price Escalation (PE)	0.0	0.0	0.0	0.0	0.0	587.5	665.3	1,528.4	2,591.9	4,823.9	8,532.4	15,201.4	34,374.7	37,204.9	14,838.1	4,772.1
44	Income +PE	0.0	0.0	0.0	0.0	0.0	9,932.4	10,030.2	20,258.2	30,686.6	51,648.4	83,451.6	136,945.1	287,227.0	290,057.2	108,487.1	32,866.8
45	Cash Flow																
46	Quarterly Cash Flow	-18,411.7	-128,809.3	-71,832.2	-102,248.2	-115,429.5	-69,891.3	-64,901.1	-37,815.3	-33,563.6	12,764.9	49,681.7	187,488.8	270,165.2	278,530.3	91,026.2	21,111.5
47	Cumulative Cash Flow	-18,411.7	-145,021.0	-318,573.2	-320,821.4	-436,250.9	-505,942.4	-570,843.5	-608,658.8	-632,122.3	-619,457.4	-569,775.7	-462,286.9	-182,181.7	86,348.4	177,374.6	198,486.1
48	Interest During Construction (IDC)	-288.4	-2,817.3	-4,246.1	-8,232.5	-8,474.8	-9,828.7	-11,089.5	-11,824.1	-12,281.9	-12,033.9	-11,068.8	-8,980.6	-3,733.4	0.0	0.0	0.0
49	Cumulative Cash flow including IDC	-15,711.1	-148,137.6	-225,936.0	-334,416.6	-458,321.0	-537,841.2	-613,831.8	-663,471.2	-699,316.6	-698,585.7	-659,972.8	-561,464.6	-295,092.8	-16,562.7	74,463.5	95,575.0

F. Summary of financial indicators

52	Total Interest during Construction	-102,911,102
53	Percent Interest during Construction	12.67%
54	Total Price Contingency	50,714,600
55	Percent of Total Project cost (excluding land)	4.58%
56	Maximum Borrowing Needs	632,222,301
57	Borrowing as % of Total Infra. Costs	58.89%
58	Borrowing as % of Total Project Costs	48.08%
59	Financial Rate of Return:	6.03%
60		

iteration 1 29-Mar-96



Urban Development Strategies, Planning and Decentralisation: Emerging Trends

Emiel A. Wegelin

Introduction

Urbanisation in Asia is proceeding at an unprecedented rate. During 1970-1990 the rural population of Asia (excluding Japan) grew by 1.4% from 1,590 million people to 2,115 million; urban population grew by 3.9% from 407 million to 879 million during the same period. It is estimated that the rural population of Asia will have reached 2,217 million in 2025 (a growth from 1990 of 102 million people or 0.1% p.a., with negative growth in the last decade of that period); the urban population will grow by 1,677 million to 2,556 million during the same period (growth of 3.1% p.a.), with the urban population share increasing from 20% in 1970 to 29% in 1990 and 54% in 2025.¹

Initial policy responses to this staggering urban population growth in the developing countries of Asia have generally been negative ones, based on the thought that urbanisation was undesirable and to be avoided. This image has been fed by visions of unmanageable, ever-growing megalopolies: in 1970 there were six cities with a population of five million people or above in Asia

(excluding Japan); by 1980 this number had increased to 16 and by 2010 there are likely to be 31 cities in this population bracket. In this frame of mind, attempts were made to control the growth of urban areas through both measures aimed at restricting urban population growth directly and through increased rural development efforts.

Gradually, however, perceptions of policy makers are changing. Increasingly accurate demographic data show that in most Asian developing countries rural-urban migration accounts for only about one half of urban population growth and that migrants generally move because of rational motives related to employment opportunity differentials. Spatial economic and fiscal data tend to support this perception of migrants: cities and towns are engines of economic growth and sources of employment (particularly in the service sector). Urban areas are also major sources of national, provincial and local tax revenue, in many cases not only outstripping rural areas on a per capita basis, but often in absolute terms as well.

In consequence, policy diagnosis is changing too: there is an increasing awareness that the positive economic functions which cities fulfill can be made more effective through appropriate investments in infrastructure, urban services and shelter improvements. Provided that local urban

¹ United Nations, Department of Economic and Social Information and Policy Analysis "World Urbanisation Prospects: The 1992 Revision, estimates and projections of urban and rural populations and of urban agglomerations", 1993, pp.4-15.

management/institutional capabilities are drastically improved, these investments can generally be financed by revenues generated in the urban areas themselves (i.e., not at the national exchequer's expense or at the expense of the rural sector). In other words, the increasingly recommended urban development path is: reduce the dependency of urban areas on national fiscal resources through increased generation of local revenues to finance more cost effective urban infrastructure/services development. Often this does not necessitate rate/tax increases but rather improved assessment and collection practices, improved local administration techniques, more effective budgeting systems, as well as more efficient infrastructure investment planning and programming, and operation and maintenance improvements. This gradual change in policy perception, since around 1975, has led to increased attention of national policy makers in the Asian developing countries (and international assistance efforts) to local urban services delivery and, more recently, to strengthening of local urban management and finance practices as crucial prerequisites to the development of an effective delivery system.

However, if urban development is to increasingly rely on local resource mobilization, the inevitable corollary is decentralisation of authority and responsibility for local urban services delivery. Why would local government otherwise be interested in more effectively levying user charges or local taxes on their citizens? For a national government this seemingly poses the dilemma between being able to effectively pursue a unified national urban development strategy and allowing local autonomy to thrive. It also raises the issue of interaction between national economic development planning and local investment planning.

This paper discusses the contents and meaning of national urban development strategies as they have been conventionally perceived and as they are evolving in the South and Southeast Asian region; it suggests some implications for national-local planning interactions and for decentralisation, drawing lessons from some of the initial experience with such strategies in the region.

National Urban Development Strategies: Meaning and Evolution

For many years most countries in the region did not harbour any specific urban development strategic notions to speak of at the national level. Only gradually did coherent policy making on urbanisation take shape, in most cases initially as an articulation of the desire to decant urban growth from the megacities to secondary towns. This flowed primarily from a negative perspective of urbanisation as undesirable pressure, and wanting to reduce such pressure of urbanisation on the major cities. Later an additional argument was a desire to spread the benefits of urbanisation spatially and across the urban hierarchy to smaller centres. Clearly this reflected a concern with spatial equity. Additionally, it became increasingly recognised that urban areas are disproportionately contributing to economic growth, and hence, over time concerns added a different urban strategy dimension.

Only in Indonesia and Pakistan has an attempt been made during the early 1980s to develop a coherent urban strategy based on these considerations. In Indonesia, the National Urban Development Strategy Study, developed with UNDP/UNCHS support during 1982-85 served relatively effectively to demonstrate policy trade-offs of efficiency (growth) and equity considerations to policy makers. In Pakistan, the National Human Settlements Policy Study and the National Management of Cities Policy Study, initiated around the same time, had the same objective. However, these studies did not have much influence on policy making, mainly because they had been initiated at federal government level by the (weak) sectoral ministry dealing with urban issues, whereas the prime operational responsibility for urban service delivery constitutionally is a provincial government function.

More recently, policy makers have also become aware of the urbanisation of poverty. While poverty for many years had been perceived primarily as a rural problem, it has become clear in the Asian region, that this problem is urbanising along with demographic trends, providing a new equity dimension to urban strategy considerations.

Fourthly, at least in Southeast Asia, economic success created its own new problems, i.e., the rising aspirations of the increasingly well-educated urbanised middle class, who would no longer be content with paying taxes without representation and influence. This has added to the clamour for

decentralisation and reinforced the necessity for governments to be more coherent in their strategies for urban development.

Fifthly, an additional consideration which has changed urban development policy perspectives in the region significantly is the growing concern with environmental sustainability and how this impacts on growth and poverty.

Lastly, the end of the cold war, along with global technological change (particularly as it relates to data processing, information and communication technology) and the global economic liberalisation trends (which have been particularly important in Southeast Asia, but increasingly also in other parts of the region) has heightened concerns with global and regional interdependence. Many governments in the region have correctly perceived the opportunities for economic growth in this "globalising" economic environment, and have taken measures to liberalise their economies, while being fully aware of the risks of having to operate in a global competitive environment. By and large the impact of this on urban settlements is that cities and towns increasingly compete at global and regional levels for direct private national and international investments to generate employment. Therefore, national governments have had to take a second look at their urban development strategies, trying to support their cities and towns as economic hubs in exploiting their comparative advantages, often in conjunction with cities or regions in neighbouring countries.²

The SIJORI triangle initiative of trying to synergize the comparative advantages of Batam (Indonesia), Johore (Malaysia) and Singapore in terms of cheap labour supply, accessibility and technology is a clear example, as is the Penang (Malaysia), North Sumatra (Indonesia), Southern Thailand triangular cooperation, involving the cities of Medan, Penang and Phuket. These recent trends are leading to a redefinition of what national urban strategies' responses should be vis-a-vis the traditional concerns of growth and equity. On both these counts it appears that national governments' urban strategy increasingly gravitates towards one of enabling and support rather than a directive one. Obviously, the room for effective and efficient direction from the national level is less as globalisation of Asian economies proceeds.³ Similarly, it is increasingly recognised that effective urban poverty alleviation calls for action not only at national, macroeconomic policy level, but also at the lo-

cal level, by local governments⁴ and communities themselves. Similarly, addressing urban environmental issues requires both national as well as local action.

This is not to say that national governments should leave urban development completely in the hands of the (international) market place and local government. Numerous ways still exist for national government to express its spatial and sectoral priorities, particularly through the regulatory framework governing private investment, the regulatory framework governing the operation of local government, central government's coordinating mechanisms with provincial (or state) and local governments, and perhaps most powerfully, the allocation of its investment resources for urban infrastructure and poverty alleviation programmes. However, the important point to make is that these instruments increasingly have to be exercised in a highly competitive international economic environment.

The above shifting balance of emphasis in national urban development strategies is clearly brought out in recent urban development policy framework exercises carried out in the region and elsewhere.⁵

² See: Fu-chen Lo and Yue-man Yeung, Global restructuring and emerging urban corridors in Pacific Asia, in: Fu-chen Lo and Yue-man Yeung (eds.), *Emerging World Cities in Pacific Asia: Growth and Adjustment to Global Restructuring*, forthcoming.

³ This in itself may well be beneficial for small towns development: as e.g. noted in Jorge E. Hardoy and David Satterthwaite, eds (1985), *Small and Intermediate Urban Centres--Their Role in National and Regional Development in the Third World*, IIED, London, there are very few examples of effective consistent and coherent strategies for the promotion of small and medium sized towns. Where explicit national strategies to do so have been developed, these were often not consistent with macro-economic policies impacting in the opposite direction. For instance, overall national investment strategies such as import substitution led growth behind protectionist barriers (tariffs and quotas) has generally implicitly favoured metropolitan areas at the expense of smaller towns and their rural hinterland.

⁴ See: UMP working paper: Options for urban poverty alleviation actions at municipal level, draft, August 1994.

⁵ As exemplified by the National Urban Development Policy Framework Study in Thailand, which produced significant inputs along these lines for the 7th Five-year National Development Plan (1992-1996). In Indonesia, a more recent UNDP/UNCHS supported study, entitled "Framework for the Urban Policy Action Plan Repelita VI", Draft, June 1994 developed a similar train of thought.

Planning Implications

National and Local Development Planning

National planning in most countries in the region has comprised variations of multiyear development plans (mostly with a 4-5 years time horizon, mostly for fixed periods), complemented by government capital project approval procedures and annual budgeting exercises to concretize government capital spending. The core of these exercises has consisted of sectoral allocations in the central government capital budget, both in the multiyear plans and in the annual budget exercises.

At local level, similar systematic planning exercises have been carried out for some of the major urban areas in the region, but more often than not capital budgeting is not done on a multiyear basis and does not include provision for project funding from other than the local government's own resources.

What the above discussion in the previous section seems to suggest, is that there is a need for a change in emphasis. The national planning system as it has evolved is still useful for the purpose of estimating the balance between projected national investment and recurrent expenditure requirements and resource availability, both on a medium term and on an annual basis. This should be done both on an aggregate, macroeconomic basis, as well as from the national government's financial viewpoint. Additionally, existing procedures for project preparation, appraisals and approvals at national level will still be needed for large investment projects, which have a national or regional orbit, such as major airport or seaport development, national highways, etc.

However, central priority setting for localised types of urban infrastructure investments funded by the central government, such as local roads, water supply, sanitation, flood protection, etc. could be done on a generic basis. This would provide for central government support investment funds for local urban infrastructure initiatives, through which the central government could articulate its regional and sectoral priorities. This can be done in several ways:

a) the government could allocate such funds as a fixed capital grant to selected local governments on the basis of a formula, for instance on the basis of population, on the basis of indicators of local poverty and/or physical infrastructure deficiencies, on the basis of indicators of the local government's financial viability or on the basis of a combination of such factors;

b) the government could provide such funds to selected local governments by way of matching or incentive grants for local investment programmes, either on a cross-sectoral basis or for specific types of sectoral investments;

c) the government could provide its support in kind through specific projects executed by central government departments; the government could require local governments to borrow such support funds according to set terms, conditions and proceedings. Obviously these types of support arrangements are not mutually exclusive, and in many countries a combination of such options is used side by side.

What is important, however, particularly in a situation where increasing emphasis is placed on local level planning and priority setting, is that these modalities are transparent and clearly understood by local government, so that proposed investments under these funding arrangements can be easily integrated in the local planning process.

Rural-Urban Linkages and Small Town Development

The rural and urban sectors both require development funds, but it is not necessarily true that they compete for funds. Development of both sectors need not necessarily conflict, but can actually reinforce each other, particularly if an urban development strategy placing greater emphasis on the development of smaller towns at the rural-urban interface is pursued. Smaller towns and cities often represent better locations for agro-based industrial activity in view of greater proximity to agricultural production centres and for the same reason are better equipped to provide services for the modernization and improvement of agriculture. The search for viable intermediate growth centres, the development of which could be supported at least partially through external assistance, is consistent with such a strategy.

As agricultural development proceeds and the rural economy emerges from subsistence farming to semi-capitalist forms involving the use of modern inputs and technology and oriented towards marketing of produce, the prospect for stronger urban-rural linkages increase greatly. For example, in Pakistan the agricultural sector has reached a stage where the commercial cultivation of cash crops like cotton, sugarcane, edible oil seeds, fruits and vegetables has increased greatly and in which increasingly fertilizer, pesticides, tractors, agricultural machinery, etc., are being used to raise yields. This phenomenon is perhaps the most pronounced in the canal irrigated areas of Punjab province, which has examples of small- to medium-sized cities (Gujrat, Daska, Sargodha, for instance), which have strong backward and forward linkages with their rural hinterlands. Much of this development is private-sector driven and needs to be supported by local authorities through provision of infrastructure which promotes rural-urban linkages. Initially, such linkages are likely to be marketing and service related and could grow to administrative and cultural linkages.

Therefore, a programme for development of intermediate-sized towns must explicitly include as one of its objectives the promotion of rural-urban linkages. A number of selection criteria could be used for identifying settlements which have the greatest potential for creating these linkages:

- a) settlements should be located in areas with relatively developed agriculture and cropping patterns which involve significant marketing of outputs.
- b) settlements ought to be relatively small, with populations generally below 500,000.
- c) they should, however, be large enough to have significant institutional presence either at the provincial or local levels. It would be advantageous, as such, if such towns are district headquarters. This would ensure that some administrative linkages already exist with the rural hinterland.
- d) the existing local network of farm-to-market roads should be sufficiently developed.
- e) if possible, the selected settlements should already have some units engaged in manufacture/repair of agricultural machinery.

Fiscal Incentives for Industrial Development

Fiscal incentives have been used in several countries in the region to promote the location of industrial units in relatively underdeveloped parts in the country. Given that industry is a major component of the economic base of towns, such incentives could play a major role in influencing the pattern of urbanization. However, the effectiveness of such fiscal incentives, both from the viewpoint of the impact on the level of investment and on locational choices has not been very high in most countries where such incentives have been provided. If comparative economic advantages of a particular location are significant, industries would locate there anyway. If there are no comparative economic advantages, industries are unlikely to be attracted to an unfavourable location, no matter what fiscal incentives are offered. The lesson of international experience in this regard clearly is that such incentives are only effective at the margin, as the example from Pakistan (Box 1 above) illustrates. What is generally more important and effective is to remove regulatory and administrative market impediments and to provide supportive infrastructure.⁶

Local Investment Planning in an Inter-Governmental Setting⁷

This section focuses on multisectoral investment planning (MSIP) at the local level. However, as noted above, local authorities do not exist in a vacuum. They are part of an intergovernmental system. Investment priorities for urban development may be set by national or provincial levels of government. A large part of local investment funding will continue to come, either directly or indirectly, from these higher levels of government.⁸

⁶See: Jorge E. Hardoy and David Satterthwaite: Government Policies and Small and Intermediate Urban Centres, in: Hardoy and Satterthwaite, eds. op. cit. (1985), Chapter 8, pp. 335-397.

⁷For a more elaborate discussion, see: George Peterson, G. Thomas Kingsley, and Jeffrey P. Telgarsky: Multi Sector Investment Planning, UMP Working Paper nr. 3, June 1994.

