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Urban growth and access to opportunities: A challenge for Latin America



EXECUTIVE SUMMARY

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Urbanization without development

The process of long-term development implies structural changes within countries, amongst which the increase in urban population stands out. As a matter of fact, to many social scientists, urbanization is the distinctive hallmark of economic development.

The relationship between economic development and urbanization is partially explained by industrialization. Technological progress implies, for example, an increase in agricultural productivity and large-scale production of goods and services in cities. These processes release workers from the rural sector, drawing them to the cities. By reducing the distance between people and firms –improving the matching between skilled labor and good jobs–, enabling access to suppliers, inputs, and markets for the manufactured goods, as well as facilitating the diffusion of ideas and knowledge, cities are able to increase their productivity and wages beyond what might be accounted for exclusively by industrialization.

The existence of these agglomeration economies enables cities to become engines of economic growth and productivity. To illustrate the point, by the end of the previous decade, the largest 600 cities of the world produced over half of the global gross domestic product (GDP), with less than a quarter of the world's population.

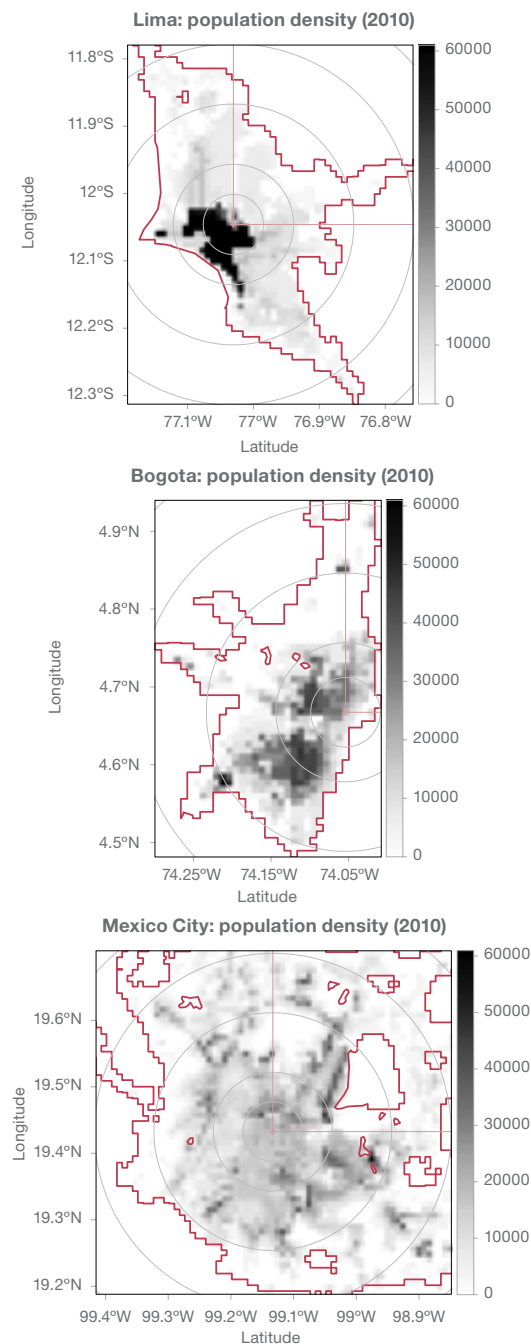
Urban growth, however, is also associated with congestion costs, such as traffic jams, higher levels of pollution, housing costs and crime rates to name a few. Furthermore, migration of low-income rural families in search of better opportunities, increases poverty and inequality within cities. Fast urban growth is often coupled with the appearance of slums with limited access to public services and precarious property rights. It is estimated that nearly 900 million people currently live in such settlements. While somewhat over 10% of the global population lives in these conditions, the rate is two to three times higher in Latin America.

A city's ability to improve the wellbeing of its inhabitants depends to a large extent on public policy and its ability to capitalize the economic benefits of urbanization while minimizing its social costs. This is precisely the main challenge of modern cities: how to increase the profits derived from agglomeration economies whilst keeping a check on congestion costs. This challenge, conceptualized in the RED 2017 as accessibility, is particularly relevant to Latin America, the most urbanized region after North America and the one with greatest urban population growth in the last few decades.

Access to opportunities as a policy priority

Accessibility as a fundamental measure of firms' productivity and wellbeing of families in the cities is defined as the ability of firms and households to take advantage of the opportunities offered by the city. Urban productivity increases when firms have access to a qualified workforce, quality inputs and a stable demand for their products. Welfare improves when people have access to more and better jobs, decent housing, quality services, a variety of entertainment options and access to other people with similar interests and tastes. Hence, the concept of accessibility captures the effect that economic and social interaction has on productivity and wellbeing within the urban space. An accessible city reduces the actual distances between people and firms and fosters the benefits of agglomeration.

