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Urban Poverty in Latin America and the Caribbean: Setting the Stage

Marianne Fay and Caterina Ruggeri Laderchi

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

Despite this relatively low poverty incidence, the absolute number of poor people is high: 60 percent of the poor (113 million people) and half the extreme poor (46 million people) in the region live in urban areas (table 1.1). Demographic trends suggest that the urbanization of poverty will continue: if poverty rates remain unchanged, by 2015 two-thirds of the poor in Latin America and the Caribbean will be living in cities. This trend is in line with Ravallion's finding (2000) that the poor urbanize faster than the population as a whole in developing countries.

Increasingly, Latin American policy makers—typically mayors, as well as a growing number of central government officials—are asking the World Bank for advice on how to design programs and strategies to alleviate urban poverty. Mexico and other countries have started aggressively developing urban poverty programs.

Providing such policy advice requires answering a number of questions. What is specifically urban about poor people living in cities? Are the determinants of poverty different in urban areas? Is the type of deprivation suffered by the poor in cities different from that which occurs in

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Table 1.1 Poverty is urbanizing in Latin America and the Caribbean
(millions)

	Total poverty		*Extreme poverty*	
Year	*Urban*	*Rural*	*Urban*	*Rural*
1986	71	65	26	32
1995	102	79	38	47
1998	102	76	39	46
2000	113	76	46	46

Sources: Siaens and Wodon 2003; World Bank 2004c.
Note: Data for 1986 are estimated from a 13-country sample; data for all other years are from a 17-country sample.

the countryside? Most important, are different instruments needed to help the poor in rural and urban areas?

The underlying hypothesis of this report is that the causes of poverty, the nature of deprivation, and the policy levers to fight poverty are indeed to a large extent site specific. Living in a city means living in a monetized economy, where cash must be generated to survive. To earn cash, the poor need 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 to do with lack of skills; the inability to get to work (transport, child care); and social and societal issues (lack of social relations, the stigma associated with living in slums, cultural norms precluding women's participation in the labor force). And loss of employment is one of the most devastating shocks that can confront a poor household in urban areas.

A key challenge for poor people living in cities is gaining access to housing. Many slums are built on unsecured land, often located in areas prone to natural disasters, such as flooding and landslides, or in close proximity to environmental hazards, such as landfills. In most cases, this is due to policy failures—housing construction norms and plot sizes that are out of the poor's reach, distorted housing finance systems, and, most important, inefficient land policies and regulations. These failed policies lead to spatial segmentation, a key factor in social exclusion (Gould and Turner 1997; Cardoso, Elias, and Pero 2003).

Basic services tend to be much more widely accessible in urban areas than in rural areas. Most of the poor have electricity, and many have water and sanitation. But quality and reliability are often inadequate. And because of crowding, the public health externalities associated with even a fraction of a neighborhood not having access to sanitation can be enormous.

Another specifically urban issue that disproportionately affects the poor is crime and violence. Crime is not, of course, unique to poor urban neighborhoods. Property crime is common in rich neighborhoods, and violence is sometimes a very serious problem in rural areas, where it tends to be associated with civil war and paramilitary forces. No presumption is made about whether intrafamily violence is more or less severe in poor urban areas than elsewhere (although the stressors may be different). But crime and violence has become the number one concern of many poor neighborhoods in Latin American and Caribbean cities.

Despite these problems, urban areas present a number of opportunities for the poor. Indeed, this is why the poverty incidence is so much lower in urban areas. Labor markets are much deeper, opportunities greater, and access to services (infrastructure, but also health and education) also potentially much better. Many services can be provided more cheaply in the dense setting of a city. Cities may also mean freedom from oppressive traditions for certain social groups or individuals.

The organizing principle of this report is that strategies to address urban poverty should allow the urban poor to make the most of the positive externalities of cities (deeper labor markets, better amenities and services, greater freedom, and possibly less discrimination against certain social or ethnic groups) while helping them cope with the negative externalities. Those externalities include congestion costs, such as the difficulty of securing affordable shelter; the risks to physical safety associated with pollution and environmental contamination, as well as crime and violence; increased isolation; and perhaps reduced social capital.

