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Making Economic Growth in Cities More Equitable

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Cities Alliance
Cities Without Slums

Making Economic Growth in Cities More Equitable

Inequality in cities around the world is on the rise. According to the United Nations, two-thirds of the world's urban population lives in cities where income inequality has increased since the 1980s. In this article, based on a discussion paper published by the Cities Alliance (2015), the authors argue that while cities are widely considered to be important engines of economic growth, more must be done to ensure that growth is inclusive and sustainable.

Key messages include:

- Inequality is growing and there is an urgent need to address it, otherwise many social, economic and environmental ills will follow.
- Any effort to affect equitable economic growth must include job creation in both the formal and informal sectors.
- There are five essential elements that should be a part of any approach to creating equitable economic growth.
- Political will is a necessary foundation for successful efforts to promote inclusive growth.¹
- An international equitable economic growth initiative focused on cities is needed.

The Role of Cities and the Importance of Equity

Cities of all sizes play a critical role in the functioning of the global economy. There are many who assert that cities are, and will increasingly be, the drivers of economic growth. While this assertion is not universally accepted – important questions remain, such as the types of cities capable of driving growth¹ and the conditions under which they may do so – few would dispute the centrality of cities to processes of economic growth and development.

There are concerns, however, about the character of economic growth propelled by cities, and that which occurs in cities. There is little question that cities in both the developed and developing world exhibit remarkable dynamism, not only in terms of their size and

population, but economically as well.²

In spite of this performance, cities remain characterised by high levels of inequality (income and otherwise), poverty, and social exclusion. This is especially true for cities in the developing world, where the growth of urban areas has in many cases been accompanied by the growth of informal settlements and slums, as well as issues related to hunger and food security, health and physical wellbeing, and access to education and opportunity. In one way or another, all of these ills ultimately stem from pervasive poverty and economic and social inequality.³

¹ This CIVIS is an executive summary of a discussion paper prepared by the authors for the Cities Alliance. The discussion paper can be retrieved at: http://www.citiesalliance.org/sites/citiesalliance.org/files/publications/1816%20UNOPS_lowres200815.pdf

² Dobbs, R., Smit, S., Remes, J., Manyika, J., Roxburgh, C., & Restrepo, A. (2011). *Urban world : Mapping the economic power of cities*. McKinsey Global Institute.

³ Moreno, E. L., Oyeyinka, O., & Mboup, G. (2010). *State of the World's Cities 2010/2011 - Bridging the Urban Divide*. Nairobi: United Nations Human Settlements Programme (UN-HABITAT).

Equitable economic growth is long-term, sustainable economic growth that:

- Creates economic opportunity in both the formal and informal sectors
- Can be accessed by all elements of society regardless of economic status, gender or ethnicity
- Disproportionally benefits the poorest and most marginalised, but not at the expense of the rest of society

The rise of urban inequality is a matter of great concern. If left unchecked, inequality inevitably has a host of more immediate economic, social, environmental and political costs on society. It can also jeopardise the economic potential and dynamism of cities, and ultimately hamper continued economic growth.⁴ Consequently, there is an immediate need for efforts and policies to not only address the rampant inequality in urban environments, but also to address the very root of the problem and make urban economic growth itself more equal.

First, equitable economic growth must be concerned with the outcomes of growth as they pertain to society as a whole and must permeate all layers of society without harming overall economic performance. At the same time, special consideration should be made for the most marginalised segments of the population, who generally have inherent disadvantages and face structural impediments that prevent them

from benefitting from economic growth.⁵

Second, and most importantly, equitable economic growth must involve not only the growth of the economy, but also the creation of decent employment opportunities in both the formal and informal sectors. This centrality of employment is based on the notion that creating and, in turn, facilitating truly widespread access to employment permits individuals to participate in and benefit from economic activity, and by extension, subsequent economic growth. While informal employment is not commonly considered to be 'decent employment', it is imperative to capitalise on the potential of the informal sector. Instead of discarding the creation of informal opportunity and livelihoods, efforts should be made to empower individuals who rely on the informal sector and to promote institutional reform that enables the formalisation of informal economic activity.

On average, income inequality increased by 11 per cent in developing countries between 1990 and 2010.

Source: UNDP calculations using data from Solt (2009).



4 Cingano, F (2014). Trends in Income Inequality and its Impact on Economic Growth. OECD Social, Employment and Migration Working Papers. Paris: Organisation for Economic Cooperation and Development; Ostry, J. D., Berg, A., & Tsangarides, C. G. (2014). Redistribution, Inequality, and Growth. IMF Staff Discussion Notes. Washington D.C.: International Monetary Fund.