Graph 1 Population density in Bogota, Lima and Mexico City in 2010 ^{a/}



a/ The graphs identify density per square kilometer for 2010, using georeferenced population as estimated by Landsat 8 (USGS - NASA, 2010). The following geographic references were taken as central points for each city: Bogota (T Zone); Lima (Plaza Mayor); Mexico City (Zócalo). The first circle around each aforementioned reference has a 5 km radius. The second has a 10 km radius. Subsequent radius are in 10 km increments. The cities' latitude and longitude in degrees are included for geographical reference.

Source: Authors' elaboration based on BEAM (CAF, 2016), Ch et al. (2017) and population data from Landsat 8 (USGS - NASA, 2010).

There are three essential determinants of urban accessibility: land use regulation –which determines where firms and households are located–, the housing market –which determines the quality, availability and price of housing– and mobility infrastructure and transport coverage, which determine how people and goods move within the city. These three elements shape the structure of the RED 2017: Chapter 2 studies aspects related to urban density and land use regulation, Chapter 3 analyzes urban mobility and Chapter 4 studies housing markets. However, the success of policies implemented in any of these three interrelated dimensions crucially depends on the existence of formal or informal institutions of metropolitan governance. These must articulate municipalities and different levels of government to successfully coordinate urban development policies, the challenges of which often cross the administrative boundaries of a city. Chapter 5 emphasizes the importance of such institutions in improving urban accessibility.

The emphasis on the concept of accessibility draws the attention away from topics that have traditionally been the focus of the discussion of public policies in Latin America, such as urban density and, more specifically, the debate on whether cities should be compact or if they can expand. It would appear, in fact, as though expansion or compactness were objectives in themselves, thus distracting from the true purpose of urban development policies: productivity, wellbeing, or in short, accessibility.

The heated debate between urban sprawl and compactness appears to be partly responsible for the widespread idea amongst policy makers that expansion is undesirable, since it increases commuting costs and thus negatively impacts urban productivity and environmental quality. In line with this vision, the available evidence suggests that, albeit there are marked differences within Latin America, urban expansion has been limited –and in most cases has taken place in a disorganized fashion– when compared to other regions. Even if the concentration of firms and households implies physical proximity, barriers to urban expansion, and thus higher population density, may also lead to higher commuting times due to traffic congestion, and to higher levels of pollution, among other issues that negatively impact accessibility as congestion costs increase.

Urban accessibility is not necessarily tied to a specific urban structure, but can be achieved through a variety of city shapes, with varied levels of urban density and employment. The structure of Latin American cities is in fact heterogeneous. As depicted in Graph 1 (see p. 4), cities such as Lima concentrate population and employment in a single business district, with low density and reduced economic activity through the rest of the city. Other cities, such as Bogota, have more than one hub for urban and employment density. Finally, cities such as Mexico City have a rather decentralized economic activity, with relatively similar density levels across its territory.

High density in Latin American cities

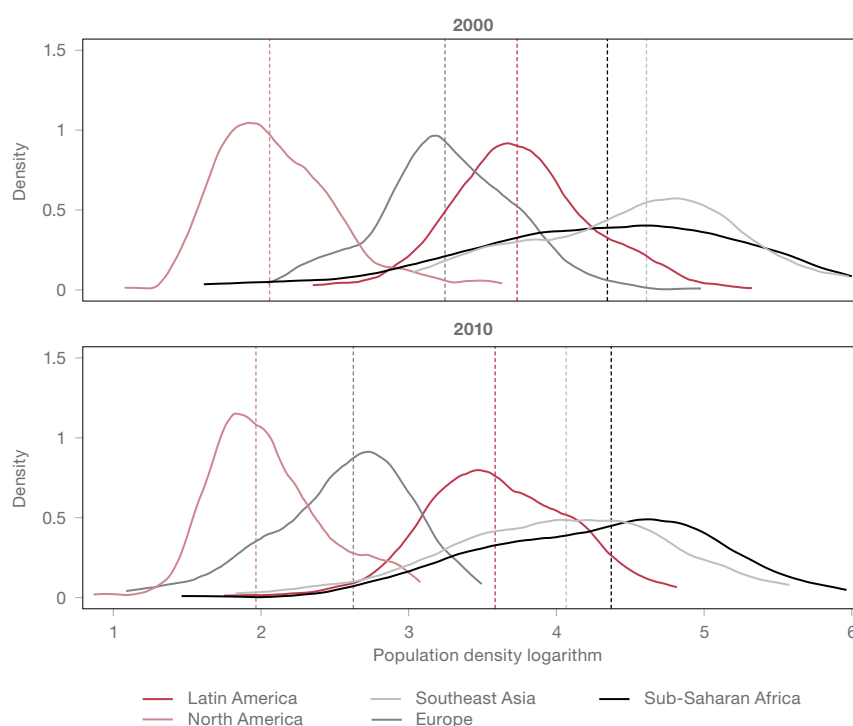
The distinction between accessibility and density gains relevance through the evidence presented in the RED 2017. A stylized fact with important consequences for the ongoing debate in public policies is that Latin American cities have high levels of population density compared to those of developed countries. At the same time, however, levels of productivity and wellbeing in the region's major cities are evidently below those of their North American or European counterparts.

