

Urban Poverty

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Synergies in rural and urban poverty reduction strategies

Why does PRSP Sourcebook have separate chapters?

- ▶ Characteristics of urban poverty have important distinctions
- ▶ Certain institutions have particular responsibility for urban outcomes and urban poverty chapter aims to assist them

Building synergies:

- ▶ Location is a dynamic concept
- ▶ Urban and rural areas are a continuum. But internally heterogeneous
- ▶ Spatial agglomeration is good for both urban and rural economies

There is a need for an integrated rural-urban perspective

Urban Poverty Reduction Strategies

Understanding urban poverty

- ▶ Context and characteristics of poverty
- ▶ Dimensions of urban poverty
- ▶ Indicators, and assessing urban poverty

Addressing urban poverty

- ▶ Policy frameworks for responding at scale
- ▶ Interventions at projects/program scale
- ▶ Determining priorities and developing consensus

Understanding Urban Poverty

Wider impacts of urban poverty reduction

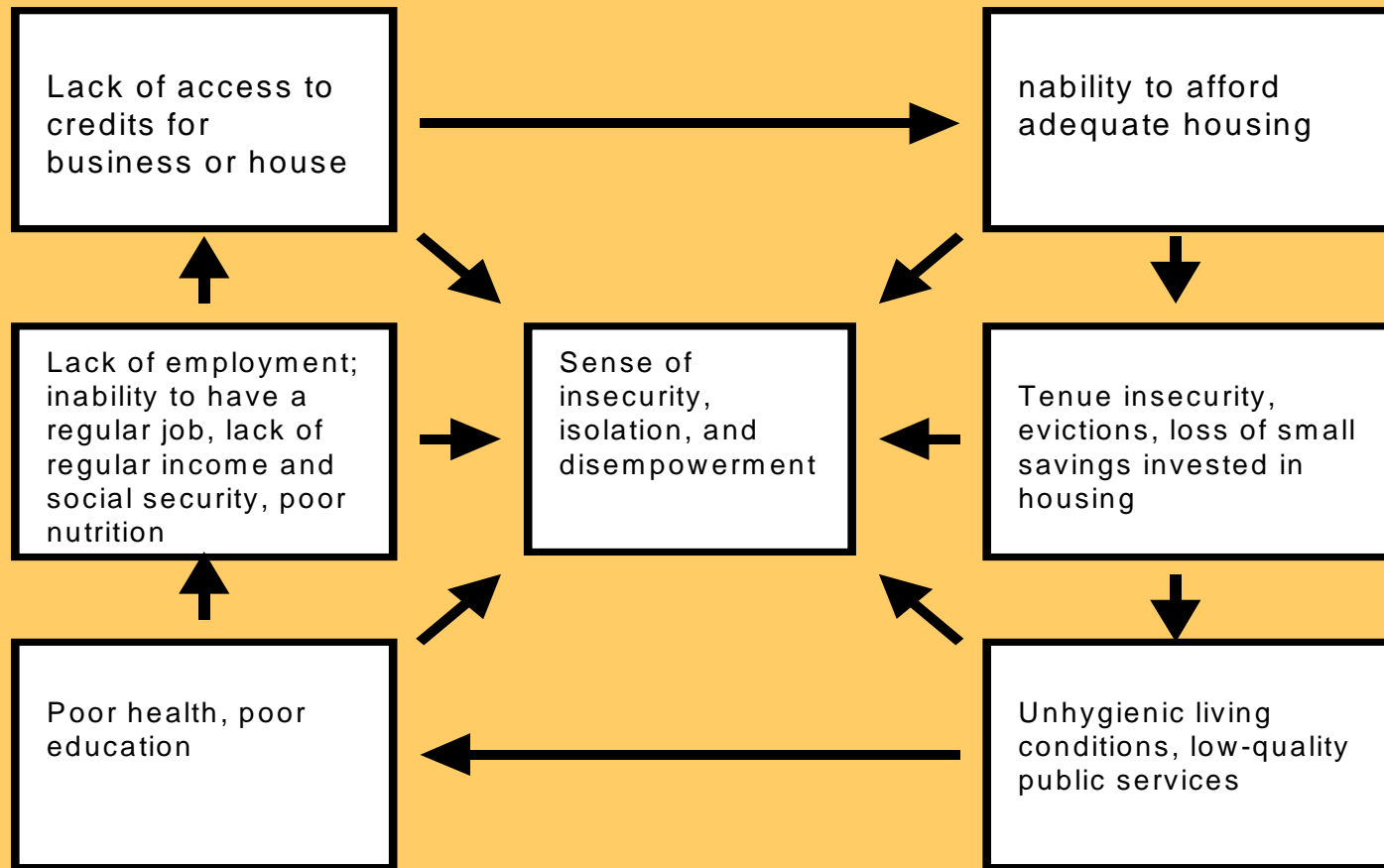
- ▶ **Reducing social inequalities**
- ▶ **Avoiding large scale health and environmental problems**
- ▶ **Supporting local economic development**
- ▶ **Mitigating impacts of disasters**

