Cities that Work

POLICY BRIEF

Making cities work for business

This policy paper sets out why urbanisation is a central consideration for national economic growth strategies. By building well-functioning cities, governments can support the businesses and workers that fuel growth. Improving the conditions in which businesses operate – from 'hard' physical infrastructure to the 'soft' legal and administrative environment – can stimulate investment, create jobs, and unlock more dynamic urban economies.

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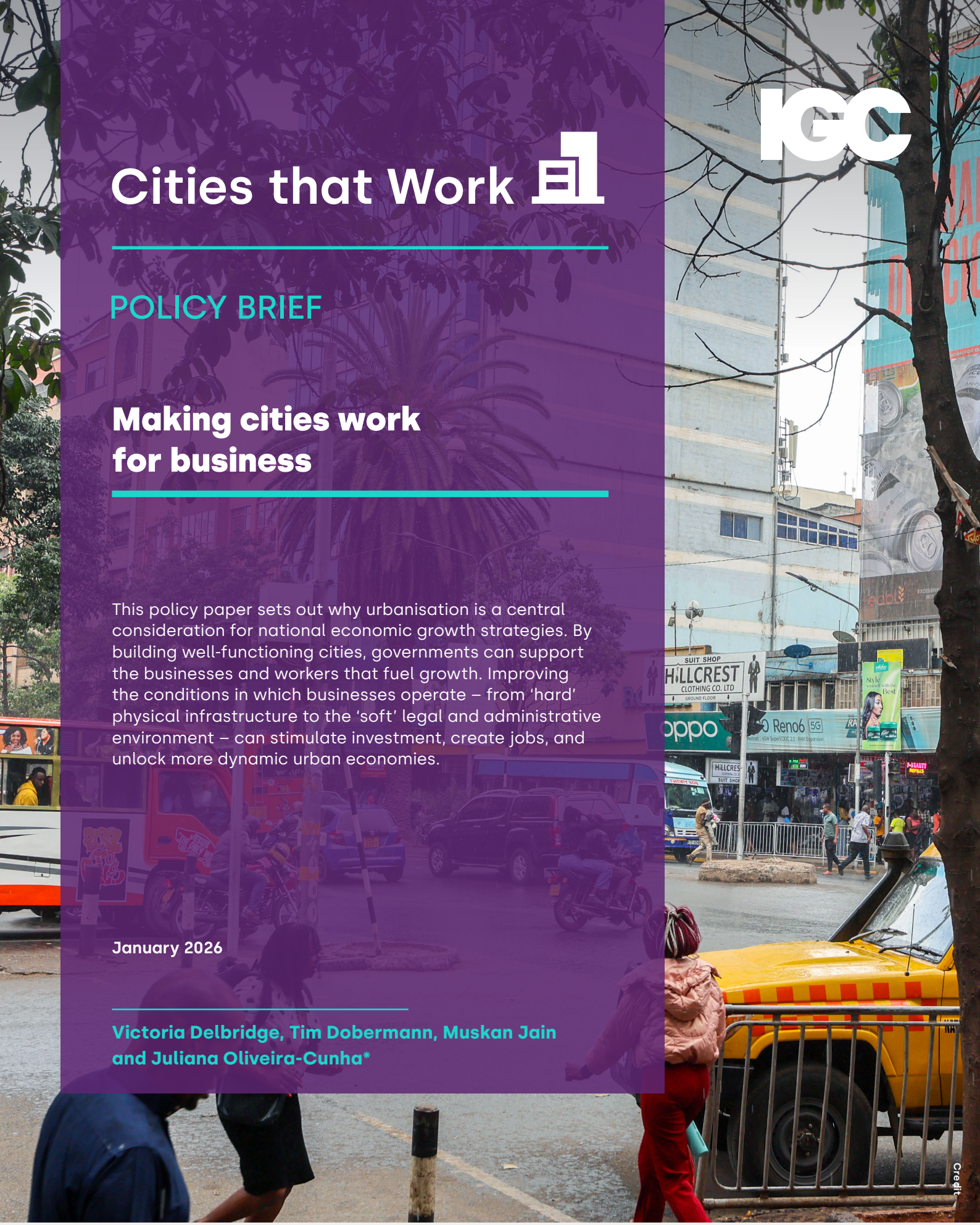

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What makes cities work for business?

When mayors around the world take office, one of their core responsibilities is to create the enabling conditions for a dynamic business environment that supports job creation and broad-based prosperity. This responsibility is especially pressing in many developing-country cities facing high youth unemployment, a large informal economy, and weak productivity growth.

Yet, even with strong commitment, city governments in lower-income contexts face two major constraints. First, their authority to shape local industrial strategies are usually limited. Many business-enabling reforms – including tax and trade policy – are determined at national level, often with little regard for the role of cities in achieving private sector development goals. This leaves municipalities with limited scope to act independently. Second, cities often face fiscal constraints that hinder their ability to finance and implement large-scale business support programmes.

As a result, local authorities must prioritise a core set of interventions within their mandates and available budgets. Strategic investments in infrastructure and service delivery, alongside a supportive legal and administrative environment, can improve the ease of doing business. By focusing on these core issues, municipalities can reduce the costs associated with urban density and attract investment, enabling firms to be more productive and create jobs in return.

