



The urbanisation vision for 2041

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Global experience shows that urbanization and development are highly and positively

correlated. Cities lead the growth engine owing to high economic density ((value-added per unit of space) and proximity to the factors of production. It is no accident that high- and middle-income countries are more urbanised and their urban areas have higher economic densities than low-income countries. The correlation between urbanisation and GDP is indicative of the productivity advantage of urban areas. Bangladesh is no exception. The urban-rural value-added and productivity differentials in Bangladesh are larger than the population density differential. Urbanisation and economic growth will therefore go together as Bangladesh aspires to attain High-Income Country (HIC) by FY2041.

But there are two possible spatial paths to HIC for Bangladesh. The first entails a continued focus on higher-value-added products and services in the existing urban growth centres (Dhaka and Chittagong). The second calls for higher diversification into non-farm production and employment outside Dhaka and Chattogram. This later strategy results in a more diversified urbanisation with greater economic role of other cities. While both paths are possible, as exemplified by the experience of several HIC, the present chaotic experience with concentrated urbanisation in Bangladesh suggests that the second path that entails a more diversified pattern of urbanisation would appear to be a less risky option.

Urbanization Situation in Bangladesh: Over the 50 years during 1961-2011, the Bangladeshi population nearly tripled in size, growing from 51 million to 150 million. The urban population increased nearly twenty-fold, galloping from less than 3.0 million in 1961 to 42 million in 2011. Owing to these population dynamics, the share of urban population grew from around 5.0 per cent in 1961 to 28 per cent in 2011. The pace of urbanization has slowed in recent years; yet at around 3 per cent per year, it is growing 2.5 times faster than national population. It is projected to have reached 31 per cent in 2017.

A major characteristic of the ongoing urbanisation experience in Bangladesh is the heavy concentration of urban population and economic activities in the capital city of Dhaka. The next largest city is Chattogram, which is about a third the size of Dhaka. It is a port city and has also attracted considerable private sector interest. Dhaka and Chattogram together have served as the primary growth centres for Bangladesh over the past two decades. The other six divisional city centres, Rajshahi, Khulna, Mymensingh, Sylhet, Barishal and Rangpur have failed to take-off as growth centres. Additionally, the pattern of urbanisation has been haphazard. Some of the characteristics of this disorganized and unplanned urbanization have

been particularly worrisome, especially regarding urban transport, housing, urban natural environment (air and water pollution), although progress with urban poverty reduction has been solid.

Substantial investments in urban infrastructure and services have been made but the large backlog of unmet demand and the continued rapid growth of urbanization have outstripped those investments. At the institutional level, while progress has been made in implementing political decentralization on the basis of elected management of city corporations and municipalities (Paurashavas), nothing else has moved. The urban bodies have very few mandated responsibilities and their work faces considerable overlap with other government entities. Fiscal decentralization is yet to happen. Consequently, the urban bodies remain heavily dependent on national government funding. Own resource mobilization is very low (collectively about 0.16 per cent of GDP), which does not even meet their current expenses.

Unbalanced urbanisation has further accentuated as Dhaka's primacy continued to increase between FY2010 and F2018. Urban traffic congestion has further intensified. The urban slum population has grown. Importantly, the urban environment continues to deteriorate owing to difficulties in managing urban sanitation and solid waste. Drainage problems have intensified, as a few hours of heavy rain creates long hours of traffic jam due to road-level water logging.

Vision, Objectives and Targets for Urban Sector 2041: Consistent with global experience, the urban sector will lead the way to the journey of Bangladesh to HIC by FY2041. The characteristics of urban Bangladesh in 2041 will be like the urban environment found in present day high-income economies.

Specifically, the vision for the urban sector in 2041 is to:

*Have an economy where some 80 percent of the population lives urban areas and enjoys a quality of life that is comparable to those found in the present day high- income economies of North America, Europe and Asia.

* An urban physical environment where there is a proper balance between ecology, the natural environment and needs of the urban population. In particular, all cities will be flood free with proper drainage, modern sewerage and proper waste management.

- * An urban social structure where there is no or little incidence of absolute poverty, there are no slums and every household have a basic minimum housing quality.
- * An urban service industry that provides quality urban infrastructure and urban services on demand and in good quality.
- * An urban governance structure that is elected by the residents, is responsive to the needs of the residents, and is largely self-financing with a healthy and sustainable combination of urban betterment taxes, predictable national government transfers, cost recovery from services provided and responsible borrowings.

✘ To translate this Vision into monitorable indicators of progress, the targets for the urban sector are shown in Table 1. The objectives and targets are set in a manner that these are consistent with the urban environment found in high income countries.

