Leveraging Urbanization in South Asia
Managing Spatial Transformation for Prosperity and Livability
South Asia’s urban population is poised to grow by almost 250 million people by 2030. If recent history is any guide, this increase could propel the region toward greater economic growth and prosperity. Between 2000 and 2011 the region’s urban population expanded by 130 million—more than the entire population of Japan. The growth benefits associated with urbanization also increased. South Asia made good strides in achieving greater prosperity, with the increase in productivity linked to the growing number of people living in the region’s towns and cities. Average GDP per capita in the region grew by almost 56 percent during 2000–2012, from $2,560 to $4,000, for average annual growth of more than 3.8 percent.\(^1\) At the same time, absolute poverty declined from one in two people living on less than $1.25 a day in 1999 to less than one in three in 2010. Urbanization thus presents South Asian countries with an opportunity to transform their economies and join the ranks of richer countries in both prosperity and livability.

South Asia can gain from urbanization by fostering productivity through the agglomeration of both people and enterprises in its towns and cities. One shortcoming, however, has been the inadequate provision of infrastructure and basic urban services. Two others are insufficient housing and a failure to deal with pollution. A key characteristic of urbanization is that agglomeration economies, which are the unintended benefits that firms and workers experience from one another as they cluster together,\(^2\) improve productivity and spur job creation, specifically in manufacturing and services. In South Asia, this process is clearly visible in the structural transformation of the region’s economy, with manufacturing and services now accounting for more than 80 percent of GDP.

In the long term, successful urbanization is accompanied by the convergence of living standards between urban and rural areas as economic and social benefits spill beyond urban boundaries. But these positive trends can be undermined by the pressures of urban population growth on infrastructure, basic services, land, housing, and the environment. Estimates suggest that at least 130 million of South Asia’s urban residents live in slums and are disproportionately deprived of basic infrastructure and access to basic services.
80% of South Asia’s GDP is associated with Manufacturing and Services.

56% Growth in regional GDP per capita

Decline in absolute poverty
1 IN 2 PEOPLE
1999

1 IN 3 PEOPLE
2010

CURRENT AND PREDICTED SOUTH ASIA’S URBAN POPULATION INCREASE

CURRENT GROWTH: 130 MILLION (2000–2011)

PROJECTED GROWTH: 250 MILLION (2015–2030)
South Asia is not fully realizing the potential of its cities for prosperity and livability. One significant reason is that its urbanization has been messy and hidden. Messy urbanization is reflected in the widespread existence of slums and sprawl. Sprawl, in turn, helps give rise to hidden urbanization, particularly on the peripheries of major cities, which is not captured by official statistics. Messy and hidden urbanization is symptomatic of the failure to adequately address congestion constraints that arise from the pressure of urban population. For South Asian cities and for the region, these congestion constraints are undermining both livability and the agglomeration economies that can produce greater prosperity.

Policy makers and urban practitioners in South Asia face common challenges for effective urban management. The traditional reservations of South Asia’s politicians and policy makers about the benefits of urbanization have been replaced by more optimistic discourse on leveraging the benefits of urbanization for growth and prosperity. The changing attitudes of governments are visible as national and local policy makers ask: What do cities need to do to meet the demands of their growing populations and to manage transformation? How can we create an effective and functioning system of cities? National and local policy makers are starting to recognize the need to address these challenges in a timely and systematic manner if they are to alleviate congestion pressures for better performance of cities and, in so doing, create an environment conducive to the stronger leveraging of agglomeration economies. Improvements in urban governance and finance—in empowerment, in resources, and in accountability systems—hold the keys to both challenges.
Despite strong growth since the beginning of the century, South Asia’s share of the global economy remains strikingly low relative to its share of the world’s urban population. In 2011, the East Asia and the Pacific region generated 29 percent of the world’s GDP with a share of the global urban population of 32 percent (a ratio of 0.91); South Asia produced 8 percent of global GDP with a share of the global urban population of 14 percent (a ratio of 0.57). This comparison suggests that South Asia has been much less successful than East Asia in leveraging its urbanization for gains in productivity and prosperity. Indeed, South Asia looks more like Sub-Saharan Africa, where the ratio of the region’s share of global GDP (3 percent) to its share of the global urban population (9 percent) was 0.34 in 2011.
Although progress since 2000 has been impressive, the majority of South Asia’s cities remain characterized by high levels of poverty, bad housing conditions, and generally poor livability for many of their inhabitants. According to the most recent estimates, extreme urban poverty has been largely eradicated in both Sri Lanka and Bhutan. However, for the five most populous countries in the region—India, Pakistan, Bangladesh, Afghanistan, and Nepal, in that order—the number of urban dwellers below the national poverty line ranges from about one in eight in Pakistan to more than one in four in Afghanistan.³

