



Chapter 4

# Opportunity, Culture, and Innovation

Cities have been a focus for innovation and culture, but unthinking development is alienating the poor, driving away innovators, and destroying cultural heritage.

### Cities are people—in all their diversity

We often think of cities in terms of buildings, roads, parks and other physical assets. Zoning and congestion come to mind. So do financial markets and retail centers. But a city's most important asset—and its reason for being—are its inhabitants. Cities are made by their people and it is often the diversity of their inhabitants that gives cities their distinctive characters. Some people have lived in cities for years; others are recent migrants. There are different ethnic and religious groups. The diversity of urban societies presents them with a great variety of challenges and opportunities. Understanding the needs and priorities of people, and the social context, is essential to social development. Understanding four key areas of society is crucial for urban management. They are poverty, shelter, culture, and innovation, and they overlap and influence each other in sometimes surprising ways.

### Cities have high disparities in incomes

#### Poverty persists despite productivity-boosted incomes

Economic theory based on a simple equilibrium model hypothesizes that different individual cities will grow to a size where the economic efficiency of all cities is the same. Cities with large productivity advantages because of location or the agglomeration of industries will have the largest populations and the highest nominal wages and land and property prices. Those with less advantage will grow more slowly. Their populations, land prices, nominal wages, and average worker productivity will end up lower. Within cities, however, there will be disparity. Migration to cities increases productivity in the national economy and allows rural incomes to rise, but it also can depress urban wages. Because of these market forces, a key feature of urban societies in Asia is the striking variation in levels of wealth. Visitors to cities as dynamic as Mumbai are appalled by the extent of poverty and the desperate plight of the poor, which is often juxtaposed with glitzy modern buildings.

### The New Poor

When economies change—often abruptly—jobs can demand higher levels of education, favoring the people with the appropriate training and skills. Those who cannot compete often find their assets at risk also. Some must sell their houses and other possessions because of economic difficulties. These people can become “the new poor,” facing new insecurity and vulnerability during economic change. Many who lack the skills needed by the new economy find themselves competing for lower-paying employment in a much reduced, more competitive job market. Past examples of this phenomenon include some white middle-class South Africans after the change to majority rule, and many in the early days of the transition economies of Eastern Europe and the former Soviet Union.

Source: Adapted from UN Habitat reports.

### What is poverty? Who are the poor?

The table below shows rural and urban poverty levels in a number of countries. In general, urban poverty, even adjusted for differences in cost of living, is lower than rural poverty. This fact can be deceptive, however, because the urban poor are more vulnerable to shocks. There is no nearby farm to provide food. Everything must be paid for. The two most widely used measures of poverty are based on income. They define a poverty line by a minimum level of income needed to satisfy basic needs. A popular measure of global poverty is the percentage of people living on less than \$1 a day. Again, this is, by definition, a lower percentage in urban areas where all incomes are monetized.

#### Urban and Rural Poverty

| Country    | Population in poverty (%)<br>(National Poverty Line) |       |       | Year data collected |
|------------|--|-------|-------|---------------------|
|            | Total  | Urban | Rural |                     |
| Mongolia   | 35.6   | 39.4  | 32.6  | 1998                |
| Indonesia  | 18.2   | 14.5  | 21.1  | 2002                |
| Malaysia   | 7.5  | 3.4   | 12.4  | 1999                |
| Myanmar    | 26.6   | 20.7  | 28.4  | 2001                |
| Bangladesh | 49.8   | 36.6  | 53.0  | 2000                |
| India      | 26.1   | 23.6  | 27.1  | 1999                |
| Nepal      | 30.9   | 10.0  | 35.0  | 2004                |
| Pakistan   | 32.6   | 25.9  | 34.8  | 1999                |
| Sri Lanka  | 22.7   | 7.9   | 24.7  | 2002                |

Source: World Bank. 2005. *World Development Report 2005*. Washington, DC.



### Profiling the region's poor

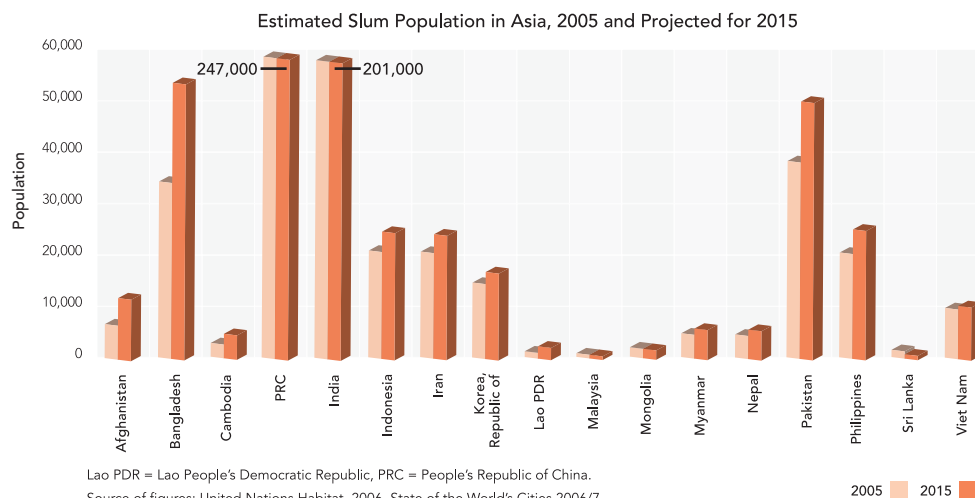
The urban poor comprise a vast mix of people with very different personal histories. Some urban slums are mature settlements that have existed for 20 or 30 years. Others are far less established and are often inhabited by recent migrants to the city—people who have left their rural homes hoping for a better life. It is widely recognized now that poverty has many dimensions and, to capture its true meaning, it must be measured with a variety of indicators.

About 70% or 800 million of the world's poor live in Asia. Between 240 and 260 million of them or 33% live in urban areas.<sup>91</sup> Studies show that while the proportion of poor urban households has been falling in most countries, the numbers remain high. In 2004, about 150 million urban poor were estimated to be in the developing member countries (DMCs)

of ADB, excluding the Pacific Islands.<sup>92</sup> The greatest single group of the urban poor live in India, which accounts for half of the total. Bangladesh, Indonesia, Pakistan, People's Republic of China (PRC), and Philippines are each home to more than 10 million impoverished city dwellers.