Understanding Urban Poverty

Context and characteristics of poverty

- ▶ Urban poverty is not necessarily an indication of economic failures
- ▶ Internal migration is not a major variable explaining urban poverty
- ▶ Poor urban governance and inappropriate policy frameworks contribute to vulnerability of urban poor
- ▶ Urban conditions cannot be generalized across types of urban areas
- ▶ The concept of “city” itself is heterogeneous
- ▶ Urban poor is a very diverse group with different needs and levels/types of vulnerability
- ▶ Urban poverty is often characterized by cumulative deprivations

Cumulative Impacts of Urban Poverty



Understanding Urban Poverty

Urban Poverty is Multidimensional:

- ▶ **Income/consumption poverty**
- ▶ **Health poverty**
- ▶ **Education poverty**
- ▶ **Tenure insecurity**
- ▶ **Personal insecurity**
- ▶ **Disempoverment**

Each dimension is a cause and result of another dimension
(See Urban Poverty Chapter - Table 1.1)

Assessing Urban Poverty

Assessing urban poverty from national perspective:

- ▶ National poverty assessments present a picture of differences among regions and urban populations
- ▶ Identifying such variations would help targeting interventions to cities or regions with greatest deprivations

Assessing poverty within city:

- ▶ Poverty mapping by neighborhood and ward is like an *X-ray*, showing who is poor, where they live in the city, their access to services, living standards and so forth.
(For example, Cali city poverty study)

How to select public actions to address urban poverty?

Policy frameworks for responding at scale

Major areas of policy interventions:

- 1. Labor markets/employment**
- 2. Land housing and urban services**
- 3. Financial markets**
- 4. Public finance**
- 5. Urban governance and capacity building**

1. Labor markets & employment

Policy interventions suggested:

- ▶ **Supporting small and micro-enterprises (SMEs)**
- ▶ **Facilitating access to job opportunities and training**
- ▶ **Supporting urban agriculture**
- ▶ **Supporting home-based income generating activities**
- ▶ **Safety nets***

*See also the *Social Protection Chapter*

1. Labor markets & employment

Support to small and microenterprises

In many cities a growing percentage of the working population as high as 50% is engaged in microenterprise activity - including self employment.

- ▶ **Alleviate constraints on SMEs**, (such as license fees, regulations related with hygiene etc.)
- ▶ **Provide advisory services as well as infrastructure**: to increase their productivity and their ability to operate in accordance with safety and hygiene regulations
- ▶ **Develop simple taxation policies** not to create unsustainable burdens for them

1. Labor markets & employment

Increasing access to job opportunities and training:

Providing better and affordable transport services to low income settlements*

Developing land use and zoning decisions that permit the urban poor and firms to have mobility

Revising regulations which distort labor markets

Facilitating the flow of information on jobs and markets for products

Facilitating practical job training (in collaboration with the private sector)

Facilitating childcare to enable women to work

Supporting sectors that have high employment generation capacity (for example, construction sector)

Supporting public works programs to improve the skills of labor force and promote small scale entrepreneurs

*also see the *Transport Chapter*

1. Labor markets & employment - cont.

Supporting residual subsistence - urban agriculture

Urban agriculture enables the poor to generate income in kind, and production beyond subsistence provides extra income

Around 40% of the population in Africa and up to 50% in Latin America are involved in urban agriculture

Supporting home-based income generating activities:

Like urban agriculture, home based-production is also an important income generating activity among the poor.