Incentives for industrial location in Pakistan

Such fiscal incentives in Pakistan comprise primarily two categories: a) tax holidays whereby a new unit is exempt from the payment of income tax for a specified period, and b) customs duty exemption on imported machinery. Other incentives which have occasionally been offered include exemption from payment of import duty on raw materials, zero rating of sales tax on output, concessionary terms of financing including a higher debt-equity ratio, tax credits on share capital and discounts on purchase of electricity. Tax holidays are available only to investments made in designated industrial estates up to a particular date. The period of tax holiday varies from three years to ten years, depending upon the location of the estate. Estates situated in more backward areas tend to enjoy a longer period of tax holiday. Tax holidays are also offered at the regional level. All industrial units within specific administrative jurisdictions are eligible for this exemption, meant to cover backward areas. Accordingly, virtually the entire province of Balochistan, NWFP, and selected northern districts are covered by this scheme. In addition, some backward areas in the more industrially developed provinces, Sindh and Punjab, fall under the purview of this scheme. Recently, the Government of Pakistan has introduced a tax holiday for promoting rural industrialization, with the objective of stemming the tide of migration to cities. Industrial units located beyond a certain minimum distance from municipal limits can avail this facility. The customs duty exemption on machinery largely overlaps with tax holidays. Notable exceptions are industrial estates located in the cities of Karachi, Lahore and Islamabad Capital Territory. Complementing these fiscal incentives, the Government has instituted several regulatory measures to restrict investment in developed areas, primarily through banning the establishment of certain industries. For example, in Punjab, no industrial unit is allowed to be set up in Lahore district with the exception of export-oriented industries (exceptions may be made by Government on a case-by-case basis). In

Sindh, there is a general ban on any new unit in Karachi, Dhabeji and Gharo, unless it can only be established at these locations (shipbuilding and repairs, ship breaking, sea salt, canning and preservation of sea food) or has downstream links with major investments like the steel mill (engineering workshops) or has a localized market (ice and cold storage, bakeries, prefabricated houses) or represents the application of complex, large-scale technology (petrochemicals). In the case of NWFP and Balochistan, there is no negative list of industries. Several studies conclude that explicit locational incentives have had a limited effectiveness in influencing locational choices in far-flung backward areas, but that they have been influential in bringing about spatial deconcentration in metropolitan regions. A perhaps even more striking conclusion of various studies on fiscal incentives is that little success has been achieved in raising the overall level of investment in the economy. The majority of projects benefitting from fiscal incentives are diverted investments: i.e. where even in the absence of fiscal concessions the net present value of profits was large enough to justify investment in a developed area elsewhere in the country. Only a small part of the investment generated by the incentives can be considered as net new investment (negative net present value in a developed area in the absence of concessions). It appears, therefore, that the bulk of the tax savings (net of any additional private infrastructure costs) have benefitted industrial owners in the form of transfer payments. The regionally differentiated scheme of incentives also seems to have bypassed intermediate-sized towns which have some agglomeration economies and could be cost effective in the provision of industrial and shelter-related infrastructure. Given the proximity of some underdeveloped areas to these towns, there has been a diversion of investment away from these intermediate cities to backward areas, often probably with higher costs of infrastructure provision. (source: Asian Development Bank, Pakistan Urban Sector Profile Study (draft), 1993)

Sharing Information on Capital Projects between Levels of Government

In many countries, central government and/or provincial ministries still bear the principal responsibility for local-level investment. At a minimum, local authorities need to be accurately and timely informed about these projects. They then can plan their local capital budget around the major investments being put in place by others. In any kind of integrated planning process, decisions about land development or water and drainage systems need to be coordinated with new road construction.

Priority-setting for local projects will be greatly influenced by the kinds of complementarities that are possible with the large-scale infrastructure systems being installed by national government. Perhaps of even greater importance, if local authorities know that a major local investment is planned by higher authorities, they can monitor its progress and help shape the project to fit locally defined needs. A routine system of intergovernmental notification should be established. Without it, experience shows that central ministries will, from time to time, neglect to inform local authorities of their plans in a timely way.

Integrated Public Investment System, Baja California, Mexico

The problem of intergovernmental information regarding public works projects is being addressed by the State of Baja California in its Integrated Public Investment System. The system generates monthly reports on the status of all public works underway, or planned for construction starts, in the state. It is used as a diagnostic tool for the timely delivery of public works. The data generated by the system are used to prepare executive reports for the Governor and state authorities, and poster-sized information sheets displayed in public buildings throughout the state. The system is now being modified so that, following each monthly update, information on individual urban areas in the state will be automatically downloaded to the city planning authorities in larger cities.

Box 2

Support for Cross-Sectoral Local Planning

Real-life problems, as they arise in urban areas, do not fall into mutually exclusive sectoral categories. Nor do they respect the administrative divisions built into central government ministry structure. They logically require a cross-sectoral planning and action response. Local authorities often are able to see these connections, but their ability to respond through public action is hampered by the fact that they must obtain funds or authority to act from central government agencies which are focused exclusively on their individual sectors. Emphasis on rural-urban linkages would also require the consideration of relatively unconventional investments for inclusion in the local urban development investment programme. This could include the following:

- (i) Farm Services-cum-Community Centre to provide improved access to institutional credit as well as to other factor markets, and to disseminate marketing and technical information to farmers
- (ii) Weigh Bridges at the product markets to ensure better returns to farmers
- (iii) Upgrading of Slaughter Houses
- (iv) Upgrading of Bus and Truck Terminals
- (v) Recreational Facilities
- (vi) Construction of relatively low-quality Guest Houses
- (vii) Construction of
 - (a) Fish and Meat Market
 - (b) Rental Shops
 - (c) Livestock Pens
 - (d) Wholesale Markets

*See: William Dillinger, Decentralisation and its Implications for Urban Services Delivery, Urban Management Programme publication nr. 16, 1994. This report identifies intergovernmental transfer reform as one of the most important areas for action on the decentralisation agenda.

Decentralisation and Inter-Sectoral Planning in the State of Karnataka, India

In 1985, the Karnataka state government transferred development responsibilities to district-level administration. The state government also appointed a number of senior civil service officers to staff each council to build up their capacity. Most importantly, the representatives of central line ministries in each district were made directly responsible to the district council. District councils then were given responsibility for formulation and implementation of the district development plan, formerly a state responsibility. Under this arrangement, district councils can identify cross-sectoral needs, draw up plans to respond to them, and enlist the support of the different line ministries through their representatives who report to the council. The system has produced a good deal more flexibility for cross-sectoral planning. However, local investment planning still is subject to national and state level sectoral norms.

Box 3

Even in routine investments, the functional separation of central ministries may impede common sense coordination and prioritisation at the local level. In Ghana, roadside drains are installed by the Transport Ministry at the time it builds roads. Other types of drains are the responsibility of another ministry. The Transport Ministry has received more capital funding than other agencies. As a result, in most of Ghana's towns, the only drains are to be found alongside roadways, even though this has produced a drainage system that leaves most of the towns' needs unattended. In most countries in the Asian region, basic responsibility for investment in most urban services is devolved to local government, which is responsible for establishing the cross-sectoral linkages it believes are critical. However, full decentralization of this responsibility is unlikely to occur. Even so, other kinds of intergovernmental arrangements can support local intersectoral planning. The basic requirement is that local authorities be encouraged to tackle problems across sectoral lines, and then be free to recommend solutions that involve coordination among different central-level ministries.

Supporting Local Budgetary Flexibility

A well-functioning MSIP system requires that local authorities have discretion over the size of the capital budget, as long as they are willing to finance project expansion from their own resources. Some additional revenues almost always can be raised from better tax administration. Integrated programmes of urban management improvement typically assist cities in improving tax collections and expanding the tax base at the same time they introduce new capital planning methods.

However, local governments also need the flexibility to raise tax rates, should this be appropriate, and to employ market-based financing mechanisms such as user fees or betterment taxes. Often central governments still restrict local control over this part of the local budget. A case in point is the property tax: the authority to set local property tax rates locally is not given to local governments in most countries in the region, where such tax legally is still a national (such as e.g., Indonesia) or provincial (e.g., Pakistan) tax.

Governments have followed different strategies in enhancing local authorities' ability to generate revenues. Often, decentralization has involved increasing the national revenue-sharing amounts to which local governments are entitled. Such steps have strengthened local government finances, and increased their ability to perform capital planning and investment. However, these measures do not address local governments' right to choose the size of their budget to be financed from own sources. In some countries, devolution of service responsibilities to the local level has also been accompanied by granting local authorities new discretion to set tax and fee rates or to tap additional tax bases. In some instances, central governments have gone so far as to provide significant incentives for greater local revenue generation. In Pakistan, for instance, the 1991 National Finance Commission award adopts a one-for-one matching grant system. Every additional rupee that a local authority generates through restructuring of its local tax system, will be matched by the central government with an additional rupee of transfer payments.

The Municipal Management Improvement Programme in Sri Lanka.

From 1985 the Government of Sri Lanka has embarked on an ambitious programme to improve municipal management in its 51 Urban Local Authorities (ULAs) within a broader policy of decentralisation and strengthening of local government. Support inputs in the programme are largely technical assistance and training, managed and coordinated through an Urban Programme Unit (UPU) specially established for this purpose in the Ministry of Local Government, Housing and Construction.

One of the programme's key features is that it seeks municipal management and finance performance improvement before significant new capital investments are made. For each ULA participating in the programme performance improvement plans are drawn up: a multiyear plan and a four-month plan. The plans contain a base line review identifying problems and potential solutions. Based on this review an action plan is designed for improvements in areas like local revenue generation, financial reporting, management procedures, staffing, operation and maintenance, as well as for preparation of investment plans, if required. For each such action, area targets are set as well as dates for completion. The plans are formulated in a process of discussion and negotiations between the ULA and a technical assistance team from the UPU.

In implementing the programme the government relies on an incentive strategy, in which it allocates an increasing portion of central government grants for local government development to municipalities which have demonstrated increased performance in the above areas. At the same time substantial technical assistance and training advocacy/dissemination as well as technical training is provided to support the initiation and continuing implementation of the programme. Both these features underscore the strong government commitment to the programme which is assisted by UNDP and IBRD.

Inter-Governmental Cooperation in Establishing New Investment Planning Approaches—Indonesia's IUIDP as an Example

Actions of the kind described above help set the framework for local multisectoral investment planning and project selection. Except for the seconding of central ministry staff, they do not by themselves address the problem of inadequate capacity at the local level, or local authorities' lack of familiarity with the kinds of planning methods suitable for an environment where they have greater control. To change actual practice a more direct collaboration between central and local authorities is needed. This comprehensive approach to planning change is illustrated by the Integrated Urban Infrastructure Development Programme (IUIDP) adopted in Indonesia.

Until the mid-1980s, virtually all urban infrastructure in Indonesia was planned by central government agencies in Jakarta (primarily by the Ministry of Public Works) and implemented by their field offices in the provinces. The programmes of one central office (e.g., water supply) were seldom coordinated with those of another (e.g., drainage), either spatially or temporally, and local officials had little chance to influence them.

As urban areas began to grow much more rapidly, there was recognition that this approach could not be sustained logistically, let alone respond sensitively to the varying needs of different urban areas. Increasingly central government officials came to believe that the only satisfactory long-term solution would be for local governments to assume full responsibility for providing (and largely financing) their own urban services. This approach was endorsed in the National Urban Development Strategy (NUDS). However, it was also clear that few of Indonesia's local governments then had the capacity to assume this role effectively. The Integrated Urban Infrastructure Development Programme (IUIDP) was a response to this dilemma. It is a phased approach to integrated investment programming and decentralization in which the central government supports local capacity building at the same time that it works with existing local staff in planning and implementing investment programmes. In its idealized form, the process entails the following steps:

88 China: Small Towns Development

1. Meetings are held with provincial governments to review NUDS analyses and prioritize urban areas for attention

2. Project teams in the selected towns (local staff with technical assistance provided from the centre) review and update local master plans or develop a new "structure plan" where none is available

3. Teams then use those plans as a guide in developing a proposed local multiyear investment program (PJM) integrated across several sectors and constrained by likely resource availability during the PJM period

4. The teams are also required to prepare a complete financing plan, based on projected resource availability during the PJM period (including a plan that covers the possible enhancement of local revenues) and on responsible local government borrowing, as well as on probable support from the central budget and/or external donors

5. Plans are also prepared for building a commensurate capacity of local government to assume increasing responsibility for infrastructure development, operation, and maintenance

6. On the basis of the multiyear PJMs, individual cities prepare annual budget requests

7. The programmes and budget requests so defined are reviewed at the provincial and central levels and decisions are made about the allocation of central loan and grant funds.

To date, IUIDP has been limited to functions that traditionally had been the responsibility of the Ministry of Public Works Directorates General for Human Settlements (water supply, sanitation, drainage, neighbourhood improvement) and Roads and Highways (urban roads). It was reasoned that trying to cover more functions at the start would add more complexity and threaten programme viability. Other functions could be added later after the validity of the IUIDP approach had proved itself.

IUIDP has now been implemented nationwide under guidelines initially issued in 1985 and periodically updated since then. PJMs have been pre-

pared for urban areas in all 27 provinces, covering 56% of the urban population by the end of 1993.

Efforts have been made on a continuing basis to improve the process. For example, the initial guidelines and manuals have been regularly revised based on operating experience. A new emphasis on operations and maintenance was introduced through the Performance Oriented Operations and Maintenance Management System, which was designed and tested in eight cities. Also notable was the effort by the Roads and Highways Directorate General (not initially included in the original programming) to shift virtually all urban road planning into the IUIDP framework.

Partly because initial targets were so ambitious, there have been a number of problems in IUIDP implementation. Particularly in the early years, central government sponsored consultants often dominated PJM preparation, in a number of cases without providing adequate opportunity for meaningful involvement of local officials. Many local governments have not yet internalized the process or developed the capacity to operate it effectively. It also became clear that the initial guidelines were too cumbersome and did not permit enough flexibility to adapt to varying local needs and priorities.

Nonetheless, IUIDP has generally been regarded as a major accomplishment. Its basic characteristics, integrated planning across sectors based on city-specific conditions, the linkage to financial discipline through revenue improvement action plans, RIAPs, and to capacity building through the local institutional development action plans, LIDAPs, in and of themselves have been a dramatic improvement over the approach of the past. Also, efforts continue to be made to rectify problems as they are identified by revising IUIDP guidelines.

A number of steps have been taken at the national level to reinforce and institutionalize the process. The Ministry of Home Affairs presently requires that local governments that have PJMs and RIAPs developed through IUIDP, use them, as the basis for their submissions in the traditional annual budget negotiations with the central government. Similarly it now prescribes the development of LIDAPs as a routine requirement for all local governments. Ministry of Public Works instructions

now require that all agencies within the Ministry conform their own investment plans to local PJMs where they exist. More important, perhaps, than instructions on paper is the political power the existence of a locally developed PJM creates. In the early 1980s, when local governments had no coherent capital improvement programmes of their own, they had little rationale for complaining about a central agency implementing a project in their territories without sufficient prior negotiation. Now, when a PJM exists, there is a sound basis for appealing to any central agency initiative that does not conform to it. Interviews indicate that such appeals generally are upheld and that, accordingly, central agencies are progressively less likely to try to initiate projects inconsistent with PJMs.

Although Indonesia's planning reforms are specific to its institutional setting, the approach to inter-governmental collaboration can be applied in other settings. It is not sufficient for central government merely to hand over responsibilities and funding to local authorities. They also need to support a program of capacity building which equips local authorities to perform their new functions.

Indeed, a number of similar initiatives have been embarked on, both in the Asian region and elsewhere, having similar features of multisectoral investment programming, intergovernmental collaboration decentralisation of responsibilities and local capacity building.⁹

Intergovernmental Coordination at Local Level

Vertical integration between different levels of government is not the only challenge to intergovernmental planning. Coordination is equally important between the different independent jurisdictions that often comprise an urban area. A similar need exists where towns are administratively part of a predominantly rural district.

No fully satisfactory solution to the problem of horizontal integration has been found. The Metropolitan Development Authorities (MDAs) created in several of the large urban regions of South Asia

have been an attempt to force coordination by combining in a single master agency the responsibility for planning, financing, and actually building all of an urban region's major infrastructure works, as well as owning and developing the region's open land. Some of the Metropolitan Development Authorities have grown to be large and powerful organizations. The Karachi Development Authority, for example, in 1991 had 8,996 employees and, over its lifetime, had had ownership and development responsibility for some 800,000 building plots. However, the experience with MDAs demonstrates that consolidating capital-related functions under a single roof does not guarantee effective coordination. Moreover, the MDAs have come to be viewed as monopolistic bureaucracies, disdainful of elected local government. Even their financial survival now is in question. The MDAs have relied to a great degree on profits from land sales to sustain operations. As the explosion in land prices has cooled in some metropolitan areas, as a result of financial liberalization in competing markets, some of the seemingly guaranteed income of the MDAs has disappeared.

It now appears that the answer to horizontal coordination lies not in the creation of massive institutions responsible for all development-related activities throughout the metropolitan region, but rather in simplification of duties. There is need for some institution at the metropolitan level to take responsibility at least for compiling a single capital-investment programme from the project lists of individual jurisdictions, wrapping these in an explanatory text with accompanying maps, and enunciating the basic policies that are shaping investment selection. This body should simultaneously have strong links with local government and with national/state government. It does not have to have infrastructure construction and financing responsibilities, or be charged with metropolitan-wide land development.

Once the entire set of planned capital projects affecting an urban region has been laid out in a single document, conspicuous incompatibilities among projects can be pinpointed and attacked. Appropriate strategies for tying together sectoral investments can be debated. The appropriate institutional framework for doing this will vary by urban region. At the start, an ad hoc structure to support voluntary cooperation is preferable to creation of yet another formal institution. Under India's current decentralization efforts, the Calcutta MDA has itself evolved in this direction, shedding many

⁹ For a range of examples, see: Eemiel A. Wegelin, IUIDP in a comparative international context, in: Hendropranoto Suselo, John L. Taylor and Emiel A. Wegelin, eds. (1995): *Indonesia's Urban Infrastructure Development Experience: Critical Lessons of Good Practice*, Jakarta.

of its direct construction responsibilities and becoming a metropolitan planning agency, responsible for area-wide coordination.

Similar institutional changes at the local level are often also required with regard to small and medium-sized town development. The existing local government system is generally compartmentalized, with district administrations catering only to rural interests and municipal governments exclusively responsible for urban jurisdictions. Consequently, there is little commonality of interests. At the interface, in the smaller towns, there is a need for coordination mechanisms to ensure effective exploitation of rural-urban linkages. Also, urban local governments would need to be convinced of the significant revenue potential that exists in licenses and fees charged on services offered to residents of proximate rural areas. In addition, there is significant scope for involvement of the local private sector in many of the rural support project investment types suggested in section 4.2 above in so far as they are commercial in nature.

Conclusion

As a result of the international economic liberalization the chance of possible adverse impact of macroeconomic policies on small towns development has reduced: an import substitution policy behind protectionist walls is increasingly less feasible. Therefore, even in the absence of an explicit policy to support small towns development, this less distorted economic environment will generate significantly more market-driven opportunities for small town development in the years to come.

Global and regional economic and demographic trends push for national urban development strategies in the region (1) to increasingly rely on and support local investment programming strategies, as urban areas increasingly compete with

one another, increasingly face local poverty and environmental problems and, (2) to finance their investment programmes, increasingly have to rely on local resource mobilization.

