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Zambia urbanising part 2: Encouraging good contagion

Population growth and migration into Zambian cities has accelerated rapidly in the last decade. Harnessing the positive effects of urban growth has the potential to support a wider structural transformation through productivity gains and the spillover benefits of competition and knowledge sharing. Today's blog is the second part in our series on the challenges and opportunities facing Zambia as it struggles to deal with the effects of rapid urbanisation. Read [part one here](#).

86% of the population in rural areas in Zambia are employed in agriculture. According to standard economic theory, increased specialisation leads to higher productivity and higher income. The [empirical evidence](#) certainly points to this: average household income in urban areas in Zambia was three times higher than in rural areas in 2010 and the proportion of the urban population living under the national poverty line was 27.5% compared to 78% in rural areas.

Urban employment offers gains and higher wages from the specialisation of labour, relative to rural employment

More generally, cities promote agglomeration effects in form of [productivity increases and innovation through large product and labour markets](#), availability of intermediate inputs and services and ease of exchange of knowledge and ideas. These synergies also operate on a more localised-industry-specific scale, encouraging firms to locate in clusters in a similar line of business. These clusters can arise spontaneously or through more deliberate government policies. For instance, Lusaka has a number of informal industrial clusters for small enterprises that operate in manufacturing of metal, leather, bricks and wood. Anecdotal evidence suggests that entrepreneurs operating in these areas collaborate on large orders and exchange knowledge and ideas on production processes and management, among others. Understanding the dynamics of these clusters and the effects of productivity externalities is fundamental to gaining insight on the agglomeration effects of cities.





Image credit: [gman1981](#)

A forthcoming IGC-study by Ed Glaeser and Nava Ashraf tries to measure the value of industrial agglomeration in Lusaka using an experimental approach. The study will conduct an extensive spatial mapping of economic activities in Lusaka.

Subsequently, selected micro and small manufacturers will be provided with business training and business linkage opportunities. By tracking business development of firms with varying degree of geographical and social interconnectedness, the project hopes to derive the benefits of clustering.

There is also a more deliberate government policy to support the creation of industrial clusters, both for micro and small enterprises and more large-scale industrial clusters in form of so-called [Multi-Facility Economic Zones \(MFEZ\)](#). These policies are a key part of the government's industrialisation strategy, which raises important questions about the employment and more general economic impact, design, financing and implementation of these programmes.

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Effective land registry and property taxation systems can capitalise on increasing urban land values

Like the country as a whole, a successful city also needs to be able to finance its expenditures and investments. An obvious source of finance is property or [land taxation that can generate substantial revenues](#) as the development of a city leads to appreciation of land and property values. Local councils in Zambia are responsible for the provision of water supply and sanitation, solid waste management, health, environment, housing, land development and others. However, the councils have been vested with very limited revenue responsibilities to finance the provision of these services. One exception is property taxation, which is administered by local councils and levied on the value of capital-improved land. While this is the most important source of revenue for local councils, the collection and enforcement of property tax is generally poor due to lack of capacity, unclear property rights and an old value

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A [forthcoming IGC study by Samuel Jibao](#) of the Centre for Economic Research and Capacity Building – Sierra Leone highlights that the system has been politicised and well-connected property-owners have been able to evade taxation. Improving property tax collection will thus require administrative measures aimed at improving enforcement as well as efforts to build a sustainable political foundation for enforcement.

Local authorities require greater capacity

Indeed, the negative impacts of urbanisation in Zambia are exacerbated by inadequate urban planning practices. Policies on development of towns and cities have been inadequate, obsolete and un-coordinated with a weak regulatory framework. Improving capacity of local authorities requires decentralisation, strengthening urban policies and enabling local authorities to mobilise the necessary financial resources. While [fiscal decentralisation efforts](#) in the form of various policies in Zambia have been on-going almost since independence, implementation, however, has been slow.

A new National Urban Policy could facilitate planning and management of urbanisation

The policy is being developed to meet the following objectives: avoiding future human-made and environmental disasters; creating jobs to alleviate poverty; delivering more cost-effective public service and infrastructure; strengthening local authorities; and developing a functional urban system that also contributes to rural development and transformation.

Facilitating and consolidating this link between evidence-based research and policy is the core mission of the IGC. Indeed, some of the key questions policy makers are seeking answers to have been discussed in this analysis. Yet, there is a lot more to urbanisation than alluded to here and it is an important, complex and multi-faceted topic worthy of further scrutiny.

For more on the challenges of tackling bad contagion, read [part 1 here](#)