In the absence of comparable information from a broad set of cities on sprawl, population and population density, the RED 2017 proposes a measure of urban extension based on the intensity of nighttime lights as captured through satellite images. The resulting database (CAF's Database on the Extension

of Metropolitan Areas¹) is combined with existing population data available at the census tract level, in order to calculate urban population density.

Graph 2 documents the relatively high density of Latin American cities with data from the years 2000 and 2010. Urban density levels in Latin America are almost twice those of European cities and four times those of North American cities. Chapter 2 confirms this evidence using alternative data such as the Atlas of Urban Expansion, jointly produced by ONU-Habitat, the Lincoln Institute for Land Policy and NYU. Even though the resulting density levels differ, the relative inter-region gaps concur.

Graph 2 City distribution according to population density by region in 2000 and 2010 ^{a/}



a/ The graph reports the distribution of density for cities over 100 thousand inhabitants in the analysed regions. The dotted lines show the median in each distribution.

Source: Authors' elaboration based on BEAM (CAF, 2016) and Ch et al. (2017).

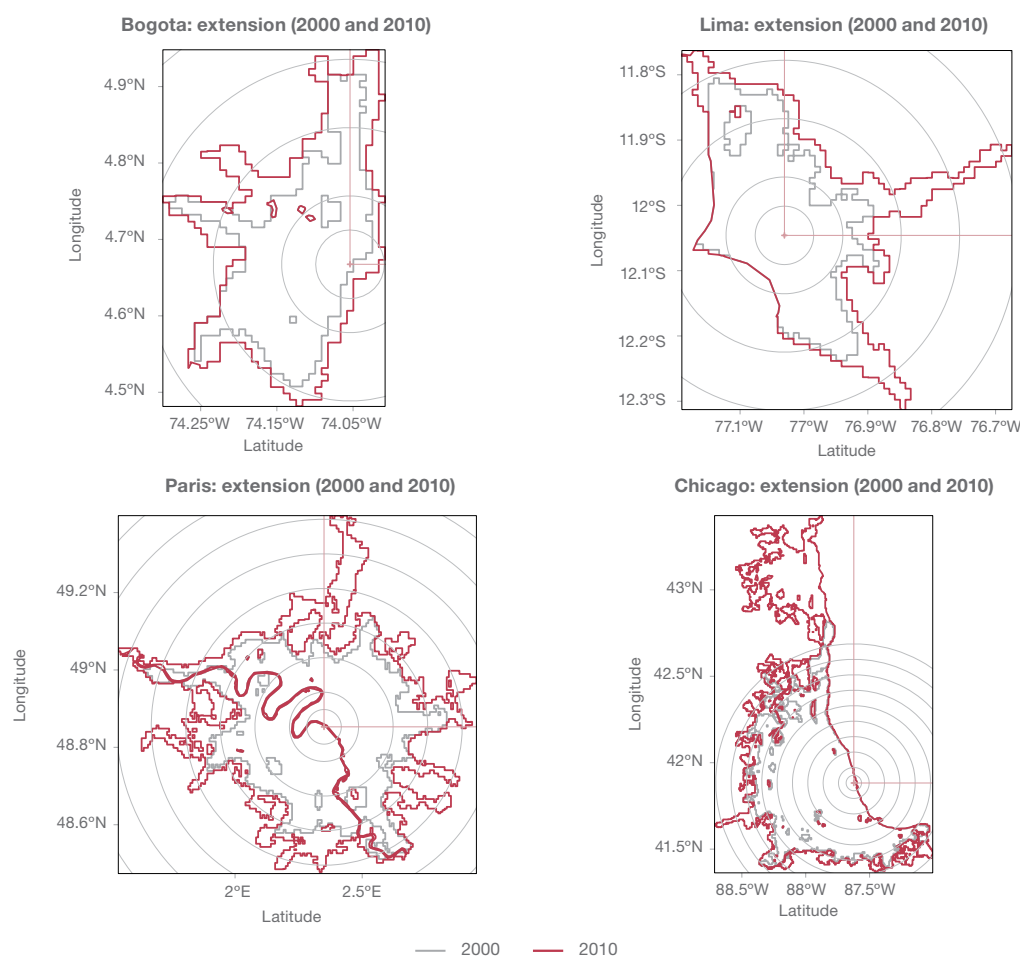
Another fact highlighted by Graph 2 is that population density decreased throughout all the regions analyzed during the past decade. This is consistent with the observation that secular economic development results in households demanding more living space and in an increased proportion of car usage: families want to live in bigger houses, especially if this does not imply major sacrifices in terms of commuting. In Latin America, for example, a 10% increase in income is associated with a 2% increase in household size, in square meters. In turn, technological progress that cheapens mobility

1. BEAM for its Spanish acronym, Base de Extensión de Áreas Metropolitanas.

infrastructure and the use of private vehicles, accelerates the process of city size expansion. Public policy must therefore propose mechanisms that actively shape this process into increased accessibility for everybody, rather than attempting to slow down the natural growth of the urban footprint.