Adjusting to these realities, governments in the region, as elsewhere, have embarked on programmes in support of gradually devolving responsibilities for local infrastructure development to municipal levels, within certain boundaries imposed, such as the need to be financially responsible and the need to target infrastructure investments which will attract private venture investments and to capitalize on rural-urban linkages which will help generate jobs for growth and poverty amelioration.¹⁰

There appears to be little long-run rational alternative, from the point of view of central governments, but to continue to support local governments in their development strategies. Increasingly, economic activity is concentrated in economic hubs in urban areas and their hinterland, with national boundaries declining in importance from an economic policy perspective.

This means that central governments must be ready to (1) support MSIP processes at the local level, (2) adjust their legislative and regulatory frameworks accordingly (particularly with regard to local government functional responsibilities and the financial resources required to perform these functions), and (3) provide capacity building support to such processes. These measures would help ensure that their local governments are as best equipped as possible to compete internationally and to combat local poverty and environmental problems.

Strategies of fiscal incentives to influence the location of investments work best in conjunction with support for MSIP processes, whereas such strategies are increasingly unlikely to be successful in isolation.

¹⁰ It is clear, however, that the path towards decentralisation will not be easy. As Dillinger, 1994, *op. cit.* observes (p.4): What is slow and difficult is the working of new regulatory relationships between central and local government: the conversion of what had been annual budgetary transfers within a central government into intergovernmental transfers that are transparent and predictable, and the development of credible local political systems.

Prosperity & Sustainability of China's Towns: Lessons from North & South

John M. Courtney

Introduction

This is the era of the town in China's development. *The rural/urban interface will become a major force for the next wave of economic development.* The prosperity and sustainability of this new frontier of economic and social change is dependent upon a sound program with the right incentives to support job creation, urban service provision, the management of the urban environment and the maintenance of a quality of life. Key issues to consider are:

- In the pursuit of prosperity it is essential that the special values that are uniquely Chinese are not lost. Social and moral costs are part of the pursuit of unbounded prosperity.
- Prosperity and traditional cultural values are in conflict in the presently emerging urban China. With prosperity there are costs and the abuses inherent in unbridled economic freedom. Does the small town provide a middle ground for continuity of Chinese values and culture at the same time achieving prosperity and sustainability?
- China's small towns remain a repository of important Chinese values. In the rush for prosperity in the major urban centers it is clear something is being lost.

- China's geographically uneven economic growth, combined with the knowledge revolution based on the spread of telecommunications, is producing a vast floating population that presents an additional potential source of social disorder in the major cities and increasingly argues for alternatives through the strengthening of the economic and social base of China's small towns.

For further details on the four major issues of China's towns see Annex A.

The Global View

Today more than half the world's population lives in cities and towns; by the year 2025 more than two-thirds of the world's people will do so. The stress of such population growth is overwhelming. Despite growing investments in environmental infrastructure, approximately 380 million urban residents in the developing world still do not have adequate sanitation, at least 170 million lack access to a nearby source of safe drinking water.

Cities in both the North and the South are living with ongoing environmental degradation. Urban population growth is universal on this planet and leads to common problems: congestion, lack of money to provide basic services, a shortage of housing, declining infrastructure, and overworked and underfunded local governments. Despite these undeniable facts, urban environmental

problems, the Brown Agenda, often takes a back seat in global debates. Yet, *the human face of the urban environment, as reflected in the day-to-day problems of the individuals who live in highly polluted areas, is inextricably linked to the highly publicized Green Agenda of preserving the world's natural resources.*

The critical nature of urban environmental problems raises the question of whether cities can continue to be desirable habitats. Can cities remain productive when living conditions become so deteriorated? Must financial well-being be sacrificed to make cities better places to live? Most importantly, why are the poor in both Northern and Southern cities most at risk from environmental decay? What can China learn from these experiences.

Urban Environment and Sustainability

In recent years, more "accommodating" definitions of sustainable development have evolved. The common trend and theme has been to acknowledge the strong linkage between environmental policies and economic development policies. Sustainable development recognizes that the economy and the environment are not necessarily in conflict, but are irrevocably interconnected.

Clearly, the concept of sustainable development has served as the catalyst for seeking a better understanding of the relationships between environment and development. Reintroducing the concept of carrying capacity, it can be said that "environmental protection...is an investment in the economic carrying capacity of urban areas.

For cities in developing countries, achieving even minimal levels of economic growth is critical to survival. Acknowledging the role and importance of cities for economic growth, the World Health Organization (WHO) recommends

"sustainable urban development" should have as its goal that towns continue to support more productive, stable and innovative economies, yet do so with much lower levels of resource use."

Sustainable development is an ongoing, iterative innovative and interactive process and not simply an end result. "The question is not whether cities are sustainable but rather 'what needs to be done to improve their sustainability.'"

"Environment and Sustainability" usually conjures images of nature, rather than of the built environment of cities--their roads, sewers, houses, and businesses--or of human interactions with and within the built environment. Since Rio, discourse about environment has focused on the Green Agenda of natural resources and biodiversity. However, to a large extent, it is human activities that create environmental reality. Human concentration in cities and towns leads to cumulative effects not only on the natural environment but also on the urban environment, in which millions of people live every day and China's towns are no exception.

The traditional logic of urban agglomeration economies, which has traditionally neglected the environmental consequences of urban growth, has been challenged. There has been a focus on the increasingly critical nature of urban environmental problems, showing that different kinds of environmental problems vary with income level (see figure 2 and table 1), and their relationship to urban economic growth. Of primary concern is the impact of environmental problems on the residents of cities and towns, especially the poor. Degradation and depletion of resources have serious implications for the future viability of cities. These problems are faced by all cities and China's are no exception. How do we reduce some of these pressures and provide a real alternative? Small town development in China is an option.

"Are cities sustainable?" Most major cities, and many secondary ones, do not live within reasonable patterns of resource consumption. Nearly all urban areas face increasing marginal costs for such basic resources as water, where overconsumption drives utilities to seek water at longer distances and to use increasing amounts of energy to transport it back to the city. It is the poor who suffer most from these increasing costs, either by paying relatively higher service fees or by having insufficient service, because cities supply primarily areas that can afford to pay for the service. The fundamental issue is not whether cities are sustainable, but how to make them so. *Human behavior determines the quality of the urban environment and the quality of the urban environment determines the quality of human life in cities.* Small towns in China provide an opportunity to accommodate future urban growth in a quality urban environment.

Social Infrastructure and Programs

The consequences of inadequate social infrastructure have been recognized with the rapid growth of urban populations. Programs on urban infrastructure already unable to meet the needs of existing residents are now stretched to the breaking point. Urban immigration will continue, and human, institutional, and financial resources to address increasing needs are likely to remain limited.

The challenge is to develop innovative interventions to overcome these limitations. China's small town development provides such an opportunity. A renewed focus on effective land-use planning must include adequate environmental infrastructure--water, sanitation, drainage, transportation, and solid waste management, in addition to a sound social infrastructure capable of alleviating hunger, homelessness, ignorance, and disease.

There is ample evidence that when people feel a sense of involvement in their communities, and realize that their own efforts can make a real contribution to better conditions and prospects for themselves and their children, they are prepared to assume their share of responsibility for shaping the future of their communities."

Cities and towns in developing countries do not need to blindly follow Western models in managing urban growth in an environmentally sustainable and prosperous way. They should be urged to use their own reservoirs of accumulated traditional knowledge and local experience, supplemented with technologies and techniques from external sources when appropriate, especially those that substitute local human skills for capital. China has such resources and know how.

A human resource development program that would help strengthen the social infrastructure would include:

- Update of the objectives for human resource development and should be linked with sustainability concerns and include the need for individual fulfillment, as well as social productivity and labor mobility. Particularly rural to town movement.
- Update inventories of urban and rural human resources and highlight issues and opportunities; include analyses of successes and failures in the

adaptation of rural migrants to urban living.

- Implement programs, targeted at ensuring the sustainability of urban development; give special emphasis to "high-yield" programs, including adult literacy, primary education, preventive health programs, and urban extension services; promote and support training and apprenticeship programs for technical training. Among socioeconomic groups, give priority to ensuring the availability of adequate services for women, the poor and disadvantaged.
- Accelerate efforts to improve information, and accessibility to information, on the benefits of improvements in education and health, the availability of services, and the costs of these services. Give priority to poor communities with presently limited access to such information.

For further details see Annex B: Urban Service Provision-- Getting the incentives right

People and Place

Chinese towns are distinct from those of other developing countries in that they perform the function of storage reservoirs. The towns have helped to reduce massive rural population exodus to the cities. While the towns have many rural migrants, it is not clear whether such towns can satisfy the needs of the rural population for urban amenities and better paying jobs and thus prevent the migrants from moving ultimately to the cities.

As urban populations continue to grow through natural increase and migration, the capacity of cities to absorb the additional burdens is called into question. Traditional economic reasoning has argued for concentrated urban growth: cities concentrate labor and resources, resulting in economies of agglomeration; increasing urban productivity supports increasing populations. Cities will continue to grow until "negative externalities" outweigh productivity.

Environmental degradation, resource depletion, and an eroding quality of life are the most visible "negative externalities" of urban economic and physical growth. What are the environmental limits to growth? Is there a need to revisit assumptions of economic and planning models in light of environmental priorities? China has such an opportunity with its Small Town Development.

Sharing Security and Prosperity

Food and water resources will be the most significant influences on urban growth in the near future. The world food balance is changing as food production falls and rising food prices favor the countryside and small town scarce water resources may prevent rampant urban growth. On the other hand environmental problems inherent in the consumption of energy, nutrients, and materials can be overcome by changes in technology and practices. China has a history of concern about the balance of man and nature.

In terms of water resources, tremendous urban water shortages are causing cities such as Tokyo to import water on a massive scale from increasing distances. Other cities, such as Mexico City, are depleting groundwater resources and causing irreparable environmental damage. Rising water costs will lead to water efficiency, and ultimately, will constrain urbanization. *Decentralized town development enables water resources to be addressed more systematically.*

Cities disrupts nutrient cycles as nutrients go to cities in the form of food and are not returned to the land in the form of fertilizer. However, technology and changes in practices can overcome the problems of nutrient depletion and consumption of materials. Shanghai, for example, has made concerted efforts to return nutrients to the soil around the city and has become a vegetable exporter. Calcutta produces twenty tons of fish per day with the help of nutrients retrieved from the sewage system. *Increased use of recyclable materials and a shift by industries away from primary dependence on raw materials to dependence on recycled materials are recognitions of environmental imperatives.*

A shift in the pattern of industrial location away from natural resources and closer to cities offering recyclables, may be a source of sustainable growth for cities and towns, providing jobs, income, and contributions to the tax base. In addition industries based on recyclables can improve the urban environment by using less energy in processing and transport and reducing the amounts of municipal solid wastes. China has a long history of attention to such matters.

The traditional European urban form, characterized by a high-density city center served by public transportation, contrasts with the American and Australian pattern of urban sprawl based on use

of the private automobile. Although the European model is assumed to be more efficient in terms of land use and transportation energy, the newer American and Australian models reflect the reality of most recent urban growth in both developed and developing countries. In these cases most travel occurs within and among suburbs and is difficult to address with public transport. Developing countries show a high rate of private car ownership and have developed sprawling city forms. *Urban sprawl is particularly detrimental to the poor, who often are stranded in areas ill-served by public transport, making access to jobs even more problematic.* While planned suburbs usually are served by public transportation, unplanned suburbs, where the poor are likely to live, rarely have access. China must learn from this experience.

The U.S. National Urban Policy, *Empowerment: A New Covenant with Americas Communities* presents a compelling national vision for connecting poor families living in distressed communities to the opportunities that exist in the larger metropolitan region. The National Urban Policy is founded on four operating principles.

- It links families to work
- It leverages private investment
- It is locally driven
- It demands a rebirth in traditional values

and offers a blueprint for implementing these principles through economic policies that promote sustainable investments that help poor people and distressed communities share in the fruits of an expanding national economy.

The Clinton Administration National Urban Policy addresses some of the same issues that China must contend with in its small town development.

Sharing the fruits of Chinas Expanding National Economy: Conclusion and Recommendations

The Asian experience in dealing with urban development problems is in contrast to Australia, Europe, and the United States. Examples assure continual urban economic growth and progress and do not consider the possibility that cities in both the industrialized and developing worlds may decline and decay. The fundamental question should be how best to integrate a reduction of urban poverty and environmental degradation

into sustainable economic development initiatives. Although many Asian cities face environmental problems similar to those in Australia, Europe, and the United States, differences arise from their different resource endowments and different stages of development. Due to the national primacy of most Asian cities, industry and population tend to be more concentrated than in Western cities. *Thus, Asian cities face more intense and serious environmental effects from urban economic growth and long-term sustainability and prosperity comes into question.*

What works in Asia might not necessarily work in developed countries. However, it is critical to develop cost-effective and implementable policy measures that are consistent with the social values of the respective communities. China must therefore develop a unique approach to the long term prosperity and sustainability of its small towns. An approach that responds to China's special socioeconomic conditions is essential and above all that draws on the experience of others, both good and bad in this important commitment of the development of its small towns.

Major issues for developing prosperity and sustainability in China's small towns will be

1. Creating the right conditions for prosperity in the small towns
2. Creating a vision of a quality life in China's small towns and how to achieve it
3. Making a moral commitment to long-term sustainability of the small towns
4. Promoting economic development, job creation and social opportunity in small towns
5. Changing attitudes and behaviour towards small towns resulting from improved information flow
6. Supporting and strengthening of traditional Chinese values through the small towns program
7. Accepting the possibility that the process of change will be disjointed and incremental. This should not be seen as a limitation

A plan of action for China to develop a prosperous and sustainable towns program would include:

Developing Regional Solutions: Because the destinies of China's cities and towns are inextricably linked, regional solutions must be developed to respond to the interlinked urban/rural problems that are now emerging.

Building on the competitive advantage of Small Towns: Because the key to building prosperous communities lies in establishing self sufficiency China's future national urban plan should build upon the strengths of urban areas, especially the towns.

Promoting Environmentally Sustainable Urban Development: Because China must preserve its stock of natural resources for future generations, the urban solutions must sustain long-term economic growth while protecting and improving the environment. The development of China's small towns should be an integral part of this agenda.

Annex A

Prosperity and Sustainability of Small Towns in China's Regional Development

1. Urban Environment

China faces special development challenges in these small towns with a need to improve infrastructure and satisfy a large real demand for housing and urban services that require sizable investments. It is now a question of how to meet the demands for rapid growth of infrastructure with adequate policy responses for effective urban and environmental management.

Social Infrastructure and Programs

With the expansion of production and continuous increase in population, many of the Chinese towns have suffered from inadequate social facilities, sanitation and water services, and power supply. Currently the Chinese government is unable to provide financial assistance for town development. As most of the towns are unable to generate adequate funds of their own to maintain even the present level of urban infrastructure, the existing urban facilities are likely to face increasing pressure as the towns grow in population. To improve the towns' funding situation, government policies and actions are needed to ensure that a higher percentage of the taxes collected from the

town enterprises is used for town development and that local resources are mobilized and invested locally.

People and Place

Chinese towns are distinct from those of other developing countries in that they perform the function of storage reservoirs. The towns have helped to reduce massive rural population exodus to the cities. While the towns have many rural migrants, it is not clear whether such towns can satisfy the needs of the rural population for urban amenities and better paying jobs and thus prevent the migrants from moving ultimately to the cities.

Small towns have emerged as the most dynamic element of China's national development and urbanization in the postreform era. This has been made possible primarily by the open market policy toward the towns and their growing economic activities. If the current policy is allowed to continue for an extended period of time, it is likely that the towns will assume a more important position in China's urbanization and development. China's cities are still among the most egalitarian in the world.

Sharing Security and Prosperity

By the end of 1984, some 33 million surplus laborers were employed in enterprises located in towns and rural market centers. They constituted as much as one third of the workers in some towns. Since the 1979 economic reform, numerous restrictions on the development of the rural economy have been lifted, and the state has permitted individuals, families, and groups of persons and production units to invest their capital in secondary and tertiary activities for profits.

The main economic activities of the towns today go beyond their traditional marketing functions. They are not only the nodes for the collection and distribution of goods, they have also become the centers for rural industrial development since 1982. The revitalization of towns since the reforms has also brought back their traditional cultural functions. The towns are again the centers for the diffusion of modern values and technology to the rural areas. They are the places where rural festivals are held, where most of the peasants make

their first contact with the urban way of life, and where they find basic health, education, and recreational and social facilities.

Annex B

Urban Services Provision - Getting the Incentives Right

Urbanization is proceeding rapidly, and it is projected that by the year 2020 more than half of the population of the developing world will live in cities and towns. Yet even as cities increasingly become the focus of economic and population growth, they do not deliver on the promise of a better quality of life as expected. The quality of major services is poor. Millions of urban residents do not have potable water near their homes, basic sanitation is often lacking, and access to health services and education pose serious problems in many cities.

Failures in the coverage and quality of urban services in developing countries are the result of more than a lack of resources. The evidence shows that, in many cases, the resources devoted to urban services are substantial but used inefficiently'. Therefore, it is essential to look to the system of mobilizing and managing these resources, i.e., the institutional arrangements for urban service delivery. Over the last several years and for a variety of reasons, the way governments administer delivery of urban services has been reexamined. Of the seventy-five developing countries with populations over 5 million, all but twelve have initiated some form of transfer of power to local governments. At the same time, the role of the private sector in many areas traditionally reserved for government is being reassessed.

The task of achieving the right mix of incentives to promote better urban service delivery in any given country does not lend itself to universal blueprints or recipes for success. A range of considerations must be balanced to find the appropriate scope, speed, and sequencing of the reform process in a given country.

Although the process of reform will not be simple, the potential payoffs are high. Managing and protecting the urban environment may be either very costly or simply ineffective if the capacity to deliver key urban services such as clean water, sanitation, waste collection, and efficient transport cannot be rapidly expanded in the future. Well-

performing, demand-driven urban institutions are critical to this expansion. Strong institutions in urban areas and sound intergovernmental arrangements are critical to the effective management of air and water resources. Finally, if urban services cannot be made more responsive to demands, and financed sustainably, then the evidence suggests that it is the poor who will suffer most from the supply rigidity and implicit rationing that follows.

Cities do not deliver on the promise of a better quality of life to the extent they could. Despite the relatively high incomes of urban populations, the quality of services in major cities is poor. At least 170 million people in urban areas lack a source of potable water near their homes, and in many cases, the water that is supplied is polluted. Nearly 350 million people in urban areas lack access to basic sanitation--in many large cities in developing countries, less than 70 percent of municipal solid waste collected and only 50 percent of households are served. In Mexico City the average commute to work is between 2.5 and 3.5 hours. Although data on the coverage of education and health services in urban areas are not available, the aggregate statistics for developing countries are disturbing: in half of low-income countries, fewer than half of school-age children are enrolled in primary schools.