5 Kakwani, N., & Pernia, E. M. (2000). What is Pro-poor Growth? Asian Development Review, 18(1), 1-16.



Local trading in bustling Mexico City, Mexico @Cities Alliance/2010/Zeman

Third, equitable economic growth must disproportionately benefit the poorest and most marginalised members of society. A perfectly egalitarian distribution of benefits could conceivably leave inequality unaffected and effectively perpetuate and reinforce patterns of inequality.⁶ That said, the benefits accrued by the most disadvantaged segments of society must not come at the expense of the remainder of the population – gains for one group at the expense of another would suggest economic inefficiency. Equitable economic growth must therefore raise all boats, raising some, however, to a greater extent than others.

By necessity, strategic efforts to promote equitable economic growth must take a longer-term perspective, since it is a goal

that requires sustained economic growth, social transformations, and fundamental changes that can only be accomplished over time. They must, however, also be designed to ensure that growth is economically, socially and environmentally sustainable in the short and medium term as well.

Moreover, it is also crucial that policy makers become aware of, and seek to reconcile, any tensions between the notions of economic growth and equity, or the idea that one comes at the expense of the other. Prioritising employment to achieve equitable economic growth, however, helps to mitigate any tension that might exist between these potentially conflicting notions, as increased labour force participation will support and possibly even catalyse continued growth.

⁶ Ranieri, R., & Ramos, R. A. (2013). Inclusive growth: Building up a concept. Working Paper 104. Brasilia: International Policy Centre for Inclusive Growth.

Conceptualising Equitable Economic Growth in Development

A number of international and regional development institutions have taken steps to understand inclusive economic growth. While their definitions of the concept vary – especially regarding the different elements that should be considered under the term “equitable” – there is one element that consistently emerges: Employment creation.

African Development Bank⁷:

“Economic growth that results in a wider access to sustainable socio-economic opportunities for a broader number of people, regions or countries, while protecting the vulnerable, all being done in an environment of fairness, equal justice, and political plurality.”

Asian Development Bank⁸:

“Growth coupled with equal opportunities.”

UK Department for International Development (DFID)⁹:

“Growth which creates employment across society, increasing incomes by raising the productivity of workers.”

European Commission¹⁰:

“Empowering people through high levels of employment, investing in skills, fighting poverty and modernising labour markets, training and social protection systems so as to help people anticipate and manage change, and build a cohesive society. It is also essential that the benefits of economic growth spread to all parts of the Union, including its outermost regions, thus strengthening territorial cohesion. It is about ensuring access and opportunities for all throughout the lifecycle.”

Organisation for Economic Cooperation and Development¹¹:

“Economic growth that creates opportunity for all segments of the population and distributes the dividends of increased prosperity, both in monetary and non-monetary terms, fairly across society.”

The World Bank¹²:

“[Inclusive growth] allows people to contribute to and benefit from economic growth.”

“[Inclusive growth] should be broad-based across sectors, and inclusive of the large part of the country’s labour force.”

“Raising the pace of growth and enlarging the size of the economy, while levelling the playing field for investment and increasing productive employment opportunities.”

7 African Development Bank Group. (2012). Briefing Notes for AfDB’s Long-Term Strategy. Abidjan: African Development Bank Group.

8 Rauniar, G., & Kanbur, R. (2009). Inclusive Growth and Inclusive Development: A Review and Synthesis of Asian Development Bank Literature. ADB Occasional Papers 8. Mandaluyong City: Asian Development Bank; Ali, I., & Zhuang, J. (2007). Inclusive Growth toward a Prosperous Asia: Policy Implications. ERD Working Paper Series 97. Mandaluyong City: Asian Development Bank.

9 DFID (2014). Defining and Delivering Inclusive Growth

10 European Commission (2010). Communication from the Commission Europe 2020 – A Strategy for smart, sustainable and inclusive growth. Brussels: European Commission.

11 OECD. (2014). Making Inclusive Growth Happen. Paris: Organisation for Economic Cooperation and Development.

12 World Bank (2009b). What is inclusive growth? Washington D.C: The World Bank.

Developing Successful Approaches to Equitable Economic Growth

Currently, there is little analytical work available on the implementation and effectiveness of equitable economic growth strategies in urban contexts. Such analysis is badly needed if we are to effectively pursue equitable economic growth in cities and formulate related policies and approaches.

In the absence of literature, the most efficient way to formulate initial insights into developing suitable approaches is a selective review of how targeted initiatives have worked in developing cities. Such a review allows us to identify:

- Features and elements that must be present in approaches to equitable economic growth;
- The suitability of spatially targeted policies for pursuing equitable economic growth; and
- The obstacles and pitfalls that can impact these strategic approaches.

