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**Urbanisation: Challenges and Opportunities
for the Australian Aid Program**

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Urbanisation: Challenges and opportunities for the Australian Aid Program

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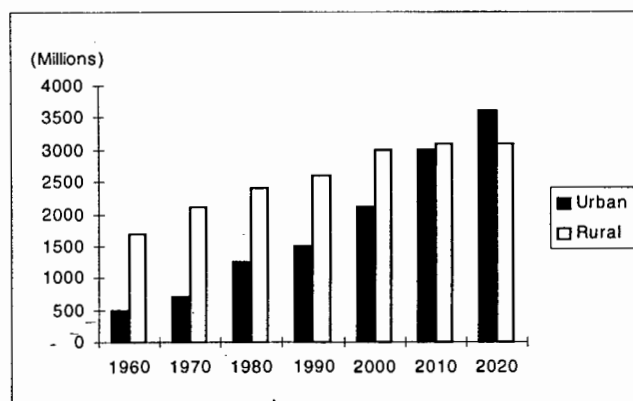
Between 1990 and 2030, the UN estimates that global population will increase by nearly four billion. Ninety per cent of this increase will be in developing countries, of which ninety per cent will be in urban areas. Such a radical transformation in the way that most of the world's people live will place huge strains on basic services such as water, sanitation and shelter. However, rapid urbanisation creates great potential for economic growth and development. This potential must be managed to minimise the urbanisation of poverty. As the majority of the world's poor will soon live in urban rather than rural areas, Australia's overseas aid program must respond to this shift. Although the primary sources for urban investment will be from the national governments and the private sector, aid can act as an important catalyst in improving urban living standards. The Australian Agency for International Development (AusAID) facilitates the use of Australian expertise and materials to address these challenges through better urban management.

The second half of the twentieth century has been marked by one of the most extraordinary demographic shifts of all time - massive globalisation and urbanisation. The proportion of urban population in developing countries had risen to 34 per cent by 1990, and is expected to exceed 50 per cent shortly after 2010 (figure 1). Asia and the Pacific Islands are being rapidly transformed from agrarian to urban societies.

In Asia, cities are gaining an extra 50 million inhabitants each year. That means that every year, Asia must supply the basic infrastructure and social services for a population three times the total Australian urban population of around 16 million. This is equivalent to rebuilding Sydney, Melbourne, Perth, Townsville, Dubbo, and every other Australian city, every four months. Although absolute numbers are greatest in Asia, the rate of growth of cities and their urban concentration is even higher in some South Pacific cities such as Honiara (Solomon Islands) and Tarawa (Kiribati). Through their urban conglomerates, nations are linked to the global economy which enables them to take advantage of international linkages in trade and finance.

However, the benefits produced by urban growth have not been shared equally by all the urban population, leading to the urbanisation of poverty while urban environmental problems disproportionately affect the urban poor.

Figure 1: Population growth in developing countries 1960-2020



This paper examines emerging inequalities in urban areas, environmental degradation, changing roles of the private and public sectors in urban development and finally, how AusAID is contributing to poverty alleviation through improving access to services and essential infrastructure in urban areas.

'A pronounced shift of the world's population from rural to urban areas is currently under way. Early next century, for the first time in human history, a majority of the world's population will live in urban areas. These are in many cases chaotic conglomerations of people caught between tradition and modernity. Over the next twenty years the cities of Asia may gain another 500 million inhabitants. The biggest problems are occurring with the growth of megacities of over 20 million people, many of them made up of shanty towns and slums without sanitation, power or water. To alleviate these problems, massive investments in urban infrastructure will be required, mostly financed by the private sector. Increased efforts will also be required to lift agricultural productivity and incomes, both to feed the cities and to slow the movement of people towards them.' (p.59)

'Rapid urbanisation in Asia will also require a public sector response focused on assisting marginalised urban populations to gain access to basic services, especially water and sanitation. Aid may be of considerable assistance in these areas.' (p.137)

One Clear Objective, Report of the Committee of Review, April 1997 (Simons Report)

Globalisation, urbanisation and development

Globalisation, which is characterised by expanding international linkages in trade and finance, builds upon the economic advantages of cities and the economies of scale they offer to commerce and industry. As centres of finance and banking, cities offer developed infrastructure and markets, locational advantages and a skilled and developed workforce - characteristics which can make them 'engines of economic growth'. These characteristics can seldom be replicated in rural areas. Although the pattern of causality is difficult to determine, the greater a country's level of urbanisation, the higher the economic standard of living.

