

Harnessing City Economies

Cultivating synergies between urban economy and spatial planning for inclusive and transformative growth.

Afghanistan's cities will undeniably be an important forum for economic transition and social integration during the transformation decade (2015-2024). Today, major cities are experiencing adverse effects of unplanned growth manifested as urban poverty, unemployment, growing income gap, and informal economy. Effective alignment of government's policies and program priorities which integrate urban economy with spatial development strategies, targeted infrastructure investments, and transforming burgeoning informal economy can lead to regionally balanced growth.

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Cementing existing roots and forging new paths

Afghan cities must balance the transition to 21st century industries with reinvigorating their historically embedded sectors and core manufacturing activities. Historically, Afghanistan's position in international and regional markets, had been firmly grounded as a supplier of agricultural and artisanal goods such as fruits and nuts, cotton, carpets and textiles. Overcoming the constraints of a land-locked country, Afghanistan served as the heart of the Silk Road. Major trading centers developed in all four directions as clustering of economic activities occurred naturally to leverage connectivity and proximity to neighboring countries. Today, these regional hubs are the five largest cities in Afghanistan – Kabul, Jalalabad, Mazar-e-Sharif, Herat, and Kandahar.

Afghan cities have undergone remarkable economic and spatial transformation, both in terms of pace and pattern of growth over the last decade.¹ Trading and Transit cities, such as Lashkar Gah, Kunduz, Taluqan, Pul-i-Khumri, Sheberghan, Zaranj, Maimana, and Ghazni, are emerging as regional economic and transit centers. Urban economic activities such as wholesale and retail trade, manufacturing, public administration, services, transport and construction, are rapidly substituting the agriculture sector's share in the country's domestic product.² Modern sectors such as renewable energy, ICT, telecommunications have been slowly expanding the urban job market and offer potential for further job creation and innovation.

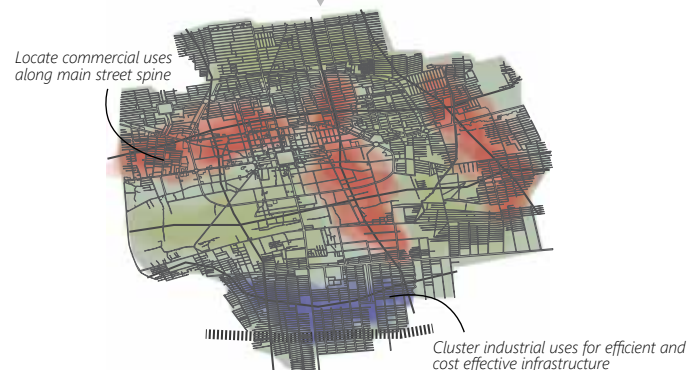
Navigating the policy domain

At the most fundamental level, policies for urban economic growth must seek to enhance drivers of competitiveness, which are: quality of life, government responsiveness, infrastructure, human resources, local economy dynamics and cost of doing business.³ In the context of complex geo-political environment of Afghanistan, long-term strategic priorities must be reinforced by leveraging existing strengths to demonstrate visible results for economic stability. The remainder of this discussion paper provides a lens into the urban economic development strategies at the city level as well as specific specialized infrastructure investments which could foster productivity and economic efficiency.

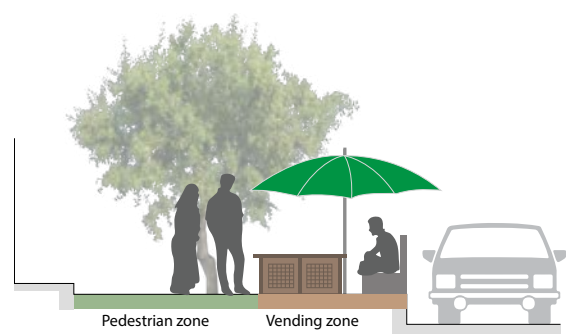
Box 1: Adopting a stratified spatial approach to design effective policies for long term impact and quick-wins



City-level: Align economic development strategies with national spatial plan



Area-level: Harmonize land use mix and promote clustering of uses for cost-effective provision of economic infrastructure



Street-level: Regularize informal markets and integrate informal economy into city fabric rather than eliminate it.

¹State of Afghan Cities, 2015.

²In 2014, urban economy, particularly the service sector contributed over 50 percent to the national domestic product while housing only 24 percent of the total population. State of Afghan Cities, 2015.

³Enhancing the Competitiveness of Cities: Unpacking and improving the drivers of city competitiveness. 2014. Discussion Paper #4, Urban Economy Branch, UN-Habitat.

