AN EFFECTIVE APPROACH TO TERRITORIAL DEVELOPMENT

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**INCREASING DEMAND FROM POLICYMAKERS FOR ASSISTANCE ON “TERRITORIAL DEVELOPMENT”**

**National governments** focusing on development of lagging areas
- Home to the poorest/marginalized

**Sub-National governments** (provinces, states)
- Development along corridors, zones, and formation of new clusters of jobs

**Development of places** straddling “administrative” boundaries -- Common shocks across “borders”
- Muted demand for lack of “champions” but major public goods value
- Watersheds, basins, drylands, places in conflict

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<th>Drylands</th>
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<th>Corridors</th>
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[Image of diagram with categories: Lagging regions, River basins, Urban agglomerations, Drylands, Growth poles, Zones, Corridors]
A TERRITORIAL LENS ALLOWS POLICIES & INVESTMENTS TO BE BETTER TAILORED TO LOCAL ENDOWMENTS AND CONSTRAINTS

Moving from individual operations that may or may not address all binding constraints in a place to area based strategies and operations that address binding constraints to development in a coordinated manner.

- Infrastructure
- Agriculture
- Social Protection
- Support to priority industries

Rigorous Diagnostic of Endowments & Constraints

- Better prioritized infrastructure
- Alleviating constraints faced by local firms
- Alleviating constraints faced by local people

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EFFECTIVE TERRITORIAL DEVELOPMENT POLICIES
COORDINATE ACROSS SECTORAL INTERVENTIONS

Policy Instruments

- Budget Support for General reforms
- Directed public Expenditures
- Compensation for Regional unattractiveness
- Stimulate mobility of land, labor & capital

Civil service reforms
Regulatory reforms
Physical Infrastructure
Human capital
EPZs
Subsidies/Tax credits

Develop linkages
Develop local comparative advantage

Roads
Telecommunications
Power
Energy

Education
Health

Labor subsidies
Capital subsidies
Others

Help long term Mobility and productivity
Compensate for regional unattractiveness

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Growth will be unbalanced

- Trying to spread out economic production amounts to fighting the forces of economic growth

Development can still be inclusive

- Persistent spatial disparities in basic living standards are neither desirable nor inevitable

How to get both unbalanced growth and inclusive development?

**Economic integration**

- Changing debates on urbanization, regional development, and global integration from spatial targeting to spatial integration
AT THE NATIONAL SCALE

Different instruments for different challenges – Unity NOT Uniformity

China

Lagging areas have high poverty rates, but leading areas have most of the poor

Institutions to reduce economic distance
AT THE NATIONAL SCALE

Different instruments for different challenges – Unity NOT Uniformity

Brazil
Lagging areas have high poverty rates and many of the poor

Institutions and infrastructure to reduce distance and encourage density
India

Lagging areas have high poverty rates, a big share of the poor and there are ethno-linguistic divisions

Institutions, infrastructure and interventions to reduce distance, encourage density, and lower divisions

World development report 2009
Integration gets harder... as borders become thicker and more policy instruments are needed.

- **Institutions to reduce divisions in countries close to world markets**
- **Institutions and infrastructure to reduce divisions and distance for countries in regions distant from large world markets with a large economy in the neighborhood**
- **Institutions, infrastructure and interventions to lower divisions, reduce distance and encourage density in countries in regions distant from world markets without large economies**
## PRIORITIZING AND SEQUENCING TERRITORIAL DEVELOPMENT POLICIES

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A FRAMEWORK IN PRACTICE
TUNISIA – A BUMPY ECONOMIC LANDSCAPE
Prosperity is closely related to natural advantage

Source: Henderson et al. (2012)
POVERTY VARIES SIGNIFICANTLY ACROSS REGIONS IN NORTH AND THE SOUTH

While 18.5% of the population living in Kebeli is poor, the governorates only host 1.7% of Tunisia’s poor.

Poverty rate by governorate

Governorate’s proportion of total number poor

Source: ENBC 2010
SUPPORT CONCENTRATION OF PEOPLE AND JOBS TO ENHANCE GROWTH OPPORTUNITIES

• Proximity is valuable to lower costs: economic agents (firms, households) want to locate close together
  • Firms to suppliers/ customers/ workers
  • Households to jobs
  • Households & firms to infrastructure, utilities, services
  • Cheaper to provide infrastructure, utilities, services where population is dense

• Access to each of these element is necessary, but not enough: labor skills, land, …

• ‘First nature’ also matters – natural endowment of land/ resources/ coastal access

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- Education
- Health
- Labor subsidies
- Capital subsidies
- Others

Help long term Mobility and productivity
Compensate for regional unattractiveness
SPATIALLY TARGETED INTERVENTIONS ARE ONE OPTION—BUT OFTEN NOT EFFECTIVE OR SUFFICIENT

Ordos, Inner Mongolia: one of China’s “ghost cities,” despite enormous investments in place

built for 1 million people
...houses less than 30,000

Source: Time Magazine
INCENTIVES THAT UNDERMINE MARKET FORCES ARE UNLIKELY TO SUCCEED