Key messages:

1. **Well-functioning cities are crucial platforms for businesses to form and grow.** They bring firms and workers together, and this proximity facilitates better sharing of infrastructure, suppliers, and services; the matching of skills to jobs; and knowledge spillovers that foster innovation.

2. **By focusing on delivering public infrastructure and services, governments create the foundations that enable businesses to thrive.** These public services – from public utilities to transport – reduce the cost of doing business, improve productivity, and help firms access workers and markets.

3. **Reducing red tape and stimulating investment are critical to improving the urban business climate.** Streamlining procedures, including through one-stop shops, can lower barriers to entry and expansion, and help attract investment. Inter-agency coordination efforts can also help proactively identify and overcome less visible regulatory hurdles.

4. **Improving employability requires both stronger human capital and fewer barriers to finding and accessing jobs.** Skill-building initiatives and measures that reduce information or search barriers can support this goal. Many programmes, however, have delivered only small and short-lived effects on employment and income, so evaluating costs against benefits is crucial for the effective use of scarce public resources.

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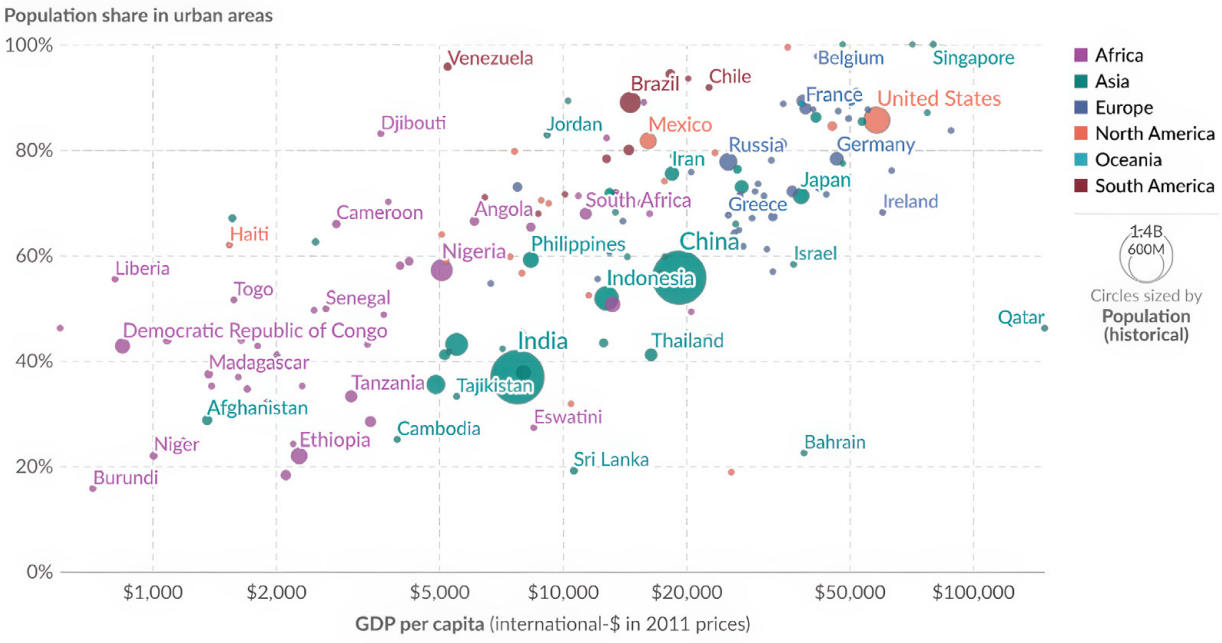
1. Well-functioning cities are crucial platforms for businesses to form and grow

No country without significant natural resource wealth has become rich without urbanising.[1] As shown in **figure 1,** urbanisation and GDP per capita are closely linked: the larger the share of the population living in urban areas, the higher the level of per capita income. While cities cover only a small fraction of land, they generate more than 80% of global GDP and over 90% of jobs.[2] They are the engines of national economic growth – where workers concentrate, firms cluster, and goods and services are produced and exchanged.

Figure 1: Share of the population living in urban areas versus GDP per capita, 2022



Source: Our World in Data.

Evidence from across Africa and Asia demonstrates the benefits of urban density. Each doubling of a city's population is linked to a 3–8% increase in average labour productivity.[3] Workers in large cities are not only more productive, but also earn higher wages than those in smaller towns or rural areas. This is known as the urban wage premium: the tendency for workers in cities to earn more than others with similar skills, because urban environments enable them to be more productive. In Rwanda, for example, the urban wage premium is estimated to be three times larger than in advanced economies.[4]

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1 World Bank (2009).
2 UN-Habitat (2022).
3 Combes and Gobillon (2015).
4 Bower et al. (2021).

While much attention is given to firms' internal capabilities – such as management quality, access to finance, and the adoption of modern technologies – city fundamentals also matter in shaping economic performance. Productivity is influenced not only by what happens within firms, but also by what happens between them in the wider urban environment. For example, when a firm decides to export, its success depends not just on its internal conditions, but on the strength of the city it operates in – the infrastructure and services that support production and exchange.