<table>
<thead>
<tr>
<th>Country</th>
<th>Year</th>
<th>Urban Poverty Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Afghanistan</td>
<td>2011</td>
<td>27.6%</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>2010</td>
<td>21.3%</td>
</tr>
<tr>
<td>Nepal</td>
<td>2010</td>
<td>15.5%</td>
</tr>
<tr>
<td>India</td>
<td>2011</td>
<td>13.7%</td>
</tr>
<tr>
<td>Pakistan</td>
<td>2005</td>
<td>13.1%</td>
</tr>
</tbody>
</table>

In absolute numbers, at least 130 million South Asians—equivalent to more than the entire population of Mexico—live in informal settlements characterized by poor construction, insecure tenure, and underserviced housing plots. The lack of decent, affordable housing not only impairs the welfare of millions of South Asians, it also has potentially adverse implications for health outcomes and for female labor force participation. The prevalence of urban slums in South Asian cities reflects a failure to adequately manage the congestion forces—in this case, in land and housing markets—associated with urban population growth. Meanwhile, for the very poorest in Bangladesh, India, Nepal, and Pakistan, under-five mortality is higher in urban than in rural settings. South Asia’s cities are also notable for their polluted air. In Delhi, recorded air pollution is almost three times higher than in Beijing, giving it the dubious distinction of being the “world’s most polluted city.”

The failure of South Asia’s urban areas to adequately cope with the pressure of rising populations is also reflected in the poor performance of its largest cities—those with the most well-developed infrastructure networks, best access to basic urban services, and the highest standards of living in the region—in international rankings of cities for their livability. One of the most respected rankings is the livability index published by the Economist Intelligence Unit (EIU), which assesses cities on their performance across five dimensions of a “livable city”—stability, health care, culture and the environment, education, and infrastructure. According to the EIU’s 2015 rankings, the highest ranking of the six South Asian cities in the index is New Delhi, which, out of 140 cities globally, ranks 110, ahead of Mumbai (115), Kathmandu (125), Colombo (127), and Karachi (135). Dhaka, meanwhile, comes in at 139, better only than Damascus, Syria. More generally, the average ranking of the six South Asian countries in the index falls below the averages for both all non–South Asian developing-country cities in the index and all developing-country cities in the East Asia and Pacific region.
URBANIZATION – MESSY AND HIDDEN

Urbanization in the region remains underleveraged. The share of the region’s population officially classified as living in urban settlements increased only marginally, from 27.4 percent in 2000 to 30.9 percent in 2011, for annual growth of 1.1 percent a year. By contrast, when it was at a level of urbanization similar to that of South Asia today, China experienced growth in its urban share of population of 3.1 percent a year, moving from 26.4 percent in 1990 to 35.9 percent in 2000. Likewise, Brazil’s urban share grew at 2.5 percent a year between 1950 and 1960, while moving from 36.2 percent to 46.1 percent. Going back even further, for the United States, the urban share rose from 25 percent to 35.9 percent between 1880 and 1900, for growth of 1.8 percent a year.

In a process of messy urbanization, however, a sizable proportion of the region’s urban population lives in slums, and cities have been growing outward, spilling over their administrative boundaries, rather than upward through the construction of taller buildings. And with growth occurring beyond city limits, much urbanization has been hidden—a growing number of people in the region live in places that possess strong urban characteristics but that are not officially recognized as urban.