These service failures have wider economic and distributional implications. Improving urban service delivery is essential to any strategy to protect the urban environment. Recent work on the infrastructure sectors notes that a lack of access to, or the unreliability of, infrastructure services can have adverse effects on growth, forcing firms to seek more expensive alternatives, which may in turn have unfavorable impacts on profits and levels of production and consequently on investment and job growth.

Service failures also have distributional implications. The economic benefits of urbanization have not been uniformly distributed. As countries have urbanized, poverty has urbanized as well. It is now roughly estimated that about 25 percent of urban populations is poor, which represents about 400 million people. Failures in urban service delivery disproportionately affect the poor. As a result, many poor households must resort to alternatives that often imply not only lower quality but also higher costs. In the absence of piped water sup-

ply systems, for example, households are forced to purchase water from vendors, at several multiples of the costs of piped water systems.

Source: *Better Urban Services: Finding the Right Incentives*. The World Bank. Washington, D.C. 1995

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¹ In Jakarta, Indonesia, 800,000 households have installed septic tanks at a cost equal to three times the amount that would have been required to provide connections to condominium piped sewerage.

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PROSPERITY DEVELOPMENT AND SUSTAINABILITY

A Case Study in Shenzhen, China

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Abstract

Shenzhen is a municipality consisting of a special economic zone and 19 towns. It has experienced fast economic development in the past 15 years but has also suffered from land misuse, agricultural shrinkage and environment degradation. This paper starts from the economic boom in the 19 towns, analyzes the accompanying land-use problems, points out the economic, social and environmental effects, and concludes with the importance of land-use and management policy for sustainability.

Introduction

Shenzhen is a city consisting of a special economic zone and 19 towns which are organized into two districts, Baoan and Longgang (B&L). The total population in B&L is 1.88 million and land area is 1962 sq. km. In the past 15 years, these towns experienced fast economic development, but also suffered from many problems. One of the most serious problems is land use. The main issues and side effects are:

1. Arable land is decreasing rapidly and is accompanied by the agricultural shrinkage. Grain supply now depends on imports from national and international markets. Even for vegetables, only a third are locally produced.
2. The land development boom has been accompanied by land waste. Huge areas of land are lying denuded of top soil without green cover, no longer suitable for farming, and are not needed for new construction. This is a waste of an important agricultural resource.
3. Irrational land-use patterns reflect the current irrational economic structure and the lack of sound market analysis. Large areas of rural land are transformed for manufacturing and commerce, but infrastructure and public services are in short supply.
4. The environment is threatened by unsound land development. Cleared land causes soil erosion that leads to increased silting of rivers and flooding.
5. Land revenues provide an unstable base because of the special social economic structure consisting of local landlords, migrant laborers, and Hong Kong entrepreneurs.

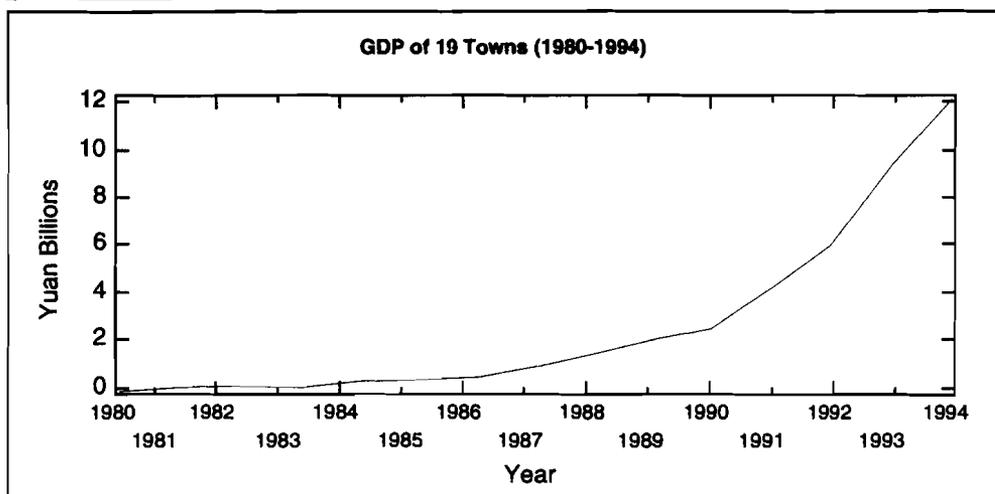


Figure 1

From the experience of B&L districts, many lessons can be drawn for town development nationwide, including transferring land from rural management systems to urban systems in a timely manner, planning before development, setting up an arable land protection program, and strengthening local land market management and regulation.

The Economic Boom

1. Since the economic reform and opening to the outside world in late 1970s, Shenzhen's economy has rapidly expanded. The towns in B&L districts fell behind the special economic zone, but also started taking off at the beginning of 1990s (Fig.1). In the 15 years from 1980-1994, GDP increased from 123 million to 12 billion¹. For 6 years,

the annual growth rate exceeded 40%, the highest being 60% in 1991. Only in one year was the rate under 20%.

2. At the beginning of 1980s, these towns were typical rural areas with 75% of laborers working in the fields. Since then, the industrial structure has rapidly changed. The secondary industry GDP increased from 12% to 55%, and became the most important part of the economy. Primary industry decreased to 11% (Fig.2). In 1994, 77% of labor worked in manufacturing and construction. Only 2.7% remained in agriculture. These figures highlight the industrialized nature of the area.

3. GDP per capita improved significantly, from 1980 to 1993. Population increased from 239,000 to 11.76 millions, at the same time, GDP per capita increased from 518 to 6,501 yuan (\$783) (Fig. 3). It was about 1.5 times larger than the national average of 2644 yuan² (\$318). In the same period, rural average income per person also increased from 152 to 3,692 yuan, more than twice the national average.

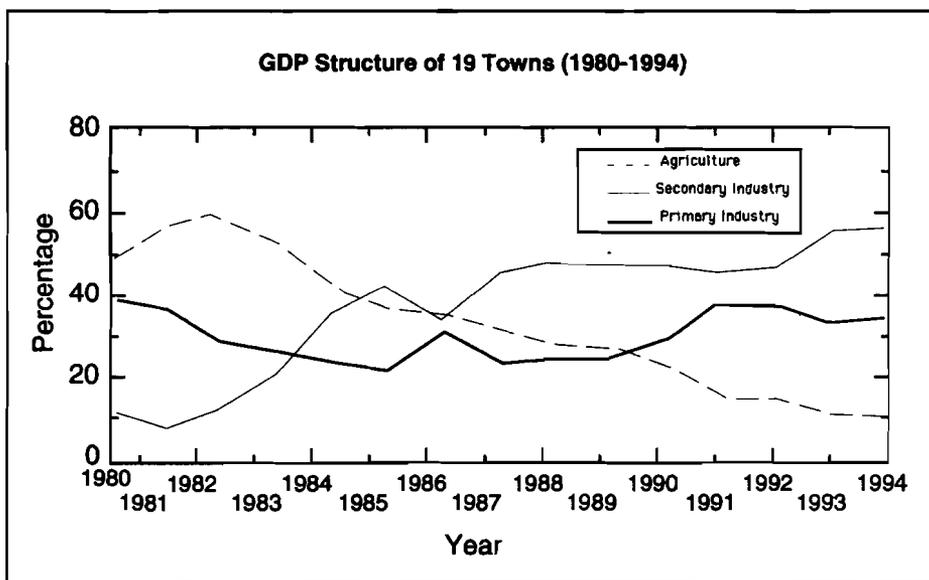


Figure 2

Rapid economic development is accompanied by many problems and one of them is land-use management.

Land Use Problem and its Effects

1. **Decrease of arable land.** One of the costs of economic development is the loss of arable land. In the past 15 years, arable land in 19 towns decreased from 28,600 hectares to 4,300. Only 15% of the arable land was left (Fig. 4). There are three peak periods of loss, each progressively

Land Use in Baoan & Longgang Districts Towns			
Towns	Built-up Area (sq. km.)	Flattened Area (sq. km.)	Flattened/Built-up (sq. km.)
Xixiang	15.00	9.10	0.61
Fuyong	5.40	8.60	1.59
Shajing	8.40	10.10	1.20
Songgang	6.70	5.80	0.67
Guangming	2.70	1.20	0.44
Gongming	10.20	9.80	0.96
Shiyan	4.70	4.60	0.98
Longhua	9.30	23.80	2.56
Guanlan	14.00	19.40	1.39
Pinghu	7.40	8.90	1.20
Buji	15.60	16.60	1.06
Henggang	10.20	9.50	0.93
Longgang	11.40	11.50	1.01
Pingshan	6.80	8.60	1.26
Kengzi	3.00	6.60	2.20
Pingdi	4.60	3.10	0.67
Kuichong	4.80	2.00	0.42
Nanao	1.70	0.60	0.35
Dapeng	5.20	1.10	0.21

Table 1

greater (Fig. 5). In the last peak (1992-1993), annual rates of decrease were 33% and 44% respectively. By the end of 1993, the ratio of arable land to agricultural population was 0.28 mu (0.046 ac), 17% of the national average.

Accompanying the loss of arable land was the decrease in grain production, from 110,000 tons in 1980 to 5,100 in 1994, a 95% loss. Where did the farm land go? According to the survey in 1994, 43% of arable land was transferred to non-agriculture use; 13% was occupied by rural housing; 27% was transformed into fish ponds and orchards. It is reasonable that farm land be transferred to other uses with higher marginal revenues. But has this land been used well and created greater returns? In fact, no.

2. Land waste. According to the land use survey data in 1993-1994, the developed land in B&L districts was 337 sq. km. including 161 sq. km. of cleared and flattened land, 48% of the total. Shenzhen is a hilly area with many small hills under 100 meters in altitude. These small hills are flattened and cover the surrounding farm land. The green cover is destroyed on these flattened lands and they are no longer useful for agriculture. These cleared land areas are wait-

ing for non-agriculture construction but with the depressed real estate market, they just remain flattened and unused. The area of cleared flattened land is close to the total built-up area of the 19 towns. For 9 of the 19 towns, cleared and flattened land exceeds their built-up area, and the highest, Longhua and Kengzi, is over 200% (Table 1).

In addition to this land waste, the built area land use is also inefficient. There are many empty new buildings and half-built buildings along the main roads. The empty factory buildings account for over a million sq. meters. In Baoan district, only 15% of the houses in the market were sold in 1994. This situation results from the hot real estate market in the early 1990s which ignored the real demand. Many real estate companies wanted to rapidly make money from speculation, adding to the chaos in land management and the weakness of imperfect regulation. As a result, considerable land resources have been wasted and compounded by unsound real estate development.

3. Irrational land-use structure. In the total built-up area of the 19 towns, manufacturing and commercial land occupy 53%; housing 38%; and public service and infrastructure only 9% (the lowest is

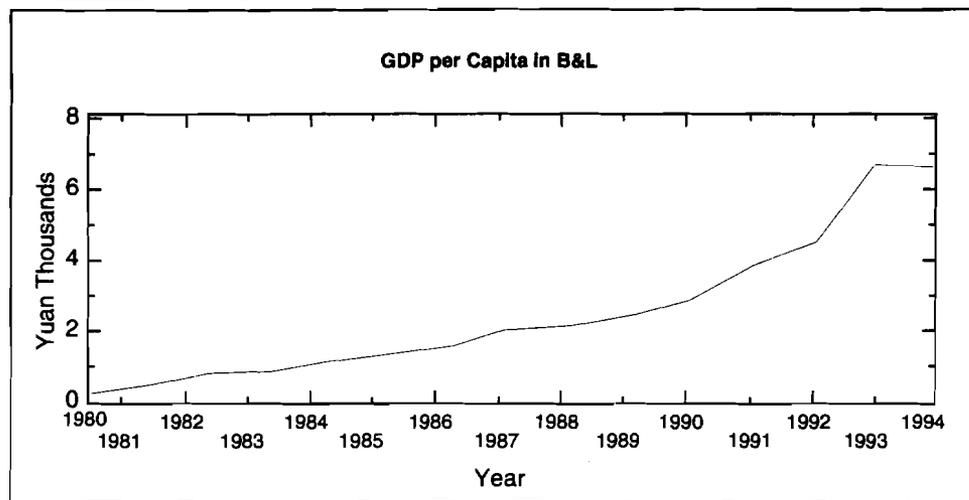


Figure 3

4.4%). With an average of only 6.8 sq. meters of public land per capita, all towns are in serious need of public facilities such as libraries, hospitals, sports grounds and parks. Most towns do not have good water supply and sewage systems, and sanitation is very poor. This is the result of haphazard land development without planning. High profits attract companies to invest money in housing and factory building construction and without paying for public facilities and urban infrastructure.

4. Environment degradation. When hills were levelled and surrounding farm land was covered, soil was dispersed unevenly. The levels of lots are different and when the rainy season brings about soil erosion on a large scale. Taking the Baoan district as an example, we find the manmade erosion area is 128 sq. km., adding to the natural erosion area 204 sq. km., resulting in a soil erosion area of approx 47% of the total land area with an an-

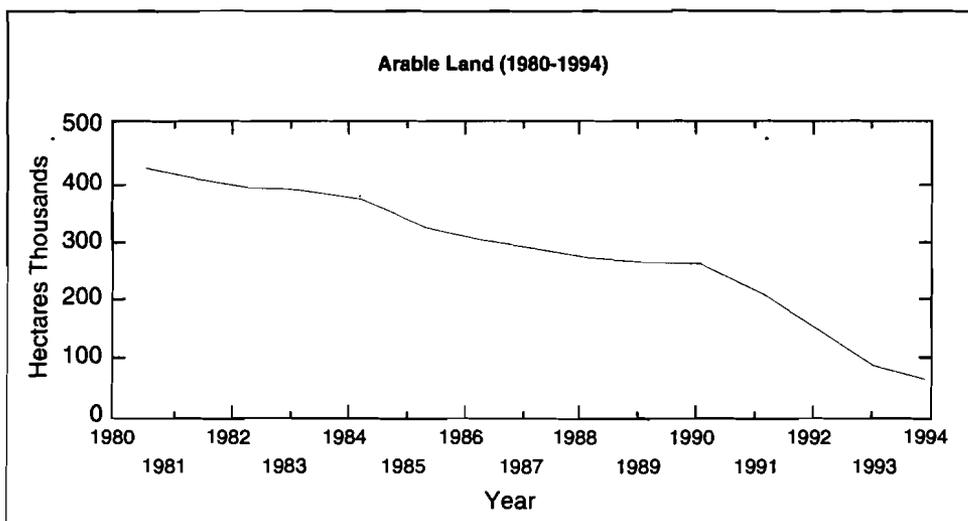


Figure 4

nual soil loss of 960,000 tons, (1340 tons per sq. km³). Most rivers in Shenzhen area are quite small so eroded soil are deposited in these rivers, raising the river beds higher and causing floods. Starting in the 1990s, floods increased year by year and have become a threat against economic development and people's lives.

5. Special social

structure. Large scale land development in B&L districts occurred under the new market economy. Regardless of the legality, most land rent goes into the peasants pockets. With the increased income, they no longer work in the field, nor run businesses, or work in factories. They collect rent and become landlords. On the other hand, hundreds of thousands of rural migrants are working for Hong Kong enterprises in the buildings that the peasants built. The average monthly wage per worker is 300-400 yuan and living conditions are 2 sq. m. per person with 12 people per room in a dormitory. This unique socioeconomic structure is made up of approximately 19% local landlords, 80% migrant workers, and 1% Hong Kong entrepreneurs. Because the latter two fluctuate, the structure is unstable. Hong Kong entrepreneurs arrive with export contracts, rent space in a factory building, employ workers and leave when they finish the contract. New entrepreneurs will come with new contracts. However with costs increasing in Shenzhen, more and more enterprises have moved to other places in the Pearl River area. Migrant workers are single young people and often change jobs. Because they do not have families with them, they leave when factories move to other locations. Local landlords construct the buildings and houses

for rent and are not engaged in the management of factories. When the factories move, they have only empty buildings left. This socioeconomic structure cannot support long-term sustainable development and will undermine prosperity in the region.

Policy and Management Issues

1. Transfers between two land-management systems. There are two land-management systems in China, urban and rural. Urban land belongs to the nation and is distributed through planning and the market. Rural villagers own rural land belongs to the and they have to get government approval when they change from farm use to non-agricultural use. The government has the right to take over farm land for urban development with compensation to the peasants. In places with high rates of economic development like Shenzhen, overdevelopment of land and waste occur if the management system does not enable the timely transfer from rural to urban. Peasants often develop land without planning and without approval, which creates problems for the management and future development. Shenzhen set up two districts for the 19 towns and incorporated them in urban management system in 1993. Later, the municipal government issued the land management regulations that allow every rural household to keep 100 sq.m. of land for housing, 200-300 sq. m. for public facilities, and every person to use 100 sq.m. for non-agricultural development. When these regulations were issued, the developed land area in all of the towns had already exceeded these quotas. In some towns, it was more than 100% over the quota. The regulations could not be implemented. When peasants saw the huge land benefit, it became very difficult to take the land from their hands.

2. Planning for development. Town development requires a master plan to organize land use for different industries and infrastructure, espe-

cially the public facilities. Without planning, resources are unavoidably wasted. Urban planning in Shenzhen was limited to the special economic zone before 1993. When planners began to consider the 19 towns in the municipal master plan, they found that the existing land development had extensive problems. Almost every village had developed manufacturing and the dispersed locations made the infrastructure construction very costly. The road system was formed already, so that when pipes were laid, roads had to be dug up again. It is very difficult to adjust the spacial distribution and rationalize land use because the peasants do not like to give up land that is under their control.

3. Protecting arable land with right measures.

China has a huge population but limited farm land. Food production is a crucial issue and will be a disaster if the arable land is not well protected from unsound town development. Shenzhen government created the arable land protection plan, to keep 300,000 mu (20,000 ha.) of farm land for food production. However the quota was subdivided and allocated to every district, and further to every town and to every village. Villagers choose land not according to land quality and best use but location. Land next to roads and built-up areas was developed for markets and the arable land in remote areas was kept, usually being of poor quality, of small size, and dispersed. In many villages, the land allocation could not be implemented. This is not the right way to protect arable land, we have to find better ways to do it.