Understanding the role of urbanisation in growth begins with recognising how successful cities raise the productivity – and therefore earnings – of ordinary people. Productivity measures how efficiently labour and resources are used: higher productivity means each worker produces more with the same or fewer inputs. It is the main factor behind income differences across countries and regions.[5] Wealthy nations are not richer because their people work longer hours, but because their workers generate more value in each hour of work.

Cities are crucial to this process because they create the spatial connectivity that allows productivity to rise. Density reduces the physical distance between people and firms, while transport systems shorten commute times. This connectivity enables frequent, low-cost interaction, creating opportunities for scale, specialisation, and innovation that cannot be achieved in more dispersed settings.[6]

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- **Economies of scale** arise because dense urban areas allow firms and workers to share infrastructure, suppliers, and services. Fixed costs – from roads and sewer systems to logistics and administration – are spread across many users, making each unit of service cheaper and more efficient. For firms, producing at larger volumes reduces the average cost per unit. A factory in a city with access to a large customer base and supplier network can justify investing in better machinery, which lowers costs and raises output per worker.

- **Specialisation** is possible because dense urban areas bring together enough firms and workers to warrant a division of labour. Firms can focus on producing more specialised goods and services, while workers concentrate on narrower tasks and build expertise through learning by doing. This deepening of skills makes it easier for firms to find the precise mix of talent they require. Workers, in turn, benefit from access to a wider range of employers, job types, and career pathways that better match their abilities, with positive impacts on productivity.

5 Caselli (2005).
6 Collier (2017).

- **Innovation and knowledge transfer** are also accelerated in cities. Firms in large markets learn not only by doing, but by observing and competing with one another, which helps them adapt new ideas more quickly. This process of innovation and imitation strengthens performance across the economy.[7]

In short, the success of any reform aimed at improving the business environment ultimately depends on the functionality of cities. Even in largely agricultural economies, cities are the platforms that connect rural areas to local, regional, and global markets, raising rural incomes and living standards. Yet ministries of finance and trade too often overlook urban considerations, prioritising support for specific industries or firms rather than investing in the cities those businesses rely on.

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'Hard' infrastructure and services, along with the 'soft' regulatory and administrative environment, are not just local issues – they are the foundations on which investment, trade, and job creation rest. The path to economic transformation therefore hinges on whether cities can function as effective platforms for productivity growth, with national and local authorities playing a vital role in this process.

7 Collier (2017).

2. By focusing on delivering public infrastructure and services, governments create the foundations that enable businesses to thrive

While urban density can drive productivity, it does not automatically translate into development gains.[8] If density is not managed well, it imposes heavy costs on businesses and residents. When cities grow without adequate planning, infrastructure, and the necessary services, negative externalities mount. Congested roads, overcrowded informal settlements, strained utilities, and pollution become the defining features of the city, reducing its liveability and economic merits. By focusing on their core mandate, governments can invest in the essential infrastructure and services that firms need to operate.

Public utilities

Reliable electricity, water supply, sanitation, and waste management are fundamental to the functioning of businesses. For example, firms in cities with erratic power supply face frequent interruptions and must invest in costly backup generators, which raises operating costs and can deter investment.[9] Across Africa, surveys indicate that well over half of firms own or share generator capacity due to unreliable electricity, and power outages are cited as one of the top constraints to doing business.[10]

Utilities also have a direct impact on the health of the urban labour force. Students in Tanzania were 12% more likely to attend school when they had access to water within a 15-minute walk.[11] Investing in improved water, sanitation, and hygiene services in some workplaces in India and Bangladesh was found to reduce employee absenteeism by 15-29%.[12] Poor sanitation is estimated to cost most African countries 1-2% of annual GDP, and most South Asian countries 4-6% of annual GDP.[13]

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City leaders can work with utility providers to prioritise extending electrical grids, water lines, and sewer networks to underserved areas, particularly industrial zones and dense residential communities where service improvements will have the greatest economic payoff. Combined evidence from several countries (Brazil, Colombia, South Africa, Jordan and Tanzania) shows that increasing the number of sewer connections by 1% increases neighbourhood population density by about 6% – an effect on urban form and density comparable to that of major transport infrastructure projects.[14]

8 Grover et al. (2022).
9 Allcott et al. (206); Fried and Lagakos (2023).
10 Cole et al. (2018).
11 Marshall (2002).
12 WaterAid (2022).
13 World Bank (2018).
14 McCulloch et al. (2025).

In cases where extending the central grid is too slow or expensive, interim solutions like solar-powered street lighting or off-grid energy systems for markets and clinics can be deployed to improve reliability. **Case study 1** shows how investment in streetlights in Kampala had a direct impact on employment.

Case study 1: Street light investments in Kampala, Uganda.[15]

In Kampala, the city government installed 1,800 solar streetlights to improve lighting cheaply and sustainably. Brighter streets let markets trade after dark, extending hours for informal vendors and small shops, while helping to lower crime, improve road safety, and lift property values. If expanded countrywide, research suggests that the intervention could help create a more vibrant night-time economy, adding tens of thousands of working hours a day which would equate to approximately 4,000 full-time jobs in Kampala and 14,000 more nationwide.

