
Overview

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With three-quarters of its population living in cities, Latin America and the Caribbean is now essentially an urban region. Higher urbanization is usually associated with a number of positive developments, such as higher income, greater access to services, and a lower incidence of poverty. Latin America is no exception: today the urban poverty incidence, at 28 percent, is half that of rural areas, and the incidence of extreme poverty, at 12 percent, is one-third that of rural areas.

Despite this relatively low poverty incidence, the number of poor people is high, and most studies agree that about half of the poor in the region live in urban areas. The World Bank's own estimates suggest that 60 percent of the poor (113 million people) and half the extreme poor (46 million people) live in urban areas.

Tackling urban poverty requires answering a number of questions. What is specifically urban about poor people living in cities? Are there different determinants of poverty in urban areas? Is the type of deprivation suffered by the poor in cities different from that in the countryside? And, most important, are the instruments to help the poor different in rural and urban areas?

Reviewing what is specifically urban about poor people living in cities reveals a number of facts that are salient to understanding the challenges facing the urban poor and the means to address these challenges. It also reveals three myths that tend to cloud judgment about urban poverty. All three spring from the common misperception that urban statistics are representative of the urban poor. In fact, because of the relatively low incidence of poverty in cities and Latin America's high inequality, urban statistics are almost never representative of the urban poor.¹

Myth 1: The greater availability of social insurance (unemployment and health insurance and pensions) in cities makes social assistance less necessary. Social insurance is usually available only to workers in the formal sector. Less than a third of the employed urban poor work in the formal sector, and the employment rate of the urban poor is only about 72 percent (see table 2A.3). This means that at the most about 20 percent of poor urban households in Latin America have coverage. And in many countries the figure is much lower: only about 6 percent of poor urban households in Mexico and 4 percent in Peru have access to pensions. Even in Chile, the country

with the highest social insurance coverage in the region, more than half of urban households are without social insurance.

Myth 2: An urban bias in health and education expenditures implies that social expenditures favor the urban over the rural poor. An urban bias may exist in some countries, but in the two (Chile and Mexico) in which the health and education budgets were recently scrutinized, none was found (see Glaeser and Meyer 2002 for Chile, World Bank 2004 for Mexico). More generally, even if an urban bias exists, the poor targeting of health and education expenditures in Latin America means that it is likely to favor the rich.

Myth 3: Social assistance is more widely available to the poor in cities. This may be true for some or even most countries, but the data are not available to support it. And evidence from Mexico shows that there at least it is not the case (World Bank 2004).

How Are the Urban and Rural Poor Different?

Urban and rural poverty differ in several important ways. First, and most important, the urban poor are much more integrated into the market economy. The positive side of this is that urban poverty is more responsive to growth: indeed, the elasticity of poverty with respect to growth averages -1.3 in Latin America's urban areas but only -0.7 in rural areas. This suggests that sustained poverty reduction could be possible.

But greater integration in the market economy also implies greater vulnerability to fluctuations in the economy. This, in turn, implies that household coping mechanisms are of particular importance. For the urban poor the transmission of a macroeconomic shock is usually through the labor market, and the loss of work is typically one of the most devastating shocks they can face. Unemployment in Latin America is very much an urban phenomenon: urban unemployment rates in the region average 15 percent, five times rural rates. Finally, the greater integration in the market economy implies a higher monetization of food consumption. Food consumption is thus more sensitive to income and price fluctuations. In contrast, food consumption by the rural poor is more sensitive to changes in household size (Musgrove 1991).

Second, while urban areas are not systematically more or less unequal than rural areas, they are much more heterogeneous socioeconomically and with respect to economic activities and processes.² This makes it harder to target the poor in urban areas or to predict how different socioeconomic groups will be affected by a shock.

Third, heterogeneity notwithstanding, Latin American cities tend to be highly segregated. As a result, social exclusion coexists with (relative) physical proximity to wealth, services, and opportunities. This gives rise to negative externalities, or neighborhood effects, that reduce access to

jobs and depress educational achievements and earnings. These negative externalities have been particularly well documented in the *favelas* of Rio de Janeiro (Cardoso, Elias, and Pero 2003).