The urban density gap between Latin American cities and their counterparts in developed countries can be explained mainly by the differences in the average city extension, while exhibiting comparable population averages. Graph 3 illustrates these differences comparing the metropolitan areas of Bogota and Lima with those of Paris and Chicago. Although all four cities expanded during the last decade (in a magnitude represented by the gap between the grey perimeter and the red perimeter) the area of Bogota and Lima continue to be significantly smaller than Chicago and Paris.

Graph 3 Urban extension of Bogota, Lima, Paris and Chicago in 2000 and 2010 ^{a/}



a/ The graphs identify the limits of urban extension for 2000 (grey) and 2010 (red). The following geographic references were taken as central points for each city: Bogota (T Zone); Lima (Plaza Mayor); Paris (Notre Dame); Chicago (Cloud Gate). The first circle around each aforementioned reference has a 5 km radius. The second has a 10 km radius. Subsequent radius are in 10km increments. The cities' latitude and longitude in degrees are included for geographical reference.

Source: Authors' elaboration based on BEAM (CAF, 2016) and Ch et al. (2017).

Radiating from its business hub, Bogota stretches over a maximum radius of 30km. Lima spans along a 40km radius due to its southbound and eastbound growth between the years 2000 and 2010. Paris, on the other hand, stretches along a 60km radius from Notre Dame, while Chicago spans close to a 100km radius from its business center.

How can urban accessibility be improved? As mentioned earlier, the RED 2017 highlights three fundamental dimensions that are intimately related: land use planning and regulation, mobility and transport, and access to housing and basic utilities. In addition, the way to ensure integration between these policy dimensions within the metropolitan space is through metropolitan governance schemes, which take into account the need for coordination at the territorial and sectoral levels.

The triple informality of Latin American cities

Chapter 2 argues that a primary reason as to why most Latin American cities have been unable to capitalize the advantages of their relatively high urbanization level is the inadequate infrastructure of both transport and public services. Scarce infrastructure coupled with restrictive regulations on land use have prevented the region's large cities from absorbing migratory waves by expanding their size in an orderly fashion that would enable easier access to the economic opportunities offered by the city. Faced with this situation, population growth in the region's cities has resulted in an increase of slums with precarious housing conditions and limited access to quality employment and utilities.

The appearance of slums and the growth of existing ones, together with the characterization of the living conditions in this kind of habitat in relation to the "formal city" is one of the central themes of the RED 2017. However, available data on the impact and characteristics of this kind of habitat is scarce and limited in its quality and space-time scope. It remains, in fact, a rarely studied subject, despite its high incidence in the region's cities.

Given the lack of systematic information on urban informality, the making of the present report included the generation of novel data. In addition to the database that estimates urban extension based on satellite images of nighttime lights, the report draws from a survey spanning close to 13.000 households across 11 major Latin American cities: the 2016 CAF Survey. The survey, which features specific sections on urban accessibility, includes a representative sample of households in slums across four cities: Bogota, Buenos Aires, Caracas and Fortaleza.

Table 1 (see p. 9) shows some differences between households located in slums and households from the formal city, in each of the four cities where data on slums was collected. Informal households house more members in a considerably smaller space. The dwellings differ substantially in their access to utilities such as tap water and sewage system.

Thus, many Latin-American cities are characterized by the prevalence of high levels of housing informality, which, coupled with the informality in public transport, limits access to formal job opportunities to a considerable percentage of its inhabitants. This "triple informality" (in housing, transport and employment) is mainly to blame for the low levels in productivity and wellbeing observed in many Latin American cities.

Analyzing the patterns in land use and the determinants of urban structure is key to identify the structural factors that hinder accessibility in Latin American cities, as well as the appropriate corrective measures. The latter comprise a broad set of policies combining regulatory elements such as making housing supply more flexible, the use of taxation and subsidies to reduce congestion, and investments in mobility infrastructure and public services. If paired with adequate mobility and utility infrastructure, and with an adequate regulation for land use, the growth of the urban footprint can improve access to quality housing without compromising access to employment, public services and amenities.

Table 1 Household characteristics according to settlement type for selected Latin American cities ^{a/}

	Buenos Aires		Fortaleza		Bogota		Caracas	
	Formal	Informal	Formal	Informal	Formal	Informal	Formal	Informal
Size and composition								
Number of household members	4	4.7	4.1	4.1	3.9	4.2	4.2	4.3
Square meters per person	23.8	13	17	12.2	26.4	18.4	27.3	14.7
Access to utilities (% of total households)								
Tap water	87	28	96	89	99	69	87	43
Sewage system	78	31	62	31	97	83	100	100

a/ The table reports average characteristics for households in each category, differentiating whether they live in formal or informal settlements. Statistically significant differences at 5% are highlighted.

Source: Authors' elaboration using data from the 2016 CAF Survey (CAF, 2016).