Another lower-cost option is better management of existing utilities. Reducing losses and theft from electricity and water systems means more supply reaches end-users. Furthermore, enforcing bill payment and improving revenue collection (for instance, via digital billing) can provide local utilities with more funds to maintain infrastructure. A well-maintained power line or water pipe is less likely to break and disrupt service.[16]

The practical implication for the business climate is clear: a firm that experiences fewer power outages will produce more and is more likely to expand operations or invest in new capacity. Likewise, a neighbourhood that gains regular water supply and sanitation will see improved public health, translating into a more stable and productive workforce.[17]

Transport and connectivity

Efficient urban transportation is vital for connecting workers to jobs and suppliers to markets. Commuters in Lagos, Nairobi, or Dhaka, for example, may spend several hours a day stuck in traffic. For businesses, this means lost worker productivity and higher transport costs for goods. In Kampala, the daily cost of congestion is equal to USD 1.5 million, or 4.2% of the greater city's daily GDP, according to conservative estimates.[18] The congestion problem is particularly acute for the urban poor, who rely on informal transport to get to work and have no option but to endure long commutes.

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15 Gillard et al. (2019).

16 McRae (2015).

17 For more water and sanitation see Blake et al. (2020), and on waste management see Delbridge et al. (2025).

18 Baertsch (2020).

A well-planned transport network lowers the effective distance between different parts of the city, enlarging the accessible labour market for firms and expanding employment opportunities for residents. Investments in public transit, roads, and non-motorised transport infrastructure can dramatically reduce travel times and logistics costs. For example, the introduction of a bus rapid transit (BRT) system in Lagos cut average commute times by 40% and reduced fares by 30-50%.[19] It also created roughly 2,000 direct jobs and, by making travel faster and cheaper, broadened access to jobs for workers and talent for firms.[20] **Case study 2** shows how even cheap, one-off interventions such as temporary subsidies can improve existing transport systems and expand access to the city.

Case study 2: Informal transport providers in Kampala, Uganda.[21]

In Kampala, researchers worked with operators to launch a time-limited, subsidised minibus route that bypassed the congested centre, creating a cross-town link where none existed. Subsidy per vehicle per day started at USD 60 but reduced to USD 40 by the end of the project. The service cut passenger costs and travel times and improved safety, and part of the route continued operating after the subsidy ended. The pool of new passengers was disproportionately made up of women – especially market and street vendors – pointing to under-provision of safe, direct transit for specific origin-destination pairs which are more popular among certain groups of commuters. The pilot shows how light-touch service planning and management can deliver quicker commutes and better access without heavy investments.

A lack of safe transportation limits women's ability to participate fully in the labour market. Evidence from Lahore shows that offering women secure commuting options increased their job applications by 72%, especially when services were women-only.[22] This underscores that safety concerns are a major barrier to women's employment and that targeted transport policies can help reduce them.

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19 Otunola et al. (2019).
20 Harman and McDonough (2021).
21 Kerzhner and Mbabazi (2024).
22 Field and Vyborny (2022).

For commuters more broadly, transport infrastructure needs to go beyond simply building more roads. Without smarter traffic management and high-quality public transport, added road capacity often induces more vehicle use, and roads quickly fill up again. Improvements can include dedicated lanes or loading zones for buses or minibuses, congestion pricing or other demand-management policies in the busiest areas, and improvements to traffic signalling and intersection design.[23]

On the freight side, better road connectivity to industrial areas can reduce shipping times and costs for businesses. Large-scale investments in the quality and capacity of the road transportation network in Turkey reduced transport costs and increased trade, especially for regions whose connectivity to international gateways improved the most. These gains were driven both by the expansion of trade to new industries and partners, and by higher average import volumes along key province–gateway routes.[24]

Urban land and housing markets

When urban land markets are dysfunctional, negotiating land rights can become a large tax on property ownership. Furthermore, high demand for limited space results in housing and commercial rents that are out of line with incomes. As a result, firms must pay more for workspace and workers must spend a larger share of their income on housing or commuting, compared to cities in other parts of the world. A large share of the urban workforce ends up living in informal settlements.

There are several things that governments can do to improve this. The first is focusing on secure, marketable and enforceable land rights, particularly in central business districts and other commercial zones.[25] This gives investors clarity and confidence that the land and property they own is safe and can be used as collateral for funding business expansion. Second, they can reform land use regulations to encourage a greater supply of well-connected land, and streamline building regulations and permitting processes.[26] Lengthy or overly complicated permit procedures often deter formal development or add costs.

23 For more on urban mobility, see Collier et al. (2018).
24 Coşar and Demir (2016).
25 For more on urban land rights, see Collier et al. (2017).
26 For more on land use planning, see Collier et al. (2020).