Urban Sector Strategy for 2041: Bangladesh can learn from successful global urbanization experiences in developing its own strategies and reforms. Some of the basic lessons are as follows:

- * High quality cities are characterized by a governance system that entails democratically elected, strong and accountable city governments. These governments are independent of the political dominance of the national government and are only accountable to the residents of the city.
- * City governments have well-defined responsibilities that are enshrined in the legal framework. These responsibilities do not change based on national or local election results. There is no conflict or overlap in service delivery with higher levels of government.
- * The coordination mechanisms with higher levels of government in the management of common areas are well defined within the principle that matters that involve exclusively the interest of the city are primarily the responsibility of the city.
- * Financial autonomy of cities is ensured through a legally defined financial framework that involves sharing of taxes, national grants and market borrowing.

- * User charges play a major role in city finances.
- * To protect public interests and provide a common reference point for the country, minimum standards are defined for such issues as environmental protection, water quality and air quality and these standards are monitored by the higher government.
- * To ensure adequate supply of certain merit /public goods, the national grant system is used for co-financing or as incentive payments.
- * Urban planning and strategy are a shared responsibility between city and higher-level governments. At the city level, the planning process is participatory with a well-defined and structured consultation process with the residents.

On substance, good practice international experience suggests that there are two big picture agenda that will have to be addressed. First is the need to address the urban finances issue. And second is the need to tackle the urban governance challenge. The two are inter-related and will have to go together. The basic challenge is to establish a system of accountable city government that is publicly elected, enjoys considerable political and administrative autonomy, is responsive to the needs of the residents, and has considerable financial autonomy.

The Urban Reform Law: The implementation of these reforms requires proper changes in the legal framework that clearly defines the roles and responsibilities of the urban LGIs in a manner that avoids duplication from competing bodies of the national government. The government could establish a National Task Force of urban experts to review relevant international experiences and give a recommendation to the Cabinet for review and approval. Once done, this should become legally binding through an Act of the parliament. The Act should clarify the degree of political, administrative and fiscal autonomy granted to urban LGIs. The level of fiscal decentralization under the Act will define the basis for national transfers, taxes assigned and authority for public borrowing for urban LGIs.

Reform of Urban Finances: The financing needs for urban infrastructure are large. It will be nearly impossible to meet the financing requirements based simply on transfers from the national government. International experience shows that the strategy for urban financing

needs to combine taxes, service charges, predictable transfers and responsible borrowing.

Tax reforms and fees: Since at present the tax administrative capacity is generally weak even at the national level, the scope for decentralisation of tax responsibilities to LGIs is limited in the near future. However, in the property tax, the LGIs have a potentially powerful source of revenue that must be better used. So, at the first stage, the financing reform should focus on a major revamping of property taxes. A properly designed property tax could yield 1.0-1.5 per cent of GDP equivalent of tax revenues that will revolutionize urban LGI financing. This compares with a mere 0.16 per cent of GDP yield presently. Similarly, with better services, cost recovery from urban services can be increased to ensure full cost recovery for all urban commercial services. Once the property taxes are well developed and the urban governments gain experience, other options including urban income taxes could be considered.

Reform of government transfers: The transfers should be matched to assigned responsibilities. The transfer system would be enshrined within a legal framework to ensure stability and predictability. In designing the transfer system, the basic principles would include factors relating to population, poverty, endowment and performance. Cities that have a larger share of the population, higher poverty and weaker options for local tax mobilization will receive larger grants. This equity principle would facilitate the growth of lagging cities like Khulna, Barisal, Mymensingh, Rangpur and Rajshahi. A two-tier transfer system combining equity and incentives (performance) could be used to promote competition among cities. Thus, cities that are innovative and make special effort to improve its efficiency of service delivery would have opportunities to tap special incentive funds from the national government. The national budget could also earmark special-purpose funds to promote national development goals related to health, education, environment, social protection and poverty reduction.

Reform of urban LGI borrowings: Borrowing is not a risk-free option and requires careful management with special attention to the debt repayment capacity of the borrowing entity. Over time as urban LGIs gain experience and capacity, the borrowing option may be opened for capable and strong LGIs with debt-servicing capacity. In general, the loan financing should be done responsibly based on well-designed high-return projects and in line with debt servicing capacity of the concerned LGI. The Ministry of Finance should not underwrite such

borrowing but may support such borrowing by credible urban LGIs by offering tax free status to these bonds. The borrowing strategy of urban LGIs should be made fully consistent with national debt management. The Ministry of Finance will monitor such borrowing and take corrective actions as necessary to ensure full consistency with the national debt strategy.

Urban Governance Reform: A sound strategy for reforming city management calls for a three-pronged approach: (i) redefining public-private roles with a view to strengthening this partnership for better services; (ii) strengthening capabilities of public urban service institutions; and (iii) establishing an accountable city government.

Public-Private Roles and Partnerships: Capacity constraint to service provision in global mega cities is not uncommon. Many cities have found it helpful to redefine its role to provide only those basic services that are public goods and let the private sector handle commercial activities. Bangladesh should follow the same principle. A vibrant private sector has already emerged in the delivery of telecommunications, transport, housing, education, health services. There is also a strong partnership between the government and NGOs in the delivery of basic education services. But for other commercial services such as electricity and gas, they remain public monopolies with mixed performance, weak finances and limited investment. For core urban services such as housing, transport, water supply, sewerage and solid waste disposal, the picture is also mixed. The private housing market is generally buoyant and competitive but it is constrained by the high cost of land, inadequacy of long-term housing finance, an inefficient land market and other regulatory problems.