Fourth, social networks are less stable in urban areas, with relationships based more on the quality of reciprocal links between individuals and friends than on familial obligations. This has two important implications. It implies that informal mutual arrangements, such as rotating savings and credits associations, face greater enforcement challenges. And weaker family ties mean that many more elderly people are without family support. Evidence from Chile—which is consistent with that found elsewhere—shows that relative to rural areas, only half as many urban respondents expect some sort of care by their children in old age (Gill, Packard, and Yermo 2004).

Fifth, urban living means much greater exposure to organized crime, drugs, and gang violence. This is true for the population as a whole, but it has particularly dismal implications for the poor living in the slums of Latin America's large cities, where narco-traffic is now pervasive. Combined with weaker family ties, greater diversity, and higher population density, it implies greater social risk in child rearing. Three-quarters of Latin America's youth live in cities, where they are disproportionately affected by poverty and violence, both as perpetrators and victims.

Finally, the urban poor are faced with overwhelmed rather than absent services.³ Coverage rates for infrastructure are consistently much higher for the urban than the rural poor, although gaps remain that disproportionately affect poor neighborhoods. But quality and reliability are often so poor that they offset many of the benefits of services. This is particularly true for water and sanitation, which affect poor neighborhoods much more than richer ones, with dismal public health implications. The increased water coverage and improvement in quality that occurred as a result of the privatization of the water utility in Argentina resulted in a significant decline in child mortality, particularly in poor areas (Galiani, Gertler, and Schargrodsy 2005).

Structure of the Report

The underlying hypothesis of this report is that the causes of poverty, the nature of deprivation, and the policy levers to fight poverty are to a large extent site specific. Living in a city means living in a monetized economy, where cash must be generated to survive. This in turn requires the poor to integrate into labor markets. Obstacles to this integration have perhaps less to do with lack of jobs and opportunities (as is the case in rural areas) and more with lack of skills, the inability to get to work (because of inadequate transportation or child care), and social/societal issues (lack

of social relations, the stigma associated with living in a slum, cultural norms precluding women's participation in the labor force).

At the same time, urban areas present a number of opportunities for the poor. Indeed, this is the very reason why the incidence of poverty is so much lower in urban areas. Labor markets are much broader, opportunities are greater, and access to services (infrastructure, but also health and education) are higher (even if the quality may not be very good). For certain social groups or individuals, living in a city may mean freedom from oppressive traditions.

The organizing principle of the report is that strategies to address urban poverty should allow the urban poor to make the most of the opportunities offered by cities while helping them cope with the negative externalities. The report focuses on the key challenges and opportunities facing the urban poor, with the goal of highlighting policy implications for each set of challenges. These challenges include earning a living (chapter 2), keeping a roof over one's head (chapter 3), protecting oneself from crime and violence (chapter 4), and keeping healthy (chapter 5). The report then examines the means available to the urban poor to handle shocks and improve their lots, namely, building up their asset base (chapter 6); relying on friends and family, by drawing on social capital (chapter 7); and depending on the public social safety net (chapter 8).

Challenges Confronting the Urban Poor

Labor income accounts for about four-fifths of the urban poor's income in Latin America.⁴ A key question is then whether people are poor because the economy fails to create a sufficient number of (good) jobs or because their characteristics do not allow them to obtain the (good) jobs that exist. Not surprisingly, the answer is: a bit of both.

Earning a Living

Recent labor market developments in the region include a decline in "good" jobs for low-skilled workers, notably in manufacturing and the public sector, as well as a rise in open unemployment. In Peru, for example, manufacturing declined from 13 percent to 9 percent of employment between 1994 and 2000. Heads of poor households are more likely to be unemployed than nonpoor ones, and in most countries poverty would drop if unemployment or underemployment were to fall. In the case of Costa Rica, Trejos and Montiel (1999) estimate that urban poverty would decrease from 14 percent to 8 percent if the poor participated in the labor markets as much as the nonpoor. Overall, poor urban men exhibit lower employment and higher unemployment than their rural counterparts

(participation rates are 88 percent among poor urban men and 94 percent for poor rural men). For poor women, participation is systematically higher in urban areas (see tables 2A.3 and 2A.4).