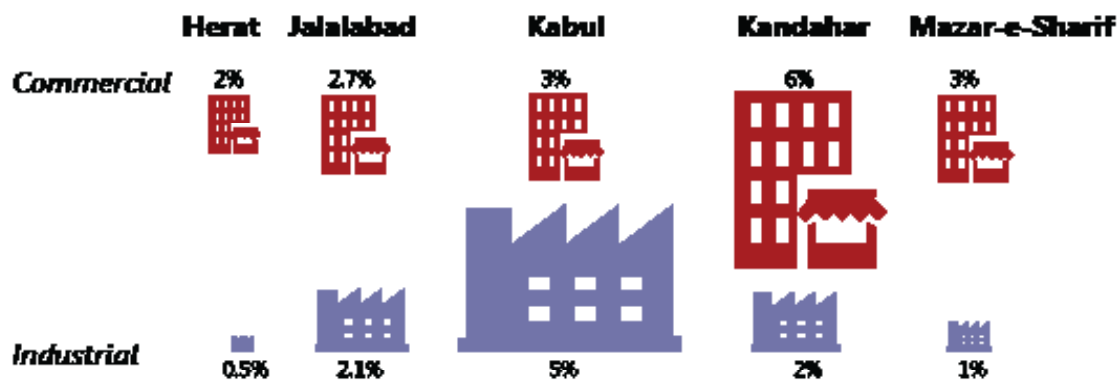
Strategy 1: City level spatial strategies for urban economy

The spatial characteristics of urban economy in Afghanistan has followed in the footsteps of spontaneous and unplanned growth of cities. The SoAC 2015 land-use data shows that commercial activities in major cities follow a linear pattern along major roads and highways connecting surrounding settlements and regional hubs, often in the form of informal market establishments. Historic city centers, such as in Mazar-e-Sharif, have also transformed

into high-density commercial hubs. Industrial uses on the other hand tend to be dispersed throughout the city, occupying small plots and situating along major roads. However, in larger cities, such as Kabul, Kandahar, Herat and Mazar-e-Sharif, industrial development is occurring within planned industrial zones which are located on the city periphery and slowly providing more opportunities for industries to access well planned and serviced plots.

Box 2: Spatial disaggregation of urban economy reveals a dysfunctional pattern of growth

Commercial and industrial footprint of Afghan cities is generally low when compared to economically well-functioning cities in US, where commercial and industrial areas consume between 5 to 7 percent of the land area in cities. In major Afghan cities, the industrial areas occupy less than 2 percent of land area with the exception of Kabul city, and commercial areas cover approximately 3 percent



Jalalabad City



Mazar-e-Sharif City



Legend Industrial Commercial Roads

Jalalabad: Commercial land uses are clustered in the city center and along the east-west spine. Industrial land uses are largely scattered often located on narrow streets. Furthermore, these industrial plots are located amidst residential neighborhoods and commercial zones, clearly, incompatible with the surrounding uses

Mazar-e-Sharif: Commercial activity is concentrated along the heritage core located in city center, mixed with institutional uses. However, the rest of the city has almost no commercial areas within walking distance and are largely dependent on the central core, which implies high commuting costs.

Ineffective and inadequate urban planning and development controls has resulted in vast areas of cities without easy access to commercial activities and dispersal of industrial centers. This in turn creates negative externalities, such as, traffic congestion, air pollution, lower labor productivity, longer travel times to work. Poor concentration also weakens the effective return on investment associated with provision of trunk infrastructure and utilities which can service larger commercial and industrial customer base.

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Clustering for competitiveness

In order to better leverage the economic dynamism of Afghan cities, urban policymakers must facilitate clustering of economic activities. Clustering can stimulate labour pooling and skill transfer, knowledge exchange, and building a market for intermediate goods, all of which lead to improved urban economic dynamics. Another salient feature of cluster approach is the focus on a network of enterprises in contrast to an individual enterprise, for improving overall competitiveness and innovation.

For dynamic and productive urban economies, integrating upstream and downstream value chains of economic activities, both spatially and functionally is critical. Urban practitioners and policymakers can utilize regulatory and financial tools to promote clustering of commercial and industrial activities in appropriate locations, with adequate parcel size and requisite infrastructure. For instance, agro-industrial clusters in Afghanistan can benefit from a detailed value chain analysis which identifies critical infrastructure needs, land allocation, research and development, access to marketing and trade associations, among other possible areas of intervention.

Strategy 2: Prioritizing economic infrastructure at strategic locations

Connectivity within cities and inter-city transportation, electricity, telecommunications, water and wastewater disposal, and other basic municipal services are essential prerequisites for urban enterprises across all scales from SMEs to large scale industries.⁴ Undoubtedly, every Afghan city is confronted with considerable infrastructure gaps. However, it is also imperative that these infrastructure needs must be prioritized based on an assessment of the growth potential of economic sectors as well as current bottlenecks and congestion forces in each city, which are restraining enterprise formation and economic development potential of urban areas.