Global integration permits a country to seize opportunities presented by a favourable external environment, notably the importation of new technology, the more efficient allocation of productive resources and the reduced cost of capital. Increased integration can have a substantial impact on domestic growth and general living standards, although short-term adjustment can also create large groups which are worse off.

The outward-oriented reforms of a growing number of developing countries are both contributing to globalisation and expanding opportunities for them to share in its benefits. However, the pace of integration is uneven.

Cities and better lifestyles: Rural-urban migration

Urbanisation and globalisation reinforce traditional advantages which flow from people living close together such as the prospect of more jobs, higher wages and a more dynamic lifestyle. People can also move from rural areas as a result of mechanisation of farming, famines, wars, population pressures and a bias towards urban areas in developing country policies. For instance, tariff barriers and overvalued exchange rates can lower the prices of domestic agricultural products, thereby depressing rural incomes.

In terms of development indicators, urbanisation is associated with higher average incomes, improved health, higher literacy and improved quality of life. In the Asia-Pacific region the incidence of urban poverty is lower, often considerably so, than in rural areas (table 1). These factors combine to attract large numbers of rural people to urban areas.

The challenges of cities

It is increasingly recognised that urbanisation brings social and economic inequities. The UNDP predicts that there will be an 'urbanisation of poverty'. In this decade alone, the number of poor urban households in absolute poverty is estimated to increase by 76 per cent to 72 million, and that of rural households to fall by 29 per cent to 56 million. It is therefore increasingly important to address poverty in urban areas.

This massive shift in population, combined with the urbanisation of poverty, requires a re-evaluation of Australia's aid priorities. This may involve developing policies which encourage better living standards for the urban poor as well as helping eliminate the urban bias of policies which can artificially draw people from rural areas.

There are often inequities in the distribution of income within urban areas which can mask the 'averages' of people being better off in cities. Additionally, although there may be more services available in cities, such as hospitals, the urban poor may not be able to gain access to such basic services. The urban poor can face worse health outcomes, such as higher infant mortality rates, than rural inhabitants. World Bank studies have indicated that urban slum dwellers can pay up to four times as much for a litre of clean water bought from the local street vendor than the urban middle class pay for water piped into their homes. Such macro policy and pricing biases can exacerbate rural-urban migration in unsustainable ways.

Table 1: Changes in rate of urbanisation and contrast between urban and rural poverty for selected countries

	Population in urban areas (%)			People in absolute poverty (%) (various years, 1980-1990)		
	1975	1995	2025	Urban	Rural	Total
Australia	86	85	89	x	x	x
Vietnam	19	21	39	x	60	54
Cambodia	10	21	44	x	x	x
Philippines	26	35	57	40	64	54
Indonesia	19	35	61	20	27	25
China	17	30	55	x	13	9
India	21	27	45	33	42	40
Fiji	37	41	60	20	x	x
Papua New Guinea	12	16	32	10	75	73

Note: x = not available or indeterminate

The shift from rural to urban areas can include periods of underemployment and work in the informal sector. Although most rural migrants eventually improve the standard of living for themselves and their children, some become caught in squatter settlements on very low incomes. Today, one out of four urban dwellers lives in absolute poverty and another one in four is classified as relatively poor. Across the Asia-Pacific Region, some 25 to 35 per cent of urban dwellers are thought to be squatters.

Environmental issues and urbanisation

The urban poor are disproportionately threatened by environmental hazards and health risks posed by air pollution, solid waste dumps, inadequate housing, poor sanitation, polluted water and a lack of other basic services. Many marginalised urban dwellers live in ecologically vulnerable areas, such as urban slums on steep slopes and in flood plains.

Concerns about the impact of urban growth on the environment are increasing, not only because of the adverse impact on the quality of people's lives but also because they threaten the sustainability of economic growth. A World Bank/UNDP/UNHCS Urban Management Programme paper (1994) describes the critical problems facing developing country cities as the health impacts of urban pollution that derive from inadequate water, sanitation, drainage and solid waste services, poor urban and industrial waste management and air pollution. There is a close connection between the high impact of environmental problems on the poor and the inability of the poor to protect the environment.