**COMPARISON OF AVERAGE, ANNUAL URBAN POPULATION SHARE GROWTH RATES**

<table>
<thead>
<tr>
<th>Region</th>
<th>Average Annual Urban Population Share Growth Rate</th>
<th>Year 1</th>
<th>Year 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>3.1%</td>
<td>1990</td>
<td>2000</td>
</tr>
<tr>
<td>Brazil</td>
<td>2.5%</td>
<td>1950</td>
<td>1960</td>
</tr>
<tr>
<td>United States</td>
<td>1.8%</td>
<td>1880</td>
<td>1900</td>
</tr>
<tr>
<td>South Asia</td>
<td>1.1%</td>
<td>2000</td>
<td>2011</td>
</tr>
</tbody>
</table>

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Messy urbanization is reflected in the estimated 130 million people who live in slums typified by poor quality housing in hazardous areas and a lack of access to basic services. It is also reflected in faster population growth on the peripheries of major cities in areas beyond municipal boundaries. For the 12 largest Indian cities, satellite imagery shows that, for many of these, the proportion of built-up area outside a city’s official boundaries exceeds that within its boundaries. For all 12 cities, the proportion of built-up area outside city boundaries exceeds the proportion of population, implying that the spillover is associated with relatively low-density sprawl.

The spillover of cities across their boundaries creates challenges for metropolitan coordination in the delivery of basic services and the provision of infrastructure. And the scale of the challenge has grown, evident in the rapid spread of urban footprints. Analysis based on night-lights data shows that the region’s urban areas expanded at slightly more than 5 percent a year between 1999 and 2010. But the region’s urban population grew a little less than 2.5 percent a year. So cities grew about twice as fast in area as they grew in population, which suggests declining average city population densities and increasing sprawl. Furthermore, as the footprints of neighboring cities have expanded, the number of multicity agglomerations—continuously lit belts of urbanization that contain two or more cities, each with a population of at least 100,000—increased in the region has also grown, from 37 in 1999 to 45 in 2010. These urbanization belts present an opportunity for greater agglomeration economies, but realizing these economies will again require better coordination between different urban local governments.
Hidden urbanization stems from official national statistics that understate the share of South Asia’s population living in areas with urban characteristics. An alternative measure of urbanization, the agglomeration index—which, unlike official measures, is comparable across countries and regions—shows that official statistics may substantially understate the number of South Asians living in areas that look and feel urban, even if they are not counted as such in national population and housing censuses. This undercounting is in addition to the population in India’s census towns, which are towns that the country’s census classifies as urban even though they continue to be governed as rural entities. The reclassification of rural settlements into census towns was responsible for 30 percent of India’s urban population growth between 2001 and 2011, reflecting a more general process of in situ urbanization across much of the region.³

For major cities in India, population growth has been fastest on their peripheries in areas beyond their official administrative boundaries. This type of urban spread is reflected in a large growth differential between the districts in which the cities are located and some of the immediately neighboring districts. For example, the district of Delhi experienced population growth of 1.9 percent a year between 2001 and 2011, while population growth in Gautam Budh Nagar, just to the east, was 4.1 percent a year. The picture is similar for major cities in other countries in the region. For example, several divisional secretariat (DS) divisions within the district of Colombo—Colombo, Dehiwala–Mount Lavinia, Moratuwa, Sri Jayawardenepura Kotte, and Thimbirigasyaya—saw their populations decline, but the immediately surrounding localities had comparatively rapid population growth.
73.4
MILLION PEOPLE ARE ESTIMATED TO BE LIVING IN THIS CONTINUOUS BELT OF URBANIZATION

DELHI-LAHORE URBAN CORRIDOR

- CITIES
  - 1999 AGGLOMERATION
  - 2010 AGGLOMERATION
  - 1999 SINGLE CITIES WITHIN 2010 AGGLOMERATIONS

Source: Based on CIESIN Columbia University, 2013
CONGESTION CONSTRAINING 
THE BENEFITS OF 
AGGLOMERATION

South Asia’s urbanization has been messy and hidden in part because its towns and cities have been struggling to deal with the pressures of population on their infrastructure, basic services, land, and housing, not to mention the environment. These congestion pressures undermine the region’s exploitation of the full range of agglomeration economies and its ability to compete in international export markets. In doing so, they also constrain the ability of the urbanization process overall and of cities individually to deliver improvements in both prosperity and livability. This struggle to deal with congestion pressures is due not only to failures of the market but also to failures of policy.