Many of Asia's urban poor live in informal settlements in both built-up and periurban areas—squalid, high-density slums. Most residents work in the informal economy and low income, generally because of a lack of access to full employment, is a major problem. They generally live under conditions of extreme deprivation and degradation and suffer social exclusion in many ways. Despite appalling housing conditions, they often face eviction.

The absence of affordable, adequate housing highlights the exclusion of the urban poor, as does insecurity of tenure. But they also lack such basic infrastructure as water supply and sanitation. Many suffer from poor access to education and health services, and have inadequate social protection.<sup>93</sup> Simple poverty measurements do not reflect this lack of access, or the vulnerability of the urban poor to health or economic shocks that often send whole households spiraling into even deeper poverty. This vulnerability is closely related to asset ownership—assets such as human capital, including health, education, and training and skills, as well as productive assets, especially housing, and social capital, including social networks and the connections among individuals. The more assets people have, the less vulnerable they are. Any reduction in these assets increases a person's or family's insecurity.<sup>94</sup>



<sup>91</sup> ADB. 2006. *Special Evaluation Study on Urban Sector Strategy and Operations*. Manila.

<sup>92</sup> Computed from statistics in ADB. 2006. *Key Indicators 2005; Labor Markets in Asia: Promoting full, productive, and recent employment*. Manila.

<sup>93</sup> Deolalikar, Anil B., and Ernesto M. Pernia, eds. 2003. *Poverty Growth and Institutions in Developing Asia*. Manila: ADB.

<sup>94</sup> Moser, Caroline. 1998. The Asset Vulnerability Framework: Reassessing Urban Poverty Reduction Strategies. *World Development*, Vol. 26(1).

The slum population of Asia, excluding the former Soviet Union (FSU), which was about 398 million in 1990, had grown to an estimated 551 million in 2005. Although this increase, there was a decline in the proportion of the urban population living in slums—from 49% in 1990 to 42% in 2005.<sup>95</sup> Projections are that, if nothing changes, the population of these slums will grow by an average 110 million people a year, reaching 692 million by 2015. The PRC and India together represent some 66% of Asia's slum population, numbering 196 million and 170 million, respectively, in 2005. Next come Pakistan with 40 million, Bangladesh with 36 million, and the Philippines and Indonesia, with 22 million each. Bangladesh has the highest percentage of its urban population living in slums at 95%. Nepal (77%) follows, Cambodia (74%), Pakistan (71%), Lao People's Democratic Republic (Lao PDR) (66%), Mongolia (64%), and India (54%).<sup>96</sup>

In most cities, it is difficult for the poor to own or rent with guaranteed security since most are squatting on the land they occupy and are often threatened with and subject to eviction. Meeting the high standards of city zoning and building regulations is often unaffordable for the poor, while high transfer taxes and fees and complicated registration procedures make it expensive for them to register property. But slums are being upgraded in many cities through programs that produce remarkable transformations once secure tenure has been granted to neighborhoods and individuals. When this occurs, commerce and business also improve and active rental markets are stimulated. These programs, however, operate on only a limited scale and, unless they are expanded significantly, the trends reflected in the figures above mean slums will remain a depressing feature of Asian cities.

### Poverty, inequality, and growth

While a positive relationship between growth and poverty reduction is widely acknowledged, the relationship between poverty and inequality is less certain. Higher growth has been accompanied by falling inequality in some cases and by rising inequality in others. Recent research shows that the gap between rich and poor must be narrowed to make growth and poverty reduction effective. Several researchers have found that a growth in income levels in low-inequality countries leads to a greater decline in poverty than a similar rate of growth in highly unequal societies. Low initial inequality could also have an indirect effect on poverty



because high levels of asset and income inequality may impede growth. But the relationship between growth and distributional change remains uncertain.

Some recent data suggests that high levels of growth do tend to increase inequality. Thus, in Viet Nam, the Gini coefficient—which measures the degree of inequality in a given society's distribution of income—increased by 2.3% annually during the fast-growth years between 1993 and 2002. In the PRC, it was up by 2.0% a year between 1990 and 2001.

Comparing the Gini coefficient with the Human Development Index (HDI) that includes more comprehensive measures of poverty than income alone, shows a similar relationship between inequality and poverty. As shown in the table on the following page, some of Asia's more wealthy countries also have a high degree of inequality. For example, Singapore has a high HDI of 0.907, but its Gini coefficient is similar to that of Cambodia and Sri Lanka, which have much lower HDIs. This suggests that the impact of inequality on poverty reduction depends very much on the stage of development. At low levels of development and, perhaps, of integration into the global economy, inequality can be a constraint to poverty reduction but at higher levels of development, inequality is—to be expected—is not linked to absolute poverty.

As economies move from agriculture to manufacturing and then to higher value-added goods, the businesses and people that drive economic growth often create large amounts of personal wealth, thereby contributing in both developed and developing cities to a characteristic large gap between rich and poor. Very large inequities also exist in developed economies but are a problem wherever they are only when the inequality keeps people in poverty. Inequality can, of course, lead to other problems, including rising social instability and potential for conflict. In urban areas in

<sup>95</sup> Populations living in slums are higher than poverty numbers because not all people living in slums qualify under the official definition of "poor."

<sup>96</sup> These computations are based on statistics in UN-Habitat. 2007. *State of the World's Cities, 2006/7*. Nairobi.

## Inequality and Human Development

| Country                          | Gini coefficient (year) | Human development index, 2003 |
|----------------------------------|-------------------------|-------------------------------|
| <b>East Asia</b>                 |                         |                               |
| China, People's Republic of      | 0.447 (2001)            | 0.755                         |
| Hong Kong, China                 | 0.434 (1996)            | 0.916                         |
| Korea, Republic of               | 0.306 (2003)            | 0.901                         |
| Mongolia                         | 0.303 (1998)            | 0.679                         |
| <b>Southeast Asia</b>            |                         |                               |
| Cambodia                         | 0.450 (1999)            | 0.571                         |
| Indonesia                        | 0.343 (2002)            | 0.697                         |
| Lao People's Democratic Republic | 0.347 (2002)            | 0.545                         |
| Malaysia                         | 0.443 (1999)            | 0.796                         |
| Philippines                      | 0.461 (2000)            | 0.758                         |
| Singapore                        | 0.425 (1998)            | 0.907                         |
| Thailand                         | 0.420 (2002)            | 0.778                         |
| Viet Nam                         | 0.370 (2002)            | 0.704                         |
| <b>South Asia</b>                |                         |                               |
| Bangladesh                       | 0.318 (2000)            | 0.520                         |
| Bhutan                           | 0.341 (2000)            | 0.536                         |
| India                            | 0.325 (1999)            | 0.602                         |
| Nepal                            | 0.472 (2004)            | 0.526                         |
| Pakistan                         | 0.347 (2004)            | 0.527                         |
| Sri Lanka                        | 0.420 (2000)            | 0.751                         |

Source: ADB. 2006. *Key Indicators*. Manila.