Safety nets

The urban poor are generally ineligible for traditional safety net programs. Non-governmental safety nets (NGO programs) need to be supported

2. Land, housing and urban services

Policy reforms suggested in the areas:

- ▶ **Tenure security and property rights**
- ▶ **Land and infrastructure development regulations**
- ▶ **Planning procedures, building codes and construction permits**

2. Land, housing and urban services

Tenure security and property rights

Illegal occupation of public or private land is often the only option for the majority the urban poor in developing countries.

In transition countries unclear property rights is a problem as it constraints access to land by individuals and small-scale developers

- ▶ **Provide tenure security:** Systems do not have to be restricted to free-hold titles.
- ▶ **Establish and publish guidelines for property registration and development.**
- ▶ **Sell occupied public land to communities** - even at subsidized rates.

2. Land, housing and urban services

Land and infrastructure development regulations

- ▶ **Transparency in planning and land provision:** simple rules and mechanisms, which are accessible by everybody.
- ▶ **Easy market transactions** through clear and simple sales and registration procedures and taxation policies.
- ▶ **Infrastructure standards relevant to the effective demand and affordability of the poor.**
- ▶ **Better utilization of public land:** transparent methods to improve access for the urban poor.

2. Land, housing and urban services

Planning procedures, building codes and construction permits

- ▶ **Planning policies and procedures should be decided at local level** in consultation with communities, while policies at central level set out a broad framework
- ▶ **Flexible building standards and construction codes should be established** in accordance with the affordability level of communities
- ▶ **Procedures to acquire construction and occupancy permits should be made simple**, so that they are accessible to poor people with limited education, time and money

3. Financial Markets

- ▶ Lack of access to credits
- ▶ Lack of access to formal savings programs

Possible policy interventions

Encouraging financial organizations in moving down-market

Making funds available as seed capital and guarantees to encourage banks, NGOs etc.

Monitoring and regulating the performance of financial intermediaries

Related regulatory issues

Regularizing tenure rights to make underwriting easier

Accepting paralegal practices (use rights instead of official titles)

Allowing NGOs to become regulated finance org.

Liberalizing interest rate regime

4. Public finance

Policy agenda in this area includes:

- ▶ **Cost recovery, tariffs and subsidies***
- ▶ **Decentralization and intergovernmental relations****

* See also the *Private Sector & Infrastructure Chapter*

** See also the *Public Spending Chapter*

4. Public finance

Cost recovery, tariffs and subsidies

- ▶ **Public and private nature of services:** The rationale behind financing should reflect first of all such a difference between the services
- ▶ **Taxes and user fees:** Payment of tariffs or user charges for services and up-front contributions should cover costs as much as possible.
- ▶ **Interest rates:** Credit schemes for low-income people should not be like lotteries. Very low interest rates will deplete the funds
- ▶ **Targeted subsidies:** Lowest income groups may not be reached even when costs are kept low. In such cases provision of essential services will require subsidies.

4. Public finance

Decentralization, intergovernmental relations and financing

- ▶ **Expenditures should be shared among different levels of governments on a transparent basis**
- ▶ **Decentralization should not just shift service expenditures to local governments without revenue sources**
- ▶ **Stability in revenue sharing should be ensured:** Many national governments decrease transfers to local governments when confronted with national budget deficits
- ▶ **Mobilization of local resources is needed:** local authorities need to levy local taxes in a progressive way. Knowledge as well as political will are required.
- ▶ **Municipal governments need to have access to credit for capital financing:** E.g. Municipal Development Funds are important source of financing (*presented in finance based options sections of the chapter*)

5. Urban governance and capacity building

Policy agenda in this area includes*:

- ▶ **Accountability and responsiveness to the public**
- ▶ **Anticorruption policies and practices**
- ▶ **Capacity building**

* See also the *Governance and Poverty Reduction Chapter*

5. Urban governance and capacity building

Accountability and responsiveness to the public

- ▶ **Consulting with the general public and public disclosure** to prioritize expenditures and ensure transparency

Anticorruption policies and practices

- ▶ **Poor people often disproportionately bear the costs of corruption.** Governments can take various steps to reduce corruption: e.g. privatization of provision and management of services, public disclosure.