Lack of water is one of the most serious environmental and health risks facing urban populations. To maintain good health the minimum per capita domestic consumption of water is considered to be around 100 litres per day. However, people in poorer areas of large Asian cities have a daily per capita water consumption of only 50 to 90 litres (Rosegrant and Meinzen-Dick 1996). Only half the urban population in Asia have access to potable water supplies and 42 per cent to sanitation. These percentages vary enormously from country to country, between cities and within cities. In slum areas they average 20 per cent for water supply and 11 per cent for sanitation.

The Vietnam Provincial Water Supply and Sanitation Project

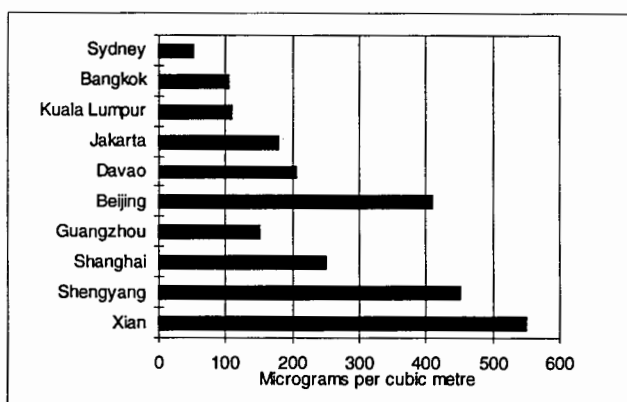
A clean and reliable water supply is essential to promote public health and sanitation. It is also a critical requirement for economic development. A recent World Bank survey indicates that of Vietnam's 436 urban centres, only 100 have piped water supply systems - and these serve less than half the urban population.

The \$45 million Provincial Water Supply Project seeks to improve access to clean, sustainable and continuous water supply in the five towns of Tra Vinh, Vinh Long, Ha Tinh, Bac Ninh and Bac Giang. This five year project will serve about 400,000 urban and peri-urban dwellers by the year 2000.

Activities include strengthening the planning and technical capabilities of the provincial water supply companies, developing a water supply strategy, improving water supply infrastructure, solving critical environmental sanitation problems and improving community understanding of the links between clean water, environmental sanitation and health.

Rapid increases in industrialisation, energy consumption and use of private vehicles is leading to worsening air pollution. The average concentrations of sulphur dioxide and suspended particulate matter in all major East Asian cities exceed acceptable levels (figure 2).

Figure 2: Average concentrations of suspended particulate matter



Role of the public and private sectors

Rapid urbanisation will continue to place huge strains on basic services such as water, sanitation, power and environmental management. The World Bank estimates that East Asia and the Pacific will need to invest between US\$1,200 billion and US\$1,500 billion in infrastructure between 1995 and 2004 to keep up with urban growth. This represents about seven per cent per annum of their Gross Domestic Product (GDP), or about two per cent more than current levels of private and public investment. The provision of the necessary infrastructure requires financial resources which cannot be provided by the state alone.

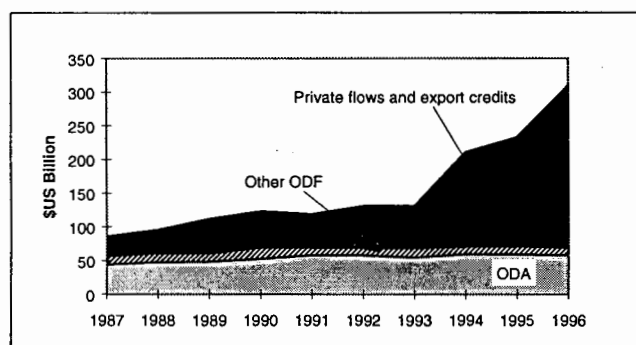
The traditional sources of funding for infrastructure for developing countries have been domestic public finance and official development assistance (ODA). However, ODA has fallen as a proportion of Gross National Product (GNP) in 11 out of 21 Development Assistance Committee (DAC) of the OECD member countries in 1996. The search for new sources of finance has led to an examination of the appropriate roles of the private and public sectors. The reduction in the size of the public sector in Australia and corporatisation and privatisation of previous public utilities in water and energy reflects these trends. This change in approach towards the roles of the public and private sectors is even more acute in developing countries. Private firms

are seen by developing countries as able to improve the efficiency and quality of infrastructure. Politically, it can be easier for a private firm to introduce market-based user charges for services than if the same services were provided by the state.