Some characteristics of the poor make it harder for them to access the relatively few good jobs that exist. About 70 percent of poor adults are low-skilled, as opposed to 50 percent for the urban workforce as a whole. This is due to lower enrollment among poor children in formal education but also to the lower quality of the education and training they can access. In contrast to high-income OECD countries, there is no systematic connection between skill levels and employment status: poor low-skilled households exhibit higher unemployment rates in Brazil but lower rates in Chile and Mexico (see table 2A.6). In addition, the poor may be disconnected from the social networks that command access to “good” jobs.

The lack of good jobs is a particularly severe problem for women, whose substantially increased participation in the workforce in the 1990s was mostly in low-quality jobs. This could be due to the decline in better quality work, gender discrimination, or low educational levels, although the need to combine paid work and child care is likely to be the most important determinant, as child care options are extremely limited for poor households.

A strategy to increase access by the urban poor to better quality jobs should include interventions to help women balance their household and market activities. Child (and possibly elder) care play a crucial role in this respect, especially if designed to accommodate flexible working hours. In addition, general interventions targeting tangible barriers to entry (such as affordable and reliable urban transport) and intangible ones (such as actions to reduce discrimination) are likely to have positive effects. Improving skills and the quality of education and training poor people can increase poor people’s employability and earnings. But these interventions tend to have longer term impacts. To help people cope with immediate crises, these measures need to be complemented with other measures, such as social insurance (notably unemployment insurance), workfare, and job-matching services, a low-cost intervention with which high-income OECD countries have had success (Martin 1998).

Keeping a Roof over One’s Head

High density and congestion, combined with failed land and housing policies, mean that finding housing that provides adequate shelter and physical safety is one of the greatest challenges confronting the urban poor. Most poor people in urban areas resort to informal housing, often located in marginal areas that are poorly served by public services or utilities and vulnerable to natural disasters. In most countries, formal housing is out of

reach for the majority of households: in Brazil and Mexico, for example, formal housing is unaffordable to households in the bottom 70 percent of the income distribution.

Housing and Disaster Mitigation

The informal housing market allows the poor to acquire housing progressively: a plot of land is first acquired, and the house is gradually built and services added as resources allow. Access to informal housing partly accounts for the high rate of homeownership in Latin America, which exceeds 60 percent in most low-income settlements. Very few of these homeowners have formal titles, although the proportion varies across settlements and countries.

Poorly functioning land markets, urban sprawl, and poor public transportation push low-income households to settle in disaster-prone areas. The 20 largest cities in Latin America are located in areas of steep slopes, swamps, floodable land, or seismic activities. As a result, many of the 90 or so disasters that have hit the region over the past three decades—with an annual average loss of 7,500 lives—have hit cities. The poor are at heightened risk from disasters because of the more hazardous locations in which they live and the lower quality of their dwellings. Information for metropolitan San Salvador and Tegucigalpa shows that the share of households affected by landslides and floods declines steadily as income rises (World Bank 2002). There is also evidence that the poor quality of infrastructure in poor communities increases vulnerability (World Bank 2000). The poor are also less able to recover from natural disasters, both because of their lack of resources and because of public policies that may favor economic infrastructure in wealthier or more business-oriented parts of a city.

Policies to improve access to shelter for the urban poor are fairly well understood, and a few countries, including Chile and Costa Rica, have had reasonable success implementing them, although reaching the poorest has been difficult.⁵ Policies need to adapt housing and land policies to the constraints of the poor, in an “enabling” environment that respects their need to acquire housing gradually rather than as a finished product. More specifically, they need to convert the poor’s housing needs into effective demand by alleviating liquidity constraints through microcredit and household saving schemes. Policies can also address solvency issues through limited use of housing subsidies. They should also tackle supply-side issues, such as land and urban regulations and standards, streamlined permit process, taxes, and subsidies.

Mitigating disasters, especially for the poor, is complex, but there have been a number of success stories, even in poor communities. Cuba, which

has withstood a number of devastating storms with minimal losses, shows that much can be done with limited financial resources but good organizational skills. Colombia, with support from the World Bank, is now experimenting with disaster insurance in a way that allows the poor to participate. More generally, a number of countries, particularly in the Caribbean, are experimenting with low-cost infrastructure to protect lives and housing.