5. Urban governance and capacity building

Capacity building

- ▶ **Training of local personnel, NGO personnel and community leaders:**
Training workshops, dissemination of international experience and project information, distance learning and internet are the possible ways
- ▶ **Establishing institutional memory and knowledge sharing among stakeholders**
- ▶ **Encouraging organizations of the urban poor** to help them to exchange experience and negotiate effectively with public authorities and private sector.
For example encouraging establishment of citywide slum associations

Interventions at the project/program level

- ▶ **Evaluating existing project/programs**
- ▶ **Menu of selected project options**

Integrated urban development projects

Example: slum upgrading

Land and housing projects

Examples:

- *Sites & services/core housing projects*
- *Land regularization and tenure security programs*

Finance-based interventions

Examples:

- *Municipal development funds*
- *Social funds and AGETIPs*
- *Microfinance for housing/home improvement*

Evaluating existing project/programs

Questions to be asked:

- ▶ What are the objectives of the project?
- ▶ How well are the target groups identified and reached?
- ▶ How to use indicators?

Distinctive features of urban poverty

- ▶ Urban poverty is multidimensional
- ▶ Urban poverty is heterogeneous
- ▶ Each dimension of poverty has “visible causes” and “policy related causes”. Intermediate and outcome indicators should both be traced

Integrated urban development project

Example: Slum upgrading project

Objectives and target groups

Community focus: Objective is to raise wellbeing of a community, defined by geographical areas/neighborhoods, on the basis of service deficiencies

City-wide approach: Objective is to reach a larger share of residents in the city lacking basic services. The target group is defined by their lack of one or more services.

Advantages

- Comprehensive, cross-sectoral coverage of service deficiencies
- Reaches all residents in target areas
- On-the-spot co-ordination
- Creates high visibility across targeted area

- Easy to incorporate into municipal programs
- Addresses linkages of services beyond slum improvements as it works at city level
- Easy to involve local governments other service provision agencies in O&M

Disadvantages

- Does not necessarily address linkages of infrastructure beyond the target neighborhood(s)
- Difficult to involve local governments and sectoral agencies for O&M

- Provides only limited services, not a comprehensive package at least in the short-run
- Target groups may not be defined clearly
- Does not create high visibility as improvements are done incrementally

Cond. for sustainability

- Addressing the structural distortions in housing and land markets
- Articulation with municipal programs
- Political commitment
- Community participation (See <http://web.mit.edu/urbanupgrading> - for further details).

Interventions in land and housing

Example: Site & Services and Core Housing Projects

Objectives and target groups

Objectives:

- Providing affordable housing to lower-income households and to those who are re-located
- Increasing housing choices at lower echelons of the income distribution
- Introducing new construction techniques and beneficiary organization models to the formal sector

Target groups are defined by income group and/or geographic area based on housing, environmental conditions, and tenure security

Advantages

- High visibility of improvements
- Opportunity to introduce diverse construction techniques
- Opportunity to address sectoral policy and institutional reform issues

Disadvantages

- Difficulty of targeting and ensuring that targeted groups are reached
- Tendency of construction to incorporate higher-than-minimum affordable standards
- Inefficient and untargeted subsidies

Conditions for sustainability

- Modest standards in accordance with affordability and needs of target groups
- Transparent eligibility criteria and selection procedures
- Structural and policy reforms in housing sector

Interventions in land and housing

Example: Land regularization and tenure security programs

Objectives

Property rights (ownership)

Property right (ownership) is provided through land sharing, or direct titling of the plots to the occupants

Use rights

Right to use the land is provided, but tenure status is not. Dwellings may be given simple place recognition ("addressage").