This combination of factors has opened the way for a substantial increase in private sector investment in infrastructure, often through instruments such as Build, Own, Operate, Transfer (BOOT) schemes. Countries in the region are adjusting their policies to encourage such schemes and there has been considerable private investment in countries such as China, Indonesia, Malaysia and the Philippines. Most of these investments are in telecommunications, power and toll roads, with an increasing, though still modest, involvement in water supply and port facilities.

Aggregate net resource flows to developing countries rose by 32 per cent in 1996, to a record US\$307 billion (figure 3). Within this there has been a dramatic increase in private flows particularly in East Asia, South Asia and Latin America.

Figure 3: Net resource flows to developing countries



Notes: Current \$US

Source: OECD

As net private flows are now about four times the size of aid flows, their role, and that of domestic savings, in development is crucial. But even more important are policies which encourage domestic savings and investment to help fund the vast social and physical infrastructure needs of developing countries.

The role of public policy

The enormous financing requirements of the rapidly expanding urban infrastructure needs of developing countries means that they must adopt policies which attract domestic investment and private capital flows and place less reliance on aid. The domestic policies of developing countries are important for setting the scene for economic growth and also for ensuring that growth takes place equitably - so that the poor in the community, as well as the rich, share in the benefits of economic growth. Japan, Hong Kong, the Republic of Korea, Singapore, Taiwan, Indonesia, Malaysia

and Thailand have all been cited as countries where rapid economic growth has gone hand in hand with improving equity and reductions in poverty. For instance, in Indonesia, poverty has declined from 58 per cent of the population in 1972 to under 15 per cent in the early 1990s.

The World Bank has described the following domestic policies pursued by these countries which have facilitated equitable economic growth:

- investment in human capital - through primary and secondary level education and health care;
- provision of a competitive climate for private enterprise;
- maintaining an economy open to international trade and encouraging exports and adoption of new technology; and
- maintaining a stable macroeconomy.

These policies create an environment that encourages savings and domestic investment, attracts foreign direct investment and expands access to an open international trading system. Domestic policies can also facilitate development through fostering innovative financing of development projects.

The role of Australian aid

The addition of another one million people every week to urban centres in our region provides both important opportunities and real challenges for the aid program. The roles of the public and private sectors in the region are changing, underpinned by the high domestic savings and investment ratios of Asia-Pacific countries and substantial increases in private sector flows.

Clearly, the design of aid programs must be re-examined in the light of the rapid expansion of private capital flows. Aid should not be used to finance activities which could be financed by private capital. But private capital is generally not interested in investing in anything other than commercially viable entities and operations. This is understandable as there are shareholders to satisfy.

What, then, are the appropriate roles for government, community organisations and aid donors? Notwithstanding a growing private sector role, there are other functions vital for development which can be best performed by governments and community organisations, such as continuing to provide the basic social infrastructure (primary health and education) and financing physical infrastructure which is not commercially viable (water supplies for the urban poor, sanitation, solid waste management and some transport facilities).

There remains a role for aid to provide technical assistance for the development of appropriate urban design, management, strategic and regulatory planning frameworks. Private sector urban development has been impeded in the past by an absence of a broad framework of enabling

legislation, unclear property rights and land tenure security and imprecise contractual obligations. Improved institutional arrangements for providing these services and incentives governing their delivery will help minimise such obstacles and ensure that urban development takes place within defined guidelines.

Australian aid can also facilitate urban development by ensuring activities meet development needs, including equitable access and adequate consideration of environmental consequences. Finally aid can also play an important role

in supporting the creation of appropriate legislative frameworks and broader economic and environmental policies which allow the private sector and governments to work together effectively for better urban management.

* *The author is currently the Director of the Environment, Agriculture and Physical Infrastructure Section, AusAID. The views expressed in this paper are of the author and do not necessarily reflect the views of the Australian Government.*

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