A sound mobility is key for accessibility

Chapter 3 focuses on urban mobility and argues that the capacity to access quality employment, social services and amenities depends, to a large extent, on peoples' mobility within the city. Urban mobility is therefore a fundamental element to achieve accessibility. As a matter of fact, mobility determines the size of the agglomeration economies as well as the magnitude of congestion costs. On the one hand, mobility difficulties prevent people from accessing the best available jobs and prevents firms from hiring the most qualified workforce, therefore negatively impacting the city's productivity. On the other hand, deficient mobility is one of the main causes of congestion costs, including traffic congestion, environmental pollution, road accidents and other phenomena that negatively impact the population's wellbeing.

One of the key determinants of urban accessibility is mobility infrastructure, which not only includes the infrastructure of motorized transport (public and private), but also that of alternatives such as bicycles and walking. Chapter 3 documents the relevance of public transport and pedestrian commutes in the region. 39% of Latin Americans commute from their residence to their workplace in public transport, 22% in private transport and 26% by foot. In comparison, Europe presents figures of 23%, 54%, and 11% respectively, while 90% of commutes from the residence to the workplace in United States takes place in private cars.

At the same time, evidence suggests that the region's mobility infrastructure is scarce and inadequate compared to that observed in cities from developed countries, particularly when it comes to alternatives to private motorized transport. In addition, the limited infrastructure is used inefficiently and inequitably,

due to the limited space assigned to exclusive sidewalks or lanes for public transport, despite them being the most frequent choice amongst the low-income population. In addition, the poor levels of road safety in Latin America (even after controlling for the level of development) stress the urgency of improvements in infrastructure.

Even though the extension of Latin American cities is smaller than that of cities in developed countries (see Graph 3, p. 7), poor mobility infrastructure results in excessively high commuting times. According to the 2016 CAF Survey, Latin Americans spend an average of 40 minutes commuting to their workplace (considering only a one-way trip). A quarter of the population in San Pablo, Bogota, Mexico City and Lima spends at least one hour commuting to their workplace.

On the other hand, different forms of urban transportation carry different consequences in terms of the magnitude and impact of the associated congestion costs, which entails distributive consequences. Private vehicles in particular (cars and motorcycles) produce the highest negative externalities associated to traffic congestion, pollution and road accidents. Moreover, these vehicles are used mostly by the highest income tiers (in the case of cars). In this light, the RED 2017 emphasizes that public policy must create mechanisms for those whose behaviors impose social costs, to compensate society by paying in proportion to the damage inflicted.

The costs that the use of private motorized vehicles imposes to third parties is a cause for concern given the growing use of these type of vehicles. While the urban population in Latin America grew by 10% since the end of the past decade, the car fleet increased by 40% during the same period, and the motorcycle fleet almost tripled. This trend will be accentuated with the secular increase in average urban income, since families tend to use the car more often as their income increases, in part because it is the fastest option in most cities in Latin America.

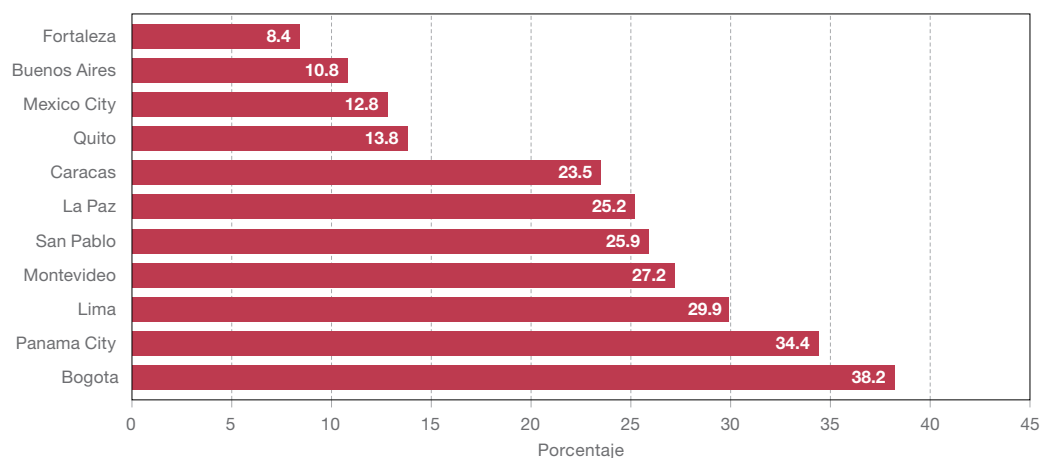
Chapter 3 discusses a comprehensive set of policies with the common objective of improving urban accessibility through the reduction of urban congestion costs, regulating the use of private vehicles while encouraging the use of public transport. This chapter promotes public policies with a focus on making car and motorcycle users responsible for the social costs caused by their travel choices. Two regulatory instruments exist to this end. On the one hand, we can find the initiatives aimed at leveling the private cost of cars to their social cost by taxing circulation at rush hours in high-traffic areas. On the other hand, there are efforts to restrict vehicle circulation on certain days and times according, for example, to their license plate number. Chapter 3 discusses international and Latin-American experiences on the subject, illustrating that the efficacy of these policies varies according to their design and implementation. Restrictions on circulation, for example, may backfire by encouraging the growth of the car fleet.