Infrastructure Services

As to infrastructure services, access is usually much higher for the urban poor than for the rural poor. But coverage remains incomplete, and high urban averages can hide low access figures among the poor. Household-level data reveal that there are significant inequalities in access between rich and poor but that these differences have been declining over time.

These access figures do not take quality and reliability of service into account, however, and may therefore overestimate effective access. In Tegucigalpa, for example, less than half of households in the lowest income quintile but 78 percent of households in the top quintile have water service more than eight hours a day. This quality issue is most obvious in the case of water and solid waste, where it seems to have a differential effect on the rich and on the poor.⁶ In contrast, where they are a problem, black-outs seem to affect all income quintiles almost equally.

Affordability is also an issue. Utilities generally account for a substantial share of poor households' income (16 percent in Argentina). Connection costs can be a heavy burden on poor households, particularly if financing schemes are not available. Lack of affordability can be a strong deterrent to deciding to connect to services. In Guatemala, for example, 20–40 percent of urban households do not connect to a service even if it is available, presumably because of cost.

Unreliability of service and incomplete coverage cause serious environmental health risks in urban areas. This explains why the incidence of diarrhea and acute respiratory infections is equally high among the urban and rural poor, despite much greater availability of health and infrastructure services in urban areas.

Making infrastructure work for the poor requires promoting access while ensuring that the poor can afford consumption. Promoting access usually entails some kind of universal service obligation or connection targets for operators. It may also include measures to reduce connection costs (such as cross-subsidies or allowing households to opt for a less expensive technology) or make them more affordable (by offering financing schemes to spread the cost over time). Consumption can be made

affordable by reducing the size of bills (through targeted subsidies or a re-balancing of fixed and variable tariffs); by cutting the cost of services (by letting consumers opt for a lower quality of service, for example); and by facilitating payments through more frequent billings or prepayment schemes.

Protecting Oneself from Crime and Violence

With homicide rates five times the world average, Latin America has the highest level of violence of any region. There are, however, significant variations across countries. Colombia, El Salvador, and Guatemala have the highest levels of homicide, while homicide rates in Argentina and Chile are below the world average. Within countries, violence is usually most severe in large urban areas. City-level differences in homicide levels across the region are striking, however, with rates ranging from 6.4 per 100,000 inhabitants in Buenos Aires to 248 in Medellín (Piquet Carneiro 2000). Cities such as Rio de Janeiro and São Paulo, Mexico City, Lima, and Caracas account for more than half of all of the homicides in their countries (Briceño-León 1999). Violence rates also vary with age and gender, with the young more likely to be both perpetrators and victims.

Violence can take many forms. With the increasing dominance and grip of the drug trade over Latin American cities, organized drug-related crime is now the most worrisome phenomenon, particularly in large capital cities. In some countries state security forces use extrajudicial systems of informal justice, commonly known as “social cleansing,” to retain order and power. Police brutality, which occurs with high levels of impunity, is alarmingly common, especially in urban areas, with racism a major factor. Regarding intrafamily violence, little urban-specific information exists. The phenomenon is widespread in Latin America, however, and a number of contributing factors are particularly prevalent in urban areas.

According to the common stereotype, poverty is the primary cause of violence. In fact, the evidence clearly shows that inequality and exclusion are more important in Latin America. At the same time, in situations of widespread and severe inequality, the daily living conditions of the urban poor can heighten the potential for conflict, crime, and violence (Vanderschueren 1996). Political factors, linked to the legacy of decades of protracted internal civil conflicts in Central America and Colombia, are also tied to the spread of violence. Social factors, such as the media sensationalization of violence, the availability of firearms, and drug and alcohol consumption, all contribute to both violence and the culture of fear.

The costs of crime and violence can be high. They include direct costs from increased expenditures on violence prevention, prosecution, and

remediation; decreased investment and tourism; and multiplier effects from forgone activity and the erosion of human and social capital. Estimates for six Latin American countries show that the cost of violence ranges from 5 percent of GDP in Peru to 25 percent of GDP in Colombia (Londoño and Guerrero 1999).