Strategic district municipalities, such as Torkham and Islam Qala, specialize as regional trading, export-import hubs and border crossings. These emerging towns and cities will require specialized economic infrastructure to meet their unique needs. For instance, logistics and transport systems, warehouse and storage facilities, freight terminals, loading and unloading docks, customs and administrative offices in an integrated facility can lead to better facilitation of domestic and cross-border trade. Similarly, infrastructure investments must be identified in other locations in synergy with the national spatial strategy, in order to stimulate other sectors based on the resource endowments, such as construction sector value chains near mining areas, which presents opportunity to generate jobs in large proportion and presently, is amongst the largest employer of unskilled labor force and the urban poor.

Special Economic Zones (SEZs) can be established in suitable locations in the city, based on connectivity to markets, accessibility to employees, availability of land, and social and environmental

impacts. These zones offer a bundle of options – high quality infrastructure; reliable power supply; different plot sizes for small, medium and large industries; business incubators for mentoring small businesses; tax incentives including import-export tariffs. SEZs can be attractive to investors as difficult negotiations such as title disputes, land acquisition and development permits are already secured.

Strategy 3: Integrating informal economy on city streets

Burgeoning informal enterprises have created vibrant economic centers and commercial hubs in major Afghan cities. The informal economy, which remains largely unstudied, could represent up to 90 percent of the total economic activity of Afghanistan and largest employer of the labor force.⁵ In major cities, retail, manufacturing, and construction sectors are the main drivers of urban informal and legal economy activity. However, a downside of urban informality is that the marginalized urban population, particularly, women, refugees and IDPs, bear the brunt with low wages and minimum protection under the law. Without appropriate policies and street design guidelines, street vendors and informal uses such as vegetable carts, interfere with pedestrian and traffic movement, and adverse impacts on urban environment, specially pertaining to waste in many Afghan cities.

The urban informal economy is a vital source of employment and income for the urban poor and therefore, effective policy response must integrate rather than eliminate it. Two broad categories of regulatory policies can have direct impacts on the informal economy: (i) economic policies affecting the establishment, operation and productivity of informal enterprises; and (ii) social and labour protection measures affecting workers' rights and employment benefits.⁶ The overall business environment must be improved by minimizing registration, administrative and legal costs for informal enterprises to join the formal sector. For instance, licensing of street vendors and micro-enterprises coupled with improving access to basic services, markets, and office space could increase incentives to regularize.

Cities can also adopt policies to better integrate the informal sector into the urban fabric. Bangkok and Delhi have established good precedent for promoting on-street and off-street vending activities which create lively cities without impinging on the pedestrian and vehicular movements. For instance, wider sidewalks with designated space and time for street vending in well-traveled neighborhoods, such as city center, business districts, cultural areas, lead to an organized urban fabric and experience. Cities have also provided public or private land for off-street vending activities which can be daily or weekly markets for local artisans and entrepreneurs. Some successful example of this initiative are Nairobi's Maasai market and Delhi's Sunday book market. Urban leaders must consider targeted policies to facilitate livelihood opportunities which benefit the disenfranchised groups such as vulnerable families, refugees and IDPs, and women, who stand to benefit the most from informal economy.

⁴Local Economic Development in Practice - A Toolkit for LED Practitioners. Habitat, 2013

⁵State of Afghan Cities, 2015.

⁶Innovative policies for the urban informal economy. 2006. UN Habitat

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Box 3: Precedents of markets and retail areas within the public sphere and unused spaces



Highline, New York: Allowing temporary markets in un-used or under-utilized spaces such as under highways.



Old city, Jerusalem – Pedestrian only streets in city center create better ambience for formal and informal retail activities.

Ways forward

- Prepare and implement local economic development plans aligned with national spatial plan for strategic cities and municipalities of different hierarchies and functions; for instance, provincial centers such as Herat and Mazar-e-Sharif, trading and transit hubs such as Taluqan and Kunduz, provincial centers such as Bamiyan.
- Decongest city cores from incompatible industrial uses located in commercial hubs and residential areas, for instance, in Kandahar and Jalalabad, using urban planning, zoning regulations and economic incentives, along with fostering relocation into industrial parks and SEZs to leverage benefits of agglomeration.
- Improve intra-city transportation and economic infrastructure within cities and city-region boundaries to reduce congestion costs and improve business environment.
- Undertake detailed fieldwork on existing economic clusters to develop evidence-based policy instruments and infrastructure plans to reduce risk of failure of economic zones and ensure compatibility with entrepreneurial preferences.
- Regularize informal markets by undertaking citywide registration and form business improvement districts and business improvement councils in order to improve the built environment of informal commercial areas for improved city functioning.
- Sponsor and build business incubators to promote new ventures, SMEs, and startups, in collaboration with the private sector, including enterprises in the informal economy.



The Future of Afghan Cities (FoAC), is a government-led programme of MUDA, IDLG/GDMA, Kabul Municipality and ARAZI that focuses on the development of a Urban National Priority Programme (U-NPP) that will set Afghanistan's urban priorities for the coming decade. To support this, FoAC will also undertake a detailed analysis of five city regions and at least 20 strategic district municipalities to provide key data and recommendations for policy and programme design.