France, for example, poverty and social exclusion faced by young people from immigrant families was considered a contributing factor to violent street conflict in 2005.

### **Discrimination worsens the plight of have-nots**

The difficulties of poverty are made worse for some groups of the poor because they experience what is now termed "social exclusion." The Department for International Development (DFID) of the United Kingdom (UK) offers the following definition: Social exclusion describes a process by which certain groups are systematically disadvantaged because they are discriminated against on the basis of their ethnicity, race, religion, sexual orientation, caste, descent, gender, age, disability, HIV status, migrant status or where they live. Discrimination occurs in public institutions such as the legal system or education and health services, as well as social institutions like the household.

The processes by which people are excluded include institutionalized behavior that reinforces and perpetuates social

attitudes and values. These behavior patterns can be both formal and informal. Exclusion may be rooted in deeply entrenched societal traditions, as in India, for example, where social exclusion is often based on the caste system. It can also be related to geographical location. An ADB report on the Millennium Development Goals (MDGs) cites the case of the Lao PDR where most of the 1.9 million people who live below the poverty line belong to an ethnic minority group and where, despite economic growth, increasing inequality is exacerbating poverty. Social exclusion not only can cause poverty but it also locks people into poverty and out of opportunities to escape and overcome it. Social exclusion denies people the chance to increase their income. It can bring about situations of social and political insecurity. Marginalized people who suffer from multiple disadvantages may group together to protest against their treatment. Over time, this can lead to violent conflict.

Social exclusion encompasses the norms, societal processes, and institutional arrangements that inhibit certain groups from full participation in the social, economic, cultural, and political life of societies. Exclusion operates at levels of human interaction. At the household level, it can include the differential allocation of food and education among household members. It often involves discrimination within communities based on social status and through differential access to basic services. It can be part of national cultural practices and state policies, which reinforce the power of some to the disadvantage of other specific groups.

Different groups experience social exclusion in different ways. For rural people, it centers on land issues, environmental degradation, and isolation from services. For the urban poor, exclusion means slum environments, insecure residential tenure, and the constant threat of eviction to distant relocation sites and the forced separation from existing sources of employment and income. Poor women worry about their inability to feed, clothe, or educate their children, their limited or nonexistent opportunities for earning income, their exclusion from decision making, and violent behavior from abusive husbands. There are similarly complex lists of disadvantages and indignities for the many other groups among the excluded, including children, indigenous peoples, the differently abled, the elderly, and other disadvantaged groups.

### **An age-old struggle**

Despite their poverty, or perhaps because of it, poor people remain remarkably creative and resilient. The evidence is in the many ways they cope. They reduce their modest expenditures.

They sell or rent out their meager assets. They increase their work activities and borrow money, food, and other necessities. They migrate, seeking better lives within or outside their country. These efforts at survival and mere subsistence often take a toll on society's most vulnerable groups. Young children can become more malnourished, risking permanent disability, or even death. Children, women, and the elderly become sick more often but cannot afford health care. Young girls and boys drop out of school to find full-time work to help their families. Adolescents are sold to prostitution or pornography rings, while desperate young adults try to make ends meet through theft or the drug trade. The natural environment of Asia is also affected as destitute people move into the uplands to harvest trees for firewood, overuse other natural resources, or engage in the illicit fishing that destroys coral reefs and mangrove forests in coastal areas.

### **Cohesive societies are necessary for development**

The prosperity of a family is ultimately determined by its ability to accumulate assets.<sup>97</sup> These include physical assets like housing, human assets such as education and good health, social capital such as supportive community networks, and financial assets. The opportunity to accumulate these assets varies among households by income group, location, ethnicity, and other factors. When these disparities become wide, social tensions build and development is threatened. Thus, poverty,<sup>98</sup> a shorthand for unacceptable levels of disparity, is central to the discussion on urban management, both at national and local levels. At least as much or perhaps more importance should be given to disparities in the opportunity to build assets, to progress. Thus the poor, even in rich societies such as the United States (US) where inequality could be reduced but where it is perceived that there is equality of opportunity. The alienation that results from this lack of opportunity, and from a lack of social context, grows and can threaten stability. Managing such issues requires a multifaceted approach that helps low-income groups acquire such assets as housing, education, and access to health care, but does not neglect the social supports and cultural context that provide a bulwark against alienation. Going beyond immediate problems to foster an innovative society is also important for encouraging development in cities.

<sup>97</sup> Footnote 94.

<sup>98</sup> The approach taken in this paper is deliberately different from a fixed-income level, for example \$1 per day per person, which is useful for many purposes, including cross-country comparisons, but is not much use in actual management of cities where relative poverty is the driving political force.



Governments have also ventured into social reform through a variety of welfare or social assistance programs. Focusing on poorer and disadvantaged citizens, their efforts take several forms. Relief, cash, or in-kind transfers is targeted at chronically poor and vulnerable groups or those affected by natural or man-made disasters. Safety nets are short-term, time-bound, bridging mechanisms that mitigate the adverse impact of economic dislocations and shocks, calamities, and structural adjustment measures. Social security and social insurance programs, whose coverage varies widely in Asia, draw on legislation for structured income and other redistributive transfers to decrease risks arising from retirement, unemployment, illness, and disability.

### **Why the poor stay poor**

A joint study by the World Bank and DFID in Indonesia<sup>99</sup> highlights a number of reasons that poor people often remain poor. It cites that poor people often lack confidence in government policies and programs. This is partly because of a lack of transparency and information sharing. This "information poverty" keeps the poor powerless to improve their lot. Land security and tenure affect the poor in urban areas where rapid social and economic changes put people at risk of losing their homes. Another cause—and outcome—of poverty is exploitation, particularly by business and those who control the means of production. Although pro-poor growth<sup>100</sup> is seen as a mechanism that can lead people out of poverty, care is needed in formulating policy intervention.