Finally, well-located affordable housing initiatives help residents access jobs.[27] Housing developments on the outskirts of the city that are far away from jobs often result in residents reverting to informality.[28] When workers can live reasonably close to jobs (or have reliable transit to reach them), absenteeism falls and the pool of labour available to businesses increases.[29] **Case study 3** shows how improving the housing unit in isolation is not enough; location matters critically for labour-market outcomes.

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Case study 3: Public housing and formal employment in Rio de Janeiro, Brazil.[30]

Brazil's *Minha Casa, Minha Vida* ('my house, my life') programme provided subsidised housing to low-income families, improving housing quality and reducing rent burdens. However, many developments were built on the urban periphery, far from job centres.

In Rio de Janeiro, a randomised evaluation found that, on average, beneficiaries were 1.7 percentage points less likely to hold formal jobs after relocation. The researchers looked at several possible reasons and discovered that distance from job opportunities explained more than 80% of the differences in employment outcomes between neighbourhoods. Social networks and local amenities mattered far less. In short, the farther people lived from job centres, the harder it became to find or keep formal work.

The study highlights that the success of public housing depends not only on better homes, but also on location – close to jobs, transport, and the wider opportunities of city life.

27 For more on housing markets and informality, see Collier et al. (2019).
28 Belchior et al. (2023).
29 Gómez-Lobo and Micco (2023).
30 Belchior et al. (2023).

Mapping firms and employment in cities

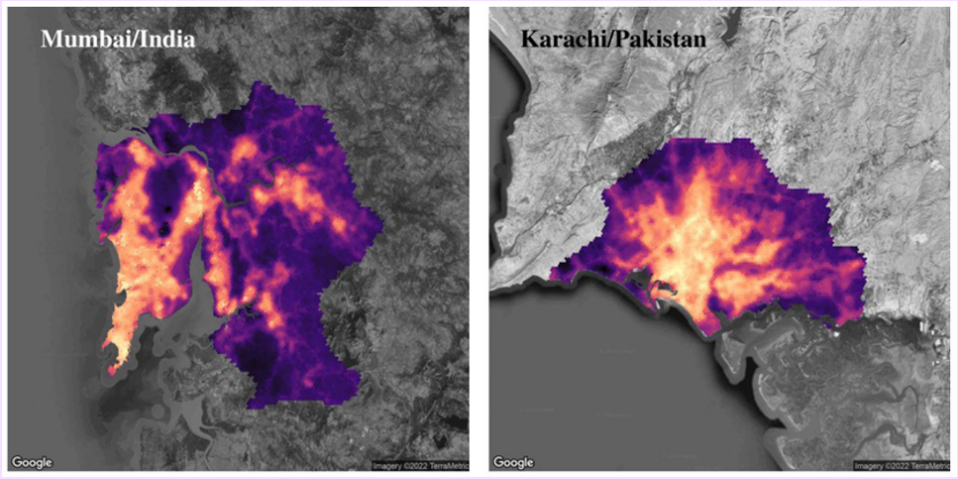
Delivering public infrastructure and services that strengthen the labour market begins with understanding where economic activity is located. Tradable manufacturing firms tend to cluster on the urban fringe, benefiting from cheaper land as well as shared suppliers, inputs, and transport links. Non-tradable services, such as hairdressers and gyms, are more evenly distributed across the city, as proximity to customers is key.[31]

City governments, however, often need a more granular view to assess how effectively transport systems and land use strategies may help connect workers to jobs. This understanding can guide investment and planning decisions. Transport spending, for instance, can target densely populated areas currently facing long commuting times, while zoning regulations can be adapted to the needs of specific industries or workforces.

Data to support such analysis may come from geo-referenced business registrations, business censuses, or tax records – which capture formal employment – or from travel surveys, which may include informal jobs but are conducted infrequently. In cities where such data are unavailable, governments can explore alternative sources such as mobile phone records or third-party apps, which offer closer to real-time estimates but can be complex to access. Researchers have also developed algorithms capable of estimating the spatial distribution of firms and workers at high resolution using open-source data, as illustrated in **case study 4**.

Case study 4: Mapping urban jobs in India and Pakistan.[32]

By combining information from OpenStreetMap – which maps amenities such as shops, schools, and bus stops – with satellite indicators such as population density, night-time lights, and land cover, researchers were able to estimate patterns of economic activity in cities using machine learning algorithms. The underlying assumption was that these digital footprints of human activity closely mirrored the spatial concentration of jobs. Tests across several cities showed that this approach could predict local employment patterns with remarkable accuracy, even in places with limited or no official data.

