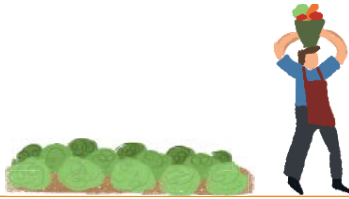


Chapter 4:

Resilient Urban Economies: A Catalyst for Productive Futures





Quick facts

1. Future shocks that significantly impact urban economies are imminent. However, there are disparities in cities' resilience to face such shocks, with some more prepared than others.
2. The informal economy is still and will continue to be vibrant economic force in urban areas of developing countries. The sector must therefore be recognized and supported as a legitimate contributor to urban economies through a wide range of inclusive policies and targeted programmes.
3. Well-planned and managed urbanization is a transformative force towards sustainable and inclusive growth in the future of cities.
4. The COVID-19 pandemic has unleashed an unprecedented crisis resulting in massive job losses, shrinking local revenues and contraction of urban economic growth. This experience demonstrates the urgency of building resilient urban economies for the future.
5. Cities in developing countries are experiencing rapid urbanization without structural transformation, thus failing to reap productivity gains, which make them highly vulnerable to future shocks.

Policy points

1. Cities should prioritize economic diversification as a critical pillar for building resilient urban economies and productive urban futures in line with the New Urban Agenda.
2. Sustainable urban and territorial planning supported with effective governance structures is critical for building resilient urban economies and productive urban futures.
3. Urban economies are more productive in peaceful and stable societies.
4. Governments should implement targeted interventions such as tailored social safety nets to strengthen the capabilities of marginalized groups.
5. Sustainable and innovative municipal finance are fundamental for optimistic urban futures.

Cities are significant accelerators of economic growth, contributing more than 80 per cent of global gross domestic product (GDP). Due to agglomeration effects and economies of scale, cities generate substantial economic activity and wealth, with tangible benefits for urban residents. For instance, in Africa, one can earn as much as 23 per cent more in cities than in rural areas.¹ This kind of income boost is a clear pointer that, if well-managed, urbanization can be a transformative force for sustainable growth that increases the productivity of cities and drives local economic activity.

The New Urban Agenda encourages governments to prioritize sustainable and inclusive urban economies by leveraging the benefits associated with well-planned urbanization processes.² The NUA also envisages cities that are adequately prepared to meet the challenges and opportunities of present and future; cities that generate inclusive and sustainable economic growth, including recognition of the informal economy.³ Moreover, SDG 8 calls for nations to pursue inclusive and sustainable economic growth as well as employment and decent work for all, trends that will be driven by outcomes in urban areas. These calls to action from the global development agenda show how urban economic prosperity is a pillar of achieving the ambitions set out in the SDGs and the NUA, as well as helping the world recover from the economic crisis caused by the COVID-19 pandemic.

Historically, cities have always been vulnerable to economic shocks and stresses. The global financial crisis of 2008–2009 impacted cities by reducing demand for manufactured goods and exports, worsening unemployment, disrupting housing markets, reducing public revenue and overall contracting local economies.⁴ But that crisis pales in comparison to the current pandemic; the COVID-19 crisis has unleashed an unprecedented stress test on urban economies, even highly competitive ones. Melbourne, Australia, for example, is projected to see a cumulative reduction in gross product of up to AU\$110 billion and stifled job growth from the onset of the pandemic to 2024, with up to 79,000 fewer jobs created than pre-COVID forecasts.⁵



the COVID-19 crisis has unleashed an unprecedented stress test on urban economies, even highly competitive ones

The economic impact of the pandemic is reverberating across regions. For instance, before the pandemic, per capita GDP in the Middle East and North Africa (MENA) region was estimated to be US\$14,000, but this figure dropped to US\$13,000 in 2020. Estimates show that regional economies in MENA could take until 2024 or 2025 to bounce back to pre-pandemic levels,⁶ with cities being the hardest hit. In Europe, the regional economy contracted by 5.9 per cent in 2020.⁷ In England and Wales, for example, urban areas could have accounted for 60.4 per cent of the total job losses due to pandemic-induced economic shocks.⁸

The economic impact of the pandemic has been variegated across the world owing to differences in the resilience of urban economies, economic structure of different urban areas, the fiscal health of various levels of government and social protection measures, among others. In developing regions, workers in the informal economy have borne the brunt of economic contraction and massive job losses, complicating their ability to rebuild their livelihoods. In developed countries, the pandemic's economic impact disproportionately affected marginalized groups such as minorities, migrants, indigenous peoples and the homeless, among others (Chapters 1 and 3). For example, migrants in European urban economies work with limited job security and without legal status, making them vulnerable to income losses in times of crises, especially sectors in which migrants were overrepresented.⁹

The pandemic also inflicted strain on the fiscal health of cities and countries. Globally, local governments were expected to have 15 to 25 per cent less revenues by 2021.¹⁰ With weakened fiscal capacity and growing pressure on public finances, local governments may struggle to invest in key infrastructure and services—critical pillars for thriving urban economies and productive urban futures. Additionally, the pandemic has not only slowed down investment into and progress towards SDG 8 on decent work and economic growth, it has also left countries grappling with inflation well above their monetary policy targets.¹¹ The tightening of global financing conditions in the face of rising inflation is projected to put more countries at risk of debt distress, further constraining their fiscal space and impeding economic growth. Already, current estimates indicate that 60 per cent of least developed and other low-income countries being at high risk of, or in, debt distress.¹²

As the world transcends the pandemic, the inflationary pressures have been exacerbated by both ongoing global supply chain disruptions and the war in Ukraine. Besides



A market in Georgetown, Guyana © Kirsten Milhahn/UN-Habitat

massive loss of life and displacement of persons, the conflict in Ukraine has further increased the ongoing disruptions to global logistics and supply chains. Additionally, since the region is a significant contributor to global food and energy supplies, the conflict is also shaking energy markets—driving up oil and fuel prices globally—and worsening food insecurity, increasing further uncertainty in the global economy already battered by COVID-19 crisis.¹³

The World Cities Report 2020 highlights how the COVID-19 pandemic provides an opportunity for policymakers to reimagine how cities can build the resilience of their urban economies to reduce their vulnerability to future shocks and stresses. Without concerted efforts at all levels of government to manage the COVID-19 crisis and recovery, the pandemic would continue to undermine the economic structures of cities and increase the level of risk aversion among businesses and depress urban investment in the long run.¹⁴ The pandemic and the emerging shocks could set the productivity of cities on a downward spiral with dire consequences on the collective vision of inclusive, equitable, resilient and productive urban futures. The multiple impacts of the recent shocks on urban economies demonstrate the urgency of investing in integrated resilient interventions, taking into account the economic needs of most vulnerable groups.

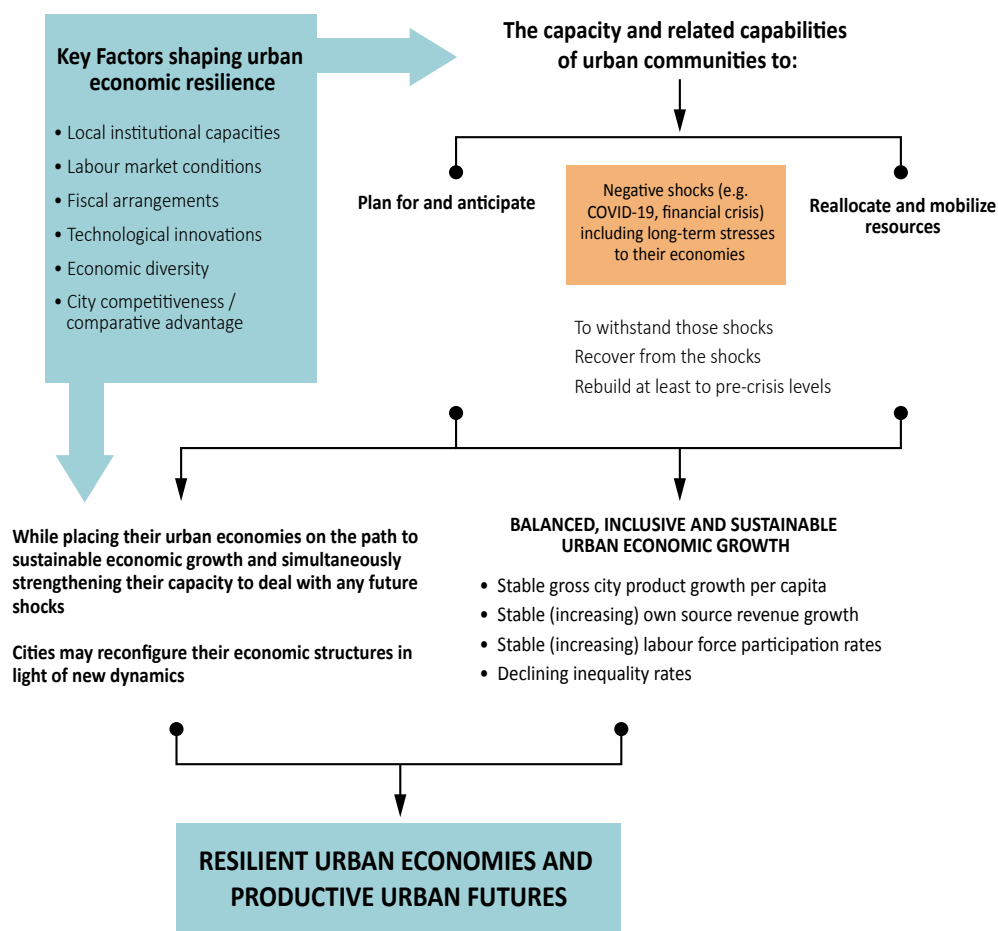
This chapter explores the pathways to resilient urban economies and productive urban futures. It analyses how the urban economy can be strengthened to withstand future shocks and crises, while examining how the urban economy can be fully fit for purpose to withstand these shocks. Additionally, the chapter discusses new innovative sources of revenue that cities can leverage for sustainable urban futures. Finally, the chapter explores the different ways city authorities can support the informal sector to achieve inclusive growth. As a prelude, the chapter introduces the concept of urban economic resilience, including its strategic pillars and how these relate to both cities of developed and developing regions. The state of urban economies in both developing and developed regions is then discussed, including implications for the future of cities. The chapter ends by discussing the transformative pathways towards resilient urban economies and productive urban futures.

4.1. Conceptualizing Urban Economic Resilience

Urban economic resilience refers to “the capacity and related capabilities of cities or urban communities to plan for, anticipate negative shocks, including long-term stresses, to their economies, allocate, reallocate, and mobilize resources to withstand those shocks, recover from the shocks, and rebuild at least to pre-crisis levels, while placing their economies on the path to sustainable economic growth and simultaneously strengthening their capacity to deal with any future shocks” (Figure 4.1).¹⁵ A resilient urban economy must be able to withstand and recover from shocks such as financial and economic crises (Chapter 10).

Cities with strong economic resilience usually have the resources and institutional capacity to implement adaptive changes and diversifying into new economic sectors, thereby making their local economies agile.¹⁶ Existing evidence suggests that economic diversity can contribute to urban economic resilience while sectoral specialization and export concentration are likely to be more vulnerable to economic shocks.¹⁷ The COVID-19 pandemic has exposed these realities; specialized

Cities with strong economic resilience usually have the resources and institutional capacity to implement adaptive changes and diversifying into new economic sectors, thereby making their local economies agile

Figure 4.1: Conceptualization of urban economic resilience

Source: Adapted and modified from UN-Habitat and UNCDF, 2021.

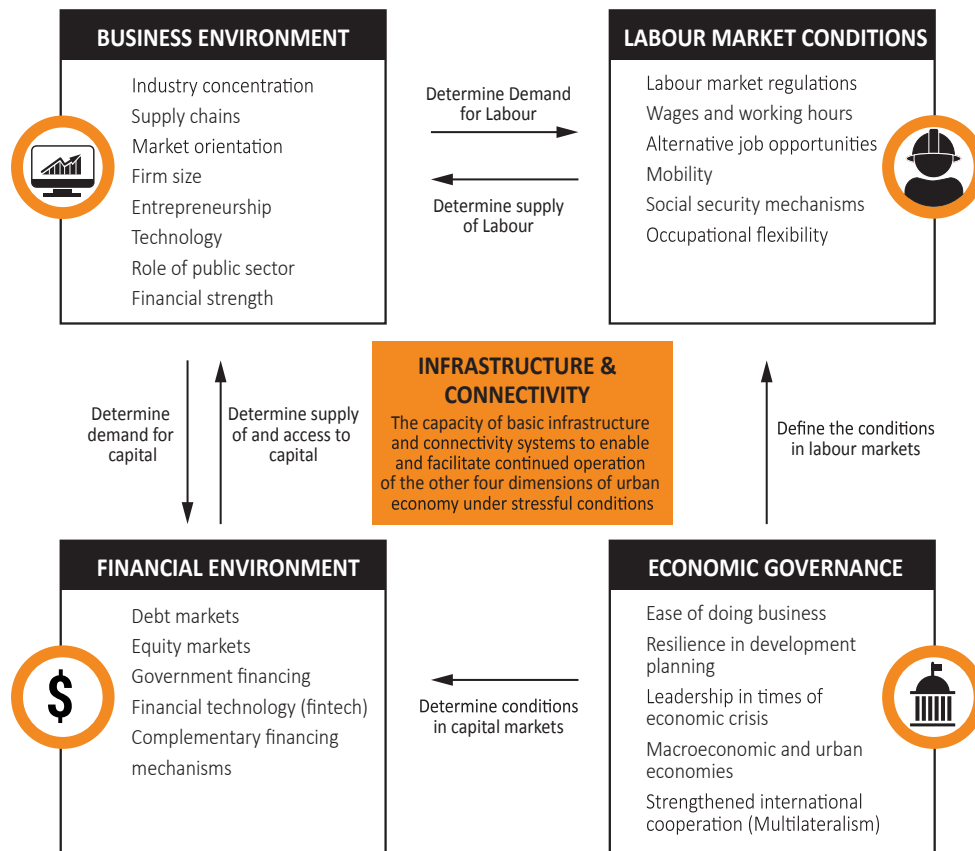
urban economies such as those who relied more on tourism and export markets were severely impacted due to restrictions in movement and supply chain disruptions. On the other hand, diversified urban economies capitalized on their innovation capacities and creative human capital in order to adapt to the new economic order necessitated by the pandemic.

As indicated in Figure 4.1, the overall objective of urban economic resilience is to achieve balanced, inclusive, and sustainable development as measured by indicators such as gross city product (GCP) growth, labour force participation rate, inequality rates and per capita gross city product and

an increase in GCP per capita, labour force participation rates and own source revenue per capita coupled with a decrease in inequality will improve the well-being of urban residents

per capita revenue. Ultimately, an increase in GCP per capita, labour force participation rates and own source revenue per capita coupled with a decrease in inequality will improve the well-being of urban residents.