In this CIVIS, we look at the strategic approaches of Alicedale town (South Africa), Medellín municipality (Colombia) and Rafaela city (Argentina). These cases were selected based on two criteria: The policy outcomes are equitable in one way or another, and the examples reflect recent territorially specific approaches in the developing world.

Alicedale, South Africa

The small town of Alicedale in South Africa's Eastern Cape province (population nearly 4,000) is a railway junction town that experienced significant economic decline in the second half of the 20th century. Recognising the immediate need to address Alicedale's dire economic situation, the

municipal and provincial governments formed a partnership with The Mantis Group, called the Qhorha Project, to develop a large tourist resort that would generate employment opportunities, stimulate entrepreneurship and economic activity, and foster small-, medium- and micro- enterprises.

The initiative has had a meaningful economic impact and can be considered a qualified success. Most relevant to an examination of equitable economic growth, the resort development itself has created more than 500 full- and part-time jobs for local residents. In addition, the resort has given rise to a number of local small businesses which provide employment and income-generating opportunities to individuals not directly employed by the development.¹³

Medellín, Colombia

The second largest city in Colombia with a metropolitan population of close to four million, Medellín has developed a participatory approach to promoting local economic development.

Its approach relies heavily on objective statistical indicators and data analysis, and employs rigorous assessment and monitoring techniques that make it easier to accurately identify both opportunities and challenges. The city then uses this information to formulate strategic plans that are tailored to specific contexts.

Medellín also makes concerted efforts via various avenues to engage not only 'relevant' stakeholders, but also society more broadly. This allows the city to supplement objective analysis and design holistic, comprehensive strategic plans. The innovative strategic planning process is also highly responsive to changing circumstances.

¹³ Source: Gibb, M., & Nel, E. (2007). Small Town Redevelopment: The Benefits and Costs of Local Economic Development in Alicedale. *Urban Forum*, 18, 69–84.



A city view of Santo Domingo, Colombia, @Cities Alliance/2008

The city's approach has paid dividends. Medellín has experienced considerable economic growth, and there has been a substantial decrease in unemployment rates; between 2000 and 2005 the unemployment rate fell from 19 per cent to 14 per cent. The economic success has also been accompanied by positive social outcomes, including a significant decrease in crime.¹⁴

Rafaela, Argentina

In many ways, the strategic planning process in Rafaela – a city of 100,000 residents in Argentina's Santa Fe Province – is similar to that of Medellín. The process in both cities is a product of decentralisation, and they both prioritise monitoring, assessment and data collection with an emphasis on stakeholder participation.

The process in Rafaela is overseen by the Secretary of Economic Development Programmes, whose mandate includes

fostering local firms (especially small and medium enterprises) and promoting cooperation between the public and private sector. The Secretary also engages relevant stakeholders, solicits input to inform strategic planning, and implements individual initiatives.

The strategic process has largely consisted of developing objectively informed individual policies in response to specific needs or challenges. These policies are formulated with input from relevant stakeholders in the business sector collected via direct engagement or various representative organisations.

Like Medellín, Rafaela's strategic efforts have paid off handsomely. Of greatest relevance to the notion of more equitable or inclusive growth, levels of unemployment in Rafaela decreased considerably from 19 per cent in 2002 to 5.4 per cent in 2008.¹⁵

¹⁴ Rodríguez-Pose, A., & Tijmstra, S. (2009). On the Emergence and Significance of Local Economic Development Strategies. CAF Working Papers 2009/07. Caracas: CAF.

¹⁵ Rodríguez-Pose, A., & Tijmstra, S. (2009). On the Emergence and Significance of Local Economic Development Strategies. CAF Working Papers 2009/07. Caracas: CAF.



Medellín, Colombia: Transformative urban policies connecting hillside slums to the city
@Cities Alliance/2014/Hohmann

Five essential elements for an economic growth strategy

A close examination of the experiences of Alicedale, Medellín, and Rafaela reveals five features that have played a part in their successes. While these features on their own are not enough to immediately formulate an equitable economic growth strategy, they can contribute to the development and eventual implementation of one, and should be taken into consideration.

These five features are:

- 1. Formulating a strategic plan** and identifying aims and priorities in advance to provide a sense of direction and align the interests and objectives of otherwise independent actors
- 2. A prominent leadership presence** to oversee and coordinate the strategic process
- 3. A comprehensive process of stakeholder engagement** to ensure the policy or strategy reflects local contexts and needs, and to empower local stakeholders and members of society in general

4. Establishing development links to enhance coordination and cooperation among the relevant parties

5. An awareness of resource constraints to mitigate the potential for failure due to financial, technical or other limitations

While there is no question that these five features are fundamental to the success of economic development approaches, it is even more important to foster and sustain a genuine, robust political commitment to development initiatives. Such a commitment ensures that those tasked with designing and implementing a development strategy not only have the time, flexibility and autonomy necessary to do so, but also sufficient financial and technical support. In essence, political commitment is critical for a concerted effort to promote economic growth and development.