This study recognizes some of the important insights social scientists have gained over the past several decades and how these views have evolved (box 1.1). It emphasizes the fact that the poor have developed a very rich set of sophisticated economic and social responses to cope with the challenges of urban living, and that interventions to help the poor need to build on their ingenuity and social mechanisms. It also argues, however, that the poor cannot do much unless opportunities—such as employment—are available and that their ability to seize opportunities and rely on their traditional coping mechanisms can be eroded by social exclusion, crime, and violence.

Two important points are worth emphasizing at the outset. First, "urban" in most countries is a heterogeneous concept, including any settlement larger than a few thousand people. This report does not enter into the debate of what constitutes an urban or a rural settlement—whether it should be defined in terms of density of population, settlement size, or predominant economic activity or what the cut-offs should be.[1] That debate is unlikely to provide useful empirical or policy implications. A much more interesting approach, which this study has tried to adopt as far as

Box 1.1 Five Views of the Connection between Social Relations and Urban Poverty in Latin America

Over the past 50 years, five different accounts have been given to explain the connection between social relations and urban poverty in Latin America. These views are not mutually exclusive; indeed, they reflect an evolving understanding that is a product of broader trends in development theory, historical events, and empirical realities. These accounts are instructive, because they show that the core interpretation of empirical evidence has varied over time, radically affecting the policy implications drawn from the evidence.

The Marginality View

The earliest understanding, drawing on the prevailing assumptions of modernization theory in the 1950s and 1960s, was that squalid urban squatter settlements housed those unable or unwilling to adapt to the challenges of modern city living, thereby becoming "marginal" to it. According to this view, the urban poor in Latin America were lazy, passive, and fatalistic, their beliefs, behaviors, and kinship systems a legacy of backward rural livelihoods. The corresponding policy response was to implement slum clearance programs in which entire communities were razed or (at best) resettled. Little or no importance was attached to the many and varied ways in which poor households (and indeed entire communities) deployed strategies to cope with harsh living conditions, and few saw any merit in acquiring a detailed understanding of the conditions under which recent rural migrants maintained, adapted, or discarded coping strategies learned in rural settings.

The Myth of Marginality View

In the mid-1970s, as modernization theory fell into disfavor, the seminal work of Perlman (1976) on the *favelas* of Rio de Janeiro and Lomnitz (1977) on the shantytowns of Mexico City argued that the urban poor, far from being passive, inert, and "marginal," represented a rich mosaic of sophisticated economic and (especially) social responses to persistently difficult circumstances, ones in which networks played a crucial role. In the mid-1970s the key issues facing the urban poor in Latin America seemed to be those associated with health and property rights (not violent crime, drugs, and unemployment), in particular the constant fear that the government or private developers would, without notice or consultation, bulldoze their houses and possessions. Those aligning themselves with the myth of marginality view advocated for policy responses that were more attuned to understanding—and thus complementing—the survival and mobility strategies the poor were using.

The Culture of Poverty View

In the late 1960s and early 1970s, a view inspired by ethnographic studies of urban poverty in North and South America emerged. According to this view, in adapting to their poverty, the persistently poor increasingly took on identities,

expectations, and behaviors that reinforced their plight (Lewis 1961, 1968). Seeing themselves as victims of circumstances largely beyond their control or as trapped in cycles from which they could not escape, the poor were seen as engaging in practices that undermined their capacity to better their lives. Such behavior could be financial (poor spending and savings habits); health related (excessive smoking, bad diet); educational (dropping out of high school); or sexual (becoming a parent while still a teenager).

This approach has since gone in two directions. A more strident and essentialist version has been co-opted by conservatives and neomodernization theorists (such as economist David Landes and former USAID official Lawrence Harrison), who invoke it to claim that poor people, even poor countries and entire regions, are mired in "cultures" that are simply not conducive to development, with its modernist requirements for science, law, and efficiency. In terms of policy, this version perpetuates long-standing imperialist views that behavior deemed inconsistent with "development" must be changed through moral invocation, education, requirements, and (if necessary) force.

A second strand, more faithful to the spirit of the original formulation, has continued to employ detailed anthropological approaches to better understand how and why the poor so often engage in seemingly "nonrational" or counterproductive behavior. Such behavior often makes sense only when understood in terms of the contexts, identities, and normative expectations of those engaging in it (Nussbaum 2001; Appadurai 2004). From this standpoint, a more appropriate set of policy responses is concerned with working through intermediaries who understand something of these contexts, identities, and expectations to help the poor avail themselves of external resources and opportunities, but also help policy makers design programs that poor people want and can use (World Bank 2003b).