Urban economic resilience is also multidimensional: its key pillars include business environment, economic governance, labour market conditions and financial arrangements (Figure 4.2). Business environment and economic governance refer to urban systems and describe, respectively, conditions for business operations (both public and private), the structure of local economies, as well as rules and regulations that govern the activities of businesses. Labour market conditions and financial arrangements refer to factor markets (labour and capital, respectively) in urban areas. Together these four pillars are critical for building resilient urban economies and productive urban futures, but their manifestation varies geographically.

Figure 4.2: Key dimensions of resilience building for urban economies

Source: UN-Habitat and UNCDF, 2021.

The informal economy and small and medium-sized enterprises (SMEs) constitute a key part of the business environment in developing country cities. On the other hand, the business environment in cities of developed countries is mostly characterized by larger firms in the knowledge industries, advanced producer services, advanced manufacturing sectors and creative industries, among others. When compared to developing countries, urban economies in developed countries are also backed by diverse labour market conditions, with highly skilled workers that can easily adapt to changes in local economies. These characteristics create favourable conditions for stronger agglomeration economies and productivity enhancing gains—making developed cities more resilient to shocks than their counterparts in developing regions.

Developed and developing country cities vary significantly in terms of the mechanics of their economic governance. For instance, most cities in developed countries usually have explicit economic development plans, policies and strategies, which are often executed. In comparison, most cities in developing regions

are operating in a context where urban policy formulation needs improvement and implementation remains a hurdle. This difference in policy contexts is reflected in disproportionate experiences in responding to shocks and channelling resources towards resilient urban economies. Compared with developing countries, developed country cities have vibrant debt, equity and capital markets, which facilitate access to reliable financing instruments to fund urban programs. As illustrated in Figure 4.2, infrastructure and connectivity systems are central to facilitate the functioning of the other four dimensions of the urban economy under stressful conditions. In building urban economic resilience, these key pillars should be considered in an integrated and holistic way.



infrastructure and connectivity systems are central to facilitate the functioning of the other four dimensions of the urban economy under stressful conditions

4.2. Urban Economies of Cities in Developing Countries

This section examines the state of urban economies in cities of developing regions, with particular focus on (i) structure of urban economies, (ii) the structure of the informal economy and its contributions, (iii) the nexus between urban planning and urban economies, (iv) dynamics of unbalanced urban and territorial economic development and (v) municipal financing, among other aspects of the economic well-being of cities. The implications of these issues for urban economic resilience and productive urban futures are highlighted, as are areas requiring specific policy attention moving forward.

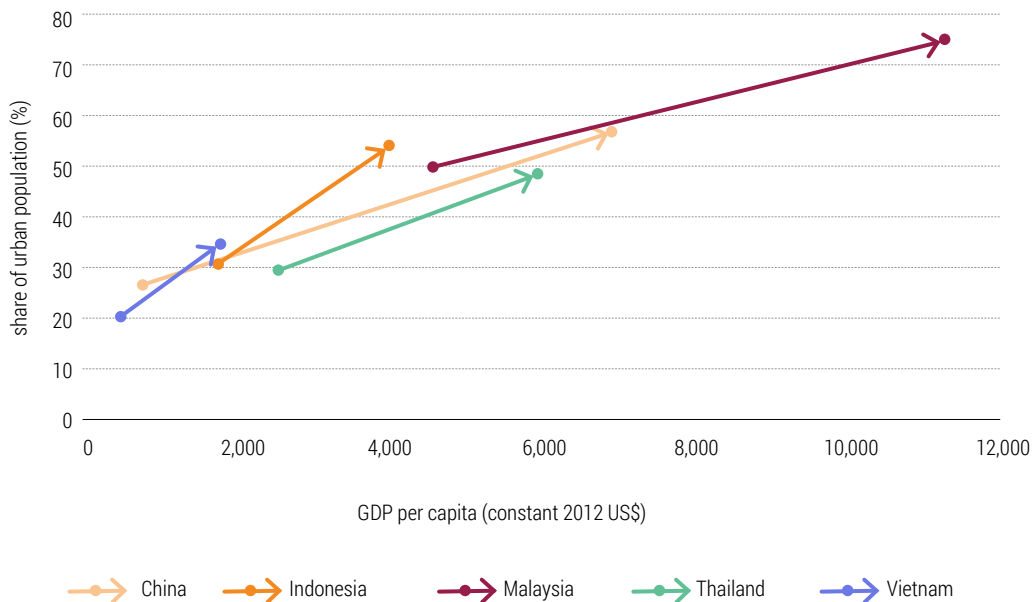
4.2.1. Economic structure of developing country cities and implications for the urban future

Countries with similar urbanization trends might nevertheless have varying urban economic structures.¹⁸ Economies of agglomeration are stronger in the manufacturing and high-skilled service sectors, which exist in most Eastern Asian and Latin American cities but are less common in Sub-Saharan Africa (SSA) or the Middle East and North Africa (MENA).¹⁹ In Eastern Asia, some countries such as China, Malaysia and Thailand have been relatively successful in leveraging the benefits of urbanization by generating higher productivity jobs (Figure 4.3).

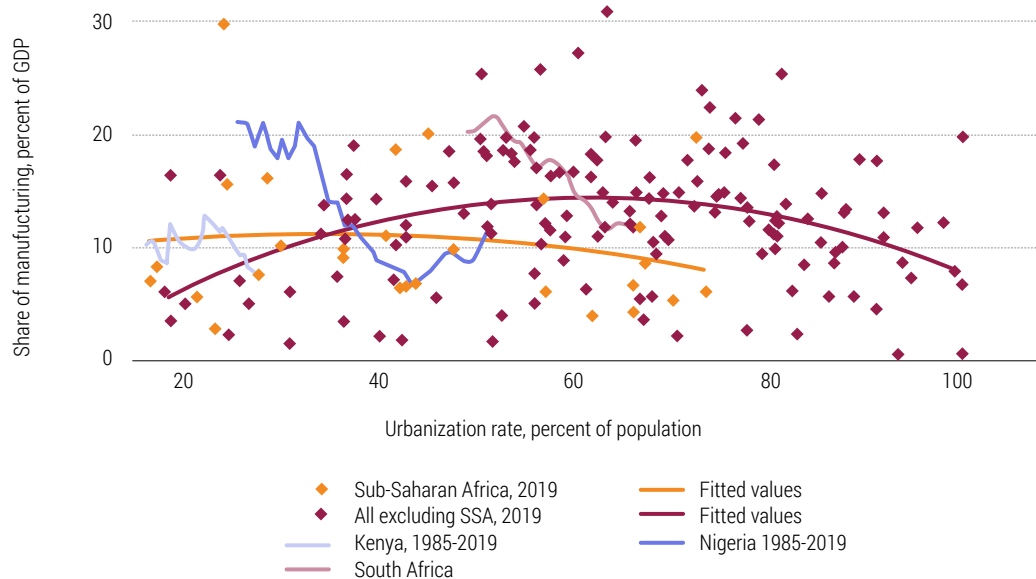


Street bazaar in Cairo, Egypt © Ieshiy985/Shutterstock

Figure 4.3: Urbanization and growth in selected Eastern Asian countries



Source: Page et al, 2020.

Figure 4.4: Urbanization without economic transformation in Africa

Source: Grover et al, 2022.

In Sub-Saharan Africa, urban economies tend to be undiversified with a limited manufacturing sector and small firm sizes. Some countries are experiencing rapid urbanization without structural transformation of their city economies, which amplifies their vulnerabilities to future shocks. These dynamics have reduced the ability of governments to promote vibrant manufacturing as a driver of sustainable economic growth.²⁰ Mauritania, for instance, despite being one of the most urbanized countries in the region, exhibits the possibility of a weak link between urbanization and growth; the country's economy remains largely reliant on natural resources. In this so-called "incomplete urbanization" scenario, the process of urbanization is not commensurate with parallel increases in GDP per capita.²¹ Simply put, Mauritania has not benefitted from the economic dividends that typically accompany urban growth. Similarly, Nigeria and South Africa have seen their shares of manufacturing in GDP decline even while they experienced rapid urbanization (Figure 4.4).²²

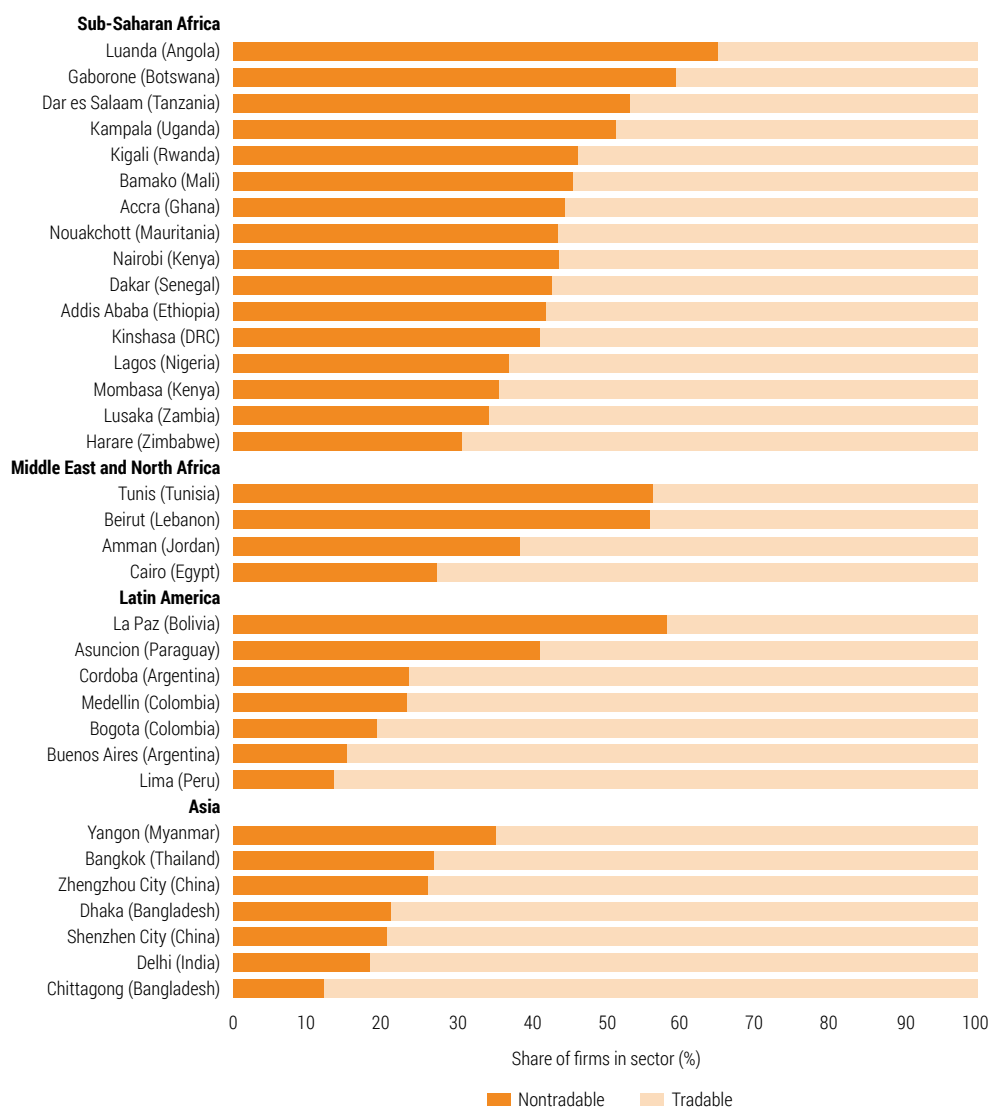
Despite urbanization being a key feature of structural change, in most African cities, a majority of the urban population currently does not have access to productive jobs.²³ In Mozambique, Sierra Leone and Tanzania, at least 30 per cent of the urban population are still employed in agriculture.²⁴ African cities do not fully reap the benefits

of agglomeration economies and specialize primarily in producing non-tradable goods and services.²⁵ Notably, the share of tradable commodities in Asian cities is comparably higher at about 70 per cent, which is 20 percentage points higher than that of African cities (Figure 4.5).²⁶

The dynamics in Figure 4.5 also play out in so-called "consumption cities" where a large share of urban workers is employed in non-tradable service sectors (e.g. commerce, transport and government services).²⁷ Because of their economic structure, consumption cities do not generate significant productivity gains and knowledge spillovers, making them highly vulnerable to future shocks.²⁸ These dynamics discourage firms and workers from moving to cities where there is no guarantee of enjoying productivity-enhancing benefits.²⁹ If the current trajectory of urbanization without structural transformation continues, the prospects for resilient urban economies and productive urban futures



Because of their economic structure, consumption cities do not generate significant productivity gains and knowledge spillovers, making them highly vulnerable to future shocks

Figure 4.5: Share of firms in internationally tradable and non-tradable sectors in selected developing country cities

Source: Page et al, 2020.

in developing countries could be significantly inhibited. In Southern Asia, for instance, limited economic diversification as well as poorly organized labour markets are among the key factors that made urban economies highly vulnerable to economic crisis induced by the COVID-19 pandemic. In this region, economic diversification is low or minimal, with near single-industry economies especially susceptible to supply and demand shocks in countries like Bangladesh (garments), the Islamic Republic of Iran (oil) and Maldives (tourism).³⁰

Moving forward, there is an urgent need for various levels of governments to rethink their industrial and growth policies so as to promote the development of more complex, high-skill and high value-added sectors to build the resilience of urban

economies to future shocks. The MENA region, for example, has longstanding economic structural problems such as low GDP growth, low employment especially among women and youth, low human capital index, a large informal sector, weak investment climate and poor amounts of foreign direct investment.³¹ These problems have been amplified by the pandemic and are key impediments to the long-term growth of urban economies. In some parts of the MENA region, urban economies face multiple vulnerabilities beyond low and minimal diversification. These vulnerabilities include high-intensity conflict in Libya and Syria, medium-intensity conflict in Iraq and Yemen, and social fragility in Lebanon, the West Bank and Gaza, among others.³²



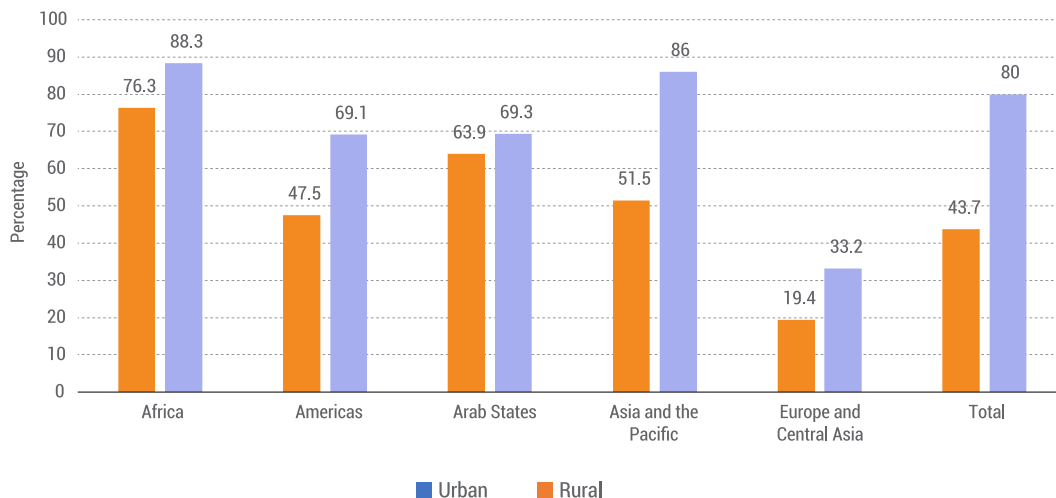
Open air market in Bangalore, India © Shutterstock

Conflicts in this region, as well as other regions across the world, not only result in loss of life, they destroy local economies. The continuation of these conflicts does not augur well for urban economies and productive urban futures. Not only will infrastructure be destroyed, but supply chains will also be continuously disrupted. By implication, urban competitiveness will suffer, and any prospects of domestic and foreign investment will fade. This ultimately will create a vicious cycle where cities in conflict-affected regions will continue to experience disintegration of their economic structure, which has negative repercussions on productive urban futures.