The strength of congestion forces can be mitigated, to an important extent, if investments in infrastructure and basic services keep pace with demand as more people and firms congregate in urban areas. Without sufficient investment, urban infrastructure and services become stretched, reducing quality and access. The effects of congestion forces also depend on the ability of land and housing markets to respond to rising demand for urban residential, industrial, and commercial property—and the ability to address the environmental concerns associated with pollution.

Not only does the interplay of agglomeration economies with congestion forces determine the pace and character of urbanization, it also determines the prosperity and livability outcomes delivered. This is true both for the urban system overall and for individual towns and cities.

A key insight is that successful cities inevitably are also congested cities, at least for their transport infrastructure and their land and housing markets. Geneva; Hong Kong SAR, China; London; New York; Paris; and Singapore are among the most prosperous and livable cities in the world. But they also have property markets that rank among the most expensive globally. Similarly, the speed of traffic in downtown London today is little changed from the speed when horse-drawn carriages rather than cars dominated its streets. What separates world-class cities like New York and London from South Asian cities is not that they have conquered congestion—it is that they have much higher prosperity and livability at comparable or lower levels of congestion.

The focus in this report is more on congestion costs than on agglomeration economies. The forces that generate agglomeration economies—for example, spillovers of ideas between firms and workers—provide relatively difficult targets for policy to address. The forces of congestion, by contrast, are directly influenced by policy decisions regarding the supply of both infrastructure and basic services and the way cities are planned. Congestion forces, moreover, act as a direct constraint on the exploitation of agglomeration economies. Why? Because high congestion costs constrain both urban growth and agglomeration by making cities less attractive places to migrate to and encouraging cities to grow outward rather than upward.
ADDRESSING DEFICITS IN URBAN GOVERNANCE AND FINANCE

To address key congestion constraints, policy makers need to address three fundamental urban governance deficits—an empowerment deficit, a resource deficit, and an accountability deficit. Addressing these deficits will require improving intergovernmental fiscal relations to empower urban local governments. It will also require identifying practical ways to increase the resources available to urban local governments to allow them to perform their mandated functions. And it will require strengthening the mechanisms that hold local governments accountable for their actions.

Empowerment

Most urban local governments in South Asia suffer from unclear institutional roles and limited functional and revenue assignments. That leaves local governments with uncertain authority and limited power to make decisions for most service delivery obligations. Despite generally having the authority to prepare their own budgets, local governments have limited capacity and few incentives to do so. They depend greatly on transfers from upper tiers of government, and the reporting requirements for budget approvals are heavy.

Most urban local governments across the region have limited control over hiring, performance appraisal, and firing. In Bhutan, Maldives, and Nepal, senior local government staff appointments tend to be made by the national government. Exceptions include India and Pakistan, where some local governments have control over the hiring and firing of lower cadre staff, but even their powers are subject to concurrence and clearance by the states or provinces.

Empowering urban local governments in South Asia will require a dedicated commitment to clarifying intergovernmental fiscal legal frameworks by amending existing laws, enforcing them, and in some cases, establishing new and simple laws. Amending the legal framework will clarify the institutional roles and the revenue and expenditure obligations of various tiers of government. It will also increase the decision-making authority and fiscal autonomy of local governments.

Significant effort will be required to establish and align incentives for urban management, governance, and finance. Higher tiers of government should provide guidance and oversight to ensure attention to national policy goals. The central government should encourage and, where possible, facilitate greater interjurisdictional cooperation and coordination among tiers of local government and agencies. Improving this enabling environment will allow urban local governments to better deliver on their compacts with the local populations they serve.
Revenue mobilization and management are difficult for most urban local governments. Revenue mobilization is constrained by established fees and tax rates, as well as by narrow tax bases. In Afghanistan, Maldives, and Nepal, the central government sets all local revenue rates. In Bangladesh and Bhutan, local governments must follow nationally defined guidelines or secure central government approval in setting tax rates. In India and Pakistan, local governments have some formal discretion over setting local tax rates but are generally subject to strong state and provincial revenue regulations and oversight.

