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# Addressing Urbanization Challenges

## About the project

**Funded by:** DFID

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**Impact:** Provided a Political Economy Analysis (PEA) on urban development with a list of opening interventions for urban development (with private sector development).

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## In brief

- The cost-reducing mechanism that makes cities attractive centers of industry and commerce is known as the “agglomeration effect”.
- Pakistan has South Asia's highest proportion of urban residents.
- Challenges to successful urbanization include suboptimal opportunities for employment and housing and inadequate transportation facilities.

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## Urbanization and Economic Growth in Pakistan

The trajectories of rapidly developing countries suggest that urbanization and economic growth come in a package. Brazil, with an urban population of 84 percent in 2010, has experienced many episodes of rapid economic growth. In the same year, almost half of fast growing China's population lived in cities, an increase of more than 20 percent since 1991.

The cost-reducing mechanism that makes cities attractive centers of industry and commerce is known as the "agglomeration effect". Firms, workers and financiers living in close proximity in cities help lower the cost of production. Agglomeration is important for economic growth because it facilitates the growth of new firms thus encouraging entrepreneurship and new ideas.

Pakistan has South Asia's highest proportion of urban residents. By 2030, an expected 50 percent of Pakistanis will live in cities, up from the current 40 percent. Pakistani cities contribute 55 percent of the country's total GDP spanning manufacturing, retail, wholesale trade, construction and transport.

Urbanization in Pakistan occurs largely through migration from low-income rural areas. Most of the migration occurs within provinces. In 2011, movement inside provinces accounted for 80 percent of urban migration in Punjab, 58 percent in Baluchistan and 56 percent in both Sindh and Khyber Pakhtunkhwa (KPK). Inter-city migration is a rising trend in Baluchistan and Sindh, while rural to urban migration continues to be the pre-eminent method of urbanization in Punjab and KPK.

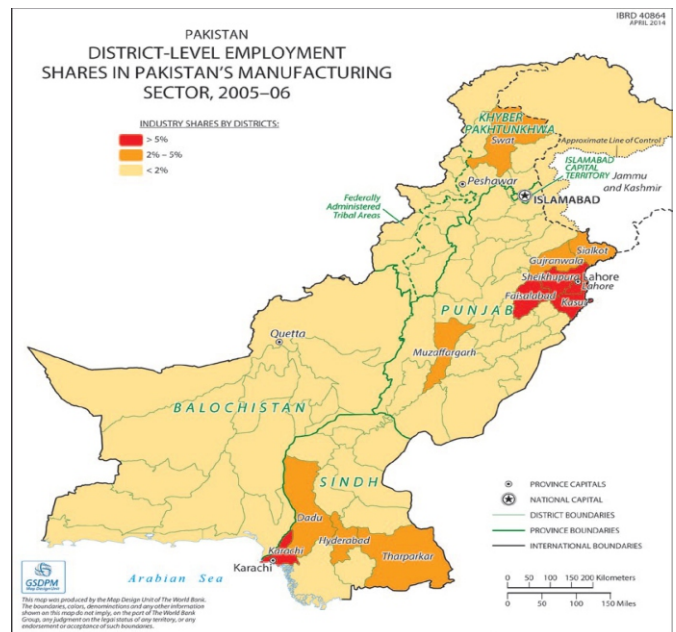
Migration to cities from politically unstable regions has contributed significantly to Pakistan's urban population over the last 30 years. Almost 5 million people moved to cities to escape multiple conflicts in Afghanistan and Pakistan's military campaign in KPK and the Federally Administered Tribal Areas (FATA).

Agglomeration in Punjab particularly has unfolded along the lines predicted by theory. It is more evident in the form of localization economies, in which benefits are received due to interactions within industries and the sharing of inputs. Hubs of economic activity have proliferated around cities within the Lahore-Faisalabad-Sialkot-Gujranwala corridor, and urban areas in Punjab contribute 25 to 33 percent of Pakistan's total GDP (Figure 1).

Given Pakistan's level of urbanization, the economy could be performing much better. India has 30 percent of the total population living in cities, which provides 58 percent of the

country's GDP. While, in Indonesia, 44 percent of the population lives in cities and contributes more than 60 percent of GDP.

Figure 1: Manufacturing Employment in Pakistan



Pakistani cities are expanding without sufficient planning, leading to poor infrastructure, inefficient public services and unaffordable housing. This has prevented the realization of agglomeration benefits in terms of lower production costs, growth of entrepreneurship and creation of much needed jobs. Without a sound policy for urban development, Pakistan is being denied the full economic and social advantages cities offer.

## Challenges to Successful Urbanization

### Urban Employment

Only 40 percent of urban residents participate in the labor force, and women are disproportionately underrepresented at 10 percent. The overall unemployment rate is almost 9 percent. With 65 percent of citizens under the age of thirty, Pakistan has a large "youth bulge" This requires nearly one million additional jobs every year for fresh entrants into the labor market. Cities are currently not positioned to meet this challenge. If cities continue to operate with low levels of employment and poor service delivery, a class of disaffected youth could emerge as a precursor to political and social strife.

### Transportation

Low use of public transport and increasing private vehicle ownership has worsened traffic in Pakistani cities, increased congestion and raised production costs. The volume of traffic is increasing nationally by 8 percent every year.

Even in the most developed cities such as Karachi and Lahore, only 23 percent and 16 percent of trips respectively are made on public transport. Without sufficient investment in public Transport to accommodate urban expansion, the stress on existing transport infrastructure will intensify.

Inadequate public transport also adds to the existing problem of unemployment in Pakistani cities, because it makes centers of employment harder to access for labor.