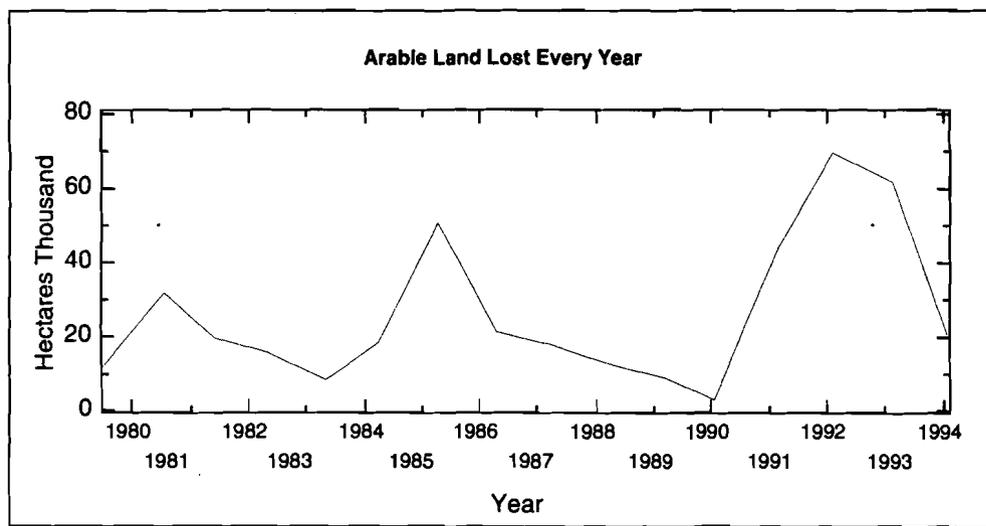


Figure 5

4. Strengthening management and regulation. In the hot real estate markets of the early 1990s, many companies and enterprises were involved in land development in Shenzhen. Driven by the attraction of huge profits, many illegal projects occurred. According to investigations in Baoan District⁴, of the total 173 real estate projects, 29 or only 17% are legal. According to government regulations, rural collective-owned land is not allowed to be marketed. However, of the 173 projects, 115 or 67% used collective-owned land. This situation is a problem of management and of imperfect regulations. Shenzhen has set up three levels of land real estate market. The first level is controlled by government that decides on the amount of land for development every year according to the predictions of economic development and land market demand. Studies are needed in this area to analyze and predict the market.

Conclusion

Town development in Shenzhen has many achievements, but at the same time, has brought with it many problems which threaten economic and environmental sustainability. Lessons should be taken from the Shenzhen experience in land policy and urban management. The interface of the urban and rural economy are the small towns and they will play an important role in China's economic development and urbanization. A sound development model for small towns will have direct effects nationally because of their large numbers, wide distribution and close proximity to the natural environment and resources. The key

to sustainable development is to achieve greater prosperity with less resources and establish harmonious relations between human society and nature. Whether China's economic development moves toward sustainability or stays in a high resource-consuming mode, the role of small town development will be decisive.

¹ Statistical Yearbook of Shenzhen 1995.

² Statistical Yearbook of China 1994.

³ Department of Urban & Environmental Science, Peking University, *Study on Environmental Planning of Baoan District, Shenzhen City*.

⁴ Baoan District Government, *The Investigation Report of Real Estate Market in Baoan District, 1994*.

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Prosperity, Policy Reform and Town Development in China

Zhaoliang Hu

Abstract

The reform policy and openness to the outside world has accelerated town development in China. From 1983 to 1994, the number of statutory towns increased from 2,786 to 16,210, 1,100, an average of new towns per year. The total population of the towns increased from 45M to 107M. But the average population per town decreased because approximately 30 large towns have been upgraded to municipalities every year.

Policies that have favored town development are: (a) openness to the outside world at different levels including setting up special economic zones, opening the coast areas, river valley areas and border areas; (b) reforming the economic system including separating political and economic management and establishing a market economy; (c) agricultural reform including setting up a responsibility system, developing township enterprises and commodity production; (d) population policies including household registration reform, labor market and technology market improvements and family planning.

Town development in China still has a long way to go because (1) the agricultural labor is still 70% of the total and is a strong driving force for town development; and (2) the implementation of policy reform is a gradual and unbalanced process.

The Concept of Town

In China, towns are those administrative units that have a town government, and are referred to as statutory towns. This paper examines statutory towns. According to international standards, towns are small cities, which are a basic part of the urban system. Usually towns are divided into two categories in China: large towns which are the centers of counties and districts, and small towns. They form two levels in China's urban system. The standards for statutory towns are:

- a. The place where county government is located;
- b. Townships with total population under 20,000, but with non-agriculture population in the central built-up area of over 2,000;
- c. Townships with total population over 20,000 and the non-agriculture population in the central built-up area over 10%;

d. In ethnic areas, remote areas, mountain areas, small mines, small ports, tourist areas and border trade ports, statutory towns can be established when necessary even though non-agriculture population is under 2,000.¹²

Under the category of statutory towns, there are many places where there is a concentration of non-agriculture activities. Some could be towns based on international standards, but in China, they are trade towns and are included in rural area statistics.

Policy Reform and Town Prosperity

A series of policy reforms have improved the prosperity of towns. The most important ones are:

a. *Rural economic reform.* Policies have drawn surplus labor to the towns: e.g., setting up of the production responsibility system, developing a commodity economy, township enterprises, allowing labor migration, long distance trading.

b. *Adjusting town standards.* After the adjusting of statutory town standards in 1984, the number of statutory towns increased.

c. *Opening on different levels.* Some special economic zones were opened in 1980, followed by the coastal area in 1984. In 1992, some river and border areas were also opened to the outside world. These areas prospered, the economy improved, and the towns increased in scale and number.

d. *Economic system reform.* Commodity, real estate, labor, technology and finance markets were set up gradually. Reform forced enterprises to operate within economic laws. Administration and economic management were split.

Reform, from planning to a market economy, is a complicated process. Adding to the variety of differences among regions, the process of reform has been long, unbalanced and incremental. These aspects are also reflected in the development of towns.

3. Towns and Household Statistics

China has a three-thousand-year history of household registration management. Household statistics are the main source of population data. AC-

ording to this source, the number of statutory towns increased from 2,786 in 1983 to 16,210 in 1994, 5.8 times within 12 years. The population in towns reached 106.71M in 1994 from 44.86M in 1983, an annual growth rate of 7.5%. Town population nationally increased from 4.4% to 9.1%.

Town population was 41.7% of total urban population in 1994. The increase in urban population from 1983 to 1994 included two-thirds in towns. Towns are an important part of the Chinese urbanization process.

Changes in Town Household Registration

Year	Town Number	Town Population (million)	Town Population (%)	Urban Population (%)
1983	2,786	44.9	4.4	14.6

1985	7,511	57.2	5.5	16.8
1990	9,115	68.1	6.0	19.3
1993	15,072	99.9	8.6	20.9
1994	16,210	106.7	9.1	21.8

Table 1

Importance of Towns Is Not Reflected in Household Statistics

The town population recorded in household statistics contains only the non-agriculture population. With the development of the market economy, the actual town population exceeds the statistics.

a. Most people in the agricultural sector who live in towns are working in secondary and tertiary industries nowadays. The household statistics record

Land-use in Baoan & Longgang Districts Towns			
Towns	Built-up Area (sq. km.)	Flattened Area (sq. km.)	Flattened/Built-up (sq. km.)
Xixiang	15.00	9.10	0.61
Fuyong	5.40	8.60	1.59
Shajing	8.40	10.10	1.20
Songgang	6.70	5.80	0.67
Guangming	2.70	1.20	0.44
Gongming	10.20	9.80	0.96
Shiyan	4.70	4.60	0.98
Longhua	9.30	23.80	2.56
Guankan	14.00	19.40	1.39
Pinghu	7.40	8.90	1.20
Buji	15.60	16.60	1.06
Henggang	10.20	9.50	0.93
Longgang	11.40	11.50	1.01
Pingshan	6.80	8.60	1.26
Kengzi	3.00	6.60	2.20
Pingdi	4.60	3.10	0.67
Kuichong	4.80	2.00	0.42
Nanoo	1.70	0.60	0.35
Dapeng	5.20	1.10	0.21

Table 2

them still as rural population, because the population classification in statistics reflects the difference in residence, not occupation.

b. Immigrants to the towns are not registered as urban residents. They are classified as temporary population. In fast developing areas, the temporary population has exceeded the local residents, by 3-4 times in some towns in the Pearl River area and 1-2 times in Zhejiang.³

c. In the census of 1990, the temporary population living in towns for more than 1 year were classified as part of the town population. The census data are close to reality. According to the census, the urban population in 1994 was 343M, 29% of the total, 31% higher than the household statistics data.⁴⁵ Based on this proportion, the town population in 1994 should have been 12% of total population.

d. There were 37,196 trade towns in 1992 with average non-agriculture population of 398 per town. The total was 14.8M. Adding this to the town population, the national total would be 13%, or 1.4% more than the statistics.

e. A temporary-population survey made in Beijing in 1994 found that actual temporary population was 5 times the census.

f. The investigation of Jiangyin city, Jiangsu Province found that 43% of the town population commutes every day. They live in surrounding rural areas but work in towns, like the commuters in developed countries. They are not reflected in the above statistics. According to the study in Jiangyin, non-agriculture residents in the household statistics are only a third of the number of people who are actually working in the town.⁶

Unbalanced Distribution and Development

The level of development of towns in China is regionally unbalanced. According to the household statistics of 1994, the highest proportion of town population to total population was 16.2% in Guangdong, and the lowest was 3.2% in Tibet. The unbalanced distribution of towns is a reflection of unbalanced economic development among regions. There are two types of areas that have a high level of town development:

a. East coast areas like Guangdong, Hainan, Jiangsu and Zhejiang had town populations above the national average. These areas benefitted from the fast economic growth of market economy after reform, so town population increased rapidly. Guangdong and Jiangsu have the highest town population increase during this period.

b. Northern industry, mining and forestry areas like Heilongjiang, Jilin, Neimeng and Ningxia, also have town population proportions above the national average. Because of the industrial structure, the proportion was already high before the reform. Towns in these areas did not develop very fast after reform.

Survey in 2 Statutory Towns and 26 Township Centers, Jiangyin, Jiangsu⁷

	Total Population	Non- Agriculture	Agriculture
Residents	178,170	114,855	66,315
Temporary	22,148	13,028	9,120
Commuting	150,926		
Total	351,244		

Table 2

With deeper reforms and wider opening to outside market, inland areas will have a high growth period in the future and will be accompanied by the high growth of town population.

The Restraint of Household Registration Policy on Town Development

The household registration system is a serious constraint to town development. The effects are as follows:

- a. Because rural migrants cannot register in towns, they are discriminated against in both employment and education.
- b. Migrants cannot change their household registration from rural to urban, so they keep their rural house and land. This presents a major obstacle to the scale economy of agriculture.
- c. With the registration constraint, many peasants run their manufacturing enterprises in villages. The dispersion of secondary industry in small villages is not only inefficient, but also slows town development.

The above constraints have been weakened with the economic reforms and the setting up of markets, like commodity, material, labor, technology and real estate markets.

The direction of reform of the population management system should be: first to classify rural and urban population according to their residence; and second to classify agriculture and non-agriculture population according to their occupation. This will reflect the reality and integrate rural and urban household management, and improve town development.⁸

The Constraint of Township Enterprises Distribution on Town Development

Township enterprises have had rapid growth since economic reform. They have become an important driving force in the national economy; however, they are very dispersed in location. There were 20.8M enterprises in 1992, most of them located in traditional villages.

The advantages to locating an enterprise in a village are low start-up costs and convenience of taking care of the farm. But the major disadvantages are: (a) Proximity: They are close to the village but far away from market, creating difficulties for the supply of materials and information. (b) Dispersion: It is difficult to obtain reliable infrastructure for the enterprises in dispersed locations. (c) Duplication: Basic industry is duplicated and competed among villages. (d) Pollution: Small scale and backward technology do not have the ability to manage pollution. (e) Inefficiency: Infrastructure occupies large areas of land but is not efficiently used. According to the investigation in Kunshan, Jiangsu, the agglomeration of non-agriculture land use can save 5-10% in land and 10-15% of investment in infrastructure.⁹ (f) Personnel complications: It is difficult to run an enterprise with market standards with the interventions of the political and administrative leadership in villages. This makes the personnel relations very complicated in the town enterprise.

Dispersed distribution has become an obstacle for the further development of township enterprises. The only way to step out of rural community controls is to build industrial zones and establish the

Town Population as a Percentage of Total Population in Household Statistics

Provinces	Municipalities 1983	Autonomous 1994	Regions 1994-1983
National Total	4.4	9.1	4.7
Beijing	3.5	6.9	3.4
Tianjing	1.6	5.1	3.5
Hebei	1.4	5.6	4.2
Shanxi	2.8	9.0	6.2
Neimeng	10.8	12.5	1.7
Liaoning	7.7	9.2	1.5
Jilin	13.2	14.3	1.1
Heilongjiang	10.8	15.1	4.3
Shanghai	5.6	10.7	5.1
Jiangsu	3.6	11.4	7.8
Zhejiang	5.0	11.0	6.0
Anhui	3.3	7.4	4.1
Fujian	5.5	9.6	4.1
Jiangxi	5.2	9.6	4.4
Shandong	2.0	7.8	5.8
Henan	2.4	5.8	3.4
Hubei	4.1	8.5	4.4
Hunan	4.2	7.1	2.9
Guangdong	5.2	16.2	11.0
Guangxi	4.2	9.0	4.8
Hainan		13.3	
Sichuan	3.8	8.7	4.9
Guizhou	3.6	6.9	3.3
Yunnan	3.3	8.0	4.7
Xizang	3.5	3.2	-0.3
Shannxi	4.2	7.7	3.5
Gansu	3.8	6.7	2.9
Qinhai	3.8	9.2	5.4
Ningxia	4.2	10.9	6.7
Xinjiang	7.4	9.0	1.6

Table 3

economies of scale as well as the externalities. These industrial zones will promote prosperity in the towns and small cities.

The Constraint of the Constitution on Town Development

The statutory town is both a residential and administrative unit. According to the standards set by the State Council in 1982, central economic towns with GDP over 200M yuan and non-agriculture population over 60 thousand can be upgraded to municipalities. There are many towns at present which have achieved this level but still remain at town level. For example, Shengze, a big town in Jiangsu, is one of the four national silk export bases with a population of 80,000. Its GDP in 1993 was over 1500M yuan, among midsize cities levels and higher than some county capitals in the northwest. Longang, a large town in Zhejiang, is the economic center of Aojiang river valley with population of 135,000. There are also some large and powerful towns in the Pearl river area.

There are two reasons that these large towns could not be upgraded under the constitution. (1) Usually municipalities are set up on a county basis. County government locations are municipal government seats. Those towns that are not the seats of county government will maintain their position as towns in this process. (2) The higher level of government such as county or municipality do not like to upgrade these towns because of the financial implications. Upgrading large towns to municipalities will weaken their financial influence as centers of revenue collection.

The side effects of these large towns that could not be upgraded are first, the number of towns is quite large and not suitable for inclusion in the urban system; second, most revenue from these towns is turned over

to higher government so that they do not have much money for investment in the town.¹⁰

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**PART II. SUMMARY OF CHINESE WRITTEN
CONTRIBUTIONS**

Official Speeches

Compiled by John Burfield

Official Speech 1

Background and Policy Guidelines of the Reform of China's Small Towns

Zhang Haoruo

In the 1950s the government of China adopted policies restricting free movement of population between rural and urban areas compelling farmers to produce more and thereby driving prices of produce down. This resulted in low income and consumption levels in the urban areas and contributed towards realizing the States Industrial targets. The success of the industrialization policy was at the cost of rural economic development which led to excessive surplus rural labor of more than 120 millions increasing by 10 millions annually. This led to mass migration towards the cities together with attendant problems. The siting of industries in rural areas frequently exacerbated the separation between rural and urban society. More recent policy reforms, while encouraging more rapid development has shown that the separate pattern between rural and urban areas has not

yet changed. Local government management is still unable to cope with overall planning and responsible administration. The domicile control system, the land management system and the social security system are all in need of updating and improvement. Weak town planning and the tendency to permit leapfrog and ribbon development causes great difficulties with the provision and maintenance and servicing of infrastructure.

Recognition of these problems has led to a set of reform policy measures being attempted on a pilot basis in 57 towns. Numerous changes are being attempted including:

- * The strengthening of the capacity of local governments by improving planning, introducing innovative investment planning, updating residence controls and introducing new land management approaches in the case of the disposal of farm lands by immigrants to the towns.
- * The improving of revenue management, accurate cost forecasting and responsible fiscal management by introducing greater control by county level is recommended.

Zhang Haoruo- First Vice Chairman, State Commission for Restructuring Economic Systems

- * The reforming of the social security system the promotion of holding shares in public enterprises, and the merging of small enterprises to counter dispersion are being considered.
- * The strengthening of rural service networks and the development of trade organizations along with savings banks and cooperatives is to be encouraged, and will all contribute to the improvement of the investment climate. The absorption of rural migration will only be possible in backward and weakly managed small towns after heavy investments are realized in urban infrastructure. The pilot towns involved will then provide an example for other small

Official Speech 2

Speech at the Opening Ceremony of International Seminar on China Small Towns Development

Mr. Mao Rubai

In 1979 it was decided to reform the economic system, abolish the peoples commune system and link remuneration to output. This change generated incentives which greatly improved the urban economy, solved the problem of food supply and encouraged the development of township enterprises. In spite of these improvements it has been found to be necessary to coordinate rural and urban reforms. Small town development is seen as supporting the development of modern agriculture as well as township enterprises. Modern agriculture depends for its services upon rural centers and is seen as a large scale production operation which causes a shift in surplus labor. Small towns and rural industrialization need each other. But thus far this has resulted in higher unit production costs as well as environmental problems, due to shortcomings in spatial distribution and infrastructure, which gives rise to congestion. Planning for the grouping of industries as part of small town develop-

ment is now thought to be the appropriate approach. The current domicile registration requirements mitigate against rural urbanization.

The Ministry of Construction is responsible for the planning and construction of small towns. Almost every small town now has a sanctioned development plan which guides organized development. Legislation with regard to city planning, the Planning Construction and Management of Villages and Market Towns and the Ministry's own Regulation for Town Planning have all been promulgated since 1990. The Ministry supports the pilot project approach with the following objectives:

- * small towns should be developed within a regional planning context;
- * their development is closely related to broader economic and social issues;
- * they should be planned with a view to rationalizing land use and protecting the environment.