The success of initiatives that regulate private motorized transportation cannot be separated from public transport coverage and the quality of the service. Unfortunately, public transport in Latin American cities faces important challenges both in coverage and quality. Coverage is insufficient: according to the 2016 CAF Survey, 1 in 5 Latin Americans do not have access to any means of public transportation under 10 minutes walking distance from their home. Although informal means of transportation close the coverage gap to a certain degree, approximately 15% of slum dwellers in the region lack access to any form of public transport, either formal or informal. Coverage restrictions occur not only due to the distance between the public transport system and the residential areas, but also due to the prevalence of restrictive tariffs in relation to the income of the poorest households in the region. Thus, the deficiencies of public transport affect these households disproportionately, as they depend more heavily on it to access the opportunities brought about by cities.

As for quality, the 2016 CAF Survey suggests that an average of 1 in 4 Latin Americans is unsatisfied with public transport system, either due to a lack of frequency, the long duration of the journey, or the poor safety standards of the vehicles providing the service. Graph 4 shows, however, that this varies greatly within the region. While close to 40% of inhabitants in Bogota are dissatisfied with the city's public transport system, the figure is a mere 10% for Buenos Aires.

Even though expansion of coverage and improvement of public transport quality are priorities in Latin America, these two objectives often become mutually exclusive. For example, although subsidizing public transport fares could result in increased use (though in practice this effect is modest), this strategy could also impoverish the quality if the service.

Graph 4 Public transport dissatisfaction level across 11 Latin American cities ^{a/ b/}



a/ The graph is based on the following question: "In a scale from 1 to 10 where 1 is "very dissatisfied" and 10 is "very satisfied", how satisfied are you with public transport in your city?". The "dissatisfied" rating is based on the number of people who answered equal to or less than 3.

b/ The sample excludes households located in informal settlements.

Source: Authors' elaboration using data from the 2016 CAF Survey (CAF, 2016).

Rigidity and low affordability of housing markets

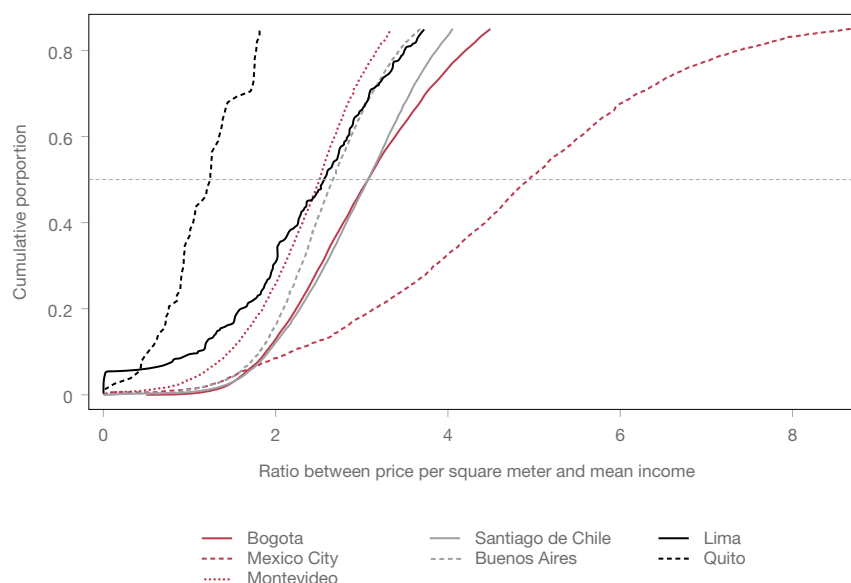
Another key element to access a city's opportunities is the place of residence *vis-a-vis* the workplace, and the location of amenities and other people in the city. Chapter 4 argues that a functional housing market is fundamental to accessing quality housing. However, evidence reported in this chapter suggests that Latin-American housing markets present a series of structural problems that restrict the cities in the region from fully exploiting agglomeration benefits.

One of these problems is the comparatively poor quality of Latin American houses. Housing deficits in the region include, for example, limited access to utilities, especially water and sewage. Scarcity of

affordable housing is another primary problem, characterized by high prices (for purchase or rent) and low incomes, in addition to poor access to mortgage loans.

Graph 5 shows the number of monthly wages that are necessary, on average, to pay for a square meter of housing in some Latin American countries. According to this index, Mexico City is the least affordable city for housing. Five months' worth of wages are required to purchase a square meter of average housing. Two to three months' wages are required, on average, to make the equivalent purchase in most of the other cities.

Graph 5 Distribution of units on sale according to the number of months' worth of salary required to purchase a square meter for Latin American cities ^{a/}



a/ The Graph illustrates the cumulative distribution function of the ratio between price per finished square meter in apartments and average monthly income in the city. Housing prices are deflated according to the year when income was surveyed: Bogota (2014), Buenos Aires (2015), Lima (2015), Mexico City (2014), Montevideo (2015), Quito (2014), Santiago de Chile (2015).