Increased concern with violence across the region has meant that violence prevention and reduction are now a growth industry, with an extensive number of direct and indirect interventions. These can usefully be divided into two types: sector-specific approaches and cross-sectoral approaches. Sector-specific approaches are dominated by the criminal justice approach, which seeks to control and treat violence, and the public health (epidemiological) approach, which aims to prevent violence. Newer approaches, such as conflict transformation and human rights, reflect increasing concern with political and institutional violence. The recent recognition of the importance of more integrated strategies has opened the door for cross-sectoral approaches, such as citizen security, crime prevention through environmental design (CPTED), and urban renewal. Still in the process of development are community-based approaches to rebuild trust and social capital.

Keeping Healthy

Access to health care and infrastructure services is generally much higher in urban than rural areas, even for the poor. But there is growing evidence of an “urban penalty”⁷: in a number of countries some key health indicators for poor urban children are as weak or almost as weak as those for poor rural children, despite the much higher availability of services. This is presumably due to the very different public health challenges that arise from living in higher density areas.

Even in countries that do not exhibit evidence of an urban penalty, the urban poor perform significantly worse than the nonpoor on all indicators—even with regard to circulatory conditions often associated with wealth (Stephen and others 1994). Although the reasons for this have not been completely accounted for, one of the main causes is the physical environment of the poor, including lack of access to basic infrastructure, inadequate hygienic practices, and pollution. The urban poor access health services much less than the nonpoor (though more than the rural poor), and health care systems in Latin America and the Caribbean may have the wrong focus and lack the ability to address urban pathologies.

Background work done for this report highlights the fact that research on public health in Latin America and the Caribbean is sparse and scattered,

especially in regard to the urban poor (Bitran, Giedion, and Valenzuela 2003). In addition, research on specific topics tends to concentrate on one region. For example, there is abundant research into urban mental health in Brazil, air pollution problems in Chile, and nutrition in Guatemala. While this reinforces the notion of the heterogeneity of the health sector, it points to a need for more and better integrated research into public health of the urban poor in Latin America and the Caribbean.

Coping and Getting Ahead: The Assets of the Poor

Assets are at the core of households' strategies to survive, meet future needs, improve their lot, and reduce exposure to shocks or minimize their consequences. Part 3 of the report examines the assets of the urban poor, the characteristics of these assets, and the role they play in their livelihoods. It first examines physical and financial assets, then discusses social capital, and finally looks at the role of social safety nets—public programs to help households mitigate risk and the effects of poverty.

Physical and Financial Assets

Little research has been conducted specifically on the savings behavior of the urban poor and the type of assets they accumulate.⁸ Yet the differences between rural and urban poor discussed earlier imply that savings patterns and instruments differ across rural and urban poor:

- The greater integration of the urban poor in the market economy makes owning financial assets critical.
- The fact that the sources of vulnerability the urban poor face are more market based and less covariant than those faced by the rural poor implies that they adopt different types of coping strategies.
- Savings instruments face different challenges in urban and rural areas. Informal arrangements (either savings or insurance based), for example, are less susceptible to covariant risk, due to the diversification of activities in urban areas, but they are harder to enforce given the lower stability of networks.

The poor clearly save—how else would they become homeowners or cope with the occasional need for lump sums of money? The difficulty comes in measuring such savings, since the poor are usually excluded from financial services. The microfinance revolution has increased access to loans for small businesses and to a lesser extent to low-income households; no similar progress has been made in increasing access by the poor to savings

instruments. As a result, they save by accumulating anything from consumption goods (such as food) to semidurable goods (such as clothing) to durable goods (such as furniture, equipment, or housing), as well as cash or contributions to informal institutions or networks of reciprocal obligations. It is therefore difficult to identify whether and how poor people are saving, given that the assets they hold have both consumption and investment value.

