Towards an urban world: What does it mean for Private Sector Development?

According to the United Nations, 68% of the global population is expected to live in urban areas by 2050. In this context, SDG 11 exhorts countries to 'make cities and human settlements inclusive, safe, resilient and sustainable'. What is the role of Private Sector Development?

Main takeaways:

⏩ While cities are engines of productivity and growth, unplanned urbanisation, particularly in the Global South, is an important challenge for development (poor infrastructure, environmental degradation and urban poverty and inequality).

⏩ Despite poverty still being higher in rural areas, there is increasingly an 'urbanisation of poverty'. Urban poverty has specific characteristics such as reliance on the informal economy, inadequate housing, insecurity of tenure, etc.

⏩ The literature review showed that there are some Private Sector Development (PSD) approaches that could be (and have been) implemented in urban areas. However, the ways in which these approaches need to be adapted to urban contexts have not yet been fully explored.

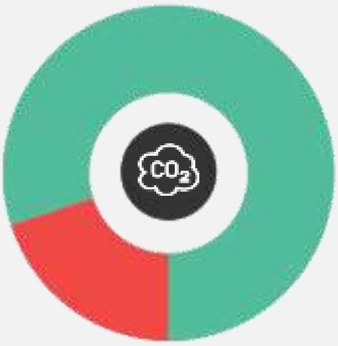
Defining 'urbanisation', 'the urban' and 'the city'

Urbanisation is often seen as the one of the most relevant trends over the past years. But, how is it defined and measured? The urbanisation rate is "the increase in the proportion of urban population over time, calculated as the rate of growth of the urban population minus that of the total population" (UNICEF 2012: 10). However, there is not a unique definition of an urban area. Often, each country has its own way to define and measure it, making comparisons across countries extremely challenging. As UNICEF (2012) explains, the definitions of an urban area can be based on certain administrative criteria, a threshold of population size, population density, economic functions or other characteristics. Conversely, a city can be defined as "a large human settlement which generally has extensive systems for housing, transportation, sanitation, utilities, land use, and communication" (UNICEF 2018:184).

Since cities are often the locus of productivity and innovation (UNHABITAT 2016), urbanisation is strongly associated with economic growth. For this reason, some countries have been implementing policies to increase their urbanisation rates. As an example, Rwanda has developed a strategic vision to transform the country into a middle-income state. To do so, the Rwandan government set a target to reach a 35% urbanisation rate by 2020, considering this one of the foundations for increasing the country's GDP (more information here and here). Nevertheless, a study from ODI (2016) found that although urbanisation is highly correlated with economic growth, it does not generate it. Moreover, the study argues that this correlation can be significantly affected by regional trends.

Urbanisation Figures & Projections

80% of the world's GDP is originated in cities (2019)



80% of CO_2 emissions are generated in cities (2017)

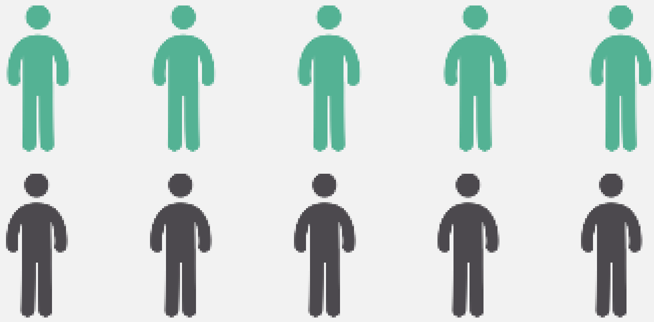
2000
With a growth rate of **4.87%**, Africa was the continent with the fastest rate of urbanisation

2020
300 million urban Africans won't have water and sanitation

2030
The world will have **43** megacities, most of them in the Global South

2050
68% of the world population will be living in cities

>50% of the employment in urban areas from the Global South is informal (2018)



The number of **informal settlements** ceased growing. However, the **absolute number of people** living in them is increasing – It is expected to be almost half of the urban population by 2050.

Source: elaborated by the author based on UNDESA (2018), UNIDO (2017), UNISDR (2004), United Nations (2018), World Bank (2019) and EC (2016).
* Click on the year to find out more about the source of the statement.

Icons made by Kiranshastry , Good Ware and Freepik from www.flaticon.com

Also, rapid urbanisation could be accompanied with some negative effects, particularly when not managed properly. Urbanisation challenges might be related to higher unemployment, higher costs in housing, lack of infrastructure, weak governance and environmental pollution (see Zhang 2016). Another caveat is that the opportunities and benefits associated with urbanisation are not evenly distributed (UNHABITAT 2010). Despite rural poverty still being higher that urban poverty globally, an "increasing proportion of those who suffer absolute poverty worldwide live in urban areas" (Satterthwaite 2003:19). This 'urbanisation of poverty' is more evident in countries in which urbanisation develops more rapidly than its economic growth (Zhang 2016).

Urban poverty differs from rural poverty in some particular aspects. Beall & Fox (2007: 7) identified the following characteristics that should be considered when working on development projects in urban areas: reliance on a monetised economy; reliance on the informal economy; inadequate housing; insecurity of tenure; lack of access to basic services; vulnerability to disease; environmental hazards; social fragmentation; exposure to violence and crime and increasing experience of warfare and terrorism.