The Resources of Poverty View

The fullest expression of the innovative and diverse ways in which the poor respond to poverty in Latin America is encapsulated in the work of Gonzales de la Rocha (1994), who studied residents of shantytowns in Guadalajara (see also Selby, Murphy, and Lorenzen 1990; Pezzoli 1998). More conscious of the role that the broader national and international political economy plays in creating and perpetuating such harsh circumstances, this view nonetheless focuses on documenting how poor households and local community organizations manage to live with a measure of dignity and purpose in the face of trying circumstances. The policy agenda of those subscribing to this view is similar to that of the second strand of the culture of poverty view, but it also calls for national policy reforms that generate more widespread economic opportunities. Many of the "resources" of the poor are, after all, a virtue of necessity: making them "less necessary" through more inclusive economic policies is thus important.

(box continues on the following page)

Box 1.1 (*continued*)

The Poverty of Resources View

The most recent view argues that globalization (at least in post–NAFTA Mexico) has tilted the national and international context away from the interests of the poor to such an extent that their erstwhile "strategies" and "resources" have been rendered almost ineffective. In a strident reversal of her earlier position, Gonzales de la Rocha (2001) now argues that viable employment became so scarce in the late 1990s and early 2000s that the very social foundations of earlier survival strategies were eroded. An understated assumption of her earlier work—and, by extension, that of other scholars writing in a similar vein—was that the "resources of the poor" were conditional on the presence of employment options capable of supporting a family. In a globalized world in which firms seek low-wage and nonunionized workers wherever they can, Mexicans now find themselves at once less competitive in international labor markets and more exposed to the pernicious flow of drugs and violence—a point echoed by Perlman (2003) in a follow-up report on her earlier study of Rio de Janeiro. Moreover, through pervasive advertising and television programs, the poor are reminded on a daily basis of the economic distance that separates them from the rich. Hopes and opportunities have dimmed, and both physical and livelihood insecurity have escalated, leading Gonzales de la Rocha (2001) to argue that the key policy problem is now not so much understanding the "resources of poverty" but coming to grips with the insidious "poverty of resources" available to poor and unskilled workers.

Source: This box was written by Michael Woolcock, Senior Social Scientist at the World Bank.

the data allow, is to distinguish cities by their size. Poor people living in a small town of less than 20,000 inhabitants may have more in common with their rural counterparts than with poor residents of a megacity. To the extent that this report is about what is urban about poor people living in cities, it probably has a bias toward poor people living in larger settlements.

Second, this report by no means intends to distract attention from the plight of the rural poor. In fact, by "exploding" the urban categories, it may help improve our understanding of the continuum between rural and urban poverty and the complementarities in corresponding policy interventions.[2] More generally, the report aims to help improve the understanding of the extent and nature of urban poverty and the coping mechanisms used by the poor. Indeed, a goal could be to bring the knowledge of urban poverty closer to that which exists for rural poverty.

Migration is another element in the continuity between rural and urban settlements. This report touches only briefly on the issue, however, because its complexity requires separate treatment.

This report includes three parts. The first (chapter 1) examines urban poverty trends, discusses how they are affected by growth and urbanization, and looks at who the urban poor are and where they live. The second focuses on the key challenges and opportunities facing the urban poor and identifies policy implications for each of these challenges. These challenges include earning an income (chapter 2), keeping a roof over one's head (chapter 3), protecting oneself from crime and violence (chapter 4) and keeping healthy in a highly polluted environment (chapter 5). The third examines the means available to the urban poor to handle shocks and improve their lots. These include building up their asset base (chapter 6), relying on friends and family (chapter 7), and depending on the public social safety net (chapter 8).