Source: Authors' elaboration based on data of housing prices published in the web page Mercadolibre.com, downloaded in January of 2017; income data extracted from the SEDLAC household survey database (CEDLAS and World Bank); inflation data of the housing sector from national statistical offices.

In the absence of low-cost and high-coverage credit sources, affordable housing becomes severely limited, especially for middle- and low-income households. This in turn encourages developers to exclusively build units with guaranteed demand, further restricting the supply of affordable housing for low-income sectors, encouraging them to seek informal solutions. As a matter of fact, a third problem with the region's real estate markets is their duality. At one end, there is a formal market that serves the wealthiest members of the population. At the other end of the spectrum, an informal market provides access to housing for the poorest members of society, who can generally afford only low-quality units.

The internal structure of a city is determined by the degree of flexibility in its housing supply. As agglomeration economies drive up productivity and thus average wages, new workers migrate towards the city, demanding housing. An inflexible housing supply drives up the prices of existing housing, and unless new immigrants take house in slums, the growth of urban employment is inhibited. A flexible supply, by contrast, responds to an increase in demand with new units, facilitating the creation of more new jobs. It follows that flexibility in residential supply is essential for capitalizing on productive opportunities (more and better jobs) offered by agglomeration economies.

However, beyond its functional role as key determinant of access to urban opportunities, there is also an intrinsic value to housing associated to the wellbeing of its inhabitants. A house located in a marginal and dangerous environment, built with precarious materials, with insufficient space and no connection to networks of public services does not create the same level of wellbeing as a house located near parks and recreation centers, built with solid materials and ample spaces. Quality housing, furthermore, allows for better health conditions and enables greater skill accumulation, which translates in higher productivity for its inhabitants, regardless of their level of accessibility.

Along these lines, Table 2 complements the evidence presented in Table 1 (see p. 9), showing that, on average, houses in slums have less access to hospitals, schools, parks and a formal public transport system that enables urban mobility.

Table 2 Household characteristics according to settlement type for selected Latin American cities ^{a/}

	Buenos Aires		Fortaleza		Bogota		Caracas	
	Formal	Informal	Formal	Informal	Formal	Informal	Formal	Informal
Amenities available within a 10-minute-walk radius (% over total households)								
Hospitals	49	63	63	63	27	13	35	30
Schools	82	71	78	71	52	38	60	56
Parks	75	61	65	54	65	37	44	24
Means of transport available within a 10-minute-walk radius (% over total households)								
Bus (formal)	96	89	96	95	67	54	71	67
Subway	9	8	7	4	-	-	42	20
Train	28	17	8	3	-	-	22	6

a/ The table reports average characteristics for households in each category, differentiating whether they live in formal or informal settlements. Statistically significant differences at 5% are highlighted.

Source: Authors' elaboration using data from the 2016 CAF Survey (CAF, 2016).

Based on the available evidence on how Latin American housing markets operate in a comparative context, Chapter 4 highlights four elements that are central to any discussion on public housing policies in the region. First: the lack of housing or housing deficit relates both to supply factors (inefficiencies in the housing market) and demand factors (poverty levels).

Second, the lack of flexibility in the housing supply limits the ability to stimulate demand through policies such as access to mortgage loans. The policy priority is therefore to focus on increasing supply flexibility. It is consequently essential, amongst other efforts, to ease land use regulatory frameworks and construction standards, and to simplify the bureaucracy associated with construction permits and property deed registers.

Third, due to the coexistence of informal and formal housing markets (or the duality of the housing market), policy efforts aimed at one market affect the other. Chapter 4 argues that a sustained reduction in the incidence of slums can only be achieved through an efficient formal housing market, and by increasing the income generation capacity (and access to mortgages) of the poorest sectors, to diminish the relative cost of housing in the formal part of the city. Conversely, social housing programs that relocate slums into new housings often reduce accessibility for the relocated families by moving them into the outskirts, with low connectivity to the city's business districts. A recent social housing program executed in Rosario, Argentina, reduced the employment rate of its beneficiaries by 7% due to the lack of opportunities in the relocation area.

Fourth, policies must pursue access to quality housing, not necessarily through ownership. Therefore, a well-functioning rental market, traditionally not a priority in Latin America, is vital in attaining the ultimate objective of accessibility. This requires streamlining rent regulations, promoting a legal context that equitably protects tenants and landlords, and avoiding price controls.

The need for coordinating policies at the metropolitan level

Beyond the technical robustness of many of the policies discussed throughout the RED 2017, which share the common objective of improving accessibility in Latin American cities, Chapter 5 argues that the success of local interventions such as land use, mobility and the housing market depend to a great extent on metropolitan governance.

