

## THEMATIC AREA 2: MAKING PRO-POOR POLICIES A CITY PRIORITY

### Understanding the Dimensions of Urban Poverty

61. ***Urban poverty is estimated to affect approximately one third of all urban residents, or one quarter of the total poor in the developing world.***<sup>22</sup> The share of the poor as a proportion of all urban residents is highest in Sub Saharan Africa and South Asia, at an astounding 70 to 75 percent. In regions where urbanization is already significantly advanced, such as Latin America and the Caribbean and Eastern Europe and Central Asia, the proportion of urban poor relative to the total poor is greatest. Research suggests that over time poverty is urbanizing, as an increasing number of the poor now live in cities. This situation has been exacerbated most recently by the global food and financial crises, which have reversed many of the advances in poverty reduction, particularly in urban areas. Urban populations are typically hardest hit due to job losses and wage reductions in urban based industries, their heavy reliance on the cash economy, and the lack of ability to fall back on agricultural production.

62. ***Millennium Development Goal Number 7 (Target 11) sets the objective for urban poverty alleviation by calling for the improvement of the lives of at least 100 million slum dwellers.*** Estimates suggest that around one third of the urban populations in developing countries - nearly one billion people -- are living in slums.<sup>23</sup> Slums are generally characterized as informal settlements with poor quality housing, limited access to services, high densities, and often insecure land tenure. Insecurity of tenure puts the urban poor at constant risk of eviction, prevents them from building assets and accessing credit, inhibits using one's home for income generating activities, and does not allow for investments in service provision. Countries that are farthest from reaching the MDG target on slums are mainly in Sub-Saharan Africa where urbanization, due in part to rural-urban migration, is happening at a rapid pace and local governments do not have sufficient capacity to accommodate new residents.<sup>24</sup>

63. ***Though the urban poor are quite diverse across regions and countries, they tend to face a number of common deprivations which affect their day to day life.*** These deprivations can be grouped into 6 main categories: i) limited access to income and employment, ii) inadequate and insecure living conditions, iii) poor infrastructure and services; iv) vulnerability to risks such as natural disasters, environmental hazards and health risks particularly associated with living in slums, v) spatial issues which inhibit mobility and transport; and vi) inequality closely linked to social-economic exclusion, as well as crime and violence.

64. ***A key determinant of poverty, both urban and rural, is limited access to income and employment opportunities.*** While the urban economy generates much employment, the urban poor face challenges in accessing that employment due to low skills. Most workers in the informal sector have low wages, a lack of social insurance and unsatisfactory working conditions. In some countries, the spatial location of slums, inadequate infrastructure, and negative stigma are also constraints to employment.

65. ***Poor urban residents face many of the same challenges in daily life as the rural poor with the added burden of overcrowded and unsanitary living conditions.*** They are required to spend a higher proportion of total consumption on housing, a result of the higher land values in cities. While access rates for basic services, such as water, sanitation and electricity are typically higher in urban areas than rural, these numbers mask what is happening for the urban poor where

---

<sup>22</sup>Ravallion, Chen, and Sangraula, 2007. This estimate is based on the US\$2.15 day line; data are the most recent available, circa 2002.

<sup>23</sup> UN-HABITAT 2008.

<sup>24</sup> UN-Habitat, 2006.

access can be extremely low, unaffordable, and of inadequate quality. Governments, utilities, and service providers are often reluctant to operate in slums because of the informality and illegality of such settlements. Consequently, for the urban poor living in high density slum settlements there is higher exposure to a number of health, environmental and disaster-related risks associated with poor drainage and solid waste management, indoor air pollution and proximity to often environmentally unsafe areas.

66. *Income and other forms of inequality are particularly stark in cities, where modern cosmopolitan zones can be found within a short distance from slums*<sup>25</sup>. In many countries, measures of inequality within urban areas are substantially higher than in rural areas where standards of living are more homogeneous. The highly visible disparities in wealth, services and opportunities, can create frustration, tension and a sense of exclusion for the poor. Protests, riots, property destruction and in some cases even death have been reported in cities as diverse as Port of Prince, Mexico City, and Paris.

67. *In cities where the poor live remotely in order to inhabit affordable space, they incur high travel costs and long travel times.*<sup>26</sup> Living in peripheral urban locations, particularly without adequate access to transport services, can mean exclusion from a range of urban facilities, services, and jobs, exacerbating problems of social exclusion which are discussed further below. In many areas, the issue of neighborhood stigma, which can negatively affect peoples' access to jobs and increases other types of discrimination, is also a major constraint for the poor.<sup>27</sup>

#### **Policies and Programs for Urban Poverty Reduction: What have we Learned?**

68. *A study of 14 countries globally shows that those that did well in reducing poverty during the 1990s had sustained and rapid economic growth.* Policies promoting macroeconomic stability, defined property rights, a good investment climate, an attractive incentive framework, well-functioning factor markets, and broad access to infrastructure and education were identified as being critical.<sup>28</sup> Vietnam is an example that stands out for its success in growth and poverty reduction, in both urban and rural areas. The country invested heavily in infrastructure, prioritizing large infrastructure investments over rural infrastructure, targeted to regions with high numbers of poor people and high growth potential. The idea was to promote urban centers where capital and skills were more plentiful and to redistribute returns through public transfers to rural areas. The growth and poverty impact of this strategy has proven to be very successful.<sup>29</sup> Between 1992 and 2003, urban poverty in Vietnam was reduced by an impressive 11 percent per year (notwithstanding the reductions in rural poverty of 4.2 percent per year).