A number of key cause-effect factors perpetuate poverty: lack of economic growth, lack of support systems and

<sup>99</sup> Mukherjee, Nilanjana, Joan Hardjono, and Elizabeth Carriere. 2002. *People, Poverty and Livelihoods: Links for Sustainable Poverty Reduction in Indonesia*. Jakarta, Indonesia: DFID and World Bank.

<sup>100</sup> Pro-poor means the engagement of poor communities in eliminating their poverty through sustainable development.



social protection for the poor, their lack of access to goods and services, their lack of information, and their social exclusion. While it is now widely appreciated that economic growth is the most effective way to reduce poverty, addressing the nonincome dimensions of poverty is also recognized to increase the impact of growth in achieving this goal. Social exclusion is one area that has been given particular prominence in the last few years as a means of understanding the causes of poverty and providing insights into ways to address it.

Asia's urban communities have high disparities in incomes and these disparities exacerbate the effects of globalization. The highly skilled attract international level wages at the same time that low-skilled workers face intense downward pressure on wages because of competition from potential migrants and the reserved underemployed in other countries. Diverse, sometimes antagonistic and, more often, ghettoized communities of migrants do not feel the need to integrate into a universal urban ethic. There is less choice and mobility both in employment type and housing location than would be imagined from the opportunities existing in the city.

### **Hope for communities that innovate, organize**

But using this diverse mix as a catalyst for social, economic, and cultural development can also give the poor the potential for upward income mobility and asset accumulation. To achieve this, urban managers must explicitly address social development. Social development is much more than poverty reduction. The issues of access and equity are primary and culture and community cohesion are also important, as well as encouraging openness and innovation that is essential in a globalized economy.

Without intervention, poor neighborhoods will multiply and become larger. In these diverse, clustered communities,

people live in overcrowded and sometimes ethnically segregated neighborhoods that represent extensive pockets of poverty. These poor but generally vibrant communities play an essential role in the economy and form of a city. But those who live in them require better access to social services, utilities, and other economic opportunities, including finance.

### **Shelter**

Shelter, that is, the house and the neighborhood environment where we live, is a large issue which affects not only the poor. But it is the poor who are marginalized in the housing market and who live in neighborhoods without adequate services. This has direct and indirect consequences, for public health, for example, and in its adverse impacts on the environment. But housing is a subsector of the wider urban land markets and needs to be treated as a separate issue.

### **Obstacles to solving housing problems**

Houses and plots that the poor can afford are rarely available, largely because neither the government nor the private sector develops units at these prices. Even where such units exist, the lack of mortgage finance means that most poor households, which have insufficient savings to purchase outright, are unable to buy. Many governments in the 1960s set up national housing authorities to provide low-income housing, including the national housing authorities in the Philippines and Thailand, and Perumnas in Indonesia. Others have worked through local government, or the city development authorities in India and Pakistan. But most of these agencies either built unaffordable units or allocated them, below cost, to a select few. Substantial areas of land were developed for such housing in many South Asian cities. In some places, Karachi for instance, much of the land remains unoccupied. Attempts at sites and services development—often supported by international development assistance—were successful, but the scale of development was too small relative to demand to make a difference. Without major changes in land management practice, housing finance, and housing delivery systems, the considerable housing backlogs of most Asian cities will continue to increase and lead to further overcrowding and the growth of more informal settlements. These settlements are often on vacant land that is unsuitable and unsafe for housing—alongside railway tracks and on steep slopes or river banks, for instance, and even on garbage dumps.

Attempts have been made to reform the housing finance markets of Asian countries to encourage more lending to

the urban poor. But their irregular incomes and limited affordability have meant little interest has been shown by the formal banking sector.

Governments have intervened through instruments such as subsidized interest rate mortgages that have distorted finance markets. Current actions aimed at enabling financial institutions to address this market have brought modest improvements and recent initiatives to involve microfinance institutions are leading the way in innovation. Although successful locally, however, such programs need to be scaled up significantly to make real inroads into serious housing shortages that face the residents of all of Asia's cities, from the smallest to the largest.

### **Importance of secure housing**

In addition to the poor themselves, a large number of people living only slightly above absolute poverty lines are vulnerable to change and events that might reduce them to poverty.<sup>101</sup> ADB defines this vulnerability as "the exposure of people to short- and long-term risks and their capacity to absorb or protect themselves from these risks, including life-cycle risks such as illness, injury, and disability; and economic risks, including unemployment." Their poor asset base is, of course, one main factor affecting peoples' ability to withstand risks and improve their livelihoods. Housing, including security of tenure, is one of the most important elements in a family's asset base. When households have a fall in income because of life-cycle and economic risks, they have a much reduced ability to withstand the event without security of tenure. In some cases, they will end up homeless and in poverty.

In Indonesia, the increase in poverty that followed the 1997 Asian financial crisis has abated but a large number of people still live in a situation of vulnerability. The difference between the figures for people living on less than \$1 a day and less than \$2 a day provides an indication of the number of people vulnerable to falling into absolute poverty. According to the *2005 World Development Index* that is published by the World Bank, the percentages of population in Indonesia living below the first threshold in 2002 was 7.5%, and below the second, 52.4%.

### **Cities are a cultural nexus**

Sustainable cities need to be attractive places within which to live. They require a dynamic and evolving culture and should be welcoming and prosperous. They need

<sup>101</sup> ADB. 2005. *ADB Handbook on Social Poverty Analysis*. Manila.



### **Investing in Culture is Good Business**

In 2001, New York proposed a 10-year program to spend \$1.2 billion to renovate or expand the Lincoln Center for the Performing Arts, the Metropolitan Museum of Art, the Solomon R. Guggenheim Museum, and several other institutions. During the past 30 years, New York has shown how to diversify its economic base from manufacturing industries to banking, law, consulting, and information technology. Now New York views cultural institutions as a new engine of economic growth. Culture is good business. Museums, art galleries, and theaters have been one fastest-growing employer in the city. McKinsey & Company estimates that the new Guggenheim Museum proposed for lower Manhattan would attract 2.5 million visitors annually, earn \$570 million in revenues for the city, generate 4,300 to 5,500 permanent new jobs, and produce \$26 million per year in tax revenues.

Source: Garten, Jeffrey E. 2001. *Cities: Investing in Culture Is Simply Good Business*. *Business Week*. March.

to enhance their special identities with restaurants and cafés, shops, markets, public places, buildings, and streets that reflect the best of the locality and region, rather than adopt bland global brands. Too often, the old identity is abandoned in favor of the new, where historic buildings are destroyed for modern shopping malls.