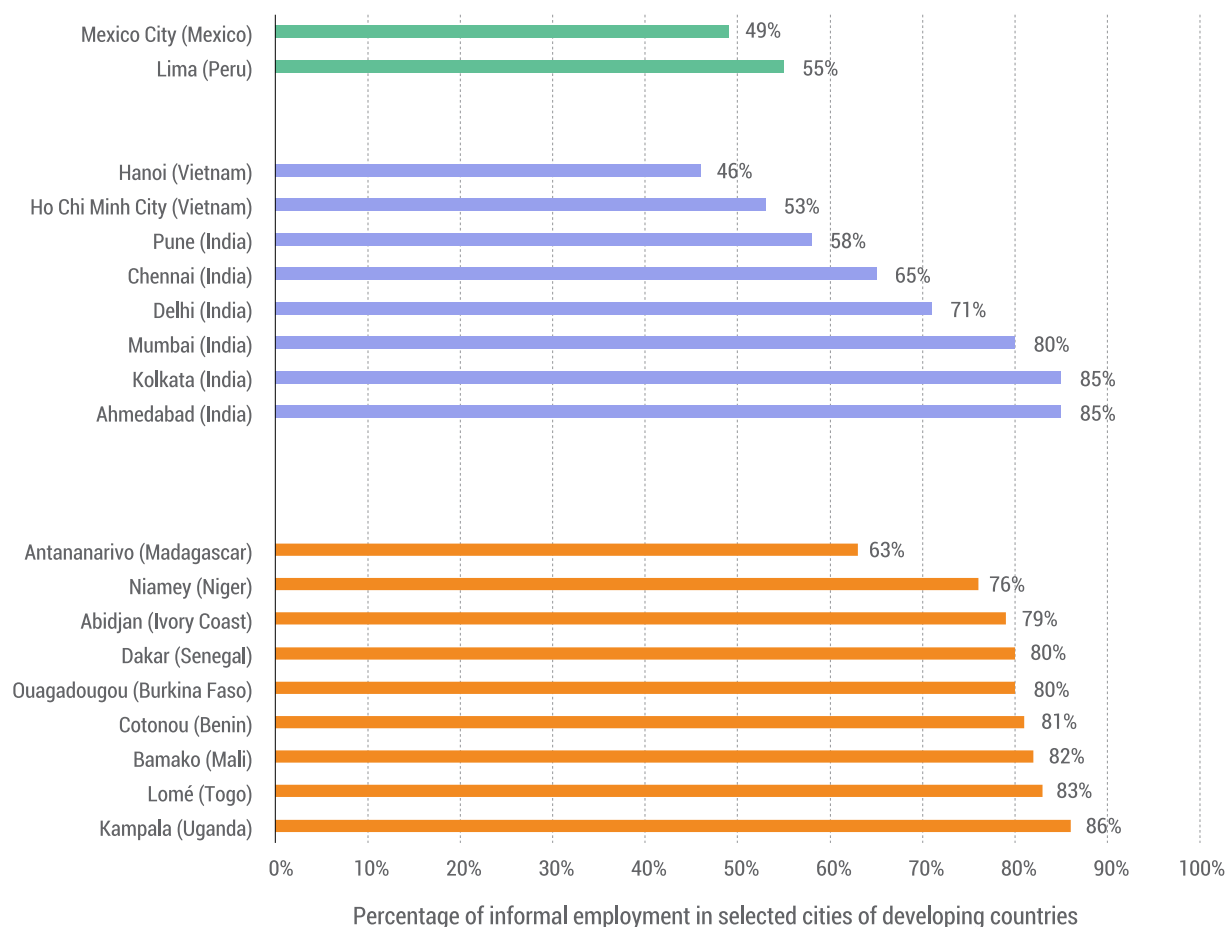
4.2.2. The informal economy and prospects for productive urban futures

As pointed out in the World Cities Report 2020, the informal economy has become the lifeblood of many cities in developing countries. Indeed, 61.2 per cent of global employment is in the informal sector.³³ In emerging market and developing economies (EMDEs), the informal sector contributes about one-third of GDP and more than 70 per cent of employment.³⁴ International Labour Organization (ILO) data shows that 85.8 per cent of employment in Africa is informal. In Asia and the Pacific as well as Arab States it constitutes 68 per cent of employment; in Americas, 40 per cent; and in Europe and Central Asia, 25.1 per cent.³⁵ The prevalence of informal employment is highest in urban areas of Africa (Figure 4.6 and Figure 4.7).

Figure 4.6: Share of informal employment in total employment by area of residence



Source: ILO, 2018.

Figure 4.7: Informal employment in selected developing country cities

Source: Chen and Beard, 2018.

Informal workers from slums also make significant contributions to urban economies in developing countries. For instance, informal waste pickers, a majority of whom are slum dwellers, perform 50 to 100 per cent of waste collection in developing countries. As of 2014, waste pickers in South Africa saved municipalities between R300 million and R750 million per year by extending the life of landfills.³⁶

The informal economy still faces structural impediments that affect its productivity. In most cities in developing countries, the informal sector is not recognized as a legitimate contributor to urban economies. Most cities in developing countries deploy exclusionary urban policies to penalize informal workers for their livelihood practices, especially those in public spaces like street vendors. Waste pickers are denied access to waste management contracts and their contribution to the urban economy is undervalued by city planners.³⁷ The informal economy is almost always perceived

as a residual and low productivity sector, and hence receive little or no support in terms of access to infrastructure, finance, social protection systems and markets.

These multiple barriers constrain the productivity of informal workers despite their contribution to the livelihoods of the poor and urban economies. In Sub-Saharan Africa, for example, the productivity of informal firms is estimated to range from one-fifth to one-quarter that of formal firms.³⁸ This disparity translates to precarious incomes and little contribution to urban economic activity. Informal workers also struggle to accrue adequate savings, thereby increasing their vulnerability to future shocks.

The COVID-19 pandemic has amplified the structural barriers confronting the informal economy, which could further undermine its productivity and contribute to worsening poverty (Chapter 3). Yet, in some cities the

Box 4.1: Informal economy: Surviving, managing, thriving in conflict-affected situations

In fragile and conflict-affected situations, the informal economy provides a dynamic and systemic response to the prevailing challenges as well as opportunities. For many informal workers such as fruit sellers and street food vendors, work continues despite the crises. However, the main challenge is surviving a highly volatile context riddled with urban violence that disrupts transport, supplies and markets.

Time and again, especially in fast-burn crises, a solidarity system of survival emerges in which barriers break down and communities unite to face a common threat. Humanitarian interventions often miss this adaptability, ingenuity and solidarity and thus undermine the potential for self-help, for example in early replacement of basic services lost during the crisis.

For informal workers, growth (e.g. transition to managing enterprises) requires more security, market stability and operating space so that capital investment in supplies and equipment is not wasted. This means rebuilding the complex networks that sustain informal workers and enable them to operate—such as suppliers, transport networks, mobile phones, links to middlemen, and relationships of trust and credit. Here flexibility to adopt blended livelihoods combining income streams from several jobs is critical, but action by local officials as well as security or aid agencies can disrupt these fragile networks. Such networks are also vulnerable to co-option and extortion by criminal gangs. Early intervention to prevent such coercion taking hold is critical.

Some informal enterprises and workers find capacity to thrive in the hostile business environment of crises. These include transport operators supplying aid goods; skilled reconstruction workers; and migrants, internally displaced persons or refugees with access to diaspora networks to support trade and investment. This phenomenon has been vital in the emergence of Somaliland. Refugees, however, face constraints when the legal frameworks in host countries do not support their right to work, condemning them to unofficial income-earning activities.

Lastly, development agencies that focus on economic reconstruction for formal businesses often miss the local economic development potential of the many smaller enterprises which flourish in post-conflict cities, despite unsupportive regulatory frameworks or hostile local government actions.

Source: UN-Habitat, 2019c.



informal economy does not exist in the shadows but rather constitutes the bulk of economic activity. Notably, in fragile and conflict-affected situations, it performs a vital labour-absorbing function through its ability to provide employment opportunities during crises (Box 4.1). Therefore, the challenge for policymakers is how to effectively harness this sector for building resilient urban economies that can withstand future shocks

As we move into the future, cities and subnational governments should implement policies and programs to support transition to formalization and create opportunities for decent and productive employment. Doing so will help achieve SDG 8 the provisions of the New Urban Agenda that call for harnessing the informal economy. Transition to formalization should be backed by tailored support measures such as access to affordable finance, markets and infrastructure to strengthen the resilience of informal enterprises and boost

their contribution to productive urban futures and urban economic resilience. Increased productivity of the informal economy could lead to better incomes and reduced poverty levels (Chapter 3). It is likely that the informal economy will expand significantly in the future, thus, urban policies should be developed with this reality in mind.

4.2.3. Poorly planned and managed urbanization undermines productive urban economies

In fast-growing cities, current deficiencies in planning coupled with limited housing supply contribute to the massive expansion of highly crowded informal settlements that are underserved in terms of basic infrastructure and services. These institutionalized deprivations create vicious cycles of low economic growth, low tax revenue bases and subsequent perpetual decline in infrastructure investment and services due to inadequate revenue. African cities are often described as crowded, disconnected, and costly—the

Figure 4.8: The CDC dilemma facing African urban economies

Source: Lall et al, 2017.

“CDC dilemma” (Figure 4.8).³⁹ African cities are 23 per cent more fragmented than Asian and Latin American cities,⁴⁰ which increases the cost of infrastructure provision. Such cities become less competitive and struggle to attract both domestic and foreign investment.

As shown in Figure 4.8, poorly planned urbanization processes translate to a disconnect between the provision of infrastructure and residential concentrations, resulting in unreliable transport systems. This negatively affects the ability of cities to leverage agglomeration economies of scale.⁴¹

The CDC dilemma has a negative impact on urban economies due to limited accessibility of opportunities, including limited ability of residents and businesses to access markets, employment opportunities, healthcare (e.g. hospitals) and education (e.g. schools and universities). All of these amenities are critical to urban economic development.⁴² For example, heavy traffic congestion and informal transportation systems constrain accessibility to employment in Nairobi. Residents who rely on public transport (minibuses known as matatu) can only access 4 per cent of opportunities within a 30-minute timeframe, as compared with almost double that share (7 per cent) in Buenos Aires, Argentina.⁴³ Once cities become crowded, they generate massive diseconomies of scale (Chapter 6). Similarly, in Southern Asian cities, poorly managed urbanization creates congestion costs coupled with increased pressure on land, housing and urban services.⁴⁴

This kind of messy urbanization undermines the potential of powerful agglomeration economies to bring about

prosperity, which in turn undermines the drive towards productive urban futures. In some developing country cities, authorities have adopted strict land-use controls that limit opportunities for densification. Most African cities, for example, still retain regulatory standards passed on from the colonial era.⁴⁵ These land-use policies produce dysfunctional cities by encouraging sprawl rather than compact development.⁴⁶ Chapter 2 already lays out the future scenarios of such growth and calls for such spatial growth should be anticipated with sound policies that promote compact development.

Taken collectively, these multiple dynamics create structural impediments for urban economic prosperity and inclusive growth as envisaged in the New Urban Agenda. These conditions undermine the economic productivity and competitiveness of cities, making them unattractive to both domestic and foreign investment. For rapidly growing cities in Asia and Latin America, broader economic policies should provide right incentives for productive and sustainable growth. For example, urban and territorial planning as well as investments in infrastructure should be linked with the objectives of structural transformation (Box 4.2).



messy urbanization undermines the potential of powerful agglomeration economies to bring about prosperity, which in turn undermines the drive towards productive urban futures

Box 4.2: Urban and territorial planning, infrastructure investment and structural transformation

The global view on financing development in low- and medium-income countries is changing, with the focus moving from dispersed grants to supporting major investment in key infrastructure. Flagship programmes that take this new approach include China's Belt and Road Initiative, the European Union (EU)'s Global Gateway, and the Build Back Better World (B3W) initiative of the US and Group of Seven. This shift inevitably raises question about the role of cities and their development in these large infrastructure investment programmes given the territorial dimension of development that underpins any kind of structural transformation in low- and medium-income countries. Linking investment in regional and urban infrastructure to structural transformation of national economies is an important prerequisite to sustainable investment.⁴⁷ The EU Global Gateway strategy, for instance, has a strong focus on infrastructure investment that enhances connectivity at different territorial scales. Such a strategy views agglomeration economies as fundamental factors that can kickstart a steady and sustainable process of economic development while also aiming to reduce negative environmental issues and generate higher standards of living for the population.

UN-Habitat, as the urban focal point within the United Nations system, promotes urbanization as a vehicle for economic development for a country, with a clear emphasis that investment in urban infrastructure and services underpins economic transformation. In this regard, pursuing investment in urban development coupled with sound territorial planning as a mechanism to achieve structural economic transformation can lead to more investment synergies in various sectors of economy. Territorial analysis of planned investment in infrastructure and urban development can help achieve coherence of impact for large and medium-size investment projects.

An example of where the United Nations can add value through the territorial dimension of economic transformation is the *Territorial-Industrial Atlas for Investment Attraction: High-potential industries in Mexico* prepared by UN-Habitat and the United Nations Industrial Development Organization in partnership with the Government of Mexico.⁴⁸ This novel approach to attract foreign investment is founded on urban and regional planning perspectives.