69. *National program and policy interventions are identified as being among the best ways to tackle urban poverty.* A review of urban issues in poverty reduction strategies (PRS) was carried out for ten countries.<sup>30</sup> The review found that urban issues in general and those relating to the urban poor typically had not been well covered. In countries where there was a strong analytical base on issues of urbanization and urban poverty, there was better coverage of these issues in the poverty dialogue. The inclusion of urban stakeholders in the PRS formulation was also seen as crucial for better coverage of urban issues in the PRSPs. These findings point to the need for investing in strong diagnostics and analysis on urban issues, and ensuring that this research is well disseminated and discussed with policy makers to better inform them in the policy process.

---

<sup>25</sup> See World Development Report, 2006, for a full discussion on inequality.

<sup>26</sup> World Bank 2002c.

<sup>27</sup> This has been best documented in Latin America.

<sup>28</sup> World Bank 2005b.

<sup>29</sup> Besley and Cord 2007.

<sup>30</sup> Baker and Reichardt 2007.

70. *Several countries that have undertaken national-scale approaches to slums have been noted for progress in reducing or stabilizing slum growth rates in the last 15 years.* In Brazil, Colombia, Mexico, South Africa, Thailand and Tunisia success is attributed to political commitment at the central government level to large-scale slum upgrading and service provision for the poor through implementation of legal and regulatory reform on land policy, regularization programs, and inclusive policies.<sup>31</sup> Among the programs aimed at the urban poor, overall, slum upgrading is probably the most common. Slum upgrading programs have a relatively long history, becoming quite popular in the 1970s with a shift away in the mid-1980s. This shift away has been attributed to a change in donor's focus, particularly among the development Banks to housing finance, adjustment loans, and privatization of public services.<sup>32</sup>

**Profile 6: Baan Mankong Urban Upgrading Project in Thailand.**

Large scale impacts have been achieved by supporting community driven processes: low income communities design and manage upgrades themselves using infrastructure and housing subsidies in the form of up-front lump sum payments from the Thai government.

71. *Local level initiatives have also been effective when linked to social programs and carried out in partnership with local community organizations.* For example, a program in Jamaica combines micro-finance, land tenure regularization, crime and violence prevention programs with local community groups, including physical upgrading to improve access to water, sewage, solid waste, electricity, roads, drainage and related community infrastructure. In Brazil, investments in social infrastructure for day care, youth training, and health care are combined with physical upgrading of slums. This work will require supporting local governments in taking integrated approaches, such as was done successfully in Brazil, Tanzania Indonesia, and recently in Yemen.

**Profile 7: Moving from social safeguards to proactive social policies for the urban poor in Taiz, Yemen.**

Resettlement of the poor in informal communities can present a daunting challenge. Under this project, a city learns the benefits of working with local community NGOs and gains insights about the poor in its midst that triggers the local council to adopt a city-wide poverty alleviation program.

72. *There is also an emerging role for the private sector in slum upgrading activities as businesses realize the potential purchasing power at the base of the economic pyramid.* Approaches such as Output-Based Aid, new guarantee instruments, or ensuring an enabling environment for small private service providers can help to facilitate private sector investments in slums. Microfinance has been demonstrated to be a powerful instrument for poverty reduction that enables the poor to build assets, increase incomes, and reduce their vulnerability to economic stress.<sup>33</sup> Specific schemes aimed at shelter finance have also shown positive impacts for the urban poor in countries such as India, Mexico and Brazil. Yet many of the urban poor do not have access to microfinance as banks have been reluctant to make loans to the poor in the absence of adequate collateral. This underscores the need for scaling up microfinance for the urban poor.

### **A Strategy for Urban Poverty Reduction for the World Bank**

73. *Urban poverty reduction strategies will need to take a two-pronged approach.* First, they must include proactive policies that promote macroeconomic stability and growth, defined property rights, a good investment climate, an attractive incentive framework, well functioning factor markets, and investments in education and infrastructure. In many countries, urbanization has helped to foster this growth and thus can play an important role in reducing urban poverty

<sup>31</sup> UN-HABITAT 2006.

<sup>32</sup> Vilorio-Williams 2006.