Cities are where migrants from diverse backgrounds and cultures settle. They bring with them their music, language, architecture, art and literature, creating a unique identity for a city that, in turn, draws in more people from afar. This results in multicultural cities that encourage innovation and creativity, but can also result in tensions between ethnic groups. Cities with dynamic and active cultural environments have global competitive advantages. From 1870 to 1918, for example, Vienna, which gathered creative individuals from all over the Austro–Hungarian Empire, was a unique cultural nexus that fostered intellectual and cultural innovations in philosophy, music, architecture, painting, and literature. Such an identity adds to a city’s attraction. The advantages exploited by Liverpool and London during the “swinging 1960s” are evidence of this.

### **Culture, heritage, leisure, and lifestyle**

Political empowerment alone will not foster a vibrant city. People need a sense of belonging; in cities, this is generated in large part by the built and cultural environment, particularly when they have historic significance. Conserving and renovating urban heritage has three aspects:

- **Cultural.** Urban heritage represents the history and cultural development of a city. It belongs to the people and is a source of inspiration for contemporary culture. Each city’s cultural heritage makes it unique.
- **Social.** Physical interventions, such as restoration projects, improve the quality of life. Restoration of heritage creates jobs and increases the income of the inhabitants. Participating in the improvement of urban culture engenders a sense of belonging and encourages people to improve their properties and remain in the historic city.
- **Economic.** Urban cultural heritage is an economic asset that should be capitalized on as part of a city development plan. A well-preserved historic city attracts investors and tourists, generates employment, and contributes to overall economic growth. The renovation process itself generates employment.

### **Saving urban heritage as public policy**

Successful projects aimed at preserving and renovating urban heritage and culture have been numerous. Some are shown in the accompanying box. Others, like those undertaken by Sana, Antwerp, Singapore, Amsterdam, and London, are well known. Renovated urban areas generate large amounts of income for the building and tourist industry. Melaka, for example, attracts

## **Successful Exploitation of Heritage**

### **Lille, France**

In the early 1990s, Lille was an ugly, dirty city, unattractive to tourists and investors. The French city had high unemployment because of a declining industry and a neglected Dutch heritage. It is booming today. It became the crossroad of high-speed trains. Local government renovated the existing built heritage. Result: a city visited by millions of tourists, an art city, a fashion city, a service city, and the cultural capital of Europe in 2004. By train, it is 1 hour and 40 minutes to London, 2 hours to Amsterdam, and 1 hour to Paris.

### **Melaka, Malaysia**

Melaka is a small town with interesting Malay, Chinese, Portuguese, Dutch, and British heritage. The public sector rightly recognized the economic value of the town’s history. A heritage conservation zone was created. Result: over 4 million tourists in 2004, and investments by the private sector in hotels, shops, heritage, and hospitals.

### **Elmina Heritage Project, Ghana**

Elmina, the capital of the Gold Coast, has returned to its fishing roots. It has historic monuments such as the St. George Castle, Fort St. Jago, the Dutch cemetery, and Asafo Posts, plus a stunning coastline attracting over 100,000 visitors annually. But visitors spend little time in Elmina and bring little revenue to its people. There are glaring drainage and waste problems. Historic buildings are poorly maintained, the environment is being damaged, and poverty is growing. In April 2002, working groups began to act on these problems after a town consultation. The people of Elmina identified five priority areas with strategic objectives for developing each: waste management and drainage, fishing and the fishing harbor, tourism and local economic development, health, and education. The aim was to revitalize heritage assets to create employment, improve local living conditions, and make Elmina an attractive city. The results so far include creating both direct employment (construction/artisans) and indirect tourism, office, hotel, industry, and retail jobs. This has reversed a brain drain and made the town healthier and cleaner. Ownership is linked to the participatory process and collective local actions have been stimulated.

Source: ADB. 2007. Social Development Background Paper, *Managing Asian Cities Study*. Manila.

4 million tourists per year, while Antwerp generates 25% of its income from tourism. Preserving urban heritage is one of the highest job-generating economic development options available, usually creating more jobs than would result from the same investment in manufacturing. Preserving heritage also has significant economic impacts that continue beyond completion of the project itself. Experience shows that preserving heritage and revitalizing historic areas can be an engine for economic growth. Very often, the government starts the process and establishes the strategy for renewal. This includes creating conditions for the private sector to step in. In many cases, including the examples mentioned above, the initial investment by the national government and/or the donor community has been a catalyst for much larger investment by the private sector. Investment in revitalizing heritage pays off.

## For future growth, cities need innovation

### The global context

Ever-changing technology, especially in communications, data transfer, and knowledge, will be crucial in determining the future of cities. The impact of technology on land use and urban regional development will be significant, including

that of information and communication technologies and new transport modes. Much will also depend on the location of high-technology companies. The spatial impacts relate to future city growth, the design of business parks, and the emergence of techno-clusters.

Innovation refers to the process of commercializing new knowledge in a product, process, or organizational innovation.<sup>102</sup> This is a complex process involving users, producers, and other organizations learning from each other and exchanging both tacit and explicit knowledge.<sup>103</sup> Innovation can be described as a knowledge-transfer and realization process. It has been recently argued that some regions are better equipped for innovation than others.<sup>104</sup> The table below shows the characteristics of regions where overall innovation potential can be categorized as weak or strong.<sup>105</sup>

### Business-power innovation

In developed countries and in emerging economies such as the Republic of Korea; Singapore; and Taipei, China, firms are among the main drivers of new ideas and learning through systematic, long-term, large-scale investments in research and development that add to global knowledge. They have become a major source of competitiveness and profitability. Intraregional knowledge flows are small but building fast.

| Regional Innovation System Potentials |  |   |
|---------------------------------------|--|---|
|                                       | Strong Potential   | Weak Potential  |
| Infrastructure level                  | Autonomous taxing and spending, Regionalized private finance, Strategic infrastructure competence, and Embedded universities/R&D laboratories. | Decentralized spending or taxation, National private finance, Few infrastructure competencies, and Disembedded universities/R&D laboratories. |
| Organizational level: Firms           | Workplace cooperation, Externalization, and Innovation.  | Workplace antagonism, Internalization, and Adaptation.  |
| Organizational level: Policy          | Inclusive, Monitoring, and Consultation.   | Exclusive, Reacting, and Authorization.   |
| Institutional level                   | Consensus, Associative, and Learning Disposition.  | Dissensus, Individualistic, and Introspective.  |

R&D = research and development.  
 Source: ADB. 2007. Infrastructure Background Paper, *Managing Asian Cities Study*. Manila.