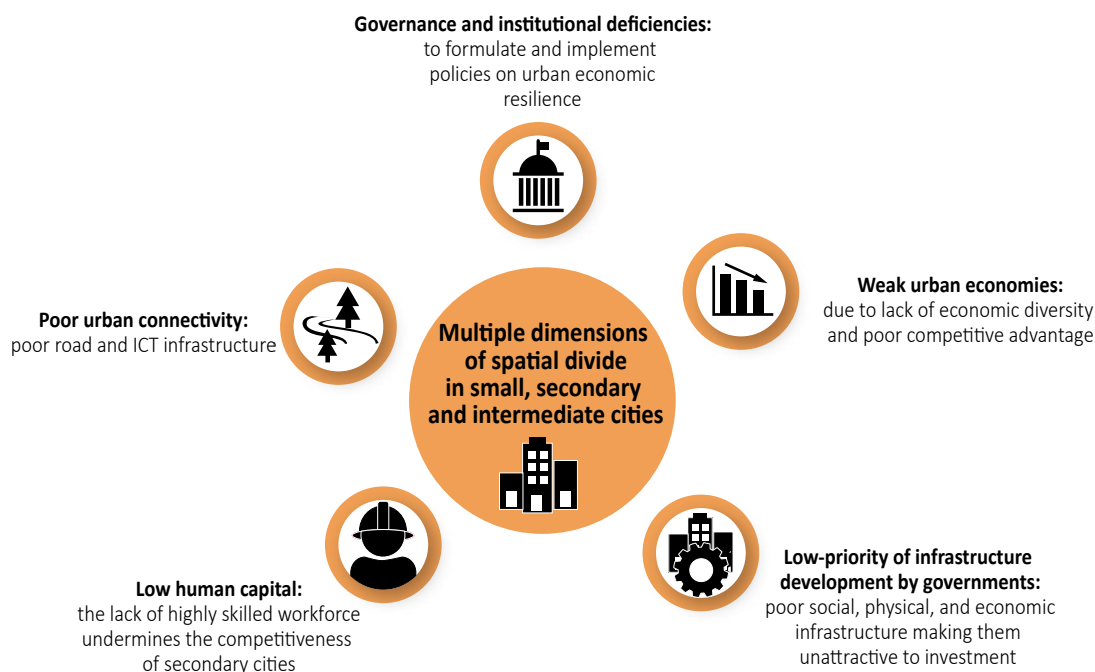
Lastly, achieving synergies for investments and ensuring coherence of impact can be underpinned by better coordination of public revenue and expenditure (e.g. investing and operating infrastructure) at the national and sub-national levels and including external finance in the complete system of public finance.⁴⁹

Source: UN-Habitat Office for European Institutions Brussels.

The future of urban economies in developing country cities will depend on the policy decisions taken today. Looking ahead, policymakers at various levels of government must counter the negative impacts of poorly planned and managed urbanization and set their cities towards economic prosperity. If the current unsustainable trends persist, developing countries will continue experiencing underleveraged urbanization and their cities will potentially remain locked in congestion pressures for decades to come. Therefore, national, regional and local governments should ensure that connectivity is enhanced at the city and regional level to alleviate both current and future congestion pressures and facilitate the exploitation of agglomeration economies, thereby enabling the tremendous untapped potential of cities to be realized.

4.2.4. The dilemma of unbalanced urban and territorial economic prosperity

While megacities have long dominated the urban conversation and will continue to play a prominent economic role, most of the future urban growth will occur in small, intermediate and secondary cities.⁵⁰ However, economic growth, infrastructure investments and employment opportunities tend to be concentrated in large metropolitan areas. This so-called “big city bias” and winner-takes-all urbanism propels large places to grow economically faster than smaller places, which concentrates development in a small footprint as opposed to allowing for more diffused spatial development across territories. Such asymmetrical development is compounding the urban spatial divide, especially regarding secondary cities—whose population often face multiple deprivations relating to income, employment, health, water,

Figure 4.9: Dynamics of asymmetrical development in secondary cities in developing countries

sanitation and housing (Chapter 3). For instance, in Sri Lanka, both Colombo and the Western Region Megapolis are better connected and have stronger and more diversified economies as compared with other urban centres, which results in regional disparities in economic development.⁵¹

Figure 4.9 illustrates the dynamics of asymmetrical development in secondary and intermediate cities in developing countries. Because of “big city bias,” small, secondary and intermediate urban areas have weak capacities to develop and implement policies on urban economic resilience. Governments do not prioritize investments in infrastructure and services (e.g. water, sanitation, energy, transport and housing) in these small, intermediate and secondary cities. The lack of core infrastructure and services undermine the potential comparative advantage of secondary cities to attract investment and retain skilled human capital. This disinvestment makes their urban economies more easily succumb to future shocks and stresses.

The message emerging from these dynamics is that infrastructure investments and urban planning interventions should not be biased towards megacities.⁵² Instead, governments must pay attention to small and secondary cities that might be left behind or otherwise ignored in national and regional economic development strategies.

Government at all levels should revamp local infrastructure and services in small and intermediate cities in order to match the future capabilities needed from domestic and foreign firms. Doing so is a response to the call by the New Urban Agenda to support the implementation of balanced territorial development policies, including strengthening the role of small and intermediate cities in urban economic development.⁵³

governments must pay attention to small and secondary cities that might be left behind or otherwise ignored in national and regional economic development strategies

4.2.5. Financing urban infrastructure in cities of developing countries

Local and regional governments require significant amounts of financial resources to support their urban economies. In Africa and Asia, estimates suggest that over the next 30 years investments of around 5 per cent of GDP will be required to meet the demand for infrastructure, housing and public services to support rapidly growing urban populations.⁵⁴ At the same, most city governments in developing regions face severe barriers to financing key infrastructure investments in line with SDGs, particularly doing so in an inclusive

Figure 4.10: Own source revenue per capita of local governments by country income group (US\$)

Source: Based on data from UN-Habitat et al, 2021.

manner that reaches the most vulnerable urban populations (Chapters 6 and 8).⁵⁵ Managing own-source revenue systems in developing countries remain a major challenge; low-income countries generate around US\$12 per capita per year from own-source revenue in local governments, compared with US\$2,944 per capita per year in high-income countries (Figure 4.10: Own source revenue per capita of local governments by country income group (US\$)). For example, Iwo, Nigeria; Lucena City, Philippines; and Pekalongan, Indonesia, raise about US\$14, US\$54 and US\$101 per resident per year, respectively.⁵⁶ Given the significant investments needed to build sustainable and resilient infrastructures, there is an urgent need to build adequate fiscal capacity.

City governments in developing regions largely rely on intergovernmental transfers, and to some degree their own internally generated revenue (e.g. property taxes, planning and licensing fees), in order to fund capital projects. Intergovernmental transfers account for 90 per cent of local revenues in Kenya, Tanzania, and Rwanda. This figure demonstrates very limited power and capacity by cities to collect their own revenues.⁵⁷ Property taxes account for only 20 per cent of financial resources in developing countries.⁵⁸

Trends across regions are a cause for concern with regards to sustainable urban finance. The tax base in Asia-Pacific cities continues to contract, which undermines the ability of city governments to invest in key urban infrastructure.⁵⁹ In countries such as Afghanistan, Maldives and Nepal, the central government sets all local revenue rates,⁶⁰ undermining the flexibility of municipalities to exploit the potential of their tax bases. In Pakistan, large cities can only mobilize 7 per cent of their financial resources from own-source revenues.⁶¹ Similarly, the collection of property taxes in Latin American countries is a paltry 0.3 per cent of GDP.⁶² Cities in developing countries also face constraints in accessing city-level debt as most lack the necessary revenue autonomy and capacity to

develop creditworthy projects. Currently, only 20 per cent of the largest 500 cities in developing countries are considered creditworthy, undermining their capacity to fund key urban infrastructure investments.⁶³

The COVID-19 pandemic has significantly weakened the fiscal capacity of local governments in developing countries. For example, based on projections early in the pandemic, African cities were expected to lose 65 per cent of their local revenue.⁶⁴ If current trends persist, the investment capacities of African cities could be severely devastated, undermining the ability of municipal governments to build resilient urban economies and productive urban futures. In Colombia, there was a 38 per cent nationwide decline in municipal property taxes in the first half of 2020.⁶⁵ This unprecedented financial pressure on cities in developing countries may continue or deepen in the post-pandemic recovery phase. Without decisive action, these trends could potentially paralyze cities' capacity to reactivate their economies towards productive urban futures.

Overall, effective urban financing in developing countries depends on more nuanced approaches to fiscal decentralization, as well as the capacity of local governments to mobilize endogenous resources. Collaboration among various levels of government, even if fluid and negotiated, ensures more effective outcomes of investment in urban development.⁶⁶ In this context, improving investment planning, strengthening local revenues, and coordinating national, local, and external financing are key policy streams helping improve effectiveness of public and private investment in urban development (Box 4.2). When planned responsibly and based on sound, but not necessarily exhaustive, cost/benefit analysis and supported by adequate regulations, the financing and development of infrastructure can be used as an engine for the development of institutions, policies, and capacities at all levels and across all sectors of governance in these countries.⁶⁷

4.3. Urban Economies of Cities in Developed Countries

This section analyses the structure of urban economies in developed countries, highlighting both strengths and weaknesses and implications for the future of cities. Cities of developed countries have unique features: diversified urban economies, high urban productivity, ageing populations, high value-added sectors, technology driven industries and increased number of shrinking cities among others. The ways in which these characteristics shape the future of resilient urban economies and productive urban futures are discussed, as well as the state of financing for urban economies in developed countries.

4.3.1. Economic structure of developed country cities and implications for the urban future

Urban economies in developed countries are more equipped to bounce back after shocks, as currently witnessed in the case of the COVID-19 pandemic where many hard hit metropolitan areas are now once again showing strong economic indicators. This resiliency is because cities in developed countries have more diversified economic structures, stronger economic foundations, are more resourceful and can quickly deploy policy measures in partnership with national government to revamp their economy. Megacities such as New York, London, Sydney and Paris are primarily “production cities,” where most workers are employed in manufacturing or tradable services like finance, business services and creative industries. These cities generate significant productivity thereby putting them in a strong position to attract firms, people and resources.



cities in developed countries have more diversified economic structures, stronger economic foundations, are more resourceful and can quickly deploy policy measures

Overall, urban productivity—measured by the total GDP generated by industry and services divided by total urban population—is high in developed country cities, averaging US\$50,000 per capita.⁶⁸ Cities like New York and Los Angeles, for example, are highly productive because they have larger metropolitan labour markets where workers have access to sizeable, more diversified pool of jobs while firms have access to a larger, more diversified pool of workers⁶⁹—thus, maximizing agglomeration economies.

Large and more diversified labour markets enable firms to withstand both positive and negative shocks by quickly adjusting their labour profiles in light of economic changes. In the Canadian province of Ontario, large and more diversified metropolitan regions such as the Greater Toronto Area (GTA) have a strong economic base to withstand the impact of the failing traditional manufacturing sector.⁷⁰ Cities in the GTA are already embracing the new wave of creative and technology-led economies. In Australia, mid-sized towns have diversified their economies beyond their single industrial bases (e.g. mining and manufacturing) to reduce the vulnerability of their urban economies to shocks.⁷¹ During the global financial crisis of 2007–2008, major capital regions in Europe with diversified high-value functions were able to generate more, or at least lose fewer, jobs than their respective country averages,⁷² demonstrating agility and resilience to withstand and recover from economic shocks.

Faced with the COVID-19 crisis, European local and regional authorities exhibited varying degrees of vulnerability depending on their economic geographies and their ability to withstand external shocks

Faced with the COVID-19 crisis, European local and regional authorities exhibited varying degrees of vulnerability depending on their economic geographies and their ability to withstand external shocks. Sofia, Bulgaria, with its large share of services, especially in high-tech and trade, was more flexible and less affected by the pandemic-induced economic stress. Overall, unemployment remained below 10 per cent in large municipalities in the country because of opportunities for teleworking, largely supported by better information and technology (ICT) infrastructure.⁷³ Although most cities in advanced economies are more diversified, there are regional variations. Tyrol and Salzburg, Austria, were significantly affected by the COVID-19 pandemic because their economies are specialized for the tourism industry. Similarly, in Finland, both large and smaller cities dependent on tourism had a comparable experience.⁷⁴ These trends demonstrate that overdependence on a single economic sector could potentially set urban economies on a downward spiral in the event of economic shocks.

4.3.2. Shrinking cities and the future of urban economies

Advanced economies, especially those in Eastern Asia, Europe and North America, face the challenge of shrinking cities (see Chapter 2). Shrinking cities are characterized by



Restaurant in downtown Graz, Austria © Anton_Ivanov/Shutterstock

economic downturns and employment outflows, which leave them with predominantly ageing populations who are less adaptable to emerging economic trends.⁷⁵ In such cities, jobs in different sectors such as traditional manufacturing and mining are disappearing⁷⁶ because of deindustrialization, structural changes in urban economies and shifts in the global economy. For example, the relocation of automobile manufacturing firms to developing countries (e.g. Mexico) was a contributing factor to municipal bankruptcy in once booming manufacturing cities such as Detroit.⁷⁷

Likewise, cities in Eastern Europe and Eastern Asia are shrinking due to a combination of multiple factors, including ageing population, economic restructuring and declining urban economies.⁷⁸ In Australia, the loss of employment in mining towns leads to a downward spiral of massive outmigration from once booming mining towns.⁷⁹ The loss of skills, knowledge and innovation from shrinking cities has dire consequences for the future of urban economies in these places.

Going forward, in order to encourage the “optimistic scenario” described in Chapter 1, urban leaders in shrinking cities should plan for future growth while anticipating shrinkage by deploying a combination of urban policy and investment instruments to revive urban economies, including embracing the creative and technology-based sectors. Economic diversification becomes urgent to save these places from becoming “ghost cities.” If cities continue to experience urban shrinkage without any remedial measures, future economic growth is bound to be curtailed in multiple ways. For example, a rise in vacant buildings reduces the capital value of real estate and creates a diminishing tax base.

4.3.3. Financing urban economies in developed country cities

Advanced countries usually have well-developed capital markets, where debt and equity financing instruments can be deployed to fund ambitious infrastructure projects⁸⁰ and provide reliable basic services. Several municipalities have investment-grade credit ratings, typically linked to property-based tax revenues. Cities in advanced economies already leverage debt. For example, the US municipal debt market is worth approximately US\$4 trillion.⁸¹ High per capita incomes also mean that many infrastructure investments can generate revenues that enable cost recovery and sustained economic growth.

However, cities in developed countries grapple with investment needs to replace ageing infrastructure like water and sewerage pipelines and new transport links, which often requires billions of dollars. Australia has invested sufficiently over the past several years to meet or exceed their infrastructure needs and will arguably be able to spend less going forward than they have in the past.⁸² Conversely, countries such as Germany, the UK and the US face major gaps between their current spending commitments and estimated needs.⁸³ For instance, New York City has more than 1,000 miles of water pipe that are more than 100 years old.⁸⁴

Despite their advanced economies, the impact of the COVID-19 pandemic on municipal revenues in developed countries has also been catastrophic. Local and regional authorities in the European Union have faced remarkable pressure on their budgets as they make substantial increases in expenditures to sustain their local economies (Table 4.1).