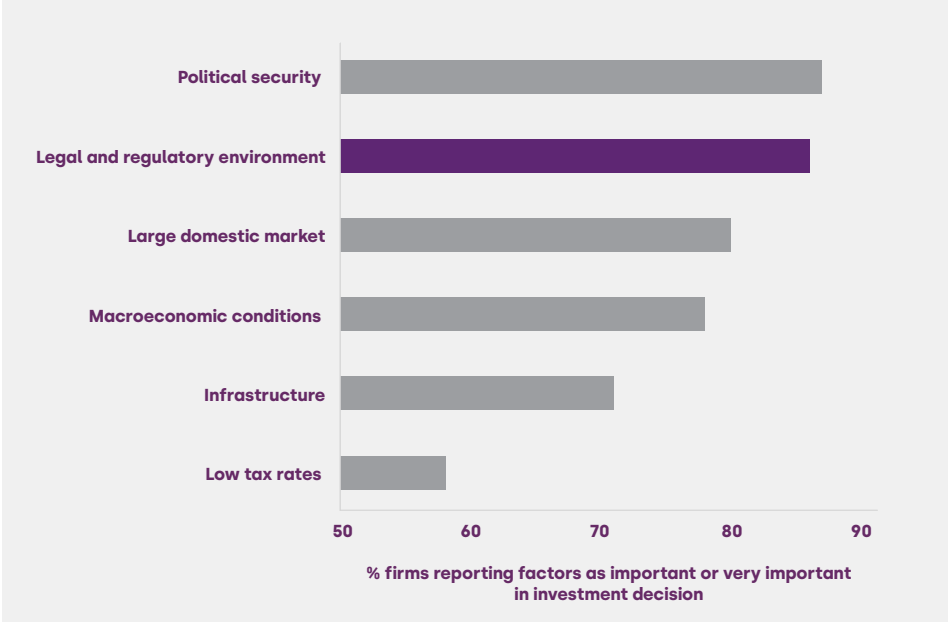


31 Collier (2017).
32 Barzin et al. (2022).

3. Reducing red tape and stimulating investment are critical to improving the urban business climate

An attractive environment for firms includes the 'hard' physical infrastructure of the city, notably transport and energy, as well as the 'soft' legal and administrative environment in which businesses operate. In fact, as shown in **figure 2** below, executives ranked a country's legal and regulatory environment as their second most important factor in making investment decisions, just after 'political stability and security' and well ahead of low taxes. This suggests that money may often be better spent in attracting investors through ease of business reforms than through tax incentives.

Figure 2: Business constraints on investment decisions, 2018



Source: Computations based on Global Investment Competitiveness Survey, World Bank.

At the municipal level, this includes things like business licensing, permits for construction, local fees and taxes, and enforcement of zoning and other regulations. Cumbersome or non-transparent procedures can impose significant costs on businesses. Studies have found that, to comply with burdensome and complex official procedures, a sub-Saharan African entrepreneur must spend 56% of their annual income to register a business relative to 3% in the OECD. Once the business is registered, registering a property and obtaining a construction permit costs 7% of property value, relative to 4% in the OECD.[33] In many cases, entrepreneurs may be discouraged from opening new establishments or may operate informally to avoid the hassle.

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33 World Bank (2020).

Streamlining and digitising such processes is a powerful lever that city administrations can use to improve the local business climate. One-stop service (OSS) centres for permits and licences, online application systems, and clear information on requirements can greatly reduce compliance costs for firms and encourage formal business operations.[34] Many of these procedures are not costly to reform relative to alternative policies to promote firm development, such as infrastructure and tax incentives. Kigali's 'one-stop centre' not only issues business licences, but also facilitates land titling, planning permissions, utility connections and tax payments.[35] **Case study 5** shows how creating an OSS in Mexican municipalities increased new business formation and employment.

Case study 5: One-stop shops in Mexico.[36]

In the 2000s, dozens of Mexican municipalities rolled out the *Sistema de Apertura Rápida de Empresas* ('fast-track business registration system') to make starting a business faster and simpler. By consolidating approvals into a one-stop process, the reform cut the cost, time and paperwork of formalisation, lifting the number of formal business owners by about 5% and boosting wage employment by around 2.2% in eligible industries. Most of the gains came from new firm creation and people moving into wage jobs, rather than large-scale formalisation of existing informal businesses.

Some OSSs combine these activities with investment promotion to attract foreign investment, and export promotion to match foreign buyers with domestic exporters. While these are often thought of as national government activities, this is not always the case. For example, the City of Bogotá has established a highly successful 'Invest in Bogotá' agency that complements the activities of the national investment promotion agency, 'ProColombia'. Research across 120 countries has shown that for every dollar spent by investment promotion agencies on providing information and reducing red tape to facilitate foreign investment, this generated USD 189 in FDI.[37]

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Beyond investment and export promotion agencies, cities can also benefit from a coordinating body that plays a bridge-building role across different institutions. Such an agency could monitor ongoing changes in the city and proactively identify investments that need to be made, services that need to be enabled, or processes that need to be changed to unlock business potential. For instance, aligning zoning regulations with new transport infrastructure developments can help ensure that housing remains affordable when demand in a

34 Bobic et al. (2023).

35 Rwanda Development Board – https://rdb.rw/one-stop-centre/ (accessed November 2025).

36 Bruhn (2013).

37 Harding and Javorcik (2011).

newly connected area of the city surges. It can also help uncover and address less visible, regulatory bottlenecks, facilitating smoother urban development and attracting investment.

Underpinning all these efforts is transparent and accountable city governance which ensures that improvements in regulations or services are sustained, and that public resources are used efficiently. While some reforms can be tricky to implement at the city level, designating certain areas as industrial parks or innovation hubs with streamlined approvals, appropriate infrastructure and fewer land-use hassles can be an intermediate solution to attract investment. These can also be useful tools for experimenting with various strategies.[38] **Case study 6** shows how Kigali, with support from the central government, used a special economic zone to provide reliable quality services in a defined area.