Each of the 2200 counties in China has been asked to select 1 or 2 small towns for experimental programs. The aim is to have 5000 small towns by the year 2000, and 8000 by the year 2010 which are to have a modern and proper layout with sufficient infrastructure to respect the urban environment.

The degree of attention being paid to the development of small towns by the government can be seen by referring to the important investments made by the Ministry of Finance, the Peoples Bank Of China as well as the Ministry of Construction. Major efforts are being made to stimulate and increase investments in small towns, to improve land use planning and the balanced integration of community facilities and services, to plan comprehensively- carefully coordinating the inputs of different actors in the process, improving administration systems of small towns, and to reform policies regarding the domicile requirements and social security system.

Official Speech 3**To Bring Roles of the Agricultural Bank of China into Full Play and Promote Development of Small Towns in China**

He Linxiang

The Agricultural Bank of China is one of four state owned commercial banks and is engaged mainly in financial services in rural areas. It has fifty thousand branches and has business linkages world wide. The bank is concentrating on farming and animal husbandry, township enterprises and commerce. The bank has been instrumental in encouraging township enterprises to regroup with a view to accelerating development in those towns. The bank has also provided funding for technical improvements in existing township enterprises and promoting commerce and industry. The bank has not only boosted development in small towns but also makes the distinction between long and short term development.

The ninth five year plan for the year 2010 emphasises the strengthening and prioritizing of agriculture, as well as the integrating of township enterprises with the development of small towns. The bank intends to follow the principles of the plan and provide assistance towards sustained development of small towns which act as influential links between the rural and urban economy.

The bank adheres to the principle of cost effectiveness and takes into account the diversity and different needs of local conditions. Short term credits for the development of commercial residential buildings is a priority in relatively developed towns. In less developed areas the emphasis would be more towards guiding cost efficient enterprises to form phased linkages and providing credits to service industries and markets.

The bank is committed to strengthening cooperation with the departments concerned in the development of small towns and participating in the planning function. The development of small towns will result in a localized expansion of financial activities.

He Linxiang, Executive Vice President of the Agricultural Bank of China

Official Speech 4**Promoting the Healthy Development of Urbanization in Rural Areas Abide by Scientific Law and Pattern**

Li Bauku

The successful accomplishment of the eighth 5 year plan, and the launch of the 9th 5 year plan is a significant time to chose to hold this seminar.

China has an urbanization rate of 28.7% and by the end of 1994 had 622 cities. In the rural areas there are more than 55,000 small towns, grouped into 16,702 administrative units of government. Small towns are where people take up non agricultural activities and live together with township enterprises, commerce and industry. The small town is a link between the countryside and urban living. The surplus agricultural labor forms 50% of the total rural labor force. By the year 2000 there will be 200 million rural workers that have abandoned the land and seek urban status and opportunities. This translates into 300 or 400 new cities each with a population of between 500 thousand and one million. At end 1992 China had 32 big cities (population of 1 million+) and 41 of between 500,000 and 1 million, as well as smaller towns. The development of small towns is essential to promote the type of urbanization needed to take up the floating population and to promote industry and enterprises.

There are important problems of distribution, number and scale of small towns.

As the speed of urbanization largely depends on economic growth, experience has shown that administrative interference plays an important part. Large towns tend to extend beyond the reach of government management whereas small towns which have little scope for development tend to be overburdened by government. There are difficulties inherent in providing capital for the development of infrastructure of small towns because of a weak economic base. Government has attempted to provide policy guidelines to

Li Bauku, Vice Minister of the Ministry of Civil Affairs

ensure development of small towns, but the physical and social barriers between town and countryside, domicile registration and status, are all obstacles which need solutions.

Development principles involve the reform of the micro organization of the countryside. The Ministry of Civil Affairs believes that the size of the large cities must be controlled while medium and small cities develop, taking into consideration social and economic benefits, avoiding mass action and aimless development which will slow progress. Greater emphasis is needed to develop network patterns of cities and small towns. Imbalance between regions is marked and planning policies need to narrow these regional differences. The Ministry finds that broad policies and plans for urban development are weakened by inadequate research and planning. This results in random and short sighted development. The three main policy documents concerned with urban policy are insufficient. Standards which take differences of geography and economics into consideration are needed. Pilot studies and projects are needed with a view to the development of an urbanization strategy which takes the social, economic and other realities more fully into consideration.

Official Speech 5

Basic Ideas on the Reform and Improvement of the Management in System of Domicile China's Small Towns

Mou Xinsheng

China is a country of 1.2 billion population of which 900 million are in rural areas. The reform of the domicile management system is an essential step in the development of China's small towns. The current domicile management system which gradually developed since the founding of the Peoples Republic no longer meets the needs of the current situation. The 14th party congress pointed out and provided a clear direction for the reform of the domicile management system. Some localities have carried out pilot reforms and won public support. Conditions are now ripe for general reform of the system. The guiding principle will be to categorize according to residence and occupation. Policies on transfer of domicile are being readjusted. Local governments will be able to give priority to certain categories of settlers. Reform of registration and management of records will be improved. The police will be responsible for establishing domicile management offices.

This reform and upgrading of the system covers many facets of public administration and will involve security organizations and community leaders to provide material support to the effort.

Mou Xinsheng, Vice Minister of the Ministry of Public Security

Official Speech 6

Scientific Planning and Positive Guidance to Promote the Healthy Development of Small Towns

Ma Kai

The next 15 years will be of major importance in China's development and reform when industry becomes mature and the middle phase of urbanization is begun. Urbanization is currently at the level of low income countries while industrialization has made remarkable headway. This lag produces economic and social problems which affect industry and the quality of life. This problem needs resolution during the next 15 years.

More rural industry located in small towns with populations ranging between 30000 to 50000 reflects Li Peng's thinking in 1992. During the next 15 years China will change from an extended growth mode to an intensive one. Small towns will clearly play an important role in this change. With the small share of arable land per capita, economy of scale and greater efficiency can only take place by reducing the number of farmers. Dealing with this problem and the resulting migration to the towns and cities leaves little choice but to develop the small towns rather than the large cities. The development of small towns would effect a change in the economic growth mode. Rural industries account for output value of 40% of the nations total. 50% of total exports comes from rural industries. Problems such as scattered and extended development, small scale operations and high environmental pollution, poor communications, inappropriate land use and a high cost of transactions have prevented rural industries from achieving economy of scale. A change in the growth mode of the economy as a whole would be achieved by regrouping rural industries and combing resources towards concentrated development. The development of small towns is of great importance in achieving fundamental growth in Chinas national strength.

Ma Kai, Vice Chairman, State Planning Commission

The planning of small towns is inadequate and leads to irregular development. There is a rush to establish industrial and commercial zones leading to wastage of arable land, conflicting development leading to high cost transactions. Properly planned town layouts are fundamental and need government regulation and guidance. In building a socialist market economy spontaneous and unchecked development cannot be allowed. Government guidance in planning should neither restrict development nor encourage rash development, but should serve to guide development within a regional context. Regional integration requires interventions at program and administrative levels. Standards and guidelines for land use and the handling of wastes arising from those uses is particularly important.

To promote the rational development of small towns policies concerning planning and town administration, domicile registration, land use and social security should be developed comprehensively, thus reducing heavier social charges.

Official Speech 7

Effective Use of Science and Technology for Promoting the Socioeconomic Development of Small Townships

Wang Baoqing

The rapid development of small townships has revealed serious problems. Absorption of the 300,000 migrants foreseen in the 1984 policy of food self sufficiency fell short due to limited absorption capacity. Land use requirements in small towns have proved to be nearly 3 times greater than in out county situations and nearly 9 times higher than average county use. The migration of people into small townships occupies 10000 more square kilometers than similar migration to medium sized towns. The decentralization of rural industries causes heavy pollution. The scattering of rural industries is a

Wang Baoqing, Deputy General Director, State Science and Technology Commission, Department of Science and Technology

brake upon development. A natural development process should be fostered in which those more favored places will expand and prosper.

If China's Agenda 21 is to be sustainable, rural industrialization and urbanization must be priorities. This calls for the adoption of all aspects of development towards prosperity to incorporate and employ systematic methods of planning. Other objectives call for transformation for low-tech into high-tech. In 1992, pilot projects for integrated social development have been initiated, half of which are in small townships.

While preserving rapid economic development, new and appropriate technologies are encouraged. Improving the quality of human resource development through education technology and culture, adequate food and housing, and public services are being strengthened. Urban analysis will strengthen the impact of land use zoning, with urban infrastructure planned and carried out comprehensively rather than piecemeal. Industry is the basis for rapid economic development, and cleaner production technologies, environmental protection and social infrastructure will be provided. Computerized management systems will be introduced on a pilot basis. The State science and Technology Commission will be working to enhance modernization, industrialization and the integrated development of small towns.

Official Speech 8

Observation on the Question of Reforming the Administrative Management System of the Small Town

Gu Jiaqi

Small town patterns of development are largely based upon the location of secondary industry. Much of the growth of small towns for example those of Jiangsu Province is based on the development of small enterprises. The local bazaar economy in those cases has expanded and their surpluses are now exported. This has led to the development of transportation hubs which has had positive impact on the development of the rural economy. Similarly the pattern in which industrial and mining enterprises have improved their own infrastructure and gradually formed a pattern of support and complementarity.

Tourism has acted as a leading factor in many cases leading to improved infrastructure related to commerce. Examples of growth and development in suburban areas where industry has benefited from locational advantage with the larger city and formed a foundation for the further development suited to the conditions of the suburb.

As reform and development of the rural areas remains an arduous problem, only by addressing the issues pertaining to the small towns can these problems be attacked. Lack of planning and scattering of development has led to poor control of pollution, low effectiveness of infrastructure and energy use. The growing surplus labor force of over 160 million will inevitably be mainly absorbed by the small towns. The small towns can also act as extensions of knowledge and technology in developing high yield agriculture. These complex problems can only be resolved in line with the socialist market economy through reform of the administrative system, eliminating obstacles and bringing about faster and sounder development.

Gu Jiaqi, Vice Minister, Ministry of Personnel

The small towns need their own administrative system which should be granted by the counties. The small towns should have their rights of decision defined: what should be government, -what should be enterprises -what should be the market. The towns would provide comprehensive management of social, economic and cultural life. This would mean an enhancement of government's role in providing public services. Town governments should add servicing institutions from the county government such as agricultural extension and veterinary services, and strengthening the towns capacity for personnel management. The county would retain its prerogatives so far as guidelines standards, etc., and would support the towns efforts to become more efficient. Administration would be streamlined and the budget system reformed to enable small towns to manage their own budgetary affairs and expenditures. Land use planning in which government monopolizes the land market needs reform. The domicile registration system would incorporate incentives for rural labor to transfer to industries and businesses in small towns. Work on this complex task is included in the 57 towns pilot project. In addition, reforms are needed to the social security system, the ownership of town enterprises and investment mechanisms.

Every small town should develop its development plan in accordance with its resources.

Official Speech 9

To Improve the Financial Management Systems of the Township Government Is an Important Precondition for Promoting the Development of Small Towns

Ms. Gao Ying

The hierarchy of government budgeting in China is in 5 tiers: central government, province, prefecture, county and township. 90% of the small towns provide elements of government. Therefore rational budgeting is the basis to healthy planned growth, strengthening management and investing in projects. Small towns exercise a ripple effect on their hinterlands which in turn determines the economic development of the town. Therefore small towns, in order to fulfil their proper function need a proper town budget and the strengthening of the exchequer can enhance and expand the towns autonomy.

Improving the towns financial system to enable the town to support development is an important task. Recent experience has shown that a town financial department -whether it features management of markets, trading, commodity circulation which brings about growth, or else developing rural industry, establishing mini industrial zones, demonstrates that investment in infrastructure, support of rural industry through the use of revolving funds, etc. and the growth of wholesale markets plays an important role in speeding up development. This leads to a favorable investment environment. Township financial departments have actively supported the reform of the social security system and contributed to a well coordinated development system. Overall development of township economy has been uneven, some in the West having considerable financial difficulties. Basically town finance is for feeding the population. Many towns fail even to do this and are in debt and have insufficient skill and control to engage in developing the town. In some counties the lion's

Gao Ying, Deputy General Director, Ministry of Finance

share of revenue is taken away from the towns. This seriously inhibits small towns, and reduces their ability to develop.

Budgetary practices are not unified. Loopholes exist side by side with great difficulties. Nearly 40% of funds raised in 1994 were not incorporated into township finance.

Small towns have to seek ways of developing themselves at the same time as serving their hinterlands. The town financial department should reflect the requirements of comprehensive development in their policies and functions. Revenue distribution between central and provincial tiers of government have been rationalized. This is not the case for lower levels of government. The Ministry of Finance is currently studying the regulation of a revenue sharing system below provincial level, moving towards giving support to the principle that the town manages its own affairs, combining financial power with functional power, giving priority to enriching the town before the county.

Fund management, replacing fees with taxes and achieving increased transparency are the objectives. Overall, current experiments for comprehensive reform seek to set a standard for tax collection and management.

Official Speech 10

Deepening Rural Economic System Reform to Quicken the Pace of Small Town Development

Wan Baorui

Accelerating small town development is a logical outcome of the economic system reform of the 1970s. Firstly remuneration became linked to output which made farmers part of the economic system while the commune system was eliminated. This has contributed to the rapid generation of rural labor surpluses which in turn emphasise the opportunity and need for industry and township enterprises to quicken small town development. To increase the supply of agricultural products, greater investment is needed to transfer labor to secondary industry. However, fluctuation of prices and the reduced capacity of town enterprises to expand and absorb additional labor makes the task a difficult one. The guiding principle for small town development should result from centralized and grouped industrial development in order to develop industry and urbanization jointly, in which stronger connection between urban and rural markets will contribute towards the development of public service and infrastructure.

In many economically developed regions industrial development is the basis of small town development. There are many examples of developing towns where despite limited public sector support self evident local advantages have generated support and found funding sources on the principle of investor ownership. There are many examples of localities allowing full play to local initiatives and creativity, reform in the domicile registration system, social security system, etc.

There are examples of small town developments which have made remarkable progress thanks to the involvement of government at all levels—overall planning, leadership, infrastructure planning and execution, and a clean environment.

Wan Baorui, Vice Minister of the Ministry of Agriculture.

Serious impediments include land use, floating employment and the domicile registration system. The relationship between small town development and the growth of agriculture should be properly handled. The main criterion for judging the success of the development of a small town is to ascertain whether the rural economy has developed as a result and farmers' incomes increased. The local economy and the small town should interact with each other. The strengthening of organization and leadership, better coordination between departments are necessary to facilitate relevant policies for development.

Official Speech 11

Small Town Construction-Reform on Small Towns Land Utilization System Promotion of China's Rural Modernization Process

Liu Wenjia

Since 1987 the government implemented the reform of land use, targeted to the market optimizing distribution, protecting agricultural land and the natural environment etc. The reform, after 8 years has proved to be very successful, especially in the central and western parts of China. In its attempts to protect arable land emphasis has been given to land reclamation wherever feasible. The development of small towns is the correct road for the absorptions of surplus agricultural labor. Farmers are now able to obtain land within urban areas as a result of the reform. Shortage of investment for town infrastructure has hampered development. But now, land leasing funds are being mobilized. Experience now shows that the land utilization reform has proved to make an important contribution to the development of small towns. Some problems persist, and there is a tendency to make money through land speculation and neglect the protection of arable land. The planning of small towns, and the organization and coordination is weak. The reform of the land system has become an

important force for rural modernization. The development of small towns together with the necessary reform is contingent upon the land system.

With 22% of the world's population to feed but only 7% of the world's arable land, the husbanding of this resource is a necessity. This will mean redeveloping and intensifying the land use in towns, land reclamation and protecting arable land. Prior to the sanction of any towns development plan, after all necessary planning conditions have been fulfilled, the land management department will implement what reforms are necessary. Any adjustments required by the town authorities will need to be submitted for approval to the land department.

The main task of the land management departments are submitting working papers, exchanging information with other departments, coordinating policies and examining issues.

Official Speech 12

Establishment of a Set of Statistical Indicators and Urbanization Information Monitoring System for Rural Towns of China to Suit the Need of New Situation of Reform and Development

Lu Chunheng

Most urbanized countries of the world experienced a favorable environment of industrialization and manageable population size which absorbed the rural population into large and medium cities. China's conditions are quite different, with a rural population of over 900 million. The heavy pressures of this population and the absorption capacity of the labor force are the problems China faces.. The surplus population simply cannot be absorbed by the large and medium sized cities. Improving the opportunities for employment in the rural areas is the approach which will absorb this large population. Rural urbanization is a concept we have

studied, together with a full information gathering system. The small towns drive their local economies and radiate influence into the hinterland.

This official speech goes on to present a discussion based on the town categories together with statistical information. It points out that the statistical work and study on towns is very weak, the systematic collection of data or procedures for measuring towns or rural urbanization being inadequate. The statistical system has been set up at township level but is designed to measure the overall situation. Basic urban statistics remain only estimates. An indicator system is required that will enable case analysis and evaluation on town development to be carried out, and progress monitored. International comparison in matters of urbanism makes statistical indicators indispensable. The speech then continues by presenting a draft set of Statistical indicators for rural towns and outlines a Rural Urbanization Monitoring System.

Mr. Lu drew attention to the availability of the paper "Preliminary framework of the set of Statistical Indicators for Rural Towns."

Academic Papers

Compiled by John Burfield

Academic Paper 1

On Development of Small Towns

Professor Fei Xiaotong*

This paper outlines the context of small towns, and describes the communities and activities of the households which form village communities, contrasting today's situation with that during the peoples commune period and the process of rural economic development. With the development of industry during the 60s large numbers of rural population were drawn to new job opportunities. At this time a domicile registration system was established with the purpose of controlling food distribution. "Small town" in current usage means a new and transitional community which is changing from rural to urban. It has broken away from the nature of a rural community but not yet become urbanized.

The paper then outlines the development of rural society and the economy during the period from the 70s until today. The initiatives taken

by the farmers after the commune period released a large part of the work force. Later this labor became part of a more productive work force largely due to the individual's own initiatives.

The initial growth of the enterprise zone in the Pearl River Delta was due to the introduction of small enterprises from Hong Kong following reform. In the country as a whole however there was no contact with overseas Chinese, and investment funds were scarce.

The paper describes the next stage of rural development as small factory enterprises setting up in the rural areas, thereby rejuvenating many of the small towns. This is a category of new small towns, and introduces the 3rd stage of rural economic development.