Table 4.1: COVID-19 induced municipal revenue losses in selected European Union countries

EU country	Estimated losses in local and regional authority revenues (in Euros)
France	Estimated net loss of revenue for all local and regional authorities was €5 billion (which constitutes 2.4 per cent of operating income). Municipalities suffered a sharp drop in tariff and tax revenues.
Germany	In 2020, municipalities experienced €6 billion (5.7 per cent) loss in tax revenues compared to 2019; business tax dropped by €5 billion; user fees fell by €1.4 billion (8.8 per cent) in the first half of 2020.
Italy	Estimated €8.4 billion of losses or 23 per cent of 2020 municipality revenues compared to 2019. The biggest loss, €3.5 billion, is from the Single City Tax covering property (-10 per cent) and waste tax (-23 per cent).
The Netherlands	Municipal revenue losses were estimated to be €1.02 billion. About one-third of municipalities entered 2021 with negative budget balance having exhausted their reserves.
Poland	In 2020, large Polish cities experienced €2.4 billion drop in local revenue. Significant losses were experienced in tax revenues mainly from corporate and personal income taxes.
Bulgaria	Overall, total loss in Bulgarian municipality revenue in 2020–2022 would be 30 per cent compared to 2019. This corresponds to €519 million in 2020, €404 million in 2021 and €360 million in 2022.
Ireland	The decline in local revenue was projected to be €228 million (6.4 per cent) of which €78 million was lost from parking charges and planning fees and €150 million from uncollectable commercial property taxes.

Source: Prepared based on data from European Union, 2021.

In the US, the pandemic triggered unprecedented damage to municipal fiscal health. For example, recent projections suggest that 411 Florida municipalities would lose US\$5.1 billion from 2019 pre-pandemic levels in fiscal years 2021 through 2023.⁸⁵ In 2020, nationwide estimates pointed to a gloomy picture in the US, where cities, towns and villages were projected to face a US\$360 billion budget shortfall from 2020 through 2022.⁸⁶ However, by mid-2021, some of the cities and states that were facing bankruptcy had cash surplus due federal relief funds.⁸⁷ In Australia, Melbourne's lost revenue due the COVID-19 pandemic for the period 2020–2021 is estimated to be AU\$83 million.⁸⁸

Cities with diverse revenue and economic structures have a better chance of withstanding external shocks than those that are less diverse in their revenue generating sources. For instance, in the US, cities with both vulnerable economic profiles (greater than 15 per cent share of employment in high-risk industries) and a tax structure that is highly reliant on elastic sources of own revenue (greater than 25 per cent share of general fund revenues) were more impacted by economic shocks compared to those with alternative economic and fiscal structures.⁸⁹ With weakened fiscal capacity, various local governments cut investments in infrastructure and key urban services.

Looking ahead, it is critically important for cities and subnational governments to diversify their revenue portfolios by combining both traditional and innovative revenue sources to cushion their fiscal health against future shocks and

stresses. At the same time, as illustrated in Box 4.3, tapping resources at the national and supranational levels remain vital to effectively addressing present and future urban challenges and fostering sustainable urban development.

Box 4.3: European Regional Development Fund empowering urban and territorial authorities

The EU Cohesion Policy is at the heart of this funding support and the fostering of strategic, integrated and inclusive approach to address today's challenges across cities in Europe. Its instruments for the ongoing period 2021–27 follow a dedicated policy objective implemented through territorial and local development strategies. As example of supranational financing, European Regional Development Fund through its instrument of European Urban Initiative supports greater empowerment of local, urban and territorial authorities by transfers of funds for public investment. It will mobilise investments in urban areas: a minimum 8 per cent of the ERDF resources in each EU Member State must be invested in priorities and projects selected by cities themselves and based on their own sustainable urban development strategies. It serves a priority of bringing investment closer to citizens, supporting locally-led development and sustainable urban development across the EU.

Source: European Commission, 2021.

4.4. Towards Resilient Urban Economies and Productive Urban Futures

Sustainable and inclusive urban prosperity and opportunities for all is one of the key transformative commitments laid out in the New Urban Agenda. The NUA emphasises that cities and human settlements should be places of equal opportunities, allowing people to live healthy, productive, prosperous and fulfilling lives. In line with this vision, what is needed now and in the coming years is for cities and subnational governments to prioritize building resilient urban economies against future shocks and provide tangible solutions for the whole community—in short, leaving no one behind.⁹⁰ Prioritizing resilient investments and interventions that address the root causes of multiple vulnerabilities will generate a triple dividend: help cities boost their local economies, improve equity, and prepare urban communities to withstand future shocks, stresses and risks.

Figure 4.11 illustrates the key transformative pathways to building resilient urban economies and productive urban futures. Cities should reimagine the future of urban economies through economic diversification, transition to circular economies, prioritize sustainable urban and territorial planning, and mainstream resilience in all major urban programs. These resilient interventions and investments should harness the untapped potential of













the informal economy and support active ageing to create decent and productive jobs. They should prioritize balanced territorial economic development to ensure that no space is lagging behind. These transformative pathways should be backed by sustainable and innovative financing instruments, resilient infrastructure investments and a vibrant human capital base (Figure 4.11). Urban economic resilience is about recognizing that risks and uncertainties are interconnected, so interventions should be as well.⁹¹

The implementation of these transformative pathways for urban economic resilience and productive urban futures should be integrated, holistic and coordinated across different levels of government while at the same time addressing challenges related to governance, socioeconomic development, funding and financing. Not every policymaker will find all the transformative pathways appropriate to their context, but some pathways will be. Thus, city leaders should determine the right mix of pathways that are compatible with their context given existing national circumstances, available resources and institutional capacities. Additionally, cities cannot build economic resilience alone. As we move into the future, there is a need for strong coalition building, mobilizing and galvanizing support from different stakeholders such as local and international financial institutions, the private sector, development banks, community and civil society groups, and national government entities.



Amsterdam, Netherlands © Iornet/Shutterstock

Figure 4.11: Transformative pathways towards resilient urban economies and productive urban futures

STATUS QUO			DESIRED OUTCOMES
RE-IMAGINE RESILIENT URBAN ECONOMIES			
Low levels of economic diversification and economic fragility	 Diversification of Urban Economies 	Agile, diversified, and resilient urban economies that can withstand shocks and stresses	
Inefficient and unsustainable production and consumption patterns	 Circular Economy as Catalyst for Resilient Urban Economies 	Greener, equitable and sustainable economic recovery	
Poorly planned and managed urbanization - undermining productivity gains	 Sustainable Urban and Territorial Planning 	Efficient, effective, and sustainably managed urbanization - a catalyst for urban prosperity	
INCLUDE THE EXCLUDED			
Unrealized potential of the informal economy	 Recognizing and Supporting the Informal Sector	Resilient, and inclusive urban economies and productive urban futures	
Urban shrinkage coupled with untapped potential of aging populations	 Supporting Aging Populations	Harnessing active aging as an opportunity for new decent jobs and inclusive economic growth	
Urban shrinkage coupled with untapped potential of aging populations	Targeted interventions for Socially and Economically Marginalized Groups	Inclusive urban economies and resilient livelihoods for marginalized populations	
Economic activity concentrated in mega-regions creating disparities	Balanced Urban and Territorial Economic Development 	Equitable economic growth across territories, where “left behind” small and intermediate cities experience economic prosperity	
ENABLE CHANGE			
Inadequate, unpredictable, and unreliable revenue sources	 Sustainable Municipal Financing	Innovative financing instruments unlocked for sustainable urban infrastructure	
Weak human capital particularly in poor and shrinking cities	 Talent and Skills Development	A stronger human capital can adapt to changes in the urban economy	
Under investment in key urban infrastructure	 Urban Infrastructure Investments	Improved urban competitiveness and productivity of cities	

4.4.1. Economic diversification: a critical pillar for building resilient urban economies

The COVID-19 pandemic is a vivid reminder that overreliance on a single sector, like tourism, increases the fragility of urban economies. Moving forward, cities should consider economic diversification as a core feature of building resilient urban economies (Chapter 10). The need for economic diversification and structural transformation has never been more urgent due to the multiple crises confronting cities. The relatively low levels of economic diversification in developing country cities, particularly in Sub-Saharan Africa, is a key factor in their vulnerability to external shocks.⁹² The NUA acknowledges the need to transition progressively to more productivity through high-value-added sectors by promoting diversification, technological innovations and creating quality and productive jobs.⁹³

Economic diversification provides different economic outputs, thereby strengthening the ability of cities to drive sustainable growth by creating more jobs, increasing household incomes and attracting investments that strengthens the resilience of urban economies against future shocks.⁹⁴ For example, Dubai, United Arab Emirates, has been successful in diversifying its urban economy to reduce dependency on commodity resources aided by expansion in tourism, real estate and trade. This transformation has been supported through expansion in infrastructure, upgrading of financial services sector and establishment of free zones to improve its competitiveness.⁹⁵

In Colombia, the City of Bucaramanga has been effective in diversifying its economy. The city's economy was previously dominated by lower-value-added industries such as clothing, footwear and poultry production. However, it is now home to knowledge-intensive activities such as precision manufacturing, logistics, biomedical research and development labs, and business process outsourcing, as well as a vibrant tourism sector.⁹⁶ This success was not automatic; it was driven by coalition building and galvanizing local stakeholders towards a shared vision. In addition, Bucaramanga has some of Colombia's highest levels of human capital, including both technical and management skills, which has been a strong driver of its economic diversification agenda. Because of its successful economic diversification, Bucaramanga is doing well in recovering its economy from the COVID-19 pandemic.⁹⁷

Similarly, in Changsha, China, urban leaders successfully transformed the city's economic structure, which was previously dominated by low-value-added, non-tradable

services like restaurants and hair salons. The city focused on balancing the growth of existing industries with the attraction and development of emerging automotive and entertainment businesses through sector-specific support strategies such as provision of market intelligence and dedicated worker-training programs. Ultimately, diversification of Changsha's urban economy has reduced its vulnerability to economic shocks and strengthened its local fiscal sustainability.⁹⁸

From the above case studies, it is clear that successful economic diversification cushions urban economies against future volatilities and provides a more stable and progressive path toward inclusive growth. Learning from the pandemic, Windsor, Canada, has adopted a bold and ambitious economic diversification strategy for future growth (Box 4.4).⁹⁹ The city government acknowledges that diversification beyond manufacturing is the key to its economic future.

Box 4.4: Windsor's L.I.F.T economic diversification strategy

As a mid-sized city in southwestern Ontario, Windsor is the original home of the Canadian car industry, with a concentration of highly skilled manufacturers. However, successive city administrations have always explored different ways to diversify Windsor's economy. Recently, the city prepared an ambitious economic diversification strategy, which has four pillars: location, infrastructure, future economy and talent (L.I.F.T). Windsor plans to maximize its strategic location, which links it to key US markets. In terms of infrastructure, the plan is to revitalize downtown districts and improve mobility. The city also proposes to develop more diverse housing stock that appeals to young families, with a housing target for downtown that helps drive revitalization.

For the future economy, strategies include protecting Windsor's current strengths in the auto sector and diversifying into adjacent sectors, such as border technology and building expertise in software and cybersecurity for autonomous vehicles. With regard to talent, the city plans to train, retain and attract the best talent from across Canada and the world. An appropriate mix of talent, innovators and entrepreneurs will be critical for driving the city's economic future. The City of Windsor has also devised a mix of investment incentives to attract new investors into the local economy.

Source: City of Windsor, 2020.



Economic diversification should be backed by a menu of support measures such as smart regulations, investment incentives, infrastructure improvements, land provision for new industries, skill development, innovation districts, and access to finance for enterprises.¹⁰⁰ Together, these strategies create competitive cities that can turn around the economic fortunes of urban areas. The future of urban economies in post-industrial cities depends on the implementation of context-specific growth policies. For example, faced with industrial closures and population decline, Katowice, Poland, has embraced technologically driven economic growth and cultural development to diversify its local economy.¹⁰¹ To achieve urban resurgence in the context of population decline, proactive industrial policies will be urgently needed for “rapid and better-targeted economic restructuring to create a competitive manufacturing sector (endowed with new high-tech firms) and to catalyse growth interdependence with modern local services.”¹⁰²

In the same vein, Africa’s ambitious development programme Agenda 2063 strongly emphasizes industrialization and structural transformation.¹⁰³ In order to achieve this structural transformation agenda, governments will have to put in place appropriate policies to support the diversification of their urban economies. These policies should include supporting the manufacturing sector to create decent jobs and enhance urban productivity while at the same time reducing market barriers to promote the growth of young firms.¹⁰⁴ If successfully

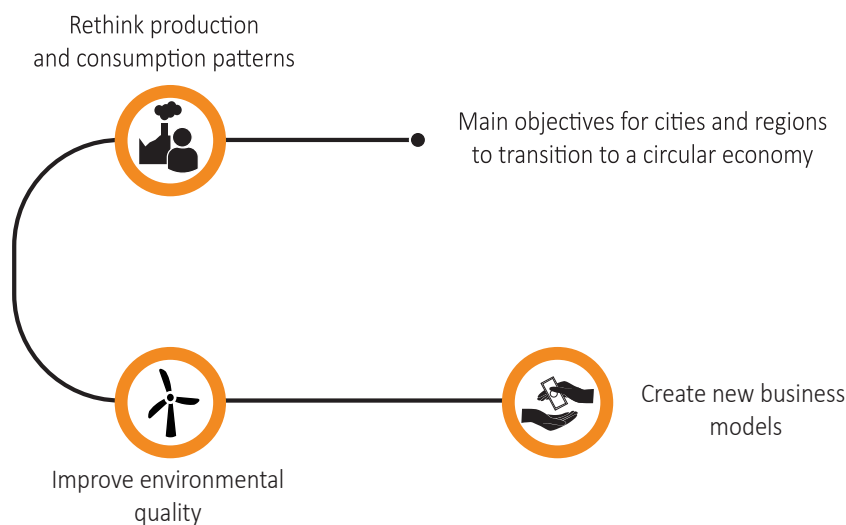
implemented, these measures could generate spillover effects with other sectors such as agriculture and services, setting urban economies on a more positive path towards sustainable economic growth (Figure 4.11).

While urban policymakers can learn from some of these successful experiences, there is no “one size fits all” blueprint for economic diversification; government action and policy choices should be contextually calibrated based on existing economic structures and institutional capacities. If urban economies become diversified, they will optimize agglomeration economies, promote innovation and strengthen urban productivity. Recent shocks like the COVID-19 pandemic have shown that failure to heed the call for economic diversification will have serious consequences for the future of urban economies. There are already warning signs in some regions and any further inaction will exacerbate the economic fragility of cities and undermine prospects for productive urban futures.

4.4.2. The circular economy: a new frontier for resilient urban economies

The circular economy presents an opportunity for cities and regions to reimagine and achieve better environmental quality and increased resource efficiency. As discussed in Chapter 5, if cities successfully transition to a circular economy, it could create new jobs, especially for vulnerable communities (Figure 4.12).

Figure 4.12: Main objectives for cities and regions to transition to a circular economy



Source: Adapted from OECD, 2019a, p. 4.