Case study 6: Special Economic Zone in Kigali, Rwanda.[39]

Kigali's Special Economic Zone offers serviced industrial plots with on-site roads and reliable power, water and sanitation. Firms that relocated there saw rapid gains over the first six quarters compared with similar firms that stayed outside the zone – sales and value added roughly tripled, and permanent employment rose by about 18%, driven mainly by domestic sales. The experience shows how reliable utilities and ready-to-build sites can translate directly into higher output and more jobs, strengthening the local business environment.

38 Alexianu et al. (2019).
39 Steenbergen and Javorcik (2017).

4. Improving employability requires both stronger human capital and fewer barriers to finding and accessing jobs

Even with a more enabling urban environment, many city residents – especially young people, women, and other marginalised groups – face barriers to finding decent employment.[40] These barriers can include limited human capital, mismatched skills, lack of information about job opportunities, high costs of job search, and discrimination. In these cases, well-designed employment support schemes can play an important role, helping residents improve their employability or connect to jobs. Such schemes, often termed Active Labour Market Programmes (ALMPs), encompass skills training, apprenticeships, job-matching services (like job fairs or placement assistance), entrepreneurship support, and sometimes public employment programmes.

The evidence on ALMPs in developing countries is mixed.[41] Many of these programmes come at a high cost, go beyond the city's core mandate or expertise, and have shown only modest impacts on employment or incomes. A growing body of research provides insights into the approaches which are most effective.

Many active labour market policies come at a high cost and go beyond the city's core mandate or expertise, with modest impacts on employment or incomes.

- **Training programmes work best when tailored to private-sector demand, and include hands-on experience.** Programmes that actively involve employers and provide practical, on-the-job training give participants skills that are better matched to labour market needs. In contrast, vocational courses taught in a classroom without employer engagement can be disconnected from what businesses require.

A review of skills programmes in multiple African countries found that those including an apprenticeship or internship component led to higher employment rates for graduates than those focused purely on vocational schooling.[42] In South Asia, a programme that combined technical skills training with soft skills and a mentorship during job placement achieved significantly greater employment and earnings gains compared to stand-alone vocational training.[43] **Case study 7** shows how Colombian cities worked with the private sector to combine vocational training with internships to increase employment and wages for disadvantaged youth.

40 Abebe et al. (2021).
41 Caria et al. (2024).
42 J-PAL (2023).
43 Mathematica (2023).

Case study 7: Vocational training for disadvantaged youth in Colombia.[44]

In Colombia's cities, *Jóvenes en Acción* ('youth in action') combined vocational training with private-sector internships for disadvantaged urban youth at a cost of about USD 750 per trainee. Young women offered a place earned 15–20% more and were 5–7 percentage points more likely to be in paid work a year later, with more formal jobs and written contracts. These gains persisted beyond two years, and the benefits outweighed the costs, delivering an estimated 25–30% return.

Signalling worker skills, such as through formal certification, is key to strengthen the benefits of such programmes. Evidence from Uganda shows that while both vocational training and apprenticeships improved skills and employment for young people, the gains from vocational training were nearly twice as large. The key difference was certification: vocational trainees received formal proof of their skills, while apprentices did not.[45] Certification makes workers' abilities visible and credible to employers, reducing uncertainty about skill quality.

- **Public portals for information on vacancies are most effective when combined with training on how to use these platforms and behavioural nudges.** Information asymmetries are another friction – many job seekers simply lack information on where jobs are or what skills are in demand. Job fairs or digital job platforms can help bridge this gap by connecting employers and job seekers more efficiently.

For example, when cities partner with tech firms to create job-matching websites or SMS job alert systems, they can reduce search times and expand the reach of opportunities to peripheral communities. Unlike training programmes, these measures have relatively low cost, and often deliver much higher returns per dollar spent.[46]

However, evidence on their impact is mixed. More successful examples tend to include user training, which ensures job seekers know how to navigate and benefit from the platforms.[47] In addition, behavioural nudges can further boost engagement. **Case study 8** illustrates this latter point, showing how behavioural interventions in Pakistan substantially increased applications submitted through a digital job platform.

44 Attanasio et al. (2017).
45 Caria et al. (2024).
46 Caria et al. (2024).
47 Caria et al. (2024).

Case study 8: Job-matching platform and search behaviour in Pakistan.[48]

A study tested how to improve job search engagement among unemployed youth in Pakistan using a digital matching platform called 'Job Talash'. While the platform connected jobseekers to suitable vacancies via SMS, uptake was low – most users applied to only a few jobs despite receiving multiple leads. The researchers found that a simple follow-up phone call reminding jobseekers about available vacancies increased the number of applications by over 600%. Importantly, these additional applications led to more interviews without reducing opportunities for others, indicating no negative spillovers.