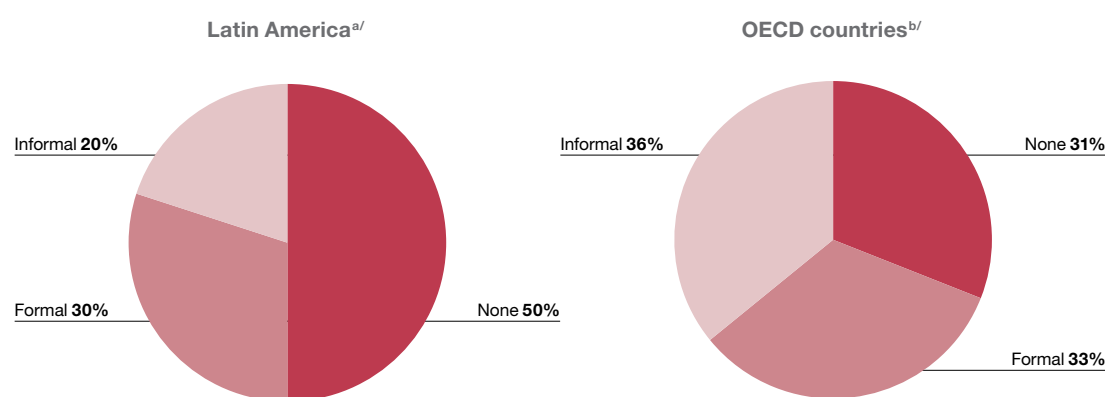
Cities should have institutional frameworks that enable formulating and implementing efficient and effective policies, through transparent and collaborative decision-making –and therefore, legitimate– processes. This is of vital importance, since policymaking and implementation requires the involvement of institutions at various government levels, the private sector and civil society. In addition, a city's jurisdiction rarely coincides with the economic and social dynamics that occur within, calling for policy coordination mechanisms at the metropolitan level.

The absence of these mechanisms limits policy effectiveness, as different government decisions on land use, transport and housing generate externalities on the adjacent municipalities, affecting their wellbeing. Transport networks, for example, often transcend the administrative jurisdiction of a single municipality, requiring inter-municipal coordination to improve mobility (and therefore accessibility) of all the inhabitants common to that transport network.

Reviewing the scarce evidence available, and based on the study of some paradigmatic cases, Chapter 5 argues that, beyond the existence of formal cooperation agreements, the success of metropolitan institutional arrangements rests on three fundamental pillars: the complexity of coordination and the institutional capacity of the players involved, the availability of human and financial resources, and finally the political legitimacy of the metropolitan coordination body and its decisions. Mechanisms that enhance credibility and legitimacy are particularly important to achieve sustainable governance frameworks, given the economic segregation and high incidence of slums in several Latin American cities, which partly account for the mutual mistrust between citizens and municipal governments. Citizen participation can in addition prove to be an effective tool to control a municipal administration.

The region presents on average weak municipal governance, characterized by a lack of capabilities, resources and political legitimacy. Graph 6 shows, in fact, that compared to OECD countries, Latin America has a low prevalence of metropolitan government bodies, either informal or formal. Half of Latin American metropolitan areas have no coordination mechanisms whatsoever, and only one in five cities has some form of formal framework.

Graph 6 Metropolitan governance bodies for Latin American and OECD countries



a/ For Latin America, metropolitan governance bodies can be divided into: formal, when the institutional arrangement is defined through a written contract between parts; and informal, when it is enforced by an ad hoc authority.

b/ For OECD countries, metropolitan governance bodies with regulatory powers that are constituted through agreements of flexible coordination are considered informal.

Source: Authors' elaboration based on Lanfranchi and Bidart (2016) and OECD (2015).

Several obstacles hinder the creation of mechanisms for metropolitan coordination: the feasibility of supramunicipal institutions, the heterogeneous nature of local government interests and political economy factors. Regarding the first obstacle, the structure of national government makes it more or less feasible to create bodies of municipal governance. For example, federal governments such as Brazil present fewer obstacles for the creation of coordination mechanisms between municipalities when compared to a more centralized government.

As for the heterogeneous nature of interests at stake, differences between local governments in size, management capability and resources determines that, on occasions, the more capable governments refuse to finance projects that benefit the inhabitants of their smaller counterparts. The opposite is also possible: small local governments fear losing independence when coordinating with their wealthier peers.

Finally, the personal incentives of elected officials often result in the implementation of policies that greatly differ from those that tackle accessibility for urban populations. Often politicians choose to carry out projects based on their visibility and short-term electoral dividends. Although long-term investment may be preferable from a social wellbeing perspective, if they span beyond the current administration's period, there are no significant political dividends to be earned. This calls for the need to develop institutions and solid processes for monitoring and evaluation.

Institutional strengthening and governance capabilities at a metropolitan level are thus required to coordinate more and better policies. These policies should lead Latin American cities towards a new balance, where agglomeration advantages take a center stage, translating into more productive cities with higher levels of wellbeing for their inhabitants. In short, cities with higher accessibility.

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The Department of Economic Analysis and Knowledge for Development, led by Pablo Sanguinetti, annually produces CAF's flagship report. The academic coordination of the RED 2017 was in charge of Pablo Sanguinetti and Juan Vargas. Gilles Duranton was the academic advisor.

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