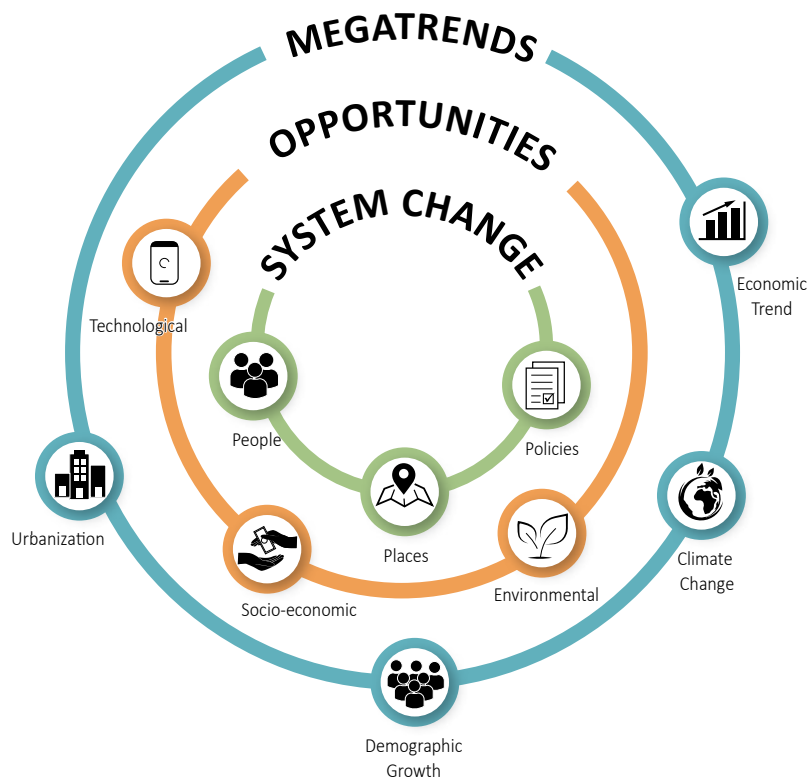
Even before the pandemic, city leaders in Europe were already exploring new ways of enhancing long-term urban prosperity in urban centres.¹⁰⁵ London, Paris, Amsterdam and Milan have been at the forefront of experimenting with the urban circular economy. London was one of the first largest cities in developed countries to implement a circular economy transformation agenda. London's Waste and Recycling Board estimates that the transition to a more effective economy could be worth US\$10 billion annually to the city's economy. The city estimates that transitioning to a circular economy could create over 12,000 net new jobs through the reuse, remanufacturing and maintenance industries.¹⁰⁶ The goal in London was to enhance urban economic resilience while promoting resource efficiency as well as adapting the city to new economic realities.

The NUA emphasizes transition to the circular economy in the face of new and emerging challenges confronting urban systems

The NUA emphasizes transition to the circular economy in the face of new and emerging challenges confronting urban systems.¹⁰⁷ Furthermore, in this transformative agenda, Member States committed themselves to developing vibrant, sustainable and inclusive urban economies and promoting “sustainable consumption and production patterns and fostering an enabling environment for businesses and innovation, as well as livelihoods.”¹⁰⁸

Considering these commitments, the circular economy holds great potential for a green recovery and a sustainable urban future. Cities and regions should play a key role as promoters, facilitators, and enablers of circular economy. Adequate conditions should be in place to unlock this potential, which can be achieved through the 3Ps framework of people, places and policies (Figure 4.13). For a transformation to the circular economy to happen, it requires behavioural and cultural change towards different production and consumption pathways as well as new business and governance models in a shared responsibility across levels of government and stakeholders. Successful circular economy policies create complementarities across water, waste, energy, transport,

Figure 4.13: The 3Ps framework for adopting the circular economy in cities



Source: Adapted from OECD, 2019a, p. 7.

housing and land use. Finally, the inflows and outflows of materials, resources and products require a reflection on the appropriate scale at which the circular economy is applied and on functional linkages across the urban-rural continuum.¹⁰⁹

Transitioning to a circular economy is expected to increase the average disposable income of individuals by reducing costs and prices of products and services. For example, the average disposable income for EU households would rise by €3,000, or 11 per cent more than the current development path, by 2030.¹¹⁰ This boost would also translate to a 11 per cent GDP increase by 2030. Circular economy practices will likely have a big economic impact, especially in developing countries, by opening opportunities for new decent and productive jobs.¹¹¹

4.4.3. Sustainable urban and territorial planning: a key driver for productive urban futures

Sustainable urban and territorial planning is critical for building resilient urban economies and productive urban futures. Cities that are well-planned and managed better optimize and reap the benefits of agglomeration economies. If cities continue to grow in a disconnected and fragmented manner, the opportunities to leverage economies of scale will be missed. As enshrined in the New Urban Agenda, urban and territorial planning is a fundamental driver for sustained and inclusive economic growth, which provides an enabling framework for new economic opportunities and the timely

provision of adequate infrastructure and basic services. For example, if governments continue to underinvest in public transport systems, there will be significant congestion costs, which undermine economic growth and urban productivity.

Going forward, local and regional governments should prioritize the sound and responsive planning and management of urban areas to ensure sustainable urban prosperity. These interventions are in sync with the clarion call of the NUA to “optimize the spatial dimension of the urban form and deliver the positive outcomes of urbanization.”¹¹² Additionally, agglomeration can also occur regionally, making coordination between city authorities for land-use planning critical to promote long-term growth and productive urban futures.¹¹³ If local and regional governments fail to promote better planning and management of urbanization processes, cities could be locked in cycles of massive congestion pressures, which would be detrimental to the productivity and competitiveness of urban economies. This could ultimately tarnish any prospects of resilient urban economies and productive urban futures as promoted in the SDGs and the NUA.



Cities that are well-planned and managed better optimize and reap the benefits of agglomeration economies



Free public park pier at Green Space Located Within Hudson River Park, NYC, USA © MNAPhotography/Shutterstock

4.4.4. Recognizing and supporting the informal sector for resilient urban economies

The informal sector is a vibrant economic force in developing country cities, and policymakers at various level of government cannot continue to remain numb to this reality. Therefore, moving forward, a transformative urban economic agenda should focus on reimagining a future urban economy that is more robust, just, ethical and equitable (Chapters 3 and 10).¹¹⁴ The continued exclusion of informal sector workers is inconsistent with commitments in the NUA (para. 59), where global leaders pledged to recognize the contribution of the poor in the informal economy.

If cities are to leave no one behind, then a paradigm shift is urgently required: urban planning and policy frameworks should be reformed to create more equitable urban futures, where the informal sector is recognized as a legitimate contributor to urban economies and social protection as well as other support measures are extended to workers in the sector (Chapter 3). Such interventions could include creating more legitimate workspaces for informal businesses, facilitating their integration with regional supply chains and regional markets, accounting for informal sector workers in

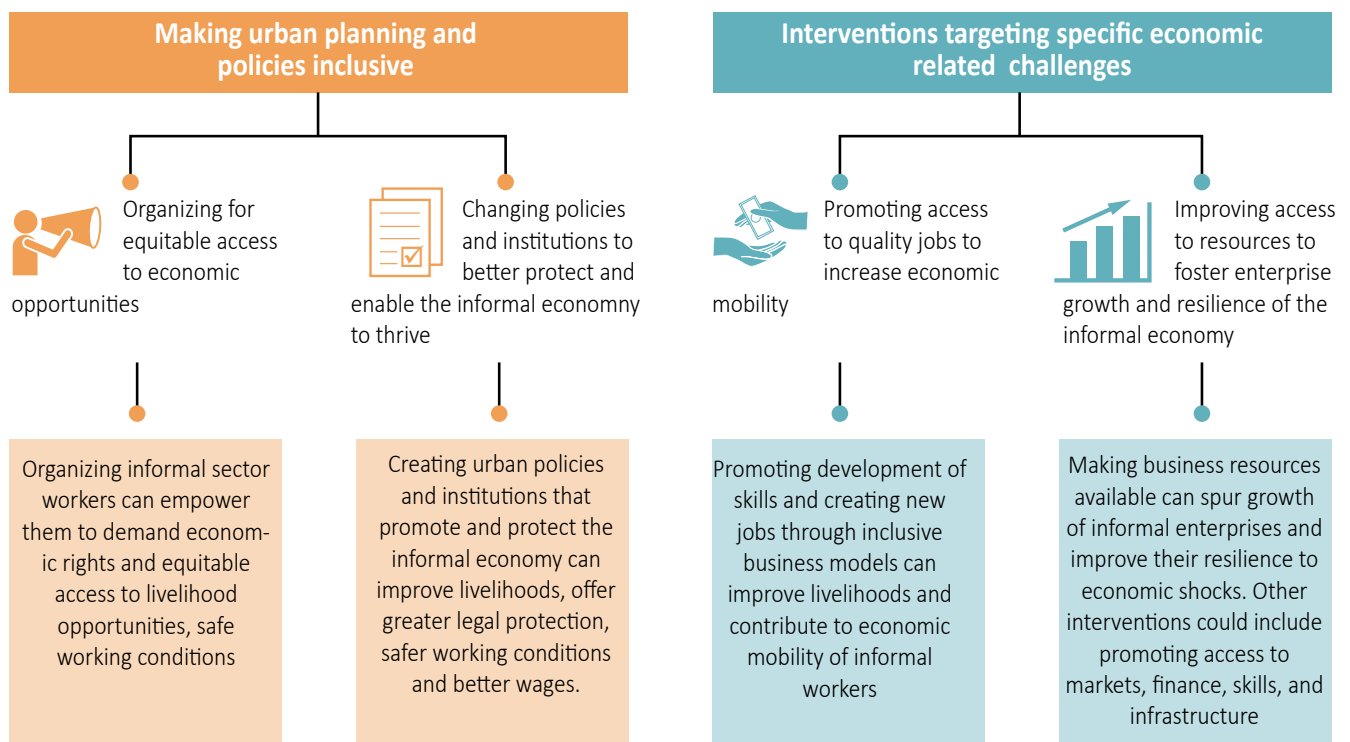
urban economic statistics, and extending relief to individuals and businesses in times of crisis. Resilience building should prioritize formalization policies and measures to strengthen the productivity of informal enterprises through facilitating access to affordable credit and municipal infrastructure improvements that address the underlying vulnerabilities in the informal economy.¹¹⁵



Resilience building should prioritize formalization policies and measures to strengthen the productivity of informal enterprises

Figure 4.14 illustrates different interventions that can build the resilience of the informal sector to future shocks. The first two interventions relate to making urban planning and policies inclusive as well as empowering informal economic actors to demand their economic rights such as safe working environments. The last two focus on addressing specific economic challenges confronting the informal economy such as access to markets, finance and business opportunities.

Figure 4.14: Policy interventions to build the resilience of the informal sector



These measures should be tailored to meet the needs of specific groups of informal workers (e.g. street traders, waste pickers and home-based workers) who bear the brunt of economic insecurity. There are emerging practices of informal sector integration. South Africa adopted waste picker integration guidelines in 2020 recognizing that waste pickers have practical experience with adapting quickly to new value chains and market opportunities that can help cities maximize recycling. Similarly, some cities in Colombia, Argentina and India have successfully integrated informal waste pickers into their solid waste management value chains to support door-to-door recycling.¹¹⁶ This move has unlocked economic productivity and secured livelihoods. In Maputo, waste pickers were registered as cooperatives and integrated into formal collective service, which generated full-time employment for 250 people.¹¹⁷ Integrating informal workers in urban systems coupled with other support measures can boost the productivity of informal enterprises and strengthen their contribution to resilient urban economies.

The successful integration of informal sector workers into urban policies will contribute towards SDG Target 8.3, which calls for the adoption of development-oriented policies to propel the growth of small and medium-sized enterprises including the informal sector. Failure to support and harness the potential of the informal economy could lead to an unprecedented labour market crisis¹¹⁸ and curtail the drive toward resilient urban economies and productive urban futures.

4.4.5. Supporting ageing populations in urban areas

The ability of municipalities to meet the challenges of demographic change is important for creating inclusive resilient urban economies and productive urban futures.¹¹⁹ As highlighted in Chapter 2, developed world cities are likely to have a significant proportion of greying population. Therefore, going forward, cities should formulate tailored policies and programmes to support ageing populations in line with the SDGs, as well as the New Urban Agenda's commitment to address the economic and spatial implications of ageing populations and leverage active ageing for decent



The ability of municipalities to meet the challenges of demographic change is important for creating inclusive resilient urban economies and productive urban futures



An elderly couple in Portsmouth, Hampshire, UK © Shutterstock

jobs and inclusive and sustainable economic growth. Taking action is urgent given that 43.2 per cent of all older populations (65+ years) are in the OECD region,¹²⁰ with significant implications for labour supply in the future.

There are emerging practices, where cities are harnessing ageing population to support their urban economies. In Calgary, Canada, the Retired Employee Employment Pool engages retired city employees for limited-term projects that require particular skills or expertise. Other measures include creating opportunities for older workers to remain in the labour force to avoid labour shortages in ageing societies. For instance, Toyama, Japan, implemented agricultural training to increase the employability of older people, as a response to the decline in the number of the city's farm workers.¹²¹ Yokohama, Japan, has taken concerted measures to integrate ageing strategies with its economic development plans and policies for sustainability. The City's emphasis on well-being and economic prosperity has resulted in increased attractiveness and urban competitiveness.

The future of resilient urban economies depends on the ability of cities to develop policies that create new jobs and harness the experiences of older populations while at the same time implementing strategic actions aimed at retaining young and skilled persons while reducing their outflow

from cities. Cities grappling with an ageing population could also strategically incorporate newly arriving migrants into local labour markets to counter negative population growth, ensuring sustained future economic growth that, in turn, is required to finance local infrastructure services.¹²² Together, these measures will promote resilient, inclusive and sustainable urban economic growth.

4.4.6. Targeted interventions for socially and economically marginalized groups

The COVID-19 pandemic has aggravated the vulnerabilities of specific groups such as minorities, migrants, indigenous peoples, women and people with disabilities. The pandemic has demonstrated the urgency of effective and robust social protection programs for urban economic resilience and recovery.¹²³ Gazing into the future, developing a range of tailored economic support and relief packages to informal workers, vulnerable urban populations and at-risk sectors is vital for building resilient urban economies. Bangladesh's 2020 Urban Social Protection Strategy and Action Plan sets out plans for expanding social protection to urban areas, including the design of a conditional cash transfer programme for the urban poor, especially those living in slums.¹²⁴

Cities and subnational governments can also create tailored strategies that respond to different forms of vulnerability as well as unexpected shocks. These measures should be nuanced and wide-ranging to ensure that the different risks associated with gender, age, disability, ethnicity, migratory status and other characteristics are effectively identified and addressed in urban welfare programmes.¹²⁵ Social protection strengthens households' ability to invest and take productive risks, which boosts livelihoods and increases economic resilience.¹²⁶ Thus, urban-sensitive social protection could potentially be a powerful tool for promoting inclusive urban economies (Chapters 1 and 3).