The new small towns are becoming exchange centers and have established trading ties with distant places, and are part of the global market place as well as having ties with larger cities. Thus there is a consistency in the emergence of small towns coupled with complexity. Understanding this situation is a prerequisite to designing the overall program.

Professor Xiaotong, Vice Chairman of Standing Committee of the National People's Congress, Professor, Beijing University

Rural small towns provide a reservoir to mitigate and contain the impact of mass migration to the cities. Issues of land, population infrastructure and superstructure are discussed and concludes with a plea for architectural sociology to be taught.

Academic Paper 2

Development of Small Towns Is an Important Means for Agricultural and Rural Modernization in China

Professor Chen Xiwen

China's modernization is dependent upon agricultural and industrial development, as 70% of the population live in rural areas.

Professor Chens paper provides a summary of population growth and the place of agriculture in the economy at the time of the founding of the Peoples' Republic. The large scale industrialization started in the 50s quickly developed a mismatch in that while agriculture's contribution to GNP dropped the rural population became 82 % of the total. The requirements of the domicile control system are described and the impact of the relative loss of arable land on a per capita basis. The paper describes the onset of economic reform in the 70s when the ever decreasing arable land and the domicile permit system which restricted migration to the towns led to the farmers having no alternative but to set up enterprises in rural areas with their own funds. Thus a dual system obtains in which government is investing in cities and large towns, and industrialization is being financed in rural areas by farmers as principal investors. This second does not contribute to the concentration of enterprises and population, and is a demonstration of the urbanization process lagging behind industrialization. This will produce a protracted negative effect on the optimization of China's entire industrial structure and employment structure.

A discussion of growth and the distribution of enterprise zones follows and it is argued that without the development of these enterprise zones the employment situation will deteriorate. The rapid

Professor Chen Xiwen, Director of the Rural Development Research Center, State Council.

absorptions of labor in these zones has slowed due to competition demanding technical innovation and capital intensive investments. The dispersal of enterprise zones leads to wastage in employment opportunities which could have been achieved by concentration. This discussion leads Professor Chen to advocate that a realistic way to accomplish large scale transfer of surplus agricultural labor to secondary industries is to develop small towns. Professor Chen concludes that the development of small towns will attract some of the industrial investments being currently scattered which will also modernize agriculture.

Academic Paper 3

Urbanization: The Opportunities and Challenges Faced by Rural Development in China

Du Ying

Against a background which takes the stand that the internal contradictions which obstruct the development of both agriculture and the rural economy need resolution, this paper attempts to analyze challenges to rural development, urbanization strategies, policy adjustment and institutional innovation. Analysis is provided which indicates that combining production factors to help them flow freely and sustain the growth of rural employment and farmers incomes is a way out of the dilemma. The paper recommends that adjustment in rural industry and employment should not only be carried out within the context of agriculture and rural development, but should incorporate adjustments to both rural and urban areas, with Urbanization as the centerpiece. This is dramatically different from the agricultural reform in the 1980s.

A strategy is outlined which addresses urbanization which lags behind and industrial structure which is unbalanced due to the excessive expansion of secondary industry.

Manufacturing in China is comparable with middle income economies, forming a unique pattern of Industrialization being well ahead of Urbaniza-

Du Ying, Deputy Director General, Research Center for Rural Economy, Ministry of Agriculture.

tion. Chinese cities and their enterprises are the product of administrative forced resource mobilization rather than the free flow of production factors. This is the fundamental cause of underdevelopment of urbanization, which has inhibited the development of tertiary industry, prevented industry from taking advantage of concentrating efficiency but also weakened the functions of the city and its capacity to absorb rural immigration. Director Du points out that excessive decentralization in the siting of rural industries has caused inefficiencies of land use. Transportation, scale of business development and resulting environmental pollution and waste of resources, now suggest that China has entered a phase of accelerated urbanization.

- * Only by the promotion of urbanization can agricultural productivity be raised by improvement in agricultural management.
- * Only by the promotion of urbanization can the overall efficiency of rural industry be improved.
- * Only through the promotion of urbanization can the development of tertiary industry be promoted in order to rationalize the industrial structure. Clearly this will exert fundamental importance to the change of development strategy for the whole national economy. In order to promote urbanization it is necessary to remove the institutional constraints on urban development. The main task is to change the mechanism and move the urbanization process onto the path of market economic operations. Guidelines for urbanization should be based on the national condition as well as the general rule. Self development mechanisms are necessary. The domicile registration system must be reformed, labor markets need to be opened free of discriminatory practices. Those things which can be achieved through market operations should be separated from government, and policies formulated to enhance the town financial management system.

Academic Paper 4

The Role of Government in Township Development and Its Policy Design

Liu He*

Given the need to solve small town development, it is necessary to formulate a policy with which government can guide and promote proper town development. Analysis of 47 small towns demonstrates that A) A farmer can earn 30 times more income by working in industry. B) Little funding for small town development comes from the public sector. Investment capital comes from land sales with some local funding. Clearly the central government policies on investment activities have little influence at this level. C) Our survey showed that there needs to be an outstanding person to coordinate and deal with different interest groups and attracting talent in the process. This spontaneity, however, is frequently at the cost of loss of arable land and environmental deterioration. Where markets cannot deliver optimal outcomes government intervention is necessary in those areas on a short term basis. Government guidance is needed to support urban planning operations, together with legal, environmental and fiscal guidance. Residential registration and social security issues require new policies. Our program is to expand 500 small towns to medium cities of up to 500,000 each, over a period of 10 to 20 years, while ten thousand small towns develop their own functional identity. Different guiding principles will apply to distinct regions. Small towns will be prioritized in allocation of resources by the state government, and towns administration will be strengthened.

Liu He, Deputy General Director, Long Term Planning and Industrial Policy, State Planning Commission.

Academic Paper 5

Problem of Planning and Construction of Small Towns

Zou Deci

The imbalanced distribution of small towns covers a wide range of development and living standards and conditions. Many are single industry dependent "company towns" with a sub category of export promotion towns. Specialized market towns and others dependent upon industries and leisure. Isolated towns encounter difficulties in development, towns which are inter-linked grow faster. 50% of China's small towns contain a population between 10000 to 30000 and most small townships have developed into towns during the past 10 years. These trends suggest that adaptability of infrastructure and transport planning needs integrated planning on a different basis than in the large cities. Design issues arise with regard to suitable housing, transportation and social and commercial equipment and facilities. Municipal services such as waste disposal are becoming increasingly important. The weakness of the planning profession in China limits the anticipated development of modes of transportation, mall towns to 16000 in number in the foreseeable future.

Zou Deci, President of China Academy of Urban Planning and Design.

Academic Paper 6

Small Towns Construction and Rural Modernization — on Road of Rural Modernization with Chinese Characteristics

Professor Gao Chengzeng

The vast majority of China's population of farmers is afflicted by poverty and backwardness. Rural modernization is a prerequisite to China's modernization. The public sector is currently unable to invest in enterprises capable of creating jobs sufficient to absorb a significant portion of the rural labour force. While township enterprises have demonstrated encouraging progress this approach should be pursued in a concentrated and coordinated fashion. The category of Small Town can be sub divided into - County level town, - township level town, - village level town and trade centers under township jurisdiction. The focus of investment and development should be the township level towns with some village level towns, approximating 40% of the total number of small towns which are the link between the countryside and the centre for urban services. Small towns are information centres, distribution centres, production and service centres.

Prof. Gao then proceeds to describe the nine different types of Chinese small towns and argues that a small town's physical being is not only the result of economics technology culture and art, but also the result of modernization in the rural areas.

Finally he recommends structural reform in all towns in order to carry out reform of the domicile registration and social security systems, and land reform.

Professor Gao Chengzeng, Science and Technology Commission, Ministry of Construction.

Academic Paper 7

The Value Increment Profit of Land Capital with Its Allocation

Messrs. TieJun Wie and ShouYin Zhu

Fixed assets in the towns and villages of China did not exist as state property but belonged to the collective. Previous to the reform, central government took the full surplus production from agriculture through the highly centralized planned economy system in the process of accumulating state capital. But none of those assets were invested in the rural area.-apart from some industries which were controlled by different parts of the government and located in the rural areas. The total social assets in the rural areas were characterized as "collective property"-neither private nor state owned. Land resources are scarce. Now with a market economy, the more scarce the resource the higher the price. The paper goes on to examine the Primitive Capital Accumulation of the Government and the implications on the physical development of small towns.

Academic Paper 8

The Eastern Part Leads the Development of the Western Part and in a Bid to Push Forward the Urbanization of Rural Areas in China

Professor Bai Renpu

"The Eastern Part leads the Development of the Western Part, and in a bid to pushes forward the Urbanization of Rural Areas in China."

In 1979, 2600 settlements in China were designated as Towns. By 1994 this number had increased to 16,433. China's rural population numbers 920 millions- one designated town for 56000 population. Currently one fourth of the rural labour force are working in secondary and tertiary industries with an output value of three

quarters of the gross rural output value of China. Most of this is derived from non agricultural industries.

Results are uneven. The disparities between the eastern, central and western economic belts of China are widening.

- * The densely populated eastern economic belt consists of 12 provinces and contains densely populated coastal areas with advanced economies, and covers 14% of China's total area, containing 41% of the overall population and 32% of the arable land, equivalent to 0.64 acres per capita.
- * The central economic belt refers to 9 provinces including inner Mongolia and accounts for 30% of China's total area, 44% of the arable land equivalent to 1 acre per capita.
- * The western economic belt totals 9 provinces in the south west and north west, accounts for 56% of the total land, 23% of the total population and 24% of the total arable land, equivalent to 1.3 acres per capita. The ratio of gross industrial output between the eastern, central and western parts is 7:2:1, and gross rural production 6.5:2.4: 1 Slow urbanization in the western belt is serious. Rural to urban migration is moving from north-west to south east, the floating population having increased in size 21 times since 1982. The time has come to push forward the development of the western part of China and change the preferential policies for the eastern part. The Euro-Asia continental bridge enhances the regional advantages of the western areas Continuing the economic development of the eastern areas and focussing efforts on the western areas is to "stress two ends" which will ultimately reach the county's development goal for all areas.

Academic Paper 9

The Key Points in Establishing Statistical Index System for China Small Towns Development

Professor Zhou Yixing

There are no stable and rationalized statistical criteria available to provide answers with regard to small towns in China. Since the Peoples Republic was established 4 censuses have been carried out but each time with different statistical criteria. After each census state governments had to revise the published data. In 1991 the fourth census achieved accuracy without providing scientific certainty, and cannot be used on a comparative basis. Differences in criteria for definitions for small towns—for example some towns with a population of more than 100,000 are considered small towns, whereas some cities with less than 100000 population are not considered small towns. There is not a generally accepted criterion for small towns. Over bounding and under bounding problems—the inclusion of extensive rural areas within town administrative areas and the inclusion of agricultural population within the jurisdiction of towns distorts statistics are common. According to the 1982 census 20.6 % of the population was urban. But the third census in 1990 provides the percentage of 53.2% urban . It is the fourth census which provides the criterion that the urban population accounting for 26.23 % of China's total population.

Prof Zhou Yixing proceeds to make recommendations for developing a national statistical index system and provides adjustments of population distribution between rural and urban on an annual basis starting in 1949.

Professor Zhou Yixing, Department of Urban and Regional Science, Beijing University.

Academic Paper 10

Current Situation and Motivation of Land Market of Small Towns in Southern Jiangsu Province--Case studies of Cities Jiangyin, Zhangjiagang and Kunshan

Professor Yu Wenhua

The first way of developing a land market in small towns in China is by direct promotion by the township or city government. The other is for the local government to follow the central government guidelines.

Generally local government's motivation in developing a land market is for short term gains through different land pricing strategies. The effect of these land pricing strategies on land efficiency is not remarkable.

Prof. Yu Wenhua provides tabulated survey material for the towns named covering surface areas, prices, and land use cost comparisons, analysis of land users, and differentials of land costs.

He concludes that land supply in those named cities is mainly affected by local government preferences and not a market.

Most land development activities are monopolized by local government and the existence or impact of a land market on allocation is limited.

Professor Yu Wenhua, Beijing Agriculture University.

Academic Paper 11

Estimation of the Dual Urban-Rural Socioeconomic Structure Will Accelerate & Improve Urbanization in China

Professor Ye Shunzan

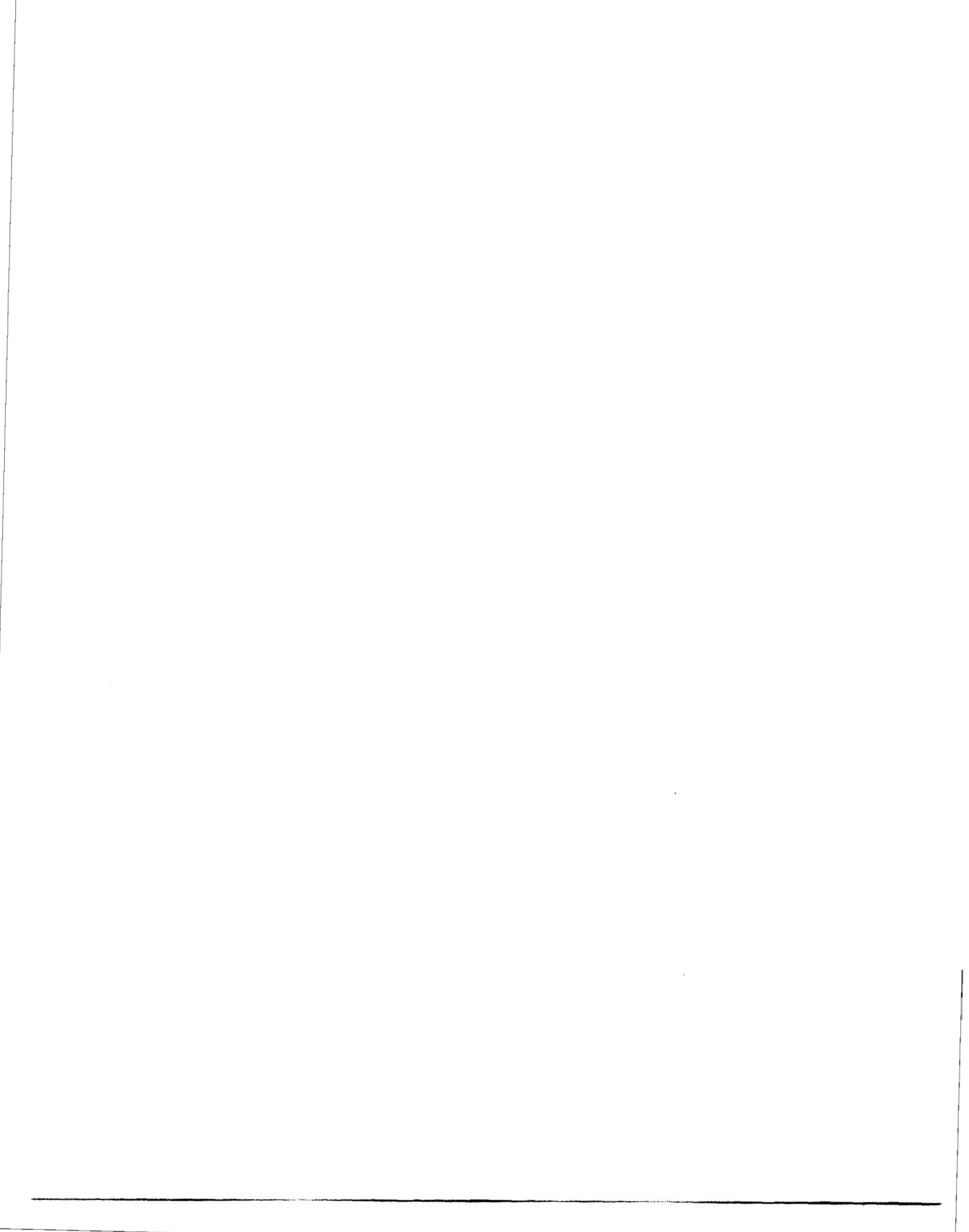
Professor Ye's paper identifies an apparent anomaly between the investment and growth of industry in China and the lagging pace of urbanization. He points out that the domicile registration system contributed towards the rapid industrialization of the country, but is now hindering the necessary evolution of social structures. He points out that whereas the permanent population in medium and large towns has increased at a faster rate than the small towns which only officially contain 21% of the total urban population, in reality it amounts to about 60% of the total urban population. The continued existence of separate urban and rural socioeconomic management impedes free movement of labour and actually hinders the development of small towns.

Another result is the increasing amount of non productive arable land which is caused by farmers abandoning their land in the rural areas, but being allowed to retain their domiciliary registration although the land goes out of production. A secondary effect is the additional burden that this is placing upon transportation systems caused by the retention of native domiciliary status, as well as the need to be present in the non domiciliary workplace.

Despite improvements in recent years the basic problem remains that outward migration is causing desolation in the rural villages and the migration to the large cities is paralysing urban systems. The author recommends the development of a unified residence registration system which would permit migratory movement within county jurisdiction but be strictly controlled beyond the county. This would have the effect of accelerating the development of small towns by providing permanent residence to county rural

* Professor Zhou Yixing, Department of Urban and Regional Science, Beijing University.

**PART III. SUMMARY OF WORKSHOPS AND
CONCLUDING REMARKS**



Elements of a Workable Town Development Strategy for China: An Overview and Key Conclusions

Andrew Hamer

This Seminar on Town Development in China has resulted from fortuitous coming together of several groups interested in one subject: the Interministerial Leading Group on Town Development that brought, under one roof, an unprecedented array of Government agencies to tackle the issues involved; the generous financial and organizational support of the Government of Switzerland and interest of the World Bank.

The Town Reform Agenda can be used to develop a full-fledged model for completing the Urban Reform Agenda on an accelerated basis. This means stressing the value of private/public partnerships in developing infrastructure as well as the importance of greater local autonomy for town governments. Instituting legal and regulatory reforms that end the stigma attached to those once born with a rural hukou but destined for an urban career is also an element of this agenda. The move to a market-oriented economy with "small government" in mind—at least at the local level—means that property rights reforms are vital. The driving force for economic growth in most towns is either the private sector or the cooperative and collective sectors. All these need to enjoy a large measure of ownership and managerial independence from government. They should be able to obtain

requisite permits quickly—subject only to constraints affecting public welfare, such as environmental and health hazards. Their obligations to government in financial terms should be limited and rigorously codified. The rights of entrepreneurs to set up businesses and hire staff should be free of political and legal interference. In this particular case, prior residence in another locality (such as a rural area) should not be used as an excuse to deny full local citizen rights to new entrants into the economy.