Local governments generally do not tap into all of their tax bases as prescribed by law. The reasons include weak administrative capacity, service delivery breakdowns, outdated registers, rigid and ambiguous laws, limited private sector involvement, and complex governance setups and political economies. Very few local governments have robust revenue-enhancement plans and programs, while the ones that do have very weak political and bureaucratic support for implementing them. Urban local governments, regardless of their size and economic significance, must develop and exploit practical options for own-revenue mobilization, for more effective use of transfers, and where appropriate, for borrowing to finance infrastructure.

Most South Asian countries have some type of formula-allocated, unconditional transfers from central to urban local governments, ranging from large allocations in India and Pakistan to much more modest transfers in Bangladesh, Bhutan, Maldives, and Nepal. However, although the transfers are officially unconditional, they often come with higher-level rules and “guidance” on use. In Afghanistan, municipalities do not receive transfers from the central government; instead, block grants are channeled directly to community development committees that deliver local services, bypassing the municipalities in the process. Across the region, the key challenge is to design, implement, and increase the effectiveness of intergovernmental fiscal transfers.
Accountability

Several accountability mechanisms are in place for many urban local governments. They range from financial and performance audits to citizen report cards and social audits. These mechanisms could be an important source of information to be used by higher-level governments and citizens for monitoring local government performance, particularly governance and service delivery. However, in practice, their effectiveness varies markedly across the region.

Formal administrative accountability systems generally exist in the region, but many are fairly weak or little used. The main causes for their infrequent implementation are the fragmentation and lack of clarity in institutional roles and the lack of interjurisdictional cooperation. Nor are the links strong between development plans, public investment programs, and annual budgets.

All countries in the region have some type of audit mechanism led by a national audit institution, in many cases with a mandate for auditing both local and higher-tier governments. In Bangladesh, private auditors support the center in auditing local governments. However, even though the audits are legally mandated, poorly performing local governments continue to receive transfers without penalty. Poor enforcement mechanisms, weak capacity, and political interference impair the responses to audit findings.

Bridging the accountability deficit will require the development of better systems and practices and building the capacity of both government (at all levels) and citizens. Accomplishing these tasks means nurturing the social contract between citizens and local governments and clarifying fiscal relations between local governments and higher tiers of government. In addition, local elections need to be transparent and sufficiently competitive to give voters meaningful choices. Nonelectoral mechanisms—input-oriented processes, such as participatory planning and budgeting, and feedback mechanisms, such as complaint bureaus and report cards—can be highly productive if well designed and appropriately implemented. But they require building the capacity of citizens to use them.
Three additional, and interrelated, areas for policy action are instrumental to addressing congestion constraints and facilitating the further leveraging of urbanization for improved prosperity and livability—connectivity and planning, land and housing, and resilience to disaster and the effects of climate change.
For South Asian cities to realize their potential and transform themselves into prosperous and livable centers, they must not only manage the frequently rapid expansion on their peripheries; they must also address existing and future challenges at their cores, which often have largely locked-in spatial structures, contributing to heavy traffic congestion and congestion in land and housing markets. At the national level, how cities are connected as a system through flows of goods, labor, and ideas is important. Market forces interact with public policy decisions regarding both the placement of infrastructure and the ways cities are planned to influence both congestion forces and the evolution of cities.

To bolster opportunities for prosperous and livable cities, planners and government decision makers can focus on four strategies. The first is to invest in strengthening transport links that improve connectivity between urban areas—between large and secondary cities, and secondary cities and towns. Strengthening these links can facilitate the efficient deconcentration of land and capital-intensive industries from more to less congested cities and allow different urban areas to become more specialized in what they produce. Better transport links will lead to the development of more efficient systems of cities.

Complementing this, investments in improved intracity connectivity and traffic management can enhance mobility within urban areas and ease problems of traffic congestion.