Housing is likely to be the most valuable asset held by the poor, but it is not clear how good an asset it is. In particular, it is unclear how buoyant or liquid housing markets are in poor neighborhoods. The evidence suggests that these markets are not very liquid, particularly given that most housing finance systems in Latin America explicitly exclude financing for “used housing” (and usually don’t serve the poor). Nevertheless, homeownership does offer a number of advantages. It provides a constant flow of services, frees households from having to generate a fixed sum for rent every month, and can be monetized quite easily by taking in renters. Evidence from specialized surveys on risk management in Chile and Peru finds that investment in housing and other residential property acts as a substitute for formal retirement systems (Gill, Packard, and Yermo 2004).

So while the urban poor do accumulate assets, they are constrained in their choices—by their lack of resources, by their risk aversion, and by the fact that good savings and insurance instruments adapted to their needs are not usually available. As a result, they probably overinvest in housing and durable goods and underinvest in financial assets. Policy measures to both make housing a more liquid asset and increase access to financial services are therefore essential to help the urban poor cope with poverty and vulnerability.

Increased access to financial services can be promoted through approaches that encourage banks to go down market. The U.S. experience has been quite successful in this respect, and some of its experience is adaptable to the Latin American context (World Bank 2003a, 2003b). In addition, in some countries, the reach of microcredit can be increased through adoption of now well-understood best practice approaches (see, for example, www.cgap.org). Microfinance institutions are better placed than formal banks to offer savings services to the poor, given their proximity and cost structure, and they would benefit from the additional sources of funding.⁹ Unfortunately, in most countries they are either prohibited by law from offering savings accounts or limited by high amounts of minimum capital required to take deposits. Countries in which the sector is sufficiently mature should contemplate allowing microfinance institutions to accept deposits. Doing so may require a modification in the regulatory structure.

*Calling on Friends and Relatives:
Social Capital and the Urban Poor*

Like their counterparts elsewhere in the developing world, the urban poor in Latin America rely heavily on their friends and relatives to help them both “get by” and “get ahead.” Faced with institutions, policies, and services that are frequently hostile, inadequate, or indifferent to their concerns, the urban poor have little choice but to deploy a range of coping strategies, chief among them being the use of their social networks to provide everything from credit and physical security to information about housing and employment opportunities (Thomas 1995). The norms and networks upholding these support mechanisms are often referred to as “social capital,” to distinguish them from other forms of capital, such as technology, material assets, and education (World Bank 2000). Whereas technology, material assets, and education are, almost by definition, in short supply in poor communities, certain forms of social capital—such as kinship and intracommunity ties (popularly referred to as “bonding” social capital)—may be in abundance. Other types of social capital—such as ties spanning spatial and demographic divides (“bridging” social capital) and power differentials (“linking” social capital)—may be lacking.

Urban social networks differ from those in villages in terms of their size, diversity, and primary functional role. Urban regions (especially those where the poor reside) tend to have much higher population densities than their rural counterparts. One consequence of this high density is that urban dwellers face many more choices than their rural counterparts. As a result, the informational requirements of making an appropriate choice are much higher in urban areas. This implies that the role of a network as a means of disseminating information is magnified. Hence networks in urban areas potentially have a larger role in their capacity as sources of information.

Networks in urban regions tend to be less stable than those in rural communities (due largely to the fluidity of urban populations). This may change the ways in which networks operate. In dense urban slums, where many families often live in the same house, social relationships move away from the traditional forms that characterize village networks. Marriages are much less stable, and both women and men are more likely to engage in serial monogamy and consequently have several circles of relatives. Relationships are forged more on the basis of the quality of reciprocal links between individuals and friends than on familial obligations.

A key survival and mobility strategy in poor communities entails managing the tension between the claims of kinship and locality with economic imperatives to build a more diverse “portfolio” of social and political assets. A corresponding policy implication is that in successful community-level

development programs, linkages to outside institutions need to be forged. A community's stock of social networks in the form of internal ties can be the basis for launching development initiatives, but it must be complemented over time by the construction of new networks (that is, connections to "outsiders" in possession of additional information and resources, especially as they pertain to labor markets, factor and product markets, and public services). The construction of these networks is the task of both broad public policies that expand economic opportunities and access to services for poor people (that is, making "top-down" institutions more pro-poor) and specific programs that support front-line field workers as they seek to engage poor communities, building relationships with them that can become the basis for enhancing their confidence and organizational competence (that is, making "bottom-up" initiatives more empowering).