Urban Poverty Trends

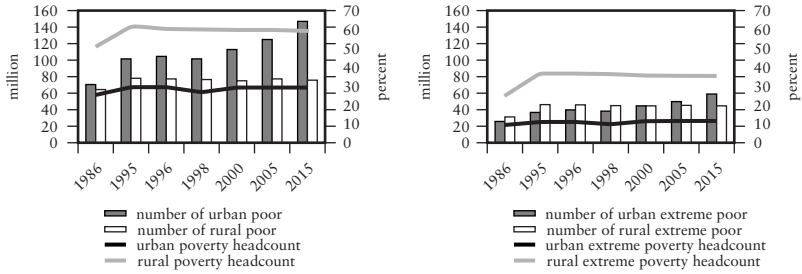
Urbanization in Latin America is expected to increase from its current rate of 77 percent to about 80 percent by 2015 (table 1.2).[3] Although the expected increase, and that of projected natural population growth, is modest, it implies a 16 percent increase in the number of urban dwellers, representing some 75 million people. Urban population growth is likely to be most rapid in the least urbanized countries in the region (the Central American countries, Bolivia, Ecuador, and Paraguay), where the urban

Table 1.2 Latin America and the Caribbean will continue to urbanize, but at varying speeds across subregions

Subregion	*Urbanization rate (percent)*		*Absolute increase in urban population (million)*	*Annual rate of growth of urban population (percent)*
	2005	*2015*		
Central America, Bolivia, Ecuador, and Paraguay	57	62	13	2.8
Caribbean	65	68	4	1.4
Mexico and South America (excluding Bolivia, Ecuador, and Paraguay)	81	84	58	1.5
Latin America and the Caribbean	77	80	75	1.6

Source: United Nations 2003.

Figure 1.1 Growth in the urban population implies further increases in the number of urban poor, even if urban poverty rates remain constant



Sources: Authors' calculations based on data from UN (2003), Siaens and Wodon (2003), and World Bank (2004b).

Note: Data for 2005 and 2015 are projections, based on the poverty rate remaining constant at its 2000 level.

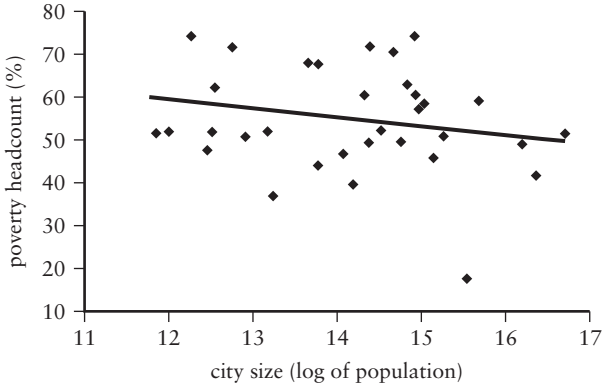
population is projected to increase 2.8 percent a year, twice as fast as the 1.4–1.5 percent rate predicted for the rest of South America, Mexico, and the Caribbean. Nevertheless, because of the size of the existing urban population, the vast majority of the absolute increase will occur in Brazil, Mexico, and to a lesser extent the other large countries of South America. More than a third (23 million) of the absolute increase in urban population will occur in Brazil, despite the modesty of the increase in its urbanization rate (from 84 to 86 percent).

Unless poverty rates decrease, population growth and continued urbanization imply that by 2015 there will be an additional 22 million poor people in Latin American cities, 9 million of whom will be living in extreme poverty (figure 1.1). Continued urbanization does imply lower overall poverty, however, because the poverty incidence is lower in urban than in rural areas.

Latin America's experience with urban poverty is similar to that of high-income OECD countries, where the rapid urbanization of the postwar period resulted in a massive shift in the proportion of poor people living in cities, from 44 percent in 1959 to 78 percent in 2000. Although the incidence of urban poverty rose, the overall poverty rate declined, because urban poverty rates remained much lower than rural ones (Brandolini and Cipollone 2003).[4]

The lower incidence of poverty in urban areas reflects a continuum in which the incidence of poverty generally decreases as settlement size increases and is least severe in metropolitan areas (figure 1.2). This point

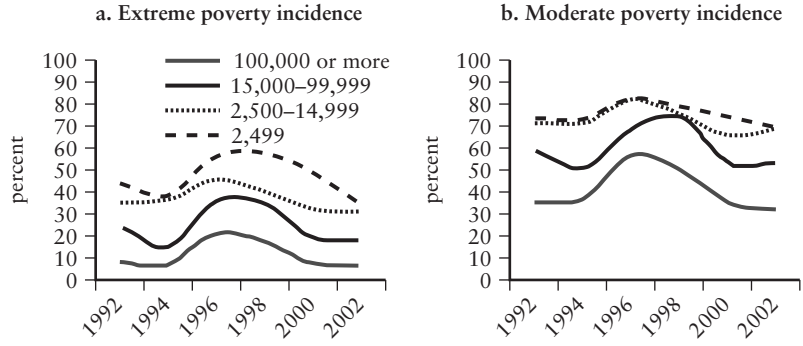
Figure 1.2 The incidence of poverty decreases as city size increases