The second strategy is to adopt forward-looking planning approaches to guide expansion where it is most rapid—on city peripheries. Urban growth projections will have to be continually updated to better respond to longer-term needs and to safeguard space for future development. This strategy will reduce the messiness of urbanization, prevent the locking in of undesirable spatial forms, and facilitate the future provision of infrastructure and basic urban services.

As a complement, the third strategy is to unlock the potential of city cores, rejuvenating those in decline. Revitalizing city cores will require investing in better-quality public urban spaces to enhance pedestrian walkability and livability. It will also require promoting better management of developable land in city cores through effective land-assembly mechanisms, freeing up publicly owned land, and repurposing structures for appropriate uses.

Fourth, to facilitate the formation of more vibrant neighborhoods, granular spatial planning approaches can permit greater variation in land uses and development intensities. Such planning should be dynamic and flexible, allowing land uses to adapt to changes in market demand in a framework that takes a long-term view of a city’s development. This effort should be supported by strengthening the capacity of city planners and local governments to plan, implement, and enforce development to deliver integrated, coordinated, and smarter planning policies.
Land and Housing

Highly congested land and housing markets are exacerbating South Asia’s affordable housing crisis and undermining the livability of the region’s cities. A shortage of affordable housing already contributes to messy urbanization, with at least 130 million people living in slums. Furthermore, it is not just the poor, but also many middle-income households, that lack access to affordable housing. Without fundamental reform, the crisis will only get worse—a further 203 million housing units will be required between 2010 and 2050 to meet the projected growth in urban population.

To turn back the tide of proliferating slums, South Asian cities must embark on land and housing reforms and foster innovative housing finance. City and suburban governments need to go beyond slum upgrading and embrace measures to stimulate the supply of affordable housing and offer more options to both low- and middle-income households. The supply of affordable housing can be increased over time through more permissive land-use and development regulations. Also needed are infrastructure to open up land for residential development, easy-to-use land titling and registration systems, and greater access to construction and mortgage finance. In addition, government regulations need to be revised to foster the provision of more affordable rental housing.

Making land management more effective will require cities to enhance their capacity to guide urban development and provide a framework for planning infrastructure investments that can make them livable and inclusive. One aspect of land management is making land available for development. Across South Asian cities, government agencies own vast tracks of prime land, which are typically mismanaged and inadvertently constrain the urban land supply.

South Asia’s cities desperately need efficient land tenure and ownership record systems. The lack of such systems is preventing private residential development in South Asian countries from reaching sufficient scale to accommodate urbanization. Except in Nepal, land titling in South Asia is inefficient and expensive, encouraging many households to avoid formal processes, particularly when the risk of eviction or sanctions is limited. Faced with this situation, private developers are reluctant to acquire and assemble multiple parcels of land for residential development because they are unsure of the security of title. Financial institutions, likewise, are reluctant to finance land development or to accept land as collateral. South Asia can learn, based on the experience of other regions, how to make land tenure and titling procedures more efficient, accurate, and transparent, and thus easier to navigate.

Improving access to affordable land and housing will require significant investments in sustainable and affordable models of finance to provide sufficient funds for building, operating, and maintaining infrastructure. Housing markets fail when developers (private and public) cannot recover costs because of the lack of financial instruments. Innovative approaches to address infrastructure provision should therefore include the assessment and overhaul of existing policies and tools to enable infrastructure financing through, for example, strategic disposition of publicly held land, betterment levies, developer exactions, impact fees, and public-private partnerships.
ADDITIONAL HOUSING UNITS WILL BE REQUIRED BETWEEN 2010 AND 2050 TO MEET THE PROJECTED GROWTH IN URBAN POPULATION
By concentrating people and property in risk-prone areas, such as deltas, floodplains, coasts, and the Himalayan belt, urban population growth and economic development have increased the exposure of people, property, and structures to natural hazards. Some 80 percent of major South Asian cities are exposed to floods, with about 45 percent of urbanized locales lying in flood-prone areas and 14 percent in extremely flood-prone areas. Cities in Afghanistan, Pakistan, Nepal, and northern India that lie along the Himalayan range are at risk of earthquakes; many cities in Pakistan and northern India are also at risk of heavy inland flooding.

