

Part IV

Managing the City

Part IV is devoted to a detailed discussion of specific urban problems. We have traced the roots of urbanization concerns and reviewed the limits of aggregative concentration and decentralization policies; now we turn to more sectoral policy issues. Bahl and Linn in chapter 10 address the fiscal problems of city management. Problems of housing, transport, and the environment are covered by Ingram, Pachon, and Thomas in chapters 11, 12, and 13, respectively. Evaluation of urban projects is discussed by Keare in chapter 14. The discussions directly address policy issues to reveal the scope for ameliorating urban problems.

An important aspect of urban finances is their implications for alleviation of urban poverty. In principle, a progressive tax policy can favor the poor, although a greater impact on poverty can probably be obtained from expenditure measures in such areas as housing, transport, and social services. There are, however, extensive examples of failed initiatives in these areas—slum removal, the banning of street vendors, and expensive investment programs. Urban investments, if they are to contribute to the welfare of the poor, must take into account the needs of the poor and their ability to afford the services.

Toward Greater Fiscal Efficiency

Chapter 10 provides a comprehensive statement on urban revenue and expenditure for developing countries. The growing fiscal problems in cities in developing countries can be attributed to unprecedented urban growth, for which many countries are ill-prepared, and to the demands made on local services by particular new investments for economic development. The demand for local services is sensitive to increasing population, espe-

cially to growing numbers of poor people. Positive income elasticities for public services and demonstration effects from the developed world also influence the demand for local services. Factors that affect the costs of local services include the increasing costs of loans for large urban infrastructure investments, wages, labor unions, rising land and energy prices, and inflation.

The analytical and empirical findings presented in chapter 10 are relevant to most developing countries. Efficient means of raising taxes and controlling expenditure are explored. In many urban contexts a greater use of property and motor vehicle taxes, to be adopted carefully by local authorities, could be effective. Greater reliance on user charges has the merit of being directly linked to services provided. The chapter also reviews controversial proposals and discusses political considerations. Reform proposals are commonplace; concrete actions have been rarer, for a variety of reasons mentioned in the chapter. It could be inferred from developing-country experience that gradual adjustments might be more realistically expected, and perhaps more sustainable, than radical and sweeping reforms.

Urban Housing

Overcrowding and lack of adequate housing are widely observed urban phenomena. In response, many governments attach high priority to the provision of urban shelter to low-income groups. Most analysts now recognize that housing includes not only shelter structures but also the land and the services provided, including water and sewerage. Urban policy toward the provision of such public services has a great impact on the quality of life, comparable to the provision of shelter itself.

The importance of housing is borne out by the high proportion of household budgets that is spent on it. World Bank estimates indicate that average housing expenditures in developing countries range from 15 to 25 percent of income. Furthermore, according to U.N. data an average 4 percent of the GDP in developing countries is spent on new residential construction. Of course, there is considerable variation in these estimates among countries, and the quality of data varies widely.

The differences between urban and rural areas bring out the origins of the urban housing problem. Housing expenditures are systematically higher in urban centers than in rural areas. Thomas (1978) shows that the average household's nominal expenditures in Lima may be three times higher than in the rural areas of Peru. Similar findings are contained in a study on Brazil by the same author (Thomas 1982). In general, much of the variation in urban-rural expenditures seems to be explained by the disproportionately larger outlays in urban areas on nontradables, the most important of which is housing.

The quality and quantity of housing in urban areas are an important aspect of the urban problem. To improve the housing supply, policymakers must take into account in greater detail the behavior of market demand and the cost of providing housing. The demand for housing reflects willingness to pay for a set of housing services. It is important to measure adequately the demand for housing in the context of the growth of cities, income expansion, and changes in relative prices.

Chapter 11 deals with one aspect of housing demand and provides an illustration of the equation for estimation of housing demand. The estimates are based on household interview data from Bogotá and Cali, Colombia. A comparison of parameter values with those obtained from North American data sets shows that demand elasticities in Colombia are generally comparable in magnitude with those in the United States. The approach employed to represent variation in housing price in the demand equations uses a theoretically attractive and computationally straightforward procedure that is based on residential location theory. A simple exercise illustrates the magnitude of bias of the income elasticity of demand that can result from incorrect data aggregation techniques. Moreover, correctly aggregated data produce income elasticity estimates that are similar to those obtained from disaggregated or micro data.

Urban Transport

Transport is both a factor that drives city growth and a source of urban problems. Transport technology and

costs contribute to the configuration and growth of cities, and transport often turns out to be a critical constraint on further expansion and on the smooth operation of the city. Government policy on urban transport has important effects on the quantity, quality, and price of this service. Policy issues include government intervention regarding licensing, public versus private service, fares and subsidies, routing decisions, and investments.

Careful estimation of supply and demand for transport is necessary for carrying out investments to improve service. Transport demand and costs vary, roughly, directly with city size, which implies that transport policy is increasingly important as urbanization proceeds. The impact of poor transport is particularly serious for the poor who commute to work. The study of Colombia in chapter 12 draws attention to the need to focus on cost-effectiveness and affordability in the formulation of transport policy. Of particular interest are the implications regarding efficiency and equity in several areas: public versus private transport, old versus new vehicles, large versus small buses, and government interventions and subsidies that affect these choices.

Urban Services and the Environment

This volume does not elaborate on several of the important services that contribute to the quality of urban life: education, health care, nutrition programs, family planning, and so on. Many difficulties in these areas stem from the basic problem of urban poverty, and policies that stimulate development would go a long way toward addressing them. Direct programs also have a role. It is important, however, that, as in the case of housing and transport, emphasis is placed on observed demand patterns, affordability, and the cost-effectiveness of policy instruments.

A variety of amenities contribute to urban well-being. Chapter 13 deals with the impact of environmental pollution and the means of improving environmental quality. Air, water, and noise pollution and solid wastes are commonplace problems in the developing-country metropolis. Damages from these sources affect health and property. The chapter provides evidence of the ill effects of air pollution on human health, indicating one type of benefit from pollution abatement.

The control of pollution is costly, however, and cost-efficient policy tools must be devised. Cost estimates for certain types of industries and locations are provided, illustrating criteria for differentiating among sources in antipollution policy. Generally, it pays to differentiate between locations and pollution sources and to reduce

pollution where it is relatively less costly to do so and where the benefits of so doing are relatively large.

Improving the Efficiency of Shelter Projects

Careful project evaluation has high payoffs in making government interventions, where they are justified, efficient. Chapter 14 summarizes the experiences of four World Bank loan programs designed to improve shelter; the lessons apply to other areas as well. Successful shelter improvement projects have striven for efficient resource use through decentralized decisionmaking. The chapter evaluates project performance and stresses market solutions where they are feasible, on the presumption that project participants are the best judges of their own self-interest.

In general, projects should provide participants with suitable locations, secure tenure, and adequate credit but beyond these should leave most decisions to the participants. The advantages and disadvantages of construction projects, self-help requirements, housing standards, rentals, and restricted credit policies are discussed. Also addressed are the costs of delayed occupancy and inadequate maintenance and the importance of project cost recovery. The findings underscore the importance of carrying out evaluations.

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