Source: Baker and Lall 2003.
Note: Data cover 39 cities in nine Latin American countries for various years.

is well illustrated by Mexico, where the share of people living in extreme poverty in small cities is three times that in large cities and the share of people living in moderate poverty is 60 percent higher (figure 1.3). But despite the inverse relation between settlement size and poverty incidence, a third of Mexico's poor—some 16 million people—still live in large cities. This is due to the concentration of population in larger urban centers.

Figure 1.3 Poverty rates in Mexico decline as settlement size increases



Source: World Bank 2004b.

Figure 1.3 also suggests the need for a differentiated response of poverty to income shocks (such as the 1994 peso crisis) across settlement size. Disaggregated poverty trends between 1992 and 2002 show that the impact of macroeconomic turbulence in the mid-1990s was much more visible in cities, both smaller and larger, than in small rural or semi-urban areas. Across urban areas, the crisis-driven increase in the incidence of poverty was at least as sharp in small as in larger agglomerations, however, and the recovery was slower. Indeed, in 1998 the moderate poverty incidence was as high in small cities as in semi-urban settlements.

While the inverse relation between poverty incidence and settlement size seems to hold for all of Latin America, countries differ as to whether the majority of the urban poor live in large or small towns. In Brazil 62 percent of the urban poor live in small and medium-size cities (World Bank 2001a), while in Mexico about two-thirds of the urban poor live in large cities (World Bank 2002b). International comparisons may be difficult, however, because of the lack of comparable data (box 1.2).

Growth, Inequality, and the Evolution of Urban Poverty

The limited decline in the incidence of poverty during the 1990s reflects the poor growth performance in the region. A by now consistent body of literature (see review in Wodon and others 2001) has measured the impact of growth on poverty reduction and highlighted the important role of inequality in mediating such an impact. In addition, several countries in the region experienced periods of deep crisis, whose impact on urban and rural poverty varied depending on the nature of the shock and the characteristics of the poor in different sectors.

Response of Urban Poverty to Growth

Golan and Wodon (2003) find that the elasticity of poverty with respect to growth is about -1.3 in urban areas and -0.7 in rural areas (table 1.3). These different elasticities translate into similar absolute declines in poverty, however, since the higher incidence of poverty in rural areas offsets the lower elasticity. In contrast to the rural estimates, the urban estimates do not seem sensitive to the poverty line selected (the results are the same for both poverty and extreme poverty).

The negative implication of this higher elasticity of urban poverty to growth is that urban populations are more vulnerable to macroeconomic shocks than rural ones. Morley (1995), who obtains similar results when looking at the effects of the crisis of the 1980s, suggests that this may be because the rural poor are to a large measure disconnected from the economy.

Box 1.2 Measuring Urban Poverty

Analysis done for this report shows that poverty in Latin America is always more severe in rural areas, regardless of where the poverty line is set. However, the extent of the difference depends on which poverty line is chosen—the lower the poverty line (which captures more extreme poverty), the more poverty seems to be concentrated in rural areas—and whether adjustments are made for different costs of living or consumption patterns between rural and urban areas.

Income or consumption measures are the most commonly used measures of poverty. They assess whether households can afford to purchase a basic basket of goods. The basket ideally adjusts for spatial price differentials across regions and urban or rural areas in a given country. This may not always be possible, but it has important consequences. In France, for example, Brandolini and Cipollone (2003) estimate that accounting for Paris' higher housing costs would increase the poverty incidence there to the same level as the rest of France.

The issue of comparability across urban and rural areas (or more generally across regions in a country) is more controversial when the basket is further adjusted to reflect local tastes and consumption patterns. While it is important to capture the different types of goods people can access, it has been argued that comparisons are difficult if baskets used to compute the poverty line are allowed to vary (Ravallion and Bidani 1994; Ferreira, Lanjouw, and Neri 2003).