<sup>102</sup> Cooke, Philip. 2001. Technopoles to Regional Innovation Systems: The Evolution of Localized Technology Development Policy. *Canada Journal of Regional Science*. Vol. 24(1).

<sup>103</sup> Tacit knowledge is held by people, but some can be converted and made accessible to others through medium of documentation, presentations, training, among others; this is called explicit knowledge.

<sup>104</sup> Cooke, Philip, et al. 1998. Regional Systems of Innovation: An Evolutionary Perspective. *Environment and Planning* Vol. 30(3); and Cooke, Philip, et al. 2000. *The Governance of Innovation in Europe: Regional Perspectives on Global Competitiveness*. London: Continuum International Publishing Group.

<sup>105</sup> Footnote 75.

A small number of emerging economies—including Hong Kong, China; the Republic of Korea; and Taipei, China—are producing new knowledge at or near the frontiers of global technology. As with trade in goods, the flow of ideas is often higher between neighbors.<sup>106</sup> This impacts cities. Firms locate in centers of innovation so they can in turn enhance their competitiveness. It is this linkage between cities and innovation that we now examine in more depth.

### **Innovation and city growth**

Over the last two decades, there has been a plethora of literature dealing with globalization and the new global economy.<sup>107</sup> The global economy is a highly urbanized phenomenon and geographically selective. The 1994 Joint Organisation for Economic Co-operation and Development (OECD)/Australian Government conference, *Cities and the New Global Economy*, highlighted the importance of the linkage between the rapid economic growth and urbanization occurring in cities of Asia and the Pacific.

### **Metropolises, but no self-generating technopoles**

It is asserted that a crucial force in globalization is the increasing importance of the “knowledge structures”<sup>108</sup> or “expert systems”<sup>109</sup> in production. These knowledge structures influence production processes on a scale not previously known and are facilitated through strategic alliances and networks developed by corporations, business, professional groups, institutions, organizations, and community movements. What this actually means, in terms of economic policy analysis, is less clear. A reactive policy based on initial observation of clusters of high-tech industry has been the drive to create “technopoles”<sup>110</sup> of a variety of policy initiatives. Many attempts to generate technopoles have failed to achieve the “innovative milieu” necessary to drive the synergy between different firms and research and development (R&D) institutions that allows a technopole to achieve self-generating development. Some old metropolises retain their leading role as centers of high technology firms

and research (Paris and Tokyo). Newer metropolises have also developed as centers of high-technology production (Los Angeles and Munich).<sup>111</sup> What then are the factors influencing success or failure in innovation?

### **The right environment for innovation**

The concept of “linkage” appears important. Good physical infrastructure is one element—such as computers or fiber optic cables—but the essential characteristic is that the urban milieu encourages new and more efficient ways to combine inputs and resources. This is to reduce transaction costs and increase productivity. Thus, smart infrastructure will include business networks that help spread productivity enhancing technology and lobby for improved physical infrastructure; venture capital that lowers the finance costs; local quality of life, which increases the productivity of human resources; and R&D networks that produce productivity enhancing technology. Institutions, both public and private, are crucial smart infrastructure for facilitating an innovative milieu. The institutions involved include business networks, venture capital pools, consortia, and professional support organizations. Regulatory and government-support environments need to facilitate enlightened but quality-oriented planning and development controls, business incubators, technical support programs, competitive taxation arrangements, intellectual property protection, maintenance of quality indicators, and advanced transportation and telecommunications systems access. All these measures either increase productivity and throughput or reduce transaction costs.

### **Think further than facilities and systems**

The OECD report on *Competitive Cities*<sup>112</sup> stressed the importance of what were called relational assets or local collective goods in the success of cities. These include transportation and other public infrastructure. But they also involve the building of links between universities and science-based industries and the strengthening of relationships between firms and suppliers, including small

<sup>106</sup> Gill, Indermitt, and Homi Kharas. 2007. *An East Asian Renaissance: Ideas for Economic Growth*. Washington, DC: World Bank.

<sup>107</sup> See early works for example Knight, R. V. 1989. *City Building in a Global Society*. In *Cities in a Global Society*, edited by R.V. Knight and G. Gappert. Newbury Park, CA: Sage; Castells, Manuel. 1989. *The Informational City, Information Technology, Economic Restructuring, and the Urban-Regional Process*. Oxford, UK: Basil Blackwell; Dicken, Peter. 1992. *Global Shift*. New York: The Guildford Press.

<sup>108</sup> Strange, Susan. 1988. *States and Markets*. London: Routledge.

<sup>109</sup> Giddens, Anthony. 1990. *The Consequences of Modernity*. Cambridge, UK: Polity Press/Blackwell.

<sup>110</sup> The term “technopole” is used to describe deliberate attempts to plan and promote, within one location, technically innovative, industrial-related

production. But most successful examples have emerged because of synergistic collaboration bridging the private and public sectors. They include industrial complexes of high technology firms that eventuated in the absence of deliberate planning, although government and universities had a significant role in their development such as Silicon Valley in California and Boston’s Route 128 and “science cities” or scientific research complexes that are spatially separated from manufacturing, Tsukuba in Japan and Taedok in the Republic of Korea are examples.

<sup>111</sup> UNCHS. 1996. *An Urbanizing World: Global Report on Human Settlements*. Oxford: Oxford University Press.

<sup>112</sup> OECD. 2006. *OECD Territorial Reviews: Competitive Cities in the Global Economy*. Paris.

## Infrastructure and Production Elements

| Production element | Objective                              | Physical infrastructure                 | Social infrastructure   | Collective assets  |
|--------------------|--|---|-------------------------|--|
| Land               | Appropriate site                       | Site-related<br>e.g., water, sewer      |                         |  |
| Labor              | Access & skills<br>Readiness to change | Roads<br>Public transport               | Schools<br>Universities | R&D networks<br>Regulatory systems<br>Producer networks/health |
| Capital Goods      | Technology                             | R&D facilities                          |                         | R&D networks   |
| Materials Inputs   | Access                                 | Roads, telecoms,<br>ports, and airports |                         | Logistics systems  |
| Producer Services  | Access                                 | Roads, telecoms,<br>ports, and airports |                         | Broadband communications                                       |

R&D = research and development.