4.4.7. Balanced urban and territorial economic development

The NUA encourages governments to promote balanced territorial development to reduce disparities within the urban system. Secondary cities connect 62 per cent of the world's population living in smaller cities, towns, and rural areas, and the 22 per cent that live in metropolitan regions.¹²⁷ Going forward, it is important for governments to prioritize balanced economic development, especially in 'left behind' secondary cities, while addressing territorial disparities in infrastructure and basic services. These intermediary cities are hubs for provision of goods and services to the hinterland and are instrumental in structuring urban-rural linkages,

thus providing a conducive environment for job creation and income diversification. With effective management these cities can provide greater investment and business opportunities and facilitate transformation across the urban-rural continuum.¹²⁸

Noteworthy, in 2021, under the Italian Presidency, the G20 recognized the significant, but often unexplored and underutilized potential of intermediary cities in achieving the SDGs at the local level. In this regard, the G20 Platform on SDG Localisation and Intermediary Cities (G20 PLIC) was established to facilitate the exchange of good practices that strengthen intermediary cities and rural-urban linkages in developing countries.¹²⁹ Additionally, to advance balanced territorial development that also strengthens the socioeconomic status of these cities, UN-Habitat has been supporting the implementation of national urban policies (NUPs) in 56 Member States.¹³⁰ In advocating for balanced territorial development—as aimed for in SDG Target 11.a—these urban policies are a priority and a driver of sustainable national development.

Today, various countries are scaling up efforts to support their intermediate cities. For example, through the Secondary Cities Support Program, Ghana deployed World Bank loans to its municipal assemblies in order to promote economic development of intermediate cities.¹³¹ This programme acknowledges the need to address disparities in Ghana's urban system, where economic growth and employment opportunities are concentrated in Greater Accra and the Kumasi regions at the expense of intermediate cities.¹³² Finland, Laos and Turkey supported smaller population centres through regional development programmes. Investing in secondary cities could enhance their productivity and ignite their potential to add value to metropolitan economies.

4.4.8. Sustainable and innovative municipal finance for resilient urban futures

Sustainable and innovative municipal finance is a catalyst for urban economic resilience and productive urban futures. Cities must diversify their revenue streams by mobilizing innovative revenue sources. The COVID-19 pandemic has shown that overreliance on traditional revenue sources like central government transfer could have potentially crippling effects on the fiscal health of cities. Thus, the need for structural policies to bolster growth and enhance local revenue as well as measures that mitigate vulnerability to shocks.¹³³ It is important to address how urban futures can be adequately financed in the face of dwindling local government revenues, increasing national budget deficits

and decreasing foreign investment in certain contexts, among other fiscal constraints.

Importantly, cities will be on a path to resilience when the objectives and programmes undertaken by such financing are aligned with sustainability ambitions. The Local Government Association in the UK, for instance, proposed the Sustainable Urban Futures Fund, which is potentially a game changer in terms of building back better. This fund is expected to provide long-term, large-scale funding for integrated urban recovery programmes to improve economic vitality of cities. The financial resources could be used to tackle priority infrastructure needs (Figure 4.15). This fund could be applied to implement place-based integrated programmes to promote sustainable economic growth and recovery after the COVID-19 pandemic, thereby strengthening the resilience of urban economies.

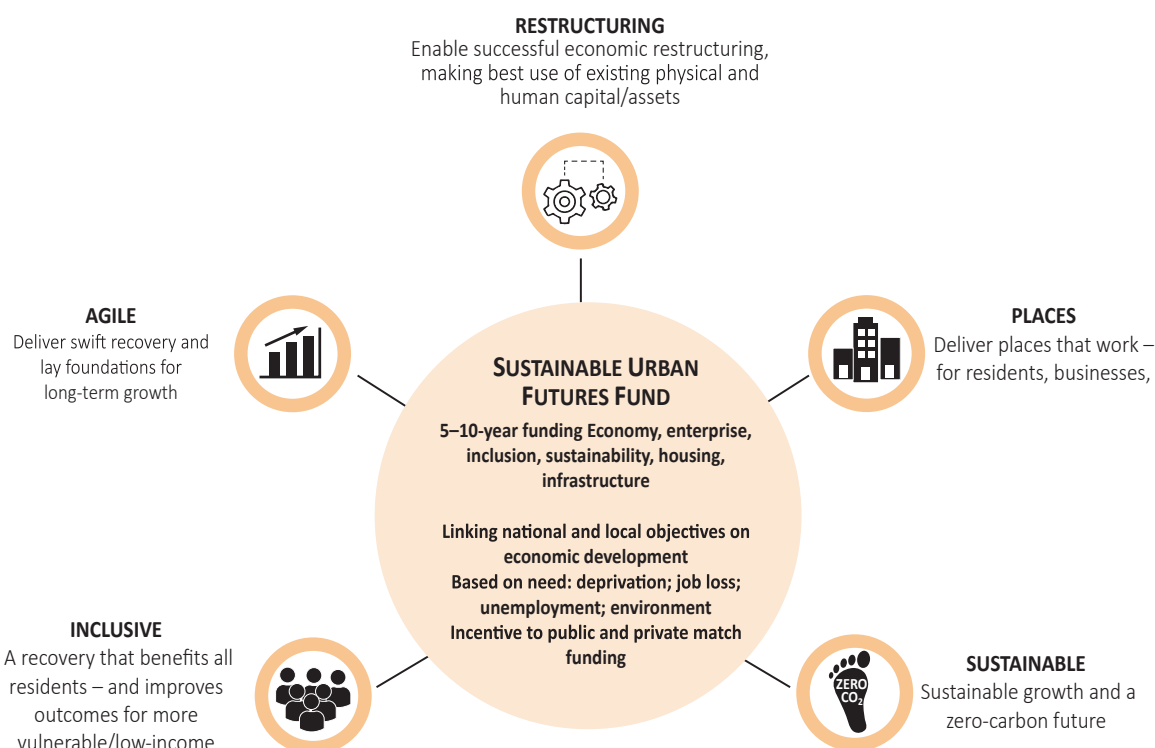
However, context matters. Such innovative funding instruments could be tailored to other jurisdictions considering existing social, economic and political climates. It would require massive domestic resource mobilization and strong intergovernmental collaborations and political will.¹³⁴

If implemented, this could result in significant economies of scope and scale, achieving much higher impacts, gaining more private sector leverage and buy-in than small individual grant schemes.¹³⁵

In Sub-Saharan Africa, there are emerging innovations in municipal revenue mobilization to address gaps in infrastructure investments. For instance, Mzuzu, Malawi, an intermediate city that historically lacked adequate central government transfers, implemented a revenue mobilization programme, which deployed a fit-for-capacity property valuation system that resulted in a seven-fold increase in revenues.¹³⁶ Municipal government in Teresina, Brazil, has implemented a reprioritization of existing municipal budgets in order to increase the availability of finance through restructuring own-source revenue arrangements to mobilize additional resources through new sources or expanding some of the existing ones.¹³⁷

The other innovative financing instrument which cities could leverage on is land value capture. This has been successfully implemented in cities like Hargeisa, Somaliland (Box 4.5) and Bogotá, Colombia, with significant economic gains. In

Figure 4.15: Pillars of the Sustainable Urban Futures Fund



Source: Adapted from Local Government Association, 2021.

Box 4.5: Innovative municipal finance mobilization using land value capture in Hargeisa, Somaliland

To capture the gains of rapid urbanization, Hargeisa city government has implemented a system of “in-kind” land value capture or exaction. With this system, landowners on the outskirts of the city who apply to convert their land from rural to urban land use must provide the city government with 30 per cent of the asset if their application is approved. In this way, the city can access land for needed public infrastructure to service a growing city. At the same time, rent from this land can offer the city a valuable source of additional income to pay for the required infrastructure. The Hargeisa case study also shows that planning for future expansion is not only useful for capturing the gains from rapid urbanization through exaction, but also improves future urban investment.

Source: UN-Habitat et al, 2021.

Bogotá, a betterment levy (contribución de valorización) charges property owners a fee to defray the costs of public works improvements. Between 1997 and 2007, this innovative financing mechanism has been used to fund over US\$1 billion worth of investment in 217 infrastructure projects all over the city.¹³⁸

The successful implementation of innovative financing instruments should be accompanied by capacity building for municipal officials, administrative and policy reforms, technical innovation and strengthened political incentives. Municipal governments should be granted better fiscal autonomy for cities to modify their tax structures in line with their existing economic bases. This will enable cities to collect a better mix of sales, income and property taxes and become better prepared to face changes in economic conditions and residents’ needs. This flexibility will also provide local governments with opportunities to diversify their revenue portfolios, which is key for strengthening urban economic resilience against future shocks. As cities focus on rebuilding their urban economies, they should confront the challenge of the 4Rs of urban finance for recovery (Figure 4.16).

The ability of municipalities to meet the challenges of demographic change is important for creating inclusive resilient urban economies and productive urban futures

Cities should also leverage public-private partnerships (PPPs) to develop ambitious infrastructure programmes. Japan is implementing capital intensive innovations in partnership with the private sector. Such initiatives include the Shibuya Station regeneration and Tokyo Station, whose objective is to overhaul ageing transport infrastructures and create a vibrant urban economy. Japan’s central government policies

no longer rely on stimulating growth through public capital investment, but rather seeks private sector support for innovation districts and zones in second-tier cities with negotiated regulatory incentives.¹³⁹ Chicago, US, has been successful in developing and mobilizing new PPP models and value capture innovations, often in partnership with major banks, transnational infrastructure developers and other private-sector financial partners.¹⁴⁰ These financing models are becoming popular because of dwindling federal funding for urban programmes.

Figure 4.16: 4Rs of urban finance for economic resilience



RING-FENCE REVENUES

Engage with the central government, development partners, and other partners to minimize the drop in municipal revenues from own sources and intergovernmental fiscal transfers.



REPRIORITIZE BUDGETS

Reallocate budgets to maximize funds for activities that contribute to inclusive, green, and resilient recovery.



REINFORCE BUDGET AND FISCAL AUTONOMY

Engage with the central government and development partners to achieve a city's maximum discretion over its budget and ensure an adequate fiscal autonomy.



REBUILD FISCAL SPACE BETTER

Diversify and unlock sources of finance (public and private) and apply new financing approaches and techniques for inclusive, green, and resilient recovery.

Source: UN-Habitat and UNCDF, 2021.



For a resilient future, an enabling environment is critical for mobilizing sustainable and innovative financing mechanisms (Figure 4.17). Cities can also explore the possibility of using green bonds to fund interventions such as the transition to circular economies (Chapter 10). Gothenburg, Sweden, was the first local authority to launch a municipal green bond in 2013 and has since developed a robust framework for such instruments.¹⁴¹ For this financial scheme to be replicated in most regions, local governments require fiscal autonomy, legal power and creditworthiness. An effective local tax base is also necessary to allow cities to tap global finance more successfully and thus build up the city’s creditworthiness.

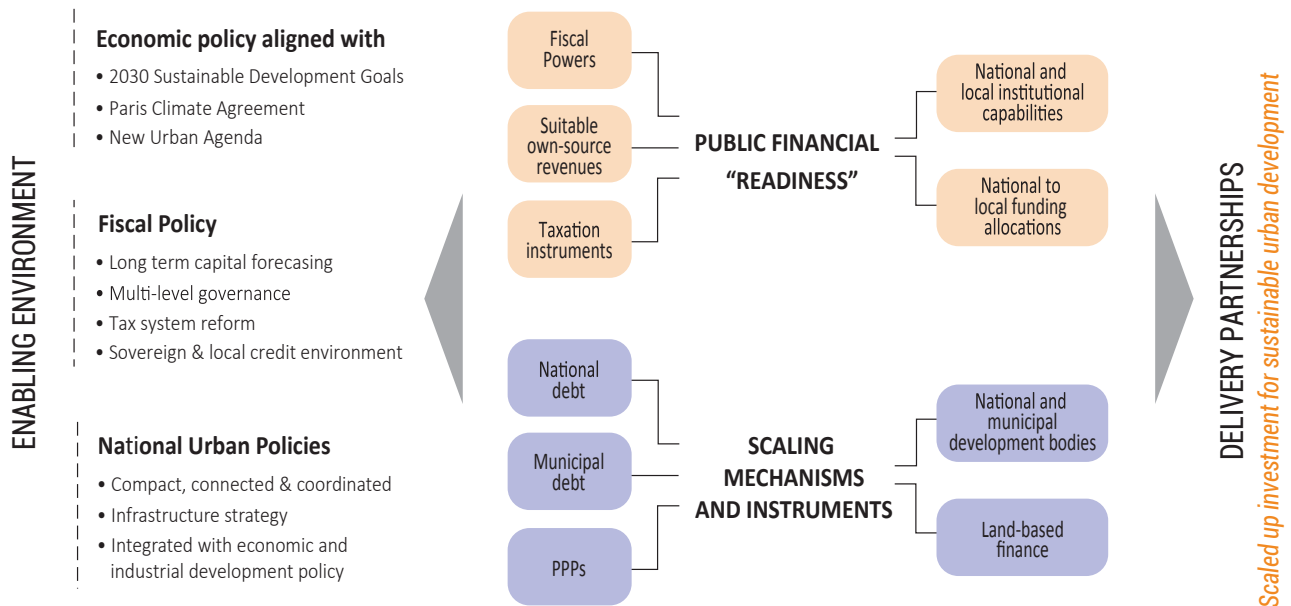
In most places, reforming tax systems is much needed to strengthen cities’ fiscal sustainability. Cities like Freetown, Sierra Leone, for example, are reforming their property tax system to enhance revenue generation for infrastructure development (Box 4.6).¹⁴² In the near and long-term, building this capacity can yield significant returns, such as tapping into the ever-growing green bond market which saw US\$52 billion worth of bond issuances in 2019, a 21 per cent increase from 2018.¹⁴³

Box 4.6: Freetown is reforming its property tax system

Freetown has recognized that to fund public services, it needs to raise property taxes. In 2020, after a two-year-long working group, the city reformed its property tax system, which will use a simple model to calculate property values and a new IT system to manage the entire tax collection process. The city has also registered almost all the 100,000-plus properties in the city. The system will make the property tax regime of Freetown more progressive and has resulted in much higher tax bills for the most valuable properties. The tax payable on the top 20 per cent of properties has more than tripled, on average. At the same time, that on the bottom 20 per cent has been more than halved. Under the system, Freetown’s potential revenue from property tax is estimated to increase more than five-fold.

Source: Kamara et al, 2020.

Figure 4.17: Creating an enabling environment for scaling-up investment



Source: Adapted from Ahmad et al, 2019.

Overall, the realization of resilient urban economies and productive urban futures depends on the capacity of cities and subnational governments to mobilize adequate financial resources to fund infrastructure investments. While the need for new infrastructure investments is undeniable and urgent, the current unmet needs have negative repercussions on urban economies. Underinvestment in key infrastructure threatens competitiveness and the productivity of cities, thereby casting a shadow on urban economic resilience. If cities fail to close the massive gaps in infrastructure financing and investment, they will struggle to attract domestic and foreign investment—thereby putting the future of their economies in jeopardy.