An additional challenge is posed by the fact that urban areas are very diverse, and data are seldom disaggregated enough to allow for analysis between and within urban areas. This is unfortunate given the significant differences in the issues faced by people in small towns and large metropolitan areas—and perhaps even between different urban slum areas within the same city—and the substantial concentration of poverty within specific urban neighborhoods (typically at the periphery).

Urbanization can also affect estimates of urban poverty trends. In particular, the reclassification of rural areas as urban as they grow may cloud the understanding of what underlies the trend. Similar problems arise when attempting cross-country comparisons of urban and rural poverty rates, due to the differences in definition of what is urban.

Finally, income or consumption measures may not capture some of the features of urban poverty of greatest concern. The urban poor rely heavily on the cash economy, making them more vulnerable to income shocks. They are also vulnerable to the environmental and health hazards presented by crowded living conditions and to the high levels of crime and violence in urban slums. Other aspects of poverty, both rural and urban, relate to access to basic services. Unfortunately, these data are not usually broken down by income level within rural and urban areas, and citywide statistics do not reflect the conditions of the poor. Finally, survey data fail to capture the service problem facing the urban poor, which is generally less one of access than one of reliability, quality, and affordability (nominal access may be high, although "effective" access is low).

Sources: Adapted from Hentschel and Seshagir 2000; Brandolini and Cipollone 2003.

Table 1.3 Urban poverty is more responsive to growth than rural poverty

	Basic model		
Type of poverty	*Poverty headcount*	*Estimated growth elasticity*	*Implied absolute decline in headcount for 1 percent growth in income per capita*
Total poverty			
Poverty	35.0	−1.1	−0.39
Extreme poverty	16.3	−1.5	−0.24
Urban poverty			
Poverty	29.0	−1.3	−0.30
Extreme poverty	11.9	−1.3	−0.16
Rural poverty			
Poverty	53.4	−0.7	−0.36
Extreme poverty	29.8	−1.0	−0.29

Sources: Elasticities from Golan and Wodon (2003); headcount from Siaens and Wodon (2003).

Note: The expected reduction in the headcount is extremely sensitive to the poverty line chosen.

As a result, their income does not fluctuate as much in real terms with growth or recessions, although it is likely to be sensitive to natural shocks (weather related) or changes in the prices of major crops.

The literature on vulnerability offers a more nuanced view. It distinguishes two different kinds of shocks. Idiosyncratic shocks affect one household independently of others and are usually linked to a household's life cycle. Some of the underlying risk factors (such as the risk of contracting a particular illness) may vary between urban and rural areas, as may their consequences. However, it is in the second kind of shock—covariant or aggregate shocks—that systematic differences between rural and urban areas may be found. These shocks affect many households simultaneously, and their likelihood is usually specific to a location or sector. Examples include natural disasters, a decline in the price of a specific crop, or a decline in the demand for a particular industry's product.

The economic characteristics of different groups and the overall economic environment interact in shaping the risk distribution households face.[5] Furthermore, the distribution of the burden of a crisis depends on the nature of the macroeconomic shocks and their impact on the demand for labor in different sectors; the policy measures adopted (for example, whether financial assets are frozen); and the severity and length of the

crisis. It is therefore difficult to identify a priori which groups are likely to be more affected by shocks.

Do macroeconomic crises affect the poor more than the rich? Not necessarily. A study of the impact of four recessions in urban Brazil found that only one affected the poorest quintile proportionally more than the others. In two out of three periods of growth in urban Brazil, the poorest deciles benefited more than the richer ones (Neri and Thomas 2000). In urban Mexico after the 1995 crisis, losses classified as "average" were evenly spread across wealth groups (Maloney, Bosch, and Cunningham 2003). A recent survey on household responses to crisis in Uruguay finds that the richest households had the highest incidence of reduction in income, while the poorest suffered least in terms of income decline (Ridao-Cano 2003). These data do not allow a comparison of the size of the shocks across wealth groups, as they reflect households' self-assessment of whether they had experienced a shock.