## Housing

Demand for urban housing is exceeding what both the private and public sectors have been able to provide. In 2014, there was a shortage of 10 million homes, mostly reflecting the low-income market. An estimated 47 percent of the country's urban population lives in squatter settlements, where low-income residents pay high premiums to live in what are often squalid conditions. This is illustrated by the fact that in Karachi, rent prices in relation to median income are high by international standards (see Table 1). The problem is even bigger in the five largest cities in Pakistan, which are predicted to account for 78 percent of the total housing shortage by 2035, if current trends continue.

Table 1: Comparison of Home Ownership and Rental Cost

Country	City	Housing price to Median Income ratio	Rent to Median Income ratio
Cambodia	Phnom Penh	8.9	-
Indonesia	Bandung	7.6	-
	Jakarta	14.6	-
Lao PDR	Vientiane	23.2	10.0
Malaysia	Penang	7.2	4.9
Myanmar	Yangon	8.3	15.4
Philippines	Cebu	13.3	-
Thailand	Bangkok	8.8	22.2
	Chiang Mai	6.8	25.0
India	Bangalore	13.8	-
	Chennai	7.7	14.6
Pakistan	Lahore	7.1	23.3
	Karachi	13.7	-

## Water and Sanitation

Water is supplied for only 4 to 16 hours a day in most cities. Untreated wastewater deposits chemicals into natural bodies of water. Poor municipal service delivery has undermined the quality of sanitation in urban areas. Solid waste is often placed in low-quality dumps and waterways. The World Bank estimates that

inadequate sanitation costs Pakistan nearly 4 percent of its GDP.

## Manufacturing activity

Urban job creation requires rapid growth in manufacturing activity that creates sustained demand for workers across a range of skills. It is not encouraging that the share of manufacturing in GDP has stagnated as have manufactured exports. Poor urban services are partly to blame for this. The disincentives to investment in long gestation manufacturing projects also stem from exchange rate, trade, fiscal and energy pricing policies that would need to be revisited.

## Recent Developments

Urban policy is becoming increasingly visible in the national development agenda. The role of cities as drivers of high growth was central to the Planning Commission of Pakistan's New Framework for Economic Growth, formulated in 2011. The current government has continued to emphasize the importance of urbanization. Its Vision 2025 strategy cites legal reform for zoning, commercialization, taxation and improved urban infrastructure as the foundation for high-growth urbanization. The Punjab Growth Strategy 2018 also supports dense urban centers to attract investment and boost productivity.

An early sign of policy put into action in Punjab was the government's establishment of the Bus Rapid Transit (BRT) Line in Lahore. An average of 150,000 passengers ride the transit line every day. Another BRT line has been established in Islamabad and Rawalpindi, and more are being planned for Faisalabad, Multan and Lahore. The BRT has made job centers more accessible to labour, and in turn has increased the pool of labour available to employers.

Lahore in particular has seen efforts to improve municipal delivery of services through the establishment of the Lahore Waste Management Company, the Lahore Transport Company and the Lahore Parking Company. Establishment of similar companies is also planned in other large cities in Punjab.

To enhance revenue generation, the Punjab government is digitally mapping cities for a more precise tax assessment. It is also working with economists from Harvard University, the Massachusetts Institute of Technology and the International Growth Centre to incentivize property tax inspectors. The establishment of the Punjab Revenue Authority has increased collection of sales tax on services.

Recent events have also demonstrated the increasing political importance of cities.



The emergence of the Pakistan Tehreek-e-Insaf (PTI), as the second largest political party in Punjab, sprung from the province's urban centers. This has promoted political competition between PML (N) and PTI, and increased urgency to respond to the demand for better public services and job creation.

## Proposed Interventions

### Governance reform

Strengthen local government: Low-tiered government bodies can deliver local services more effectively than centralized administrations. Transfer authority of specialized agencies in areas such as waste management, sanitation and transport from provincial governments to local governments.

Facilitate provision of services within and across jurisdictions. Update city boundaries to accurately define jurisdictions. Set up central coordinating committees of service delivery agencies to respond to the newly defined jurisdictions.

Introduce staff trainings, better performance incentives and modern technologies. Together, these actions will improve the functioning of smaller cities and towns.

### Commercialization, Private Sector Investment, and Affordable Housing

Promote vibrant land markets. Modernize land recording systems to reduce the costs of property registration and reduce processing times and fees to convert residential areas into commercial areas.

Increase access to housing through better Land management. Promote a Mixed Land Use classification in zoning and highly dense transportation nodes to increase the access of rental housing for lower income residents. Promote the principles of multiple ownership and condominium development to secure the

ownership rights of multiple residents. Officially recognize and provide secure tenure to informal urban settlements and improve the services; this will increase collateral value of houses for financial transactions.

Improve management of state land. Release unproductive state land for better uses, such as low-income housing, commercial development, office buildings, recreational spaces and community centers.

### Industrial Development

Adopt a comprehensive strategy for sustained industrialization and productive urban jobs. Allocate land to promote industry. Rezone industrial areas so that industrial expansion can occur without procedural impediments. Additionally, establish industrial estates with fully equipped facilities (water, sanitation, waste water treatment, power and security).

Adopt regional planning. Organizing at the regional level will integrate housing, education and commercial development with transport networks and will promote broad-based, balanced growth.

### Transportation

Bolster public transport by bus. Invest in Rapid Bus Transit routes with both public and private funding in all major cities and incentivize the private sector to increase the number of available buses in Pakistani cities.

### Revenue reform

Improve property tax collection. Update valuation tables regularly, lower high tax differentials between owner-occupied and rental property.

Dynamic tax policy. While designing tax on services, strike the right balance between the objectives of increased tax collection and incentivizing firm growth.