Improved public service provision can play a central role in facilitating this process (World Bank 2003). Implicitly or explicitly, it is this general understanding of the dynamics of social capital that has informed several recent policy initiatives in response to urban poverty in Latin America. Successful slum-upgrading projects from around the region provide ample evidence of the importance of combining public service delivery reform with initiatives to enhance the collective capacity of the poor by expanding their networks and political participation.

Social Safety Nets and the Urban Poor

Social assistance aims to help the poor cope when private mechanisms and social insurance (unemployment, health and disability insurance, pensions) cannot. As such, social assistance needs to be informed by the availability of social and private insurance and build on what is known about the vulnerability and nature of the deprivation affecting the target population.

The urban poor face a different set of risks and opportunities than the rural poor. Understanding these differences is critical to creating effective social safety nets. The urban poor are more integrated in the market economy, which makes them more sensitive to macroeconomic shocks, positive and negative. These shocks are transmitted mostly through the labor market, which argues for a safety net strategy focused on improved labor market participation. The greater economic and physical complexity of cities complicates the design of classic safety net programs, such as workfare or conditional cash transfers. The environment facing the urban poor is also much more diversified socioeconomically, making targeting more difficult. Density and diversity also imply weaker family ties—and therefore

more elderly people without family support. Combined with classic urban perils (drugs, crime and violence, gangs), these weaker family ties also make child-rearing riskier.

The implication is that the urban poor need some urban-specific types of safety net programs as well as some adjustments in the design of existing safety net programs. In terms of design adjustment, targeting becomes more complex and more necessary, conditional cash transfer programs may need to adapt their requirements and benefits to the urban reality, and workfare needs to take into account the greater complexity of public works in urban areas and the fact that a fall in real wages rather than unemployment may be the labor market shock it needs to respond to.

The elderly poor are not unique to urban areas, but there are many more of them without familial support in cities, making them a significant part of the vulnerable urban population. In terms of groups requiring specifically urban instruments, at-risk youth stand out—not because children and adolescents are necessarily better off in rural areas but because at-risk young people in urban areas face and pose dangers to others that are quite different from those in rural areas. Finally, the greater integration of the urban poor in the market economy argues for urban safety net packages that focus on facilitating their participation in the labor market. This requires active labor market policies, such as training and job search assistance, as well as associated measures, such as policies on transportation, child care, security of tenure (which frees up household members from having to stay at home to secure a property), and others that encourage human capital investments.

Conclusion

The value-added of this report is twofold. First, it identifies some of the key differences between the rural and urban poor—debunking a few myths in the process. Second, it provides an overview of the key policy interventions most likely to improve the quality of life of the urban poor. To the extent that rural-urban migration is still occurring in Latin America, these interventions are also likely to be beneficial in some ways to the rural poor.

The report provides grounds for countries to develop urban poverty strategies, but it does not offer a blueprint, for several reasons. First, as discussed throughout the report, conditions differ across countries and across cities within countries. Governments may want to emphasize different aspects of an urban poverty strategy. Second, the recommendations involve many agencies and are therefore unlikely to be integrated into a single policy. The particular mix that is picked is likely to depend on the alliances forged to promote an anti-poverty program. Finally, the degree

of certainty with which the recommendations are made varies. In some sectors (housing, infrastructure services, and possibly access to financial services and social safety nets), policy recommendations are straightforward and well understood, at least technically (political implementation may be more complex). In other areas, strategies are only beginning to emerge. In the case of crime and violence prevention, for example, it is increasingly clear what does not work, while there are promising signs of what does. But in what is perhaps the most important arena—the poor’s integration into labor markets—recommendations remain broad and long term. They essentially entail promoting growth and policies that promote more equal accumulation of human capital.

The report suggests the need for further research on a number of topics. Jobs should be at the center of any urban poverty strategy. But which interventions are most effective in improving the quality and quantity of jobs available to the urban poor? How should urban transport systems and subsidy schemes be designed? How should child care for low-income families be designed and priced, and what is its likely impact? What role do residential stigma and social exclusion play in limiting access to jobs and incentives to “get ahead”? Most of the literature on the neighborhood effect comes from the United States; it is not clear whether and how the results apply to Latin America. The U.S. response has been to promote mixed-income zoning, in which developers of middle- and high-income housing are required to tailor a proportion of the houses they build to a low-income clientele. It is unclear whether and how such an approach could be adopted in developing countries.