The limited evidence available suggests that the impact of a crisis tends to be more uniform in rural than in urban areas. This was the case during the 1995 Mexico crisis (Maloney, Bosch, and Cunningham 2003). The evidence is compatible with the notion of a more homogeneous population in rural areas, especially as far as sources of livelihoods are concerned. A note of caution is needed when drawing these comparisons, however, not least because of the linkages between rural and urban areas, through migration and the flow of remittances.

Food insecurity is one channel through which the urban poor are made more vulnerable to macroeconomic crisis than the rural poor. Food expenditures can absorb as much as 60–80 percent of total income among the urban poor (Ruel, Haddad, and Garrett 1999), and their food consumption is much more sensitive to changes in income or food prices than that of the rural poor (Musgrove 1991). Indeed, evidence from Cali shows that the degree of food insecurity is high. About one-third of the population in the poorest income quintile had family members who were hungry at least once during 1998/99 and did not have sufficient resources to purchase food. Sixty percent of parents in the poorest quintile said they had to reduce nutrition for their children because of insufficient resources over a one-year period (World Bank 2002b).[6]

In sum, urban households are more sensitive than rural households to macroeconomic fluctuations. However, vulnerability per se is likely to vary across subgroups, depending on the nature of the shock. Moreover, the studies discussed above focus on income vulnerability rather than well-being. The impact on well-being depends on the type of responses adopted by households, the intrahousehold distribution of the effects of such strategies, and how sustainable these strategies are. The sustainability of a household's coping strategy is in turn influenced by both the

intensity of the shock and the resources available to the household. These issues are discussed in more detail in chapter 2, on labor, and in chapter 6, on asset accumulation strategies.

What about Inequality?

Since inequality dampens the effect of growth on poverty reduction, one possible explanation for the greater responsiveness of urban poverty to growth could be that inequality is lower in urban areas.[7] However, the general presumption is that inequality is higher in cities than in rural areas, where people are more homogeneously poor. This appears to be supported by the data: the average Gini coefficients for Latin America and the Caribbean for 1996 were estimated at 0.55 in urban areas and 0.51 for rural areas (Siaens and Wodon 2003).

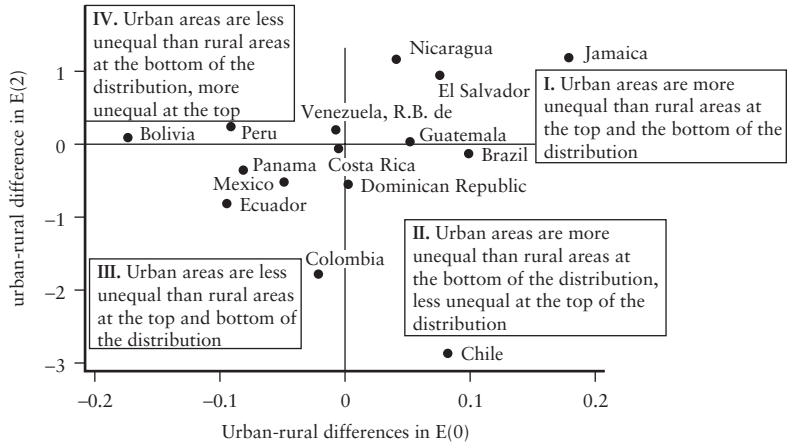
In reality, however, the pattern of inequality in urban and rural areas varies across countries: the Gini coefficients are higher in urban than in rural areas in 6 out of 16 countries for which data were available, lower in 7, and the same in 3. Even looking at other measures of inequality, no clear pattern emerges.[8] Similar results are found in 20 countries in Eastern Europe and Central Asia, although there a higher proportion of countries have greater inequality in urban areas (World Bank 2004a).

A variety of indices can be used to analyze urban-rural differences in income distribution (see table 1A.1). Two indices of the generalized entropy family can be computed to enhance their sensitivity to inequality at different parts of the distribution. Adopting zero as a parameter results in an index (also known as Theil L) that is very sensitive to inequality at the bottom of the distribution (that is, highlights differences among the poorest). In contrast, choosing 2 as a parameter yields an index that is very sensitive to inequality at the top (that is, highlights differences among the richest).