These findings suggest that constraints such as limited information or uneven access to technology matter, but they may not operate alone. Behavioural factors – for example hesitation, low confidence, or uncertainty about how to act on information – can interact with these constraints and further suppress job search effort. Low-cost behavioural nudges, such as reminders, personalised assistance, or automatic prompts, can therefore complement digital job platforms and substantially improve their effectiveness.

- **Transport subsidies can increase chances of finding work for marginalised groups who are budget-constrained.** This works by reducing the specific frictions that hinder job-matching in cities: the cost of job search and commuting. Poor, unemployed young people in a large city may not be able to afford the bus fare to regularly go downtown to look for work or attend interviews, resulting in prolonged joblessness.

A study in Addis Ababa has demonstrated that providing small transport subsidies or job-search stipends to young unemployed people increases their likelihood of finding steady work, particularly among those for whom the financial cost of their job search seems to be the main constraint.49 By covering travel expenses for a limited period, these interventions enabled job seekers to access employers they otherwise could not.

However, as discussed in **case study 9**, the positive effects of reduced transport costs on employment in Addis Ababa were only short-lived. The study found stronger and longer-term impacts for job application workshops, showcasing the importance of combining transport interventions with complementary reforms.

48 Aftab et al. (2023).
49 Abebe et al. (2021).

Case study 9: Transport vouchers in Addis Ababa, Ethiopia.[50]

High commuting costs can limit job seekers' ability to search for work or attend interviews. In Addis Ababa, researchers offered unemployed young people weekly transport vouchers covering round-trip minibus fares for up to five months, costing a total of around USD 20 per person. The support increased job-search intensity and made recipients 28% more likely to hold permanent jobs and 30% more likely to work formally within eight months of the intervention.

However, by the four-year follow-up, the employment benefits of the transport subsidy had dissipated for the average worker, suggesting that while small, temporary subsidies can remove a key barrier to job search, they may not yield persistent long-term gains on their own.

- **Urban public works are most effective as temporary relief, not as a long-term source of jobs.** Public employment schemes, such as urban works programmes, are often used to provide a safety net and work experience during periods of high unemployment or economic distress. These programmes directly employ individuals on labour-intensive projects – like street cleaning, park improvements, or infrastructure maintenance – typically for a temporary period. The primary goal is poverty relief (through wages paid) and the prevention of social ills that come with mass unemployment, while also contributing to city services.

The challenge is that these schemes may end up being designed simply to create employment, rather than delivered in a way that builds skills or supports a meaningful pathway to future work. When this happens, they risk weakening the business environment and crowding out private-sector job creation in the long term. **Case study 10** illustrates this risk, showing how an increase in public works employment can be offset by a decline in labour supply to the private sector.

Case study 10: Urban public works in Addis Ababa, Ethiopia.[51]

To cushion poor urban households during downturns and maintain city assets, Addis Ababa introduced the Urban Productive Safety Net Programme (UPSNP). The initiative hired residents from targeted low-income neighbourhoods for up to 60 days a year to perform labour-intensive tasks such as street cleaning, drain maintenance, garbage collection, and gardening. At its peak, the programme reached nearly one-fifth of city households.

50 Abebe et al. (2021).
51 Franklin et al. (2024).

A randomised citywide evaluation found that the programme increased employment in public works, improved local amenities by about 2.5%, and could raise wages by up to 18.6% under full rollout. However, the study also revealed important trade-offs in employment outcomes. The UPSNP brought some people into work who would otherwise have remained unemployed, offering them a temporary income boost. Yet many participants who already had private jobs reduced their hours there – by roughly twice the time they spent in public works – because the programme paid wages well above private-sector levels. As a result, the total number of hours worked across the city remained almost unchanged.

The key to success is to ensure that the work has value (avoiding 'make-work' projects), that the wages are set at a reasonable level (high enough to support participants but not so high as to attract those who have private employment), and that there is an exit strategy – for example, coupling the programme with job search assistance or certifications that help workers transition to regular jobs. Public works are therefore often not a long-term solution for unemployment, but can be a useful short-term tool for city governments to respond to crises and to maintain public assets.

Conclusion

Cities are where industry takes root. When managed well, they become engines of private-sector growth and job creation. But trade falters when road networks are underdeveloped and poorly maintained. Firms hesitate to invest when land rights are insecure and cannot be used as collateral. Workers lose opportunities when commuting is costly, congested, and fragmented. Productivity falls when pollution damages health and reduces efficiency. And businesses struggle to expand without reliable electricity, digital infrastructure, and basic services.

By harnessing the benefits of urban density – while mitigating its downsides – cities create environments where businesses can thrive and employment opportunities abound. Achieving this requires forward-looking urban planning and investments in infrastructure and services, as well as sound local governance with efforts to reduce red tape and promote investment. Targeted employment support schemes can also be used to include those who might otherwise be left behind in a rapidly changing urban economy, but such schemes need to be carefully designed. Many have absorbed large public resources with little long-term impact.

While delivering many of these public services is often a core mandate of local authorities, urbanisation is too important to be left to cities alone. The scale of investment required, and the extraordinary potential that cities offer to raise productivity and incomes, requires urbanisation to be a national priority. Only when cities are fully integrated into national growth strategies can countries unlock the full economic potential of urbanisation.

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