Maputo, Mozambique: Inequality remains a key challenge to address
@Cities Alliance/2011/Akporji

Overcoming obstacles through planning

Economic growth and development strategies will inevitably encounter their fair share of challenges and obstacles. The nature of these barriers will vary across the contexts in which they are implemented.

There are, however, two related pitfalls to which strategic approaches in developing contexts seem especially susceptible: technical capacity constraints (a lack of expertise, practical experience and knowledge); and financial constraints (a lack of financial resources, insufficient political commitment, or the failure to establish partnerships in an effort to mobilise financial resources). There is ample evidence to suggest that both technical capacity constraints and financial constraints can undermine the implementation and, in some cases, even the initial formulation of urban economic growth approaches.

Political commitment lays a critical foundation for a concerted effort to promote economic growth and development.

These constraints can be overcome, and there are several options for doing so. They include:

- **Forming public-private partnerships** that distribute the financial burden of development projects or initiatives across more, perhaps better-resourced, actors, as well as the sourcing of technical expertise from the private sector where skills tend to be more abundant.
- **Establishing local economic development agencies** with adequately trained personnel that have the capabilities and expertise needed to design and execute development strategies.
- **Undertaking capacity building initiatives** that provide those tasked with overseeing development strategies with the skills they need to do the job properly.

There is no question that identifying and considering constraints based on specific contexts must become an essential element of the policy planning and design process. Where necessary, initiatives should be implemented to ensure that what seems like a sound strategy is not derailed by challenges that are relatively easily foreseen.



Small business opportunities in Medellín, Colombia
@Cities Alliance/2014/Hohmann

Cities Alliance and Equitable Economic Growth in Cities

While there are many attempts to promote economic growth in cities, efforts to ensure that urban growth strategies lead to truly equitable outcomes in terms of opportunities and access to services are still limited. Successful cases of equitable economic growth in cities are even rarer. Urban development strategies are often dominated by short-term economic, social

and political needs, which may produce immediate gains but often jeopardise the sustainability of inclusive growth in the long run.

Cities Alliance recognises the immediacy of this need and is committed to developing an initiative to promote equitable economic growth in cities. To that end, the partnership has formed a Joint Work Programme on Equitable Economic Growth in Cities.

This initiative represents Cities Alliance's emerging engagement within the area of equity and economic growth in cities – identified as a priority area of intervention in the partnership's Medium Term Strategy (2014–2017).

The Cities Alliance Joint Work Programme establishes a thematic partnership operating at the global, national, regional and local levels that is aimed at developing a coherent and effective set of tools, practices and policies essential for fostering equitable and sustainable economic growth in cities.

In addition to the Joint Work Programme, Cities Alliance is well placed to promote inclusive economic growth through its activities, especially the flagship Country Programmes. With their emphasis on building cooperation between city and national governments, communities and the private sector, the Country Programme framework will help the partnership identify practical entry points for cities and local governments to promote equitable economic growth. Within its business model and work programme, Cities Alliance can also leverage national and municipal forums to promote a new focus on equitable growth, facilitate the effective inclusion of the local private sector, and ensure support to the growth of local enterprises.

Equitable Economic Growth At a Glance

- Cities have a central role in economic growth and development. Also, economic growth in cities tends to disproportionately benefit certain segments of the population – giving rise to a need for efforts that encourage more equal economic growth.
- At the most basic level, equitable economic growth can be viewed as growth that creates economic opportunity in the form of decent and productive employment that may be accessed by all of society.
- Strategic efforts in the pursuit of equitable economic growth must adopt a longer-term perspective, and must explicitly consider economic, social and environmental sustainability. They must also seek to reconcile potential tensions between economic growth and equity.
- Strategic approaches to promoting equitable economic growth in cities must learn from urban economic growth best practices, and should include those features that played significant roles in their success.
- A robust political commitment is the foundation for any concerted effort to promote economic growth and development. Fostering and sustaining a genuine political commitment to equitable economic growth initiatives is of the utmost importance to ensuring their effectiveness.
- Equitable economic growth approaches implemented in developing contexts, like other economic growth strategies, will inevitably be susceptible to technical and financial constraints. A concerted effort must be made to identify constraints and implement initiatives to overcome them.
- A handful of regional institutions and prominent international organisations have prioritised the notion of inclusive growth and have directed time and resources to its study and promotion. That said, there is an absence of an explicitly urban-oriented equitable economic growth initiative.



Street scene from central Durban, South Africa @Cities Alliance

Cities Alliance

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