More specifically, by completing the Town Reform Agenda rapidly, the way will be paved to solve one of China's key development obstacles—transforming its cities while integrating the rural population into an ever-expanding urban world, under conditions of extraordinary expansion which will see 400 million more residents added to the population of cities and towns by 2010.

Information is a form of infrastructure. Seizing the opportunity to dramatically expand the collection, analysis, dissemination and use of data, and allowing these to influence policy making in a timely manner will dramatically improve the performance of local governments and the necessary oversight by higher-level authorities. Local and

regional authorities need to pay special attention to monitoring and actively using data on population, employment, incomes and land use patterns.

Benchmarking is a process meant to continually compare the performance of an enterprise, town bureau, or town administrator against the toughest competitors. It involves continually collecting information on both relevant inputs and outputs. These can then be considered measurements or "benchmarks" to be equalled or exceeded in the quest to create local centers of excellence. China's town leaders and the provincial and central supervisors should institute such a competitively based system to inspire both the best and the least capable among the target towns in any experimental program of reforms. Later, the process of benchmarking can be adopted for all towns and cities across China. This is a critical issue now that preferential policies are being phased out and localities will have to adapt to a socialist market economy where good performers reap rewards and laggards suffer.

Recasting and setting aside the role of government as the giver of "Scientific Urban Planning Norms" is now timely. Norms should be flexible guidelines that emerge from trial-and-error experimentation that combine technical and political constraints.

With the abolition of scientific norms and the replacement of these with guidelines comes a new responsibility at the local level. Public investments must be carefully crafted, and preceded by good feasibility analyses. "Plan for tomorrow but build for today" remains a critical dictum. The cemetery of unoccupied industrial and high-technology parks dotting China's countryside is evidence enough that truly demand-driven analysis cannot be ignored.

The time has come to acknowledge that the massive wave of urbanization facing China over the next 15 years makes town development, city development, and regional interjurisdictional development all relevant and nonsubstitutable elements of a comprehensive urbanization strategy.

Very specifically, promoting towns will provide some rural migrants with alternatives to moves to metropolitan regions; but these regions will continue to face rapid growth challenges that

cannot be ignored or "solved" by a Town Development Strategy. A leading group on urban development is needed.

International experience validates the fact that local decision makers, given proper incentives and training, are the best suited to deal with setting financial local priorities.

It is possible to consider seizing the opportunity provided by the "economic growth dividend" to provide long-term financing for critical bottlenecks to town development, particular investments in water supply, wastewater treatment, and the disposal of solid and hazardous wastes. There is long-term financing that goes well-beyond convenience. Much infrastructure is "bulky" in size, requiring funds, and generates benefits shared by many generations (as well as new migrants). It is ideally suited for financing over time, with the cash flow proceeds (drawn from tariffs or locales and fees) providing the collateral needed to guarantee repayment. Experience elsewhere suggests that higher-level governments give this responsibility to commercial banks and that localities and their lenders be advised no "bailouts" would be provided in case of bad performance. Instead higher level governments could threaten, at least during a transition period, any nonperformers (in repayment terms) with stiff political and economic penalty ruthlessly enforced.

Any long-term borrowing would need to link the financing to sustainable cost-recovery strategies from beneficiaries based on well-defined and understood fees and taxes whose collection and use are carefully monitored by supervisory bodies at higher levels of government. Self-financing could also lay to rest the presumption that subsidies are the birthright of urban citizens. Greater local autonomy and accountability are intertwined themes that cannot be avoided in this accelerated process to give proper direction to future urbanization. The opportunity also exists to recast local municipal and public utility budgets into planning documents that are multi-year in actual and forecasting terms. These documents should (1) separate recurrent expenditures from investment ones; (2) detail all sources of revenue and expenditure; (3) provide predictions of future amounts to be expended over the next two to three years; and (4) set priorities and revise these annually. The public at large or at least citizen advisory review boards should be allowed to participate in this process, empowering citizens and providing yet another layer of accountability.

Experience across countries suggests that cross-boundary issues--as urbanization spills over artificial administrative boundaries--that cannot be avoided. Coordination and enforcement mechanisms are needed to avoid environmental degradations, duplication of facilities, and the unnecessary conversion of agricultural land to urban uses.

Training administrators locally in short order to run 15,000 statutory towns and 50,000 nonstatutory towns is a daunting challenge never before faced in the history of urban economic and political development. China, large as it is, must develop the capacity to train trainers, and provide these institutional vehicles to quickly spread the technical, priority-setting, and financial skills needed to make this great urban transformation proceed smoothly and with minimum disruption to social stability and the overall living environment.

The legacy of the Planned Economy is still in our midst. There are still too many policy makers who wish to predetermine--in a way that disregards market forces--which towns should grow and how large they should be in size. International experience suggests technicians, usually sitting in capital cities, are very poorly equipped to outguess the market. Economic growth, and the population it attracts, is sensitive to the locations involved and demand-driven pressures to expand. The coastal and the metropolitan clustering of fast-growing towns and cities has a sound rationale in market terms that cannot be disregarded. Trying to eliminate geographic disparities with costly and unsustainable financial incentives has never worked, worldwide. In particular, infrastructure development strategies that promote "geographic equity" are a dangerous basis for action, given limited public resources. Provided proper incentives, financing mechanisms, an overall policy framework, and adequate training--there is no need to "micromanage" this pro-

cess of rural-to-urban transformation. That task, in any case, is beyond the intellectual and managerial scope of a small group of government cadres. "Winners will self-select themselves and justify encouragement. Efforts to promote unsustainable "model" towns that suit only political purposes but lack a sound underlying economic foundation is self-defeating.

Finally, China has outperformed all other transition economies by a judicious combination of experimenting, summing up and developing relevant national enabling legislation. A danger exists that, leading group structures aside, uncoordinated and "propriety" experiments will be undertaken by the various ministries and commissions involved in their "own" set of towns. This can only be counterproductive. The greater value added would come from coordinated experiments concentrated in a limited set of locations for a limited period of time. There is little if any value in letting each government agency try out partial experiments in locations of their own choosing, making the "summing" process difficult and time consuming. This approach is one China cannot afford, given the rural-to-urban avalanche underway. Where state-of-the-art experiments are to take place, they should be concentrated in a manageable number of locations that can be monitored by the leading group as a whole. Incased experiments and local autonomy strategies can only succeed if central and provincial officials recognize their responsibility: to enable change and facilitate reform while providing the legal and regulatory framework that sums up the best results of experiments and gives them permanent legitimacy.

Andrew Hamer
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Summary Remarks

Katherine Sierra
Beijing, November 17, 1995

Ladies and Gentlemen:

I have been asked to summarize the conclusions of this international seminar on town development.

This is a daunting task since the themes discussed were so rich, the discussions so lively, and the points of view diverse. To put these conclusions in perspective, it is useful to remind ourselves of the reasons we came together for this seminar. We hoped to explore the experience to date on town development in China to look at international experience for useful lessons and to prepare an agenda for the work.

I believe we have been successful on all three of these fronts. First, our understanding of the experience to date has been greatly enriched by the interventions of both central and local government, as well as those of the academic experts who joined us this week.

Second, the review of international experience has been useful in pointing out ways to improve the chances for a successful outcome. International experience shows that infrastructure-led town development schemes are not successful. Instead, success lies in giving responsibility and demanding accountability for town development at the lowest level of government possible. Build-

ing on towns' comparative advantages is another lesson. Strategies must be flexible in recognition of regional, economic potential and constraints. Finally, town development must be integrated into an overall strategy for urban and regional development since towns will inevitably be only one part of the urbanization story.

These are some of the many challenges still to be faced. Both Chinese and international experience highlight the overriding importance of ensuring that this program is accompanied by a coherent comprehensive policy framework. I would now like to turn to that policy agenda.

We have learned that much which holds back town development involves deficiencies on the "software" dimension. Among these one can underline the following aspects:

There is a need for legal and regulatory reforms that empower migrants and enterprises with the rights necessary to maximize the positive impact on local development. Particularly important are increased access to permanent town residency rights for migrants. Ownership rights, and dispute resolution procedures for private cooperatives of TVE ventures must also be strengthened.

Urban land use and related infrastructure planning should be improved at the local level. Current practices often lead to the development of serviced land well ahead of demand and the unnecessary use of agricultural land resources. This problem arises in part because economic and financial management tools available in other countries and certain Chinese cities are not well understood. Physical planning must also be made more sensitive to market forces, so that supply responses follow clear evidence of demand. Towns should be able to adjust their land use plans to reflect shifts in demand.

Infrastructure and other local services cannot serve market driven development simply through improved use of tools. Resource mobilization mechanisms must be explored which provide predictable and fair ways to pay for both investments and operational or maintenance expenditures. Beneficiaries should pay for services, where practical, as if they were commercial in nature. The scope for private provision, management and financing of infrastructure and services should be explored. In doing this the private sector should be subject to competition and should work under a regulatory environment which ensures that the public interest is served.

Currently enterprises help finance town development through arrangements whereby they respond to ad hoc demands from town leaders. As towns develop, this is not likely to be sustainable. Towns should move to replace this with a more equitable and transparent tax and fee regime. Enterprises should be able to forecast the size and nature of their payments to the town government and to local public utilities. In return, the financial bureaus responsible for town resources mobilization would have dependable sources of funds whose amount would be forecast with confidence in the preparation of multiyear financial plans.

Improved and more predictable flows of revenues will also facilitate pilot experiments in longer term financing of infrastructure projects. Such experiments would allow China's towns to match the long list of infrastructure assets with term financing of those investments. Experiments could involve the commercial banks as well as the well supervised issuance of town development bonds.

Social insurance mechanisms must be gradually put in place so as to extend the social safety net to towns, thus ensuring social stability in the transition to a market-oriented economy. The social in-

urance system would put into play both household resources as well as contributions from employers. It would yield modest levels of security in case of loss, reduce the number of health care emergencies, and reduce income due to retirement.

Monitoring key indicators, evaluating their significance, and using information to mold policy, is an important aspect of reform. Information is a form of infrastructure and cannot be neglected any more than conventional physical works.

Each item on the reform agenda calls for a reorientation of government functions. A well functioning government is a critical element without which the reforms will fail. However, for local officials to function properly, training is absolutely critical. A final agenda item, therefore, calls for the assessment of remaining needs and the preparation of relevant materials and staff to implement training agenda.

All of the recommendations listed so far give localities more autonomy to decide their own affairs within a broad framework which is provided by the state and provincial levels of government. Other recommendations call for greater coordination among different levels of government and greater accountability on the part of local authorities. The environment is a key area for which this recommendation is immediately relevant. Inadequate planning monitoring and enforcement have created serious and growing environmental problems in and around towns. Solid wastes are disposed of in a haphazard manner. Industrial wastes including hazardous chemicals are dumped without pretreatment. Air pollution from local factories threatens public health and agricultural productivity. Unlike other reform items, environmental policies and improved enforcement must be matched by significant physical investments to be successful. But, given improved economic and financial management better resource mobilization, and a clearer definition of property rights, towns can overcome this challenge.

What then will be the role of the World Bank in implementing this agenda? Based on our review of experience to date and the results of this Seminar, we believe that there is a strong basis for cooperation. In particular, we believe that our role could be to help bring together the various experiments underway into a comprehensive policy framework, backed up by an action-oriented

implementation plan. Comprehensive reform is needed to fully exploit the economic potential of China's towns while ensuring social and environmental sustainability. We are interested in working with the concerned Ministries to further develop the agenda. We are also interested in working with local governments who are committed to introducing relevant reforms. We believe that to be successful, towns must concentrate first on the software parts of the agenda. Key to this will be institutional development of local governments, and the monitoring and evaluation of the small town program. To meet the objective, infrastruc-

ture development might also be supported. After this seminar, we will begin discussions with the relevant authorities on the principles for and avenues of cooperation. We look forward to working with you to put the conclusions of this seminar into action.

Katherine Sierra
Chief of the China and Mongolia Division
World Bank.

Summary and Findings

John Burfield

The two workshops, took place on November 16. They were held in parallel and the focus of each evolved on a more operational level and brought out additional concerns expressed by town administration officials as well as technical and professional members of design and planning institutes.

The concerns expressed focussed upon the planning and provision of infrastructure and its financing, the household registration system, and its broad implications upon urban development and the institutional weakness of the local authorities in general.

As the conference and workshops unfolded, it became clear that the importance of public finance and administration in facilitating (or impeding) urban development in general and in providing a supportive environment for specific urban projects, was recognised, whether funded by international agencies, the public or the private sectors. It became evident that the ability of small towns to maintain and expand their stock of urban infrastructure in response to intense population pressure, depends upon astute administrative and managerial skill with financial resources on their part. The mismatch between the responsibilities of small towns to provide services on the one hand, and their authority to raise revenue on the other, the issue of allocation of functions and rev-

enues to governments, together with the paucity of competently trained small town officers, are issues of the utmost importance.

Concerns expressed in Workshop 1 included —

1. Infrastructure and equipment— while the planning of urban infrastructure was stated to have improved since master plans now need approval by the National People's Congress, standards and guidelines are lacking both for the provision of urban infrastructure (water supply, sewerage, solid and liquid waste management) and municipal services (local schools, primary health care services, markets etc.). Concern was expressed that the recovery of costs for these facilities and services was not being charged to the beneficiaries, and the fact that guided land development was not being generally incorporated into the planning function in order to relate development objectives to potential financial resources. The rational planning and financing of infrastructure investments assisted by guidelines and standards in terms of performance targets, demand response, appropriate technology and financial assessments were perceived as major areas of concern.

2. Local government revenues are largely dependent upon central government transfers. Revenue raising capacity at the local level is limited to license fees and local administrative charges.

Investment planning at the local level is constrained by the nonavailability of long term loans, credit being limited to short term financing from institutions such as the China Agriculture Investment Corporation. Local governments need to enhance their own revenues in order to achieve greater fiscal responsibility and greater capacity to plan and manage each town's development. This was identified as an important area.

3. Concern was expressed with regard to heavy levels of atmospheric pollution caused mainly by the combustion of coal, as well as water pollution caused by intensive use of chemical fertilizers. The adequacy and application of the existing environmental regulations was questioned, requirements for compliance and enforcement, whether by the state or other means was stated to be inappropriate, and current exploitation of loopholes in current practice were said to run counter to encouraging private enterprise.

4. A number of issues with regard to land use matters was raised, including the domination of the State in determining compensation matters particularly with regard to transfer from agricultural to urban use. The demand for land is clearly influenced by the diversity of situations which obtains in China's small towns; Distortions in land prices are attributed to a number of causes ranging from over involvement of the public authorities in some instances, to inadequate regulation or observance of private sector dealing in others. The key issue of land and land pricing is recognised as a major concern for town development, but the results of recently initiated revisions in this sub sector do not appear to be widely understood.

In workshop number 2, the following main concerns emerged from the discussions —

1. Weak institutional capacity of town administration, including inadequate funding, nonavailability of funds due to excessive retention of tax revenues by higher echelons of government;

2. Weak and insufficiently trained staff for urban administration, practical difficulties of staffing and career development due to personnel selection and recruitment by higher levels of government;

3. Institutional structures involving town, municipality county and prefecture levels leading to negative competition for and dilution of limited resources;

4. The line management system which renders the town mayor's office impotent in areas delegated by central agencies (e.g. Finance, Construction etc.);

5. Inability to systematically apply cost recovery and user charges and the growing habit of funding infrastructure for the existing town areas by the proceeds from land sales, intended to support new peripheral growth;

6. Difficulties arising from the complexities of the household registration system such as dual domicile, and the application of social security membership and benefits;

7. Limited purchasing power of the population;

8. Local expenditures were stated to be generally larger than deposits and local lending by banks exceeded their guaranteed resources;

9. Overemphasis on investments giving short term payoffs to the exclusion of long-term investment planning;

10. Limited employment possibilities for rural immigrants due to lack of skills.

The experts responded to these issues and through open discussion the following issues emerged as crucial elements affecting town growth and management and suggesting the need of further study and attention. (1) The planning and provision of infrastructure and its financing, (2) The household registration system and its broad implications (3) The institutional weakness of the local authorities in general.

Findings of the Workshop

1. There appears to be a strong need for town development to take place with better linkages and understanding of development in other towns. This suggests that towns be developed in a regional context. The interrelationship between

local government, the private sector and the community needs strengthening. The current process of rapid change requires interventions at all levels of government.

2. Interdepartmental relations need to be strengthened and towns need to develop relationships and linkages to develop dialog and stronger exchanges. The current top-down system needs to be augmented at town level by bottom-up systems which would encourage the greater use of local initiative and responsible management and reduce duplication.

3. Existing town management organizations have not been designed to perform or adapt to the new tasks envisaged in the next few years. The human resources element which is crucial needs major and rapid improvement. In addition, any strengthening of the towns management systems will also require MIS, GIS etc. to enable them to perform their evolving tasks of investment planning. This planning will involve:

- structuring plans to bring together subsector investment programs and examine implementation capacity and resources;
- prioritizing infrastructure projects which emerge from the structure plans;
- funding priority projects: local, central and external;
- Developing an appropriate O+M capacity;
- Delivering urban services and their planning, funding and operational management;
- Developing an evaluation capacity to identify and monitor targets and objectives to assist the practical aspects of rapid change.

Next steps for consideration

The Reform Commission is well-placed to initiate the formulation of a strategic task force to develop a plan of action. The task force would identify economically and financially viable priority projects which are environmentally sound and relevant to the rapid changes envisaged; It would

- + Make recommendations for re-evaluating the effectiveness of the overall household registration system, examine options for its overhaul and redesign. The objective would be to reduce the inefficiencies and anomalies in the current system.
- + Establish a program for the training of local government officials. This would include curriculum development, in service training, fellowships.
- + Develop a program of local government administrative reform and strengthening to develop capacity for the growth envisaged and the evolution of local economies.
- + Develop an action policy for the training and adaptation of rural immigrants to provide them with employable skills.
- + Identify and develop criteria for the selection of towns which are demonstrating strong development potential, enabling future investments to be planned for priority projects identified in the individual town's master plans.

The Reform Commission should continue with the steady and deliberate pace which has already accomplished a great deal of progress while generally maintaining the stability that is a necessary prerequisite for urban reform. The market approach calls for a holistic approach with both central and local authorities playing their roles.

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November 13-17, 1995
Beijing New Dadu Hotel

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