The first step in developing a resilience strategy is to accurately identify and quantify the national, subnational, and city risks. Governments at all levels should conduct risk assessments to define the potential risks and the characteristics (such as frequency and severity) of potential hazards and to identify the vulnerabilities of communities and the potential exposures to given hazards. A risk-assessment framework can also guide governments in prioritizing measures for risk management, giving due consideration to the probability and impact of potential events, the cost-effectiveness of preventive measures, and the availability of resources. The next step would be to build a national georeferenced hazard exposure database, which would include public and private assets. Such information is critical to facilitating the insurance industry in its offering of affordable property catastrophe insurance products.

With the help of urban planners, engineers, and academics, cities should revisit the design and enforcement of building codes and land-use plans to avoid further building in risk-prone areas and to reinforce structures so they are resilient to various hazards. As South Asia further develops its construction industry, its cities can prevent substandard structures from being built and substandard construction practices from being used. City leaders can use various policy tools and incentives to enforce building codes, which may mean extra costs for the government but will be an investment that can mitigate the costs associated with the aftermath of disasters.

As South Asia addresses its infrastructure deficit, and in so doing relieves congestion pressures, city leaders must be cognizant of future risks and hazards and ensure that new infrastructure is not built in hazard-prone areas and does not expose communities to additional risks. And in building infrastructure, they need to identify and plan for critical infrastructure that is subject to higher-than-usual “margins of safety” (the extra strength that engineers build into designs).

National disaster risk-financing frameworks need to be developed based on risk layering to match risks with appropriate financing instruments. Such frameworks will help urban areas cope with disasters. But to reduce the financial risk of disasters even more, cities can develop risk-insurance frameworks independently and under a national umbrella. The most extensive current risk financing in the region is in Sri Lanka, which has a contingent credit line that provides immediate liquidity to the country should it declare a state of emergency after a natural disaster strikes.
MOVING FORWARD: LEVERAGING URBANIZATION FOR GREATER PROSPERITY AND LIVABILITY

South Asia has so far struggled to make the most of its urbanization. Difficulties in dealing with the congestion forces brought about by the pressure of population on land, housing, infrastructure, basic services, and the environment lie at the heart of the relative lack of its cities’ livability. By fostering messy and hidden urbanization, those forces are also constraining the potential of powerful agglomeration economies to bring about faster improvements in prosperity.

Looking ahead, South Asia’s policy makers face a choice between two paths. The first is to continue with the same policies that have allowed congestion pressures in urban areas to mount faster than might have otherwise been the case, thus undermining the exploitation of agglomeration economies. This path would leave South Asia on its current trajectory of underleveraged urbanization, structural change, and development—locking in the worst of the region’s urban problems and risks.

The second path is to undertake difficult and appropriate policy reforms to alleviate both current and future congestion pressures and to facilitate the exploitation of agglomeration economies, thereby enabling the tremendous untapped potential of its cities to be realized. This path will significantly improve the likelihood that South Asia’s development trajectory will follow that of other countries that have successfully transitioned to upper-middle and high incomes. It will not be easy. But it is essential to making the region’s cities prosperous and livable.

NOTES:
1GDP per capita is measured in 2011 constant international dollars using purchasing-power-parity exchange rates.
2These include benefits arising from, for example, the spillover of ideas and knowledge between firms and workers, the better matching of firms and workers that tends to occur in dense urban labor markets, and the existence of dense networks of local suppliers of intermediate inputs.
3Data on urban poverty are not available for Maldives.
4This designation is according to data on annual mean concentrations of particulate matter with a diameter of less than 2.5 microns (that is, PM2.5) from the World Health Organization’s “Ambient (outdoor) air pollution in cities database 2014” (http://www.who.int/phe/health_topics/outdoorair/databases/cities/en/).
5Data reused by permission of The Economist Intelligence Unit. Further permission required for reuse.
6In situ urbanization is urbanization that is driven by natural population growth, by the reclassification of a settlement from rural to urban, or both. Such urbanization differs from that driven by net rural-urban migration.

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For more on this study, refer to the full report:

*Leveraging Urbanization in South Asia: Managing Spatial Transformation for Prosperity and Livability*

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