<sup>33</sup> CGAP 2006.

over the long-term, providing new income opportunities for rural migrants<sup>34</sup>, and through the second-round impact on those who stayed in rural areas.<sup>35</sup>

74. ***A second, and equally vital, approach will involve working with countries to scale up slum upgrading and services for the poor interventions to a national scale.*** Programs aimed at improving living conditions in slums through extending affordable services to slum dwellers and investing in upgrading can have enormous benefits in health outcomes, help cities to adapt to the risks of climate change, reduce environmental and other risks, as well as in generate new employment opportunities. New and innovative approaches to improving service provision such as Output-Based Aid, offering pro-poor incentives to utilities and the private sector, or ensuring an enabling environment for small private service providers while ensuring quality and affordability for consumers offer much potential. Going forward, the Bank is partnering with Cities Alliance in exploring ways of scaling up to national level approaches. In this context, the Bank aims to develop more policy-based approaches, through DPOs and other instruments, which would tackle the difficult issues related to land and service delivery in informal settlements that are current deterrents to slum upgrading. This would pave the way for a more comprehensive approach to upgrading at the national level.

75. ***Increasing support for analytical and diagnostic work on urban poverty will help fill knowledge gaps and provide the basis for informing better designed programs and policies.*** While the past decade has generated substantial new information on the characteristics of urban poverty, there are still major knowledge gaps. Cities often do not have the tools to carry out a diagnostic of urban poverty and assess the extent to which their policies are pro-poor. Many cities lack even the most basic information on who the poor are, how many there are, and where they are located. Building this information base at the city, country, regional and global level, as well as the capacity to use the information, will contribute to better addressing the problem. New tools such as GIS and poverty mapping are very important instruments for urban poverty analysis. More recently, the Bank initiated a program of analytical work on urban poverty and urbanization issues carried out in 5 African countries. In each case the studies provided a solid basis for a pro-poor country level urban strategy, leading to discussion at the country level, inclusion of relevant policy issues in PRSPs, and the development of a new investment programs in support of cities.

76. ***As a means of enhancing the pro-poor focus of cities and national governments, the Bank is advancing with two new knowledge products to help identify and better target interventions on behalf of the urban poor.*** These are: (i) the Urban Risk Assessment and (ii) a Pro-poor Urban Policy Guide.

- The *Urban Risk Assessment* would be designed to survey and analyze the vulnerability of populations in urban areas based on the multiple deprivations reviewed earlier, as well as particular risks to climate change impacts due to their precarious locations in informal settlements. This will include a mapping of slums and vulnerable populations that would provide a basis for targeting assistance to the urban poor.
- The *Pro-Poor Urban Policy Guide* would provide a framework to help local and national governments benchmark their policy approaches and identify urban areas of priority for improvements. This Guide would complement the Urbanization Review and would

---

<sup>34</sup> UNFPA studied the impact of urbanization on poverty reduction in 25 countries and concluded that urbanization had a significant effect in this reduction. For example, 28.3 percent of poverty reduction from 1999-2005 in Bolivia is attributed to urbanization, and Brazil similarly experienced a 17 percent reduction from 1999-2004 due to urbanization. In China, the percentage of rural poor living in extreme poverty fell from 36% to 5% in the last 30 years. This was due to explosive urbanization during the same period. UNFPA (2007) p. 36.

<sup>35</sup> Urban poverty declines during the period 1993-2002 – the latest period for which global data are available – suggest such impacts.

cover the following key areas critical to reducing urban poverty: (i) ensuring provision of basic services; (ii) providing targeted infrastructure to the poor; (iii) promoting equity; (iv) addressing land and tenure issues for the urban poor; (v) strengthening capacity at the local level to address poverty challenges; and (vi) providing safety nets for vulnerable groups in cities.

77. ***Specifically designed social programs and safety nets for the urban poor need strengthening.*** Conditional Cash Transfers (CCTs) are particularly relevant in times of financial crisis when poor families may deem it necessary to withdraw children from school to seek employment. Workfare programs or labor intensive public works projects can also be very effective in urban areas to provide income support and employment, provide some on-the-job training for unskilled workers, and construct or rehabilitate needed public infrastructure. To maximize the impacts on the urban poor, works can be carried out in low income settlements, for example, hiring local residents for slum upgrading activities.

78. ***By working with other sectors, it is possible to ensure an urban lens on poverty reduction policies and programs.*** This calls for greater collaboration between teams within the World Bank. Some examples of this collaboration are: working with colleagues in the health sector to address the particular health risks in slum areas; designing infrastructure programs that incorporate alternative service delivery mechanisms for reaching the populations in urban slums; working with social protection teams in devising appropriate targeting schemes so that national level poverty programs reach those in slums who may not have formal property rights, as well as the homeless in cities; working with the education sector to provide preschools and childcare programs in urban slums which will enable mothers to enter the labor force; or collaborating on youth programs to address those youth that are particularly vulnerable to unemployment and social problems linked to social and economic exclusion.