4.4.9. Prioritizing infrastructure investments for productive urban futures

Cities and subnational governments must urgently prioritize infrastructure investments towards building resilient urban economies and prosperous urban futures. Slums and informal settlements in developing country cities are underserved with key municipal infrastructure (Chapter 3), which undermines the productivity of residents and make cities unattractive for investment. Within cities, investments in road infrastructure provide significant economic returns. For Kampala, investment of around US\$82 million in road infrastructure provided a net economic benefit of US\$15 to US\$35 million per year.¹⁴⁴ Overall, closing Africa's infrastructure gap could result in 1.7 per cent increase in annual GDP growth, with large economic gains in cities.¹⁴⁵

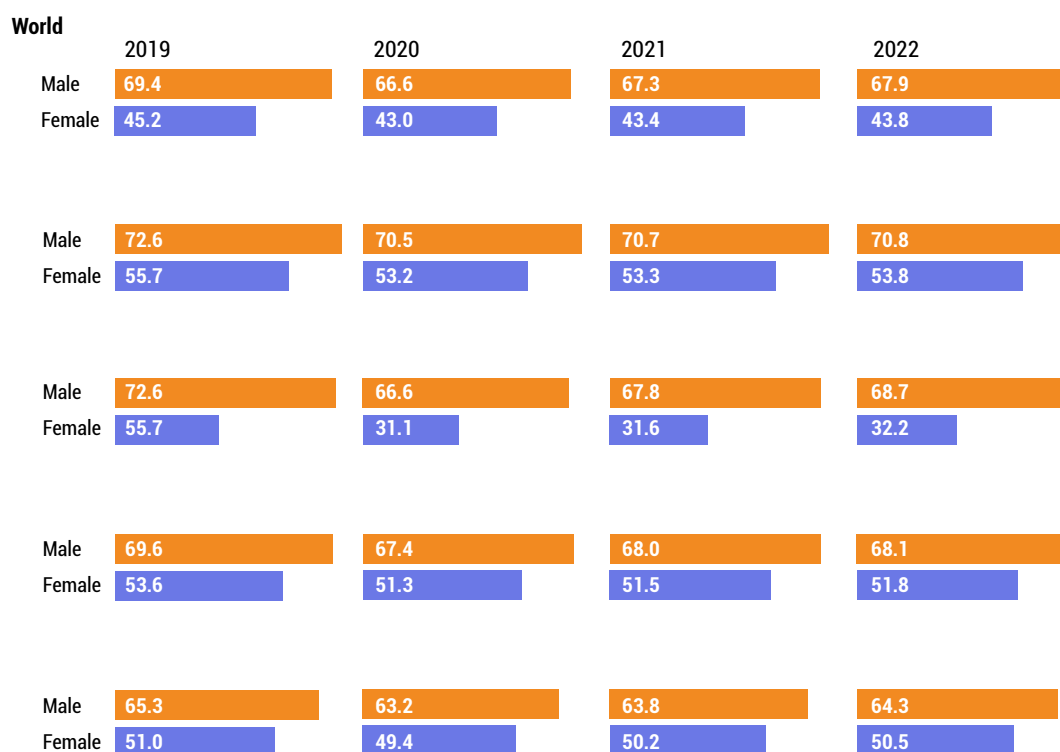
Estimates reveal that a dollar invested in developing water and sanitation infrastructure generates between US\$4 and US\$34 in benefits by improving health outcomes, saving time and boosting urban productivity.¹⁴⁶ Additionally, investing in transport infrastructure also improves connectivity that allows people and goods to move easily within and between cities. Moreover, investments in public transport systems typically trigger economic benefits, especially for the urban poor whose access to jobs is affected by socio-spatial segregation. Investment in mass transit systems are also a catalyst for resilient and inclusive urban futures (Chapter 5). Bogotá's bus rapid transit system increased the average welfare of the city's residents by 3.5 per cent.¹⁴⁷ Another important priority is investing in green energy infrastructure, which has strong potential to unleash productive growth throughout the entire urban economy, thus creating employment, generating revenue and yielding spin-off effects to multiple sectors.

COVID-19 has amplified the need for investing in digital infrastructures¹⁴⁸ to meet the needs of the new economy, including an expansion of digital networks (Chapter 9). Digital infrastructures are critical for cities to transition to greener and inclusive urban economies. Therefore, the future of resilient urban economies depends on governments' commitment to invest in key infrastructure and public services. Such investments could steer cities away from the pessimistic scenario of urban futures (Chapter 1) and galvanize action towards building inclusive, thriving, resilient and productive urban futures in sync with the SDGs and the NUA. Making these transformations not only enhances equitable access to urban services for the poor, it can also yield large dividends and cascading benefits for the entire urban economy, as highlighted above. On the other hand, failure to address underinvestment in infrastructure will undermine urban competitiveness and threaten the productivity of cities, as well as constrain national economies, particularly in developing countries.

4.4.10. Talent and skills development for resilient urban economies

In recent years, there has been significant transformation in the world of work. These winds of change are guaranteed to persist into the future. The COVID-19 pandemic, for instance, has ushered in a new economic order that is based on innovation and technology (Chapter 9). It is imperative that cities and subnational governments continually invest in human capacity development to reskill and upskill workers in order to keep pace with these transformations so as to meet the requirements of the new urban economy.¹⁴⁹ Developing skills and talent for human capital is vital for inclusive and sustainable urban growth as it aligns with SDG 8 on promoting productive employment and decent work for all. Failure to reintegrate workers separated from labour markets during the pandemic through reskilling or upskilling puts the future of urban economies at further risk.

Policy action is particularly important for women, youth, migrants and refugees, among other vulnerable groups who are more likely to have dropped out of labour force.¹⁵⁰ The COVID-19 crisis had a disproportionate impact on women and youth employment.¹⁵¹ Women, for instance, comprised a large share of the workforce in the sectors worst affected by the pandemic and the drop in their employment-to-population ratio has been relatively higher than that of men. It is projected to remain so in the coming years (Figure 4.18).¹⁵²

Figure 4.18: Employment-to-population ratio by sex, 2019–2022

Source: ILO, 2022.

Another way to advance talent and skills development to achieve resilient urban economies is by cultivating research, training and innovation through the establishment or expansion of urban research universities. Research-intensive universities can act as a magnet for talented students and researchers, drive innovation and provide opportunities for the local population to gain new skills and increase their earnings; thereby boosting the urban economy.

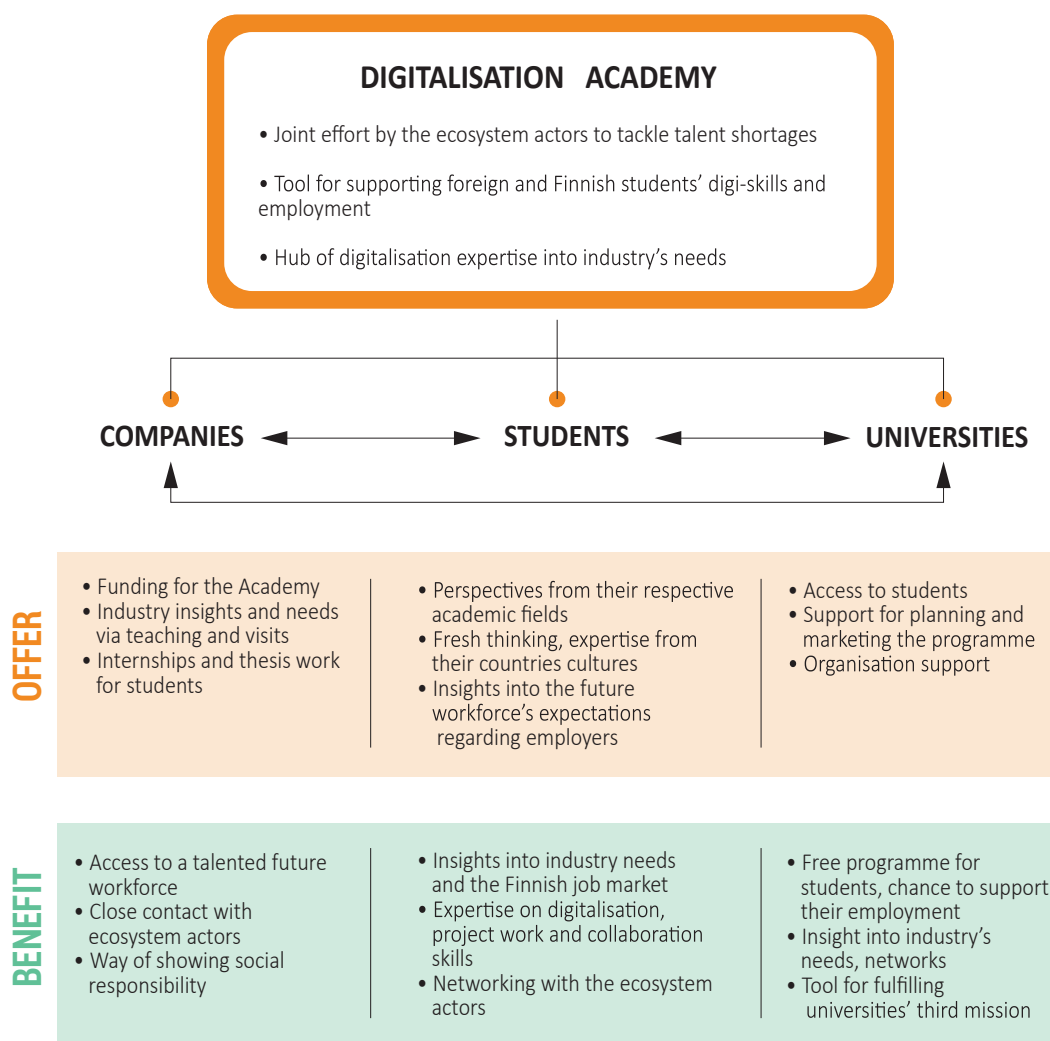
In the US counties, for example, a US\$1 increase in university expenditures leads to an 89-cent increase in the urban income.¹⁵³ In China, Suzhou Industrial Park has set up its own technical and vocational training college. This has resulted in stronger linkages between skills supply and actual needs of the local industries as well as boosting productivity and competitiveness of the industrial park.¹⁵⁴ These measures were complemented with talent attraction strategies such as housing subsidies. To retain talent, the city of Vaasa, Finland, implemented the Digitalisation Academy in 2018 in partnership with a local university¹⁵⁵ (Figure 4.19). This academy was designed to respond to the talent shortage in the region's business sector by strengthening the digital

skills of Finnish and foreign students studying in Vaasa and supporting their employment in the region's companies.

Vaasa's Digitalisation Academy demonstrates the importance of partnerships between universities, firms and regional authorities in implementing talent development programs. Skills development and talent retention programs are critical in cities that are experiencing urban shrinkage. As people become skilled and reskilled, this talent pool can attract high-tech industries, stimulate local innovation networks that enable better realization of agglomeration advantages and contribute to urban productivity. These training opportunities should also be extended to informal sector workers to boost their productivity and alleviate long-term vulnerability.

training opportunities should also be extended to informal sector workers to boost their productivity and alleviate long-term vulnerability

Figure 4.19: The Digitalisation Academy model in the city of Vaasa, Finland



Source: Adapted from Niemi et al, 2021.

Investing in stronger human capital is a response to the NUA's commitment on "providing the labour force with access to knowledge, skills and educational facilities that contribute to an innovative and competitive urban economy."¹⁵⁶ Cities with a large pool of skilled human capital are more resilient to future economic turbulence compared with those that do not. At the same time, it is vital to incentivize a human-centred work culture and work models for firms. In developed countries, the pandemic has spurred what is referred to as the Great Resignation or Great Reshuffle that has been largely characterized by a higher attrition as workers change jobs, "hoping for something more—more purpose, more flexibility, more empathy."¹⁵⁷

4.4.11. Peaceful and stable societies

The transformative pathways towards resilient urban economies and productive urban futures discussed in this section can only be effectively pursued and result in meaningful outcomes in peaceful and stable societies. Social stability and peace are critical ingredients for fostering urban economic resilience. Besides structural conditions, the future economic outlook of cities and nations hinges on their prevailing social conditions as well as the relationship between nations. The past decades have shown that peace and security challenges in one country have the potential to easily spill over and bear negative impacts regionally and even globally.

Today, urban areas are increasingly becoming platforms of local and international armed conflicts: “wars have moved into the lives, cities and homes of ordinary people in a more vicious way than ever before.”¹⁵⁸ As alluded to in previous sections, conflict destroys local economies. Conflicts and societal instability result in displacement, loss of life, economic disruption, lower consumption and destruction of urban assets. In regard to the ongoing conflict in Ukraine, for example, preliminary estimates put the overall cost of rehabilitating the country after the war at €00–500 billion (US\$220–540 billion)—the upper limit is over three times Ukraine’s pre-war GDP.¹⁵⁹ These disruptive events also inhibit revenue mobilization capacity, leading to lower local and national revenue flows, among other negative impacts that cultivate the pessimistic scenario alluded to in Chapter 1.

The 2030 Agenda for Sustainable Development is our common global blueprint to create more peaceful, stable and resilient societies.¹⁶⁰ Fully respecting human rights, embracing the presence of strong and effective institutions at all levels as envisaged in SDG 16, and establishing values and norms that facilitate the resolution of problems in peaceful and non-violent means are key to a prosperous future. At the same time, to secure a sustainable urban future, global priority must be given to the fostering of international cooperation and the practice of preventive diplomacy, overcoming conflicts through agreements and compacts, as well as addressing the dynamics that give rise to and reinforce conflicts and social instability. Lastly, the pursuit of sustainable urbanization must be an imperative; it is an enabler of peace and stability.¹⁶¹

4.5. Concluding Remarks and Lessons for Policy

Although the COVID-19 pandemic has unleashed an unprecedented crisis, it also provides an opportunity for directing investment towards building resilient urban economies and productive urban futures. Globally, cities have differential economic fragility. Some cities are more resilient to shocks while others are more vulnerable because of differences in economic structures and fiscal health, among other factors. For the collective visions of sustainable, resilient and productive urban economies to be realized as enshrined in the SDGs and the New Urban Agenda, this chapter has placed emphasis on the following key policy areas for cities and subnational governments to drive inclusive economic growth:

- Prioritize investment in key infrastructure and services to strengthen urban competitiveness and boost productivity of cities towards sustainable, resilient and inclusive economic growth.
- Mobilize sustainable and innovative financial resources such as PPPs and land value capture to complement traditional sources of revenue.
- Recognize and integrate the informal sector into urban systems as well as facilitate access to markets, finance and training to enhance the productivity of informal enterprises and strengthen their resilience to future shocks.
- Implement targeted interventions to expand the capabilities of marginalized groups, including tailored social protection measures to alleviate their vulnerability to future shocks.
- Support ageing populations and harness active ageing for new decent jobs and inclusive economic growth in line with SDGs and the NUA.
- Strengthen sustainable urban and territorial planning to reduce costs associated with congestion pressures and diseconomies of scale.
- Diversify urban economies and revitalize post-industrial cities as a critical part of achieving broader economic resilience, especially in contexts where there is overdependence on single industrial bases.
- Invest in skills and talent development to enhance access to decent and productive employment for all, including reskilling to meet the demands of the new urban economy.
- Adopt the circular economy as a catalyst to greater urban economic resilience while promoting resource efficiency as well as adapting cities to new economic realities.
- Implement balanced territorial economic development to reduce regional disparities and promote equitable and inclusive economic growth.
- Cultivating peaceful and socially stable societies.

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