Urbanisation & Industrialisation

Historically, urbanisation has been considered as both a cause and a consequence of industrialisation. However, this relationship is not straightforward. Especially in Africa, the new urbanisation patterns are not always accompanied by industrialisation processes. Vollrath, Jedwab & Gollin (2016) show that this is more evident in countries that are rich in natural resources. In those cases, urban growth has been generated by natural resources exports without industrialisation. Also, despite the current urbanisation trends, some scholars even argue that we are currently undergoing a deindustrialisation process (see Rodrik 2015). In this framework, the United Nations Economic Commission for Africa (2017) believes that in order to accelerate industrialisation, African countries need to reconnect these processes by harnessing the opportunities created by urban growth.

Private Sector Development (PSD) in urban areas

In line with the 2030 Agenda for Sustainable Development and as a result of the HABITAT III Conference, governments adopted the New Urban Agenda (NUA). This document is meant to rethink how we plan and manage cities and deal with rapid urbanisation trends. It also states that well-planned urbanisation can be a powerful instrument for development. To implement the NUA, partnerships between the public and the private sector are considered crucial (World Economic Forum 2017). How can PSD tackle the challenges of rapid urbanisation? What can PSD do for the urban poor? Based on the literature review, the following approaches are discussed:

Local Economic Development (LED)

LED is a strategy in which the public sector, the private sector, the community, the public sector and non-governmental sectors work together to stimulate the local economy (Mandisvika 2015).
To know more about LED, visit our knowledge page.

LED's origins are intrinsically related to urban planning, and its strategies overlap with governance reforms and other PSD approaches such as business environment reform and value chains development (SDC 2006:14-17). Since this strategy benefits from agglomeration and density, LED is usually regarded as a suitable approach to address complex urban challenges. However, it should be noted that LED is a geographical approach and as a result, it has been criticised for having a limited capacity to deal with the effects of a globalised economy (*Ibid*).

As a specific kind of LED, cluster-based city economic development (CCED) aims at taking advantage of the agglomeration of businesses and industries. A study from the Asian Development Bank (2011) analysing case studies from cities in Bangladesh, India and Sri Lanka, shows how CCED can be a suitable methodology to assess local development drivers and act on them.

Business Environment Reform (BER)

For the DCED, BER is a strategy "to reduce the costs and risks of business activity by improving poor government policies, laws and regulations, and by stimulating competition through new market entrants".
To know more about Business Environment Reform, visit our knowledge page.

Since cities play a fundamental role within the global economy, local BER can contribute to local competitiveness, employment creation and economic growth (DCED 2016). As an example, the implementation of the 'Smart cities' initiative in India requires a strong institutional capacity and vast resources. However, local urban governments are not usually equipped to undertake this ambitious task and they increasingly rely on the support of the private sector. In this context, the World Economic Forum (2016) has developed a set of recommendations to improve local urban governance through BER, in order to create more conducive environments for businesses.

Similarly, a blog from the World Bank (2016) showed that, in the Philippines, a large percentage of business registration procedures are in charge of the city government. Therefore, the article analyses that, by reforming cumbersome local registration steps, city governments can encourage businesses' creation.

Market Systems Development (MSD)

According to the BEAM Exchange, the MSD "rationale is to address the underlying causes of poor performance in specific markets that matter to poor people, producing scalable long-term change". This approach is also referred to as 'Making Markets Work for the Poor' (M4P).
To know more about MSD, visit our knowledge page.

In a recent blog, the Springfield Centre pointed out differences between urban and rural MSD interventions. It explained that, in urban areas, poor people are not always unemployed; usually they are self-employed in the informal economy or work for service industries. Also, social networks play a much prominent role than in rural areas. Consequently, urban MSD interventions require an extensive analysis of the political economy, informal social structures and diversity of actors involved. Even so, achieving scale and sustainability might be simpler than in rural areas. In the same line of thought, a BEAM Exchange thinkpiece from 2017 explores the particularities of urban market systems and offers guidelines for those working with MSD approaches in urban contexts, particularly in rapid urbanising countries. This paper also argues that there is still limited practical experience in MSD programme design for urban areas.

One example of MSD in urban areas is the Kuza Project in Mombasa. The project, funded by the UK's Department for International Development (DFID), aimed at addressing youth unemployment in the second largest city in Kenya. The project has now ended but it had benefitted a total of 7,244 youth and it had created 2,899 new jobs (read more about this in the 2017 Annual Review).

Private Sector Engagement (PSE)

Private Sector Engagement comprises a wide set of approaches. However, the DCED PSEWG suggests two main categories (see DCED 2019: 2): 1) Engaging mainly international or donor country companies as a key stakeholder, partner or target group, typically around their core business or related activities. 2) Engaging with private investors, funds and financial institutions, to leverage additional private finance or encourage its use towards SDG-relevant projects ('Innovative Finance'). To know more about Private Sector Engagement, visit our knowledge page.

Within PSE, Innovative Finance strategies represent an opportunity to mobilise vast resources to achieve SDG 11. For example, climate change and rapid urbanisation impacts will require responses at a city level and also innovative ways to finance it (World Bank 2019). A joint study from LSE & PWC (2017) analyses how blending can contribute to sustainable urban development.

In addition, donors could focus increasingly on facilitating new, SDG-relevant business operations of international businesses in urban areas; to date, many such initiatives have focused on agriculture. For example, Intellecap has published a document that explains how PSE could be used for urban building that is resilient to climate change, in cities in India, Indonesia and Thailand.

This synthesis note was written by the DCED Secretariat. Please provide feedback to admin@enterprise-development.org