Advantages

- Encouraging investments in housing
- Improving access to formal credits
- Increasing property tax revenue
- Enabling transaction of properties
- Addressing sectoral policy and institutional issues

- Making easier to get a plot for the poor
- Decreasing likelihood of price increases
- Decreasing likelihood of political and social conflicts
- Simple to apply in terms of administrative procedures

Disadvantages

- Increasing land values
- Possibility of supporting speculative objectives
- Administratively complex
- Likelihood of political and social conflicts

- Does not provide users with access to formal credits
- Does not increase local authorities' revenue basis
- Perceived as "*less safe*" and "*less free*"
- Cannot be sold and bought officially

Conditions for sustainability

- Cultural context, affordability, and willingness of households should be considered
- Systems should be flexible: use rights given initially can be gradually upgraded to full ownership rights

Finance-based interventions

Example: Municipal Development Funds (MDFs)

Objectives and target groups

Objectives:

- Municipal credit supply
- Improvement in quality of investments and municipal credit worthiness

Eligibility for loans defined by poverty, service deficiencies, community size, demand and commitment

Advantages

- Support decentralization
- Support municipal reforms to enhance financial management
- Establish a stage to shift funding local investments through financial markets

Disadvantages

- Can become highly politicized
- May disperse funds too widely through unrelated small projects
- Require institutional capacity at local level

Conditions for sustainability

- Decentralization: local governments need to have responsibility and authority
- Institutional and legal support for creation of commercially based municipal credit markets
- Cooperation and coordination among sectoral department for technical support
- Detailed operational guidelines
- Transparency in allocation of project loans among municipalities
- Beneficiary consultation and involvement: they should be told cost implications and alternative investments

Finance-based interventions

Example: Social Funds and AGETIPs

Objectives and target groups

Social Funds are nongovernmental intermediaries for channeling grant resources, according to predetermined eligibility criteria, to small-scale projects for poor and vulnerable groups.

AGETIP are delegated contract management agencies for public works.

Advantages

- Being independent from politics
- Efficiency and responsiveness in funding mechanisms
- Cost effectiveness and timely results
- Flexibility: can respond to shifts in demands and priorities
- Support decentralization
- Support intermediaries: NGOs and community groups to work with formal organizations

Disadvantages

- Does not address linkages among investments across sector or within city
- Lacks emphasis on institutional reforms
- Lacks emphasis on maintenance of finished works
- May disperse funds too widely through unrelated small projects

Conditions for sustainability

- Support to communities lacking capacity to identify priorities and prepare proposals
- Community participation beyond project identification
- Complementary sectoral and public finance reforms
- Commitment of sectoral agencies for O&M
- Capacity building at community and intermediary level
- Compatibility with sectoral policies

Finance-based interventions

Example:

Micro-finance of housing and home improvements

Objectives and target groups

- Providing loans for low and moderate-income households or communities, according to rules and eligibility criteria
- Eligibility for funding defined defined by income and poverty level, and lack of access to official/conventional finance schemes

Advantages

- Enables low-income households to improve their housing conditions
- Increases productivity and efficiency of construction
- Loans help households to save and invest and use assets more effectively