Source: ADB 2007. Infrastructure Background Paper, *Managing Asian Cities Study*. Manila.

businesses. It is not just science. The entire range of creative capabilities in the arts, education, and the broad range of service industries must be tapped. A vibrant city is one that has a high rate of new business creation.

How cities manage their space and improve livability also matters—all the more so because they can serve as tools to attract and retain talented people. Good schools, safe streets, a high-quality cultural life, and abundant green spaces, including public parks, all matter. Mixed-use planning is important to ensure that residential, commercial, retail, and institutional activities, such as schools and hospitals, are all within easy distance of one another. Cities must provide public transportation and adopt other measures such as road-pricing or congestion charges to discourage automotive use where it is not needed. The OECD report also found that it was critical to deal with issues of social equity. Cities can become sharply divided between rich and poor, or lose their middle class. It is important to address social exclusion, or face the risk of a widening gap between the bottom and the top that can lead to increased crime, drug use, and other threats. Access to affordable housing invariably appears as an important element of social cohesion. Finally, cities face significant environmental challenges related to clean air, water, waste management, toxic wastes, and inefficient use of energy. Most environmental challenges our planet faces are found in our cities. Cities that neglect their environmental challenges will lose talented people and businesses.

The table above shows various types of infrastructure linked to the production elements and objectives already identified.

## NGOs and CBOs: Doors to Civil Society

Community engagement is important to gain an understanding of the needs of the different sections of society and enable institutions to deliver services more effectively. In developing mechanisms to engage civil society, it must be recognized that it is represented in a number of different forms, including nongovernment organizations (NGOs), community-based organizations (CBOs), and individuals.

The formal representative groups of civil society comprise the operational and advocacy NGOs. The former deliver development or welfare services, while the latter work toward influencing the policies and practices of governments, development institutions, and others in the development arena. Much importance has been placed on involving NGOs to access civil society and design more appropriate programs of assistance. This has met with more success in some places





than in others. Within Asia, the capacities of NGOs vary widely from city to city. Metro Manila, for example, has a wide range of very well-respected operational NGOs and these have been highly useful in reaching out to different parts of the community and in creating links between the private and public sectors. Bangladesh is also well known for its NGOs, which have been active in areas ranging from providing microcredit to health care. Many NGOs—the Grameen Bank, for example—are targeted at poor women. In countries such as Indonesia, the NGO sector is far less developed and tends to be dominated by advocacy NGOs. In urban areas outside Jakarta, the skill levels of NGOs are often very limited. In creating mechanisms for community participation, NGOs can play a significant role but they are representative groups and do not always reflect the interests or views of a cross section of society. Many have focused and narrow agendas that can overshadow the needs of groups that are less well represented. Strategies of engagement then need to be tailored to both the orientation and the capacity of community groups. Effective engagement may entail having to upgrade the capacity of NGOs and CBOs.

Local communities have their own CBOs which include youth groups, religious groups, women's groups, and specific groups developed for particular activities. In urban areas, CBOs are particularly common in informal settlements. Here, the lack of formal basic service provision and people's low-wealth status means that CBOs, unlike NGOs, are almost always set up and run by the people from within the community. CBOs help in establishing self-help operations for providing basic services and are a way for people to create such systems that can improve their livelihoods. Often, these are based around local groups. In the more wealthy neighborhoods, people tend to lead more individual lives and leave an area if they are dissatisfied with it. Many are members of CBOs such as parents-teachers associations, sports

clubs, and residences groups, and these can be a useful way to link with them. Religious associations present a medium through which to gain access to a wide spectrum of people, but care should be taken to ensure all stakeholder groups, especially females, are included if such intermediaries are to be a primary form of engagement.

While community activity can be more powerful when organized through group action, there is often no substitute for direct contact with the people. This is particularly important for reaching the poorest in society, who may not be well represented by either the CBOs or NGOs. The participation of all sections of the community in analysis and decision making has been a common objective of many projects but real participation is difficult to achieve.

### *The role of often contentious NGOs*

Civil society organizations and NGOs in particular work extensively with poor people to help improve their economic, political, and social well-being. When the state is weak or virtually absent and chronic poverty afflicts large numbers of people, or when severe shocks deplete traditional safety nets, NGOs strengthen poor people's ability to meet their daily needs and enhance their capacities through education, training, organizing, and advocacy. These forms of empowerment expand poor people's demand and decision-making opportunities. They may also lead to a reorganization of institutional and power relationships that may enable disadvantaged groups to gain greater access to society's resources. NGO networks, made up largely of an active middle-class citizenry, have mobilized fellow civil society organizations to advocate and develop new paradigms for society that are more favorable to the poor. These attempts to reorient government and its institutions have had varying degrees of success in Asia, depending on how well or badly the state has related to NGOs and civil society. More recently, NGOs have also been expanding their mutually supportive relationships with the business sector in line with the latter's growing interest in corporate philanthropy and local development.

Asian governments have mixed feelings about NGOs. They recognize the capacity of their dedicated and modestly paid professional staff to reach the poor quickly and flexibly with innovations that lead to effective poverty reduction. But many officials regard NGOs as troublesome, carping critics who are largely ignorant of government constraints and procedures. They also complain that even as the NGOs demand exacting transparency and accountability from

government, they themselves tend to avoid transparency and evade accountability. Suspicious officials even accuse some of mobilizing poor groups to destabilize the government and threaten those in authority. Thus, varying patterns of collaboration and conflict play out between NGOs and governments in Asia, with reasonably effective cooperation resulting in some cases and animosity and repression featured in others. Generally, Asian societies acknowledge the important roles NGOs and civil society have played in drawing attention to the poor and powerless, and to the exclusionary systems that must be overcome for people's development and empowerment toward the elimination of poverty. Many NGOs are now developing strategies that encourage governments to realign their budgets in favor of pro-poor programs. In the process, their earlier dependence on foreign funding is diminishing. NGOs have participated successfully in many development assistance projects, bridging the gap between formal institutions and the community. For example, they have helped the poor plan and carry out community upgrading and relocate from danger zones.

But it is not only NGOs that catalyze significant social change. People's movements in Asia have often forced governments—through violent or nonviolent means—to engage in widespread land and other asset reforms. In the transition economies, mass organizations carry out the remobilizing functions undertaken by NGOs elsewhere. But because these mass organizations operate under government auspices they are not classified as NGOs or civil society groups.