✘ Moving forward, private urban services in housing, transport, piped water supply and waste management can be substantially strengthened through a combination of policies and regulatory reforms including land market reforms, development of the housing mortgage industry, subsidies for low-cost housing, tax breaks for private bus and taxi services, and incentives for private water and waste management policies including proper pricing.

Strengthening Public Urban Service Agencies: While private participation in water supply and disposal of solid waste will be helpful, a top priority is to institute adequate supply of modern sewage facilities in all cities. The serious health risk from water pollution due to inadequate management of sewage and solid waste is unacceptable and must be addressed on a war footing. Sewage disposal and its proper treatment is a prime example of a public good that is

best provided by the public sector. All City Corporations and Municipalities should be equipped with WASA type institutions that will have accountability for piped water supply and sewage disposal. Existing WASAs should be re-assigned to the respective City Corporations/ city governments where they provide service. This is necessary to strengthen the accountability of the urban LGIs and make them responsive to the needs of the residents they oversee. Cost recovery policies should be strengthened to improve the financial viability and service delivery capacity of these service agencies.

In urban transport, the highest priority is to establish efficient mass transit systems. This can be based on surface high-speed urban rails or underground rail system. These high-priority urban investments need to fast-tracked starting with Dhaka but extended to all the 8 divisional city headquarters. Since these are highly capital-intensive enterprises, the funding will come from the ADP. However, pricing policies for services must provide for coverage of all O&M costs to ensure their sustainability.

Towards an Accountable City Government: The third and most fundamental leg of the reform strategy is improved city governance. The reform strategy should seek to address the key constraints to the effective functioning of the city government: unclear mandate and service responsibilities; lack of accountability; weak finances and financial autonomy; proliferation of service agencies with poor coordination and control; and weak management. Fundamentally, key functions will be devolved to city governments and, in turn, city governments would be organised to best manage these functions — a two-step process that will be sequenced and managed jointly between national and city governments in a strategic way.

The other critical reform discussed earlier is the devolution of financial autonomy. City government's finances would be well defined based on assigned responsibilities and a proper balance of assigned taxes (principally the property tax), block grants from the national budget, user charges and city government bonds.

Devolving authority to the city level raises the important question of how to organise a city government to manage those responsibilities. Based on international experience, the options range from some form of non-metropolitan government to various forms of metropolitan governments with economic decentralisation as the guiding principle. A national task force of experts charged with the responsibility of developing the fiscal and administrative

decentralization strategy may also prepare a strategy for organizing the city governments based on good practice international experiences for review and approval by the cabinet.

Coordination of City Agenda with the National Agenda: While the system of devolution will need to ensure that there is no conflict between the city agenda and the national agenda, there will be common areas where coordination is necessary. These typically involve setting of standards for environmental protection, water quality, air quality, zoning laws, and safety standards. For all matters relating to national interests, the national laws and regulations will prevail and all cities will be required to comply with them. But implementation of these laws, regulations and standards will often require proper dialogue and consultation. The concerned line Ministries will take the lead on these matters with participation by city governments.

Planning and Monitoring: Presently the Ministry of Local Government takes the lead in planning and investment of major urban projects. It allocates funds to all local governments and supervises major service institutions like the Water and Sewerage Authorities (WASAs). Under the envisaged reforms the Ministry's role will change drastically. With devolution to the city governments most of the budget allocation and investment financing roles of the Ministry will disappear. The WASAs will devolve to city governments. Similarly, RAJUK in its present form will cease to exist. For all cities, the city planning will become an integral part of the city government.

The major role of the Ministry of Local Government will be planning of the entire urban scenario, policy making to facilitate urban development based on the approved national scenario and monitoring the sound implementation of urban development. The Ministry will take the lead in defining and designing the national urban priorities and related urban reforms and ensuring their proper implementation in close consultation and coordination with the city governments. It will monitor progress with urbanization, identify emerging issues and challenges and seek to resolve them in consultation with the concerned city governments.

On the financing side, there will be a more limited but strategic role. This will involve the administration of two types of funds: the incentives fund and the special programs funds. The incentives funds will seek to encourage competition among cities in innovating in service delivery and taking risks. The special programs funds will involve providing matching grants to cities to adopt and implement programs identified as priorities by the national

government.

The precise roles and coordination mechanisms on urban planning and monitoring will emerge from a careful review of relevant international experiences. There is no one size fits all template available. Social and political realities and implementation capabilities will play important roles in evolving the devolution of planning functions. What is important is to define clear responsibilities and accountabilities along with proper coordination mechanisms with different levels of government. Involvement of citizens in the planning process is equally important.