Combining these measures shows that the results vary across countries: while urban areas are clearly more unequal than rural ones in El Salvador, Jamaica, and Nicaragua, the opposite is true in Colombia, Ecuador, Mexico, and Panama. In other countries, the answer depends on the part of the distribution one is focusing on (figure 1.4).[9]

What about differentials in inequality across cities of different sizes? Inequality, as measured by the Gini coefficient, tends to increase with city size, although not monotonically (figure 1.5). And there is much variation in this finding. In Brazil, for example, the Gini coefficient is 0.54 in Rio de Janeiro (10.6 million residents), 0.61 in Fortaleza (3 million residents), and 0.59 in Brasilia (1.9 million residents).

Figure 1.4 Whether urban or rural areas are more unequal depends on the country as well as the segment of the income distribution

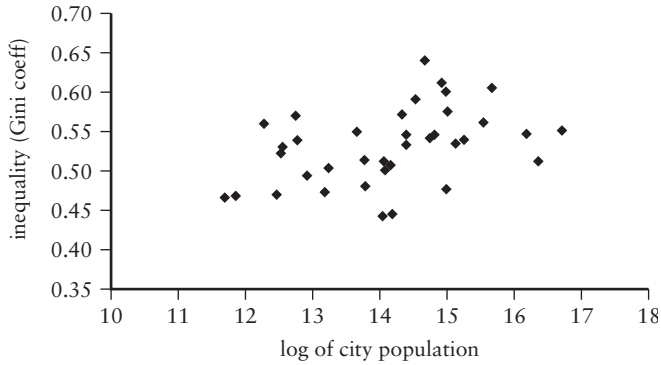


Source: Authors' calculations based on data from table 1A.1.

How and Where Do the Urban Poor Live?

Understanding whether the urban poor have different characteristics from other groups can provide important guidance for policy. It can highlight their needs and yield other valuable information, such as indicators for targeting programs by proxy.

Figure 1.5 Inequality generally increases with city size



Source: Baker and Lall 2003.

Comparisons with Other Socioeconomic Groups

The urban poor share many characteristics with their rural counterparts. An analysis of poverty in Latin America (Wodon and others 2001) finds that most key characteristics are the same in rural and urban areas. Factors increasing the probability of being poor include living in a larger household, with a younger or female head; having less education; and living in a household in which both the household head and the spouse are unemployed (searching for employment rather than "not working").

These similarities between the poor in urban and rural areas are not surprising; others are more striking. Consumption patterns appear remarkably similar between rural and urban poor. In Guatemala food accounts for more than half of all consumption, in both rural and urban poor, followed by "other" (about 14 percent), housing (10–12 percent), and personal goods (about 12 percent) (table 1.4). This is true despite the fact that rural and urban consumption patterns are very different for the population as a whole. Average spending by all urban households is almost three times higher than that of rural households; the differential for the poorest households is much smaller.

Table 1.4 The consumption patterns of the urban and rural poor are similar: An illustration from Guatemala, 2002

	Proportion of total household consumption (percent)			
Category	*All urban*	*Urban poor (quintile 1)*	*All rural*	*Rural poor (quintile 1)*
Food	34.0	52.8	51.5	58.1
Housing	16.0	12.8	10.4	10.1
Personal goods	9.3	12.4	9.7	12.3
Education	6.6	3.1	2.9	1.5
Health	4.5	2.0	2.2	1.4
Durable goods	4.7	0.7	2.6	0.6
Transport	7.0	1.9	4.9	2.0
Other	15.6	14.1	15.2	14.0
Services	2.5	.3	0.6	0.2
Total	100.0	100.0	100.0	100.0
Guatemalan Quetzales	10,122	1,681	3,668	1,571

Source: Adapted from World Bank 2003.
Note: Values account for regional price differentials.

Some differences in labor markets are evident, however. Returns to education are somewhat higher in urban areas. Underemployment is a much more significant marker for poverty in urban areas. Self-employment is associated with poverty in rural areas but not in cities. And in both urban and rural areas, migration either in the previous five years or over the life cycle is not associated with a higher poverty rate. This implies that migrants do as well as people from the receiving areas; since migration tends to occur from poorer to richer regions, this suggests that migrants usually do improve their lot by migrating.

In addition, features of urban life, such as greater access to services, result in differences in spending patterns (table 1.4). Education and health spending, for example, are proportionally higher for the urban poor than the rural poor. In education the differences arise primarily from spending on materials and books. For health, a higher proportion of urban residents seek care (and thus incur costs), and they are more likely to use private facilