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The Urbanization of Global Poverty

● Martin Ravallion, Shaohua Chen, and Prem Sangraula

Urbanization has generally done more to reduce rural than urban poverty

How much of the world's poverty is found in rural areas, and how much in urban? How quickly is the problem of poverty shifting to urban areas? Is urbanization a good or bad thing from the point of view of fighting poverty?

To help answer these questions, Ravallion, Chen, and Sangraula created a new data set, drawing on more than 200 household surveys for about 90 countries. The data represent 92 percent of the population of the developing world.

The task is not as easy as one might guess. The first problem is that existing purchasing power parity exchange rates do not provide a cost-of-living differential between urban and rural areas. Yet it is clear that the cost of living is higher in urban than in rural areas of most developing countries. To address this measurement problem, the authors derived estimates of the urban-rural differential in cost of living for the poor from what appears to be the best available source, the World Bank's poverty assessments, which have now been done for most developing countries.

By estimating everything from the primary data, the authors were able to assure a relatively high degree of internal consistency (compared with other compilations of distributional data). But of course there are data problems that cannot be resolved from existing data. One is that dif-

ferent countries have somewhat different definitions of *urban* and *rural*. Another is that the urban-rural differential in cost of living may vary by income. As a result, the differential from the poverty assessments in middle-income countries may not be right for the \$1-a-day international poverty line, which is based on the concept of poverty typically found in low-income countries.

What do these new data show? On average, the urban poverty line is about 30 percent higher than the rural line. Even allowing for the higher cost of living facing the poor in urban areas, the "\$1 a day" rural poverty rate of 30 percent in 2002 is more than twice the urban rate (table 1). Similarly, while 70 percent of the rural population lives below \$2 a day, less than half that share does in urban areas.

About three-quarters of the developing world's poor still live in rural areas. But poverty is becoming more urban over time. The share of the "\$1 a day" poor living in urban areas rose from 19 percent to 25 percent over 1993–2002 (while the urban share of the population as a whole rose from 38 percent to 42 percent).

The poor are urbanizing faster than the population as a whole, reflecting a lower-than-average pace of urban poverty reduction. Over 1993–2002, while 50 million people were added to the count of the "\$1 a day" poor in urban areas, the aggregate count of the poor fell by about

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100 million, thanks to a decline of 150 million in the rural poor.

Latin America has had the fastest urbanization of poverty, and now the majority of the region's poor live in urban areas. By contrast, less than 10 percent of East Asia's poor live in urban areas. This is due mainly to China, where absolute poverty is overwhelmingly rural.

Is this urbanization of poverty in most developing countries good or bad news? To some observers it is the unwelcome forebear of new poverty problems, with urban slums blossoming in congested cities. To others, urbanization is a positive force for development, as the economy gradually shifts out of agriculture to more remunerative activities.

Across countries and over time, as the urban share of the total population rises, the overall (urban and rural) poverty rate tends to fall. (Of course there are exceptions to this generalization, but the overall pattern is clear.) This effect is transmit-

ted largely through higher economic growth associated with more rapid urbanization rather than through redistribution. Indeed, this new evidence suggests that urbanization has generally done more to reduce rural poverty than urban poverty. Urbanization in the developing world appears to be having a compositional effect on the urban population that slows urban poverty reduction—even as poverty falls in rural areas and for the population as a whole.

New urban problems are emerging in poor and rapidly urbanizing countries. But the experiences of countries over time are generally consistent with the view that a rising share of the population living in urban areas plays a positive role in overall poverty reduction.

Martin Ravallion, Shaohua Chen, and Prem Sangraula. 2007. "New Evidence on the Urbanization of Global Poverty." *Policy Research Working Paper 4199*. World Bank, Washington, D.C.

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Table 1. Urban and Rural "\$1 a Day" Poverty Measures for 1993 and 2002

Year	Number of poor (millions)			Share below poverty line (percent)			Urban share of the poor (percent)
	Urban	Rural	Total	Urban	Rural	Total	
1993	242	1,038	1,280	13.8	36.6	28.0	18.9
2002	291	890	1,181	13.2	29.7	22.7	24.6

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