### Getting communities engaged

Sustainable livelihoods framework and willingness-to-pay surveys are among a number of community participatory mechanisms that have been developed. Many ADB projects are implemented through a community development strategy that attempts to incorporate community participation in the formulation. One mechanism is participatory budgeting through which community representatives and local governments share in setting priorities and planning public expenditure. This is intended to ensure that community needs are well represented. While these mechanisms are useful, their real success depends on the effort put into ensuring that different sections of the community, particularly the more marginalized and excluded groups in society, are able to participate in a meaningful way.

It takes time and skill to facilitate effective participation, especially if difficult-to-reach communities are to be involved. Moreover, different groups have different needs

### Village Area Improvement Program in Vientiane, Lao People's Democratic Republic

When communities or community groups are allowed to decide on their own development priorities and are given direct funding and technical guidance to implement them, the cost-recovery and sustainability results are quite often remarkable. A village area improvement (VAI) program supported by ADB's Vientiane urban infrastructure and services project loan proved that this approach can work well in urban settings. VAI covered 50 of Vientiane City's 100 villages and the Vientiane Urban Development Administration Authority now wishes to expand it to the remaining villages. In the beginning, Vientiane citizens were not convinced that the scheme would work since nothing similar had been tried before. The first phase began with a series of meetings during which Lao Women's Union members convinced community members to participate. After the first five village projects were completed, they provided a remarkable demonstration impact. VAI provided an average of \$80,000 to each village in a joint bank account to be spent on its choice of urban infrastructure and services to be managed by the communities themselves. Most chose roads and/or drainage. Community members contributed 10% of total civil works through labor, land, or cash. They also monitored the quality of the contractors' works. The demand for participation from the villages that are not yet part of the scheme is so high that they are willing to contribute more than 10% of costs. Community members also contribute to maintenance.

Source: ADB. 2007. Social Development Background Paper, *Managing Asian Cities Study*. Manila.

and demands and these often conflict. There is a tendency in such cases for the elite groups to dominate. The ability of the poor to participate in and influence government processes is an area requiring further exploration. Participatory processes are often more effective and easier to implement in rural areas than in urban areas. Urban populations are far more heterogeneous. It is not always easy to get people together to discuss issues, particularly in poor areas where many people work in the informal sector and have different schedules. It may also be more difficult to build consensus.

Nonetheless, there are many communities that have participated in the planning, design, and implementation of



## Millennium Development Goals (MDGs)



Eight goals to be achieved by 2015 that respond to the world's main development challenges:

- 1: Eradicate extreme poverty and hunger.
- 2: Achieve universal primary education.
- 3: Promote gender equality and empower women.
- 4: Reduce child mortality.
- 5: Improve maternal health.
- 6: Combat HIV/AIDS, malaria, and other diseases.
- 7: Ensure environmental sustainability.
- 8: Develop a global partnership for development.

The MDGs are drawn from the actions and targets contained in the Millennium Declaration, adopted by 189 nations and signed by 147 heads of state and governments during the United Nations Millennium Summit in September 2000.

clear. Affordable primary, secondary, and tertiary education; health care; and child care are all musts, along with measures to ensure that basic human needs are met through social services and safety nets. It is also important to make efforts to help the poor accumulate private assets through housing, social services such as health and education, and livelihood development.

improvement projects in their neighborhoods. Participation can also help communities contribute to implementation, which creates community ownership, and can lower costs, improve quality, and increase customer satisfaction. Involving communities and local business in designing a city's economic development strategies is vital to promoting city growth. Many of Asia's cities have tackled the problem of slums, employing a variety of methods. Some have undertaken programs of in situ upgrading of informal settlements, legalizing occupancy and making formal mortgage, housing, and livelihood microfinance available to residents. These innovative, small-scale, community-based projects to deal with land, infrastructure, and housing problems are models that need to be replicated across Asia's cities.

### **A social framework for all-embracing development**

The need for governments to undertake appropriate redistributive measures, invest in public goods, create an enabling framework for enterprise, and support innovation is

Investments in social infrastructure need to aim at creating a sustainable society in which every part of government is involved in promoting prosperity for all, providing high-quality service delivery, and giving local people the ability to shape the places they live in and change things that matter to them. People identify some elements of a better life, such as clean streets, local schools, health clinics, or parks, with their neighborhood. For others such as higher education, work, and transport, they look to city government or higher.

As prime generators of economic growth and jobs, urban areas will have a direct impact on two of MDGs (see box above), specifically the eradication of extreme poverty and environmental sustainability, and urban growth will have an indirect impact on the others. Local area development will lead to the achievement of goal 1. The adoption of policies for sustainable urban development is needed to accomplish goal 7. Effective urban management is essential for achieving goals 2, 4, 5, 6, and 8. Clearly, sustainable urban growth is necessary for achieving the MDGs.

### **Social foundations for a developed economy, improved environment**

Social development involves not only wider measures to be taken at a national level, such as social security reform and health and education policy, but also addresses the local problems of access to and delivery of social services across the city. While social security and health safety nets are a national responsibility, they have critical contact points at the local level—in local health centers, which link people to the national health system, for instance. Social issues are integral to addressing two other aspects of sustainable development and are also impacted by problems in these areas:

- **Environment.** Poor water supply and sanitation are major causes of health problems in many cities but community collaboration is essential to solving many environmental problems.
- **Economic development.** Poor health reduces productivity but unique cultural icons provide social cohesion and enhance social stability, and are a potential basis for tourism investment. An educated, open, and innovative culture is also a more productive one.

Poor communities have undertaken programs of in situ upgrading, legalizing occupancy for informal dwellers, and making available formal mortgage and housing and livelihood microfinance to them. These innovative small-scale community-based projects covering land, infrastructure, and housing are models that need to be replicated citywide.

Social development needs to focus on three aspects. First, it must link local facilities and systems to those of cities and the nation. Second, it must develop local infrastructure—such as schools and health facilities—efficiently and target subsidies on the poor. Third, based on the interdependency of the three elements of sustainable development, it must incorporate social development into investments in environmental and economic infrastructure and in projects that support the preservation of cultural heritage and promote innovation. The third is a new approach and it could produce significant advances. At the moment, however, the coordination mechanisms necessary to achieve such integration are lacking and this courts social disruption. It will require time, effort, and commitment to get this right.