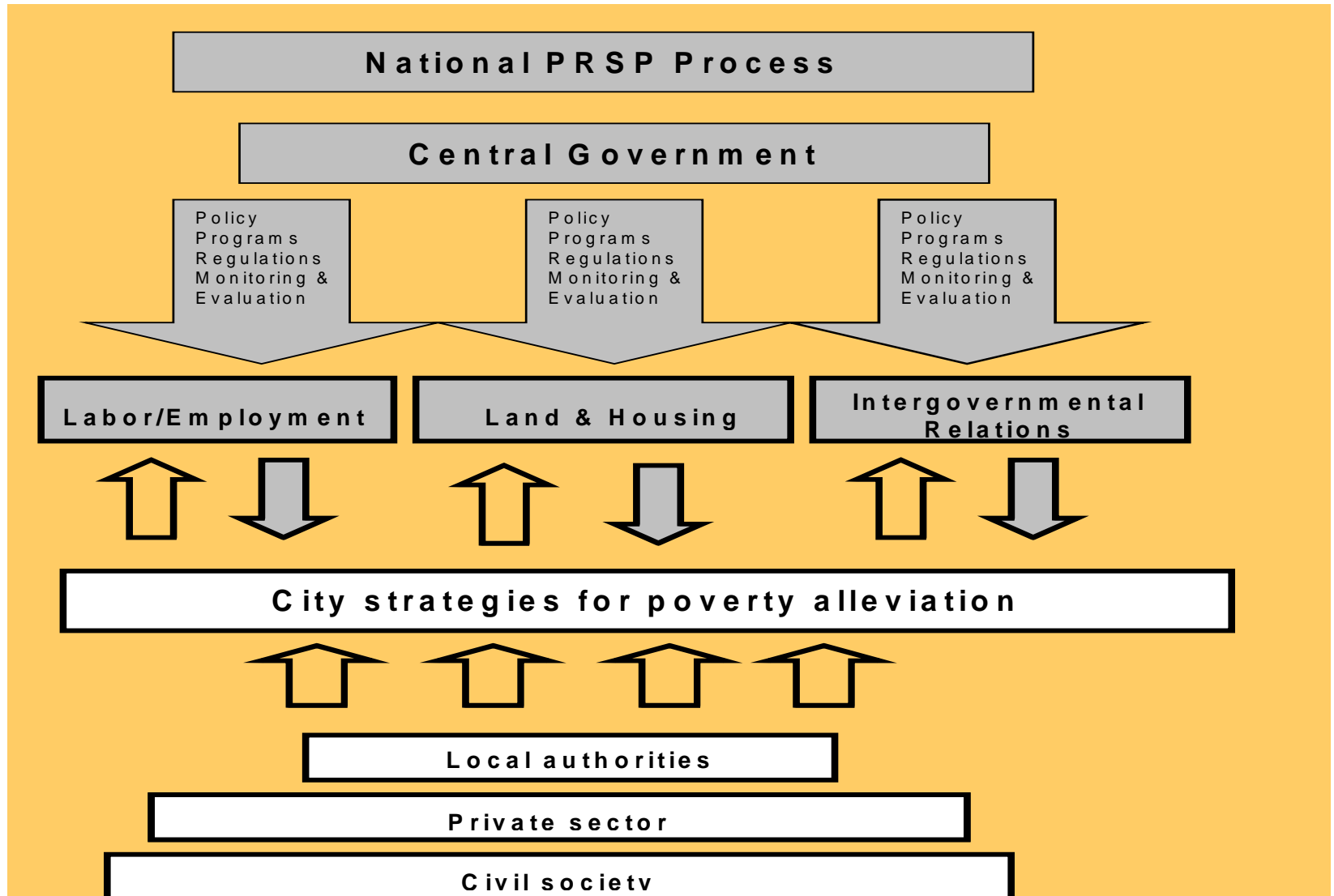
Disadvantages

- Clients of these systems are more vulnerable to macro-economic structural adjustments
- Peer pressures and solidarity group guarantee mechanisms are effective only in the case of small groups of beneficiaries

Conditions for sustainability

- Regulatory support/changes to solve credit underwriting problems
- Cultural and social characteristics of communities should be taken into consideration in designing credit schemes and guarantee mechanisms

National-local feedback process for urban poverty reduction strategies



What can national governments do for poverty reduction?

Three priority areas of focus for national government attention are suggested:

- ▶ **Employment/labor markets (including safety nets)**
- ▶ **Land, housing, and infrastructure (including private financial markets)**
- ▶ **Intergovernmental relations (including municipal finance and capacity building)**

(Quick reference - table 2.1)

Interventions in other sectors i.e. education, health, transport and energy are also important to reduce poverty in cities. The above areas are suggested as the primary themes for agencies working on urban and local government issues

What can cities do for poverty reduction?

Make poverty reduction as a component of city development strategies

How cities can get started and how to proceed in the process of identifying and carrying out poverty reduction strategies?

“Strategic planning” (or action planning) method for

- ▶ Decision making
- ▶ Building consensus
- ▶ Strategy design

“Urban financial and organizational audits” for

- ▶ Diagnosis
- ▶ Establishing priority investments

Quick reference - Table 2.2