Concerning the poor’s asset-building strategies, there is a need to learn more about the structure of housing markets in low-income neighborhoods—how liquid and buoyant they are and how this might change over time as a neighborhood formalizes and densifies (or becomes known for crime and violence). Improving the low-income housing market may benefit poor people who are already homeowners at the expense of those who are not.

Very little work has been done on rental markets, so there is little knowledge as to whether there is room for more policy interventions to improve their working. While the U.S. and European literature finds that homeownership positively affects labor market outcomes (rather than hampering labor mobility), it is uncertain whether this finding applies to Latin American slums.

As to the savings behavior of the urban poor, little is known. More research is needed to understand determinants other than income and what the effect of greater access to financial savings instruments might be. (A good question is whether greater access to financial instruments would reduce demand for home ownership in favor of rental.) Nor is it clear

whether the U.S. approach of encouraging banks to move down market could be successful in Latin America.

Concerning social capital, the policy implications of research remain vague and need to be further developed. How can policy interventions promote communities' ability to harness communities' energies toward achieving common positive goals? The concepts of bridging and linking social capital should be at the heart of slum upgrading operations, yet it is not clear how to effectively operationalize them.

As to social safety nets, there is a need to collect systematic evidence on whether social services and social assistance are really more generally available in urban areas. Is this notion a myth across Latin America or only in Chile and Mexico?

While the report emphasizes the need for programs to cope with transient poverty in urban areas and describes a number of successful ones, it does not discuss strategies for pulling the poor out of poverty. Perlman's work on the *favelas* of Rio de Janeiro shows that despite major improvements in human capital and physical living conditions (homes and infrastructure services), feelings of exclusion and hopelessness had intensified in the families she had first visited in the 1970s.

Other important topics for further research include the following:

- *Monitoring and evaluation.* Despite the significant and worthwhile investment targeted at alleviating urban poverty, very limited conclusions have been drawn on the relative efficiency of major interventions. This work is urgently needed to yield guidelines for public investment purposes.
- *Leveraging short-term interventions.* How to leverage transfer programs and especially target interventions into longer term results continues to be a puzzling issue. Despite social and well-targeted interventions and transfers, we still do not understand how an influx of cash can lead to more sustainable development and avoid dependency on state subsidies.
- *Weighing short- and longer term concerns.* Most poverty alleviation programs focus on building up human capital (working on the long term), providing short-term safety nets (conditional transfers), and improving labor market conditions. How to integrate these programs and enable a solid foundation to improve the asset base of the poor requires further work.

Endnotes

1. Exceptions are the very few variables for which quasi-universal coverage has been achieved (for example, electricity, some vaccines) and which are therefore homogeneous across the urban population.

2. Inequality refers to the unequal distribution of wealth (or other goods.) Heterogeneity implies that the population is diverse. Thus a society in which all are poor except for one person who owns almost all wealth would be considered unequal but homogeneous.

3. The expression was coined by Michael Woolcock (see chapter 7).

4. The rest includes transfers (13 percent), pensions (5 percent), and capital income, rents, and profits (2 percent).

5. Mexico and Brazil are currently reforming their low-income housing policies along similar lines.

6. In Tegucigalpa and San Salvador, the poor are substantially more likely to experience problems with solid waste management, such as pests and garbage accumulation (World Bank 2002).

7. The term was coined in nineteenth-century England, when urban mortality rates, particularly from tuberculosis, were much higher than rural ones. Public health measures, improved water and sanitation, and socioeconomic change led to declines in infant mortality rates, so that by 1905 rural and urban infant mortality rates were similar (see www.Urbanobservatory.org for more details).

8. The bulk of the literature on savings and coping behavior of the poor has been rural based.

9. The poor save, but they do so in small, uneven increments. A savings instrument that fits their needs is one that allows frequent deposits with low transactions costs. This requires physical proximity and precludes accounts with high minimum balances.

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