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<th>Instrument</th>
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<td>Investment subsidies</td>
<td><strong>Brazil:</strong> Constitutional funds (interest rate subsidies)—induced entry of footloose firms, but not for firms in vertically integrated industries (Carvalho, Lall and Timmins 2005)</td>
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<td>Tax holidays</td>
<td><strong>Thailand:</strong> Income tax exemptions; sales tax reductions for firms locating in secondary cities in the 1970s—unsuccessful as deductions from taxable profits did not induce firms to locate in unprofitable locations (World Bank 1980)</td>
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<td>Reductions in import duties</td>
<td><strong>Mexico:</strong> Import duty and tax exemptions for deconcentrating manufacturing out of the three largest agglomerations—unsuccessful as tax rates were low to begin with (World Bank 1977, Scott 1982)</td>
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<td>Industrial estates/Free trade zones</td>
<td><strong>Chile:</strong> Free trade zones in Zonas Extremas with exemptions for customs, value added tax, corporate profit, and real estate taxes—successful in the high-tax, high-tariff period until the mid-1990s, performance declined with national import duty reduction from 35 percent in the 1980s to 6 percent in 2000 (World Bank 2005b)</td>
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<td>Regulation</td>
<td><strong>India:</strong> Preference to backward areas in industry licensing (1956 industrial policy), with public sector—led industrial growth in lagging areas and regulations to stop industrial expansion in leading areas—few backward areas took off, and when regulations were relaxed, these lagging areas declined further (Chakravorty and Lall 2007)</td>
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*Source: WDR 2009*
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Economic density is concentrated in the Greater Beirut / Mount Lebanon area.

Splashes of lights around Beirut in Mount Lebanon.

Other cities appear clearly as well:
- Tripoli (North)
- Zahle (Bekaa)
- Saida (South)
- Balbeek (Bekaa)
- Nabatieh (Nabatieh)
REDDUCING PHYSICAL DISTANCE DOES NOT APPEAR TO BE CENTRAL TO REDUCING ECONOMIC DISTANCE IN LEBANON

- Due to its small size, most of the country has good access to market
- North Eastern border with Syria is the least connected

Source: Global accessibility map elaborated for the 2009 World Development Report on Economic Geography
BUT THERE ARE STILL DIFFERENCES IN CONCENTRATION OF THE POOR ACROSS THE TERRITORY

Proportion of poor (%)

Poverty density

Each dot represents 1,000 poor people
TAILORING PRIORITIES TO PROBLEMS

Divisions
Interventions

Distance
Infrastructure

Density
Institutions

Advanced

Intermediate

Incipient
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EXPANDING PUBLIC SERVICES TO DISSIPATE REGIONAL DISPARITIES IN COLOMBIA

Figure 1.2  Evolution of Access to Services Based on City Size


Note: The years in the graph reflect census years. Additional censuses were carried out in 1973 and 1985 but are not included in the graph because of space constraints.
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TUNISIA: WHILE PHYSICAL DISTANCES ARE SMALL, ECONOMIC DISTANCES, AS MEASURED BY TRANSPORT COSTS, POSE A CHALLENGE

- Domestic freight transportation relies mainly on road transportation
- Expensive compared to elsewhere
- 70% are fuel costs vs 40–50 percent in SSA
  - Old trucks, poor road infrastructure, and congestion
  - Low truck utilization, empty return trips
- Highly fragmented domestic trucking industry, with many small truck operators
  - 72 percent of trips return empty
  - Particularly on short distance
- Small truckers’ operating costs are 5.4 times that of larger trucking companies
- Highly polluting

Need for third party logistics and other coordinating practices for large-scale, consolidated freight transportation

The IMF outlines infrastructure as one area requiring more effort.

In particular with the arrival of refugees.

Plans to improve the maritime and airway infrastructure.

Long-term infrastructure mega-project planned such as the Red-Dead sea and national rail network to offer more opportunities, enhance the country’s security and its position as a hub for regional commerce.

Building on past experience on better planning and legislative framework with respect to PPP.

PRIORITIZING INVESTMENT AND POLICY FOR ECONOMIC GROWTH AND WELFARE CONVERGENCE
UNCOVER SPATIAL STRATEGIES THROUGH SPATIAL TYPOLOGY

Population density

Accessibility & transport costs

Economic activity

Spatial Analysis Tools

Typology
Based on current situation and economic potential to identify bottlenecks and identify key investment and policy action
“LAGGINESS INDEX” IN LEBANON

• Compares the 89 sub districts

• Index of the three dimensions:
  • Lack of economic activity
  • Low market access
  • High poverty rates

• Al Ruwaished is the most lagging sub district (Mafraq governorate)

• Al Jami'ah is the leading sub district (Amman governorate)
Priorities for lagging areas

Are there clusters of lagging areas?
Are there outliers?

- Identify spatial clusters and outliers through a local indicator of spatial association statistic
- Two clusters of lagging regions (North and South)
- Sub districts surrounding Amman form a cluster the leading areas
- Two outliers where a dynamic region borders a lagging cluster
  - Aqaba port and tourism in the South (lowest poverty, top 5 accessibility)
  - Sabha at the border with Syria (compared to neighboring sub districts, relatively good connectivity and lower poverty)
PRIORITIES FOR ACTION

• Towards the East, population densities start to decrease and natural advantages become scarcer.

• Less than 5% of the population lives in both lagging clusters, and less than 3% of the total poor.

• On average, these sub districts fall into the category of sparsely populated poor places, i.e. there relatively few poor people in poor places.

Such investments in spatially blind institutions, such as access to basic services, health and education are likely to have the biggest impact on spatial equity and be the most valuable for the poor.
Along the **desert and dead sea highways** (Amman – Aqaba), sub-districts should focus on institutions and connective infrastructure to increase provision of basic public goods and reduce distance.

Improve connectivity to Aqaba in the South and to Amman in the North.
The governorate of Amman hosts 24% of the total number of poor and 36% of the displaced.

Irbid governorate hosts 20% of the poor and 26% of displaced.

Zarqa governorate hosts 11% of the poor and 36% of displaced.

The western sub-districts of Mafraq host 8% of poor, 14% of Syrians.

These sub-districts host a larger share of refugees, and cultural barriers may constitute a mobility constraint preventing households from migrating to more prosperous areas.

In such lagging areas, institutions and connective infrastructure will not be enough to help poor people. Targeted intervention to dissipate divisions where there are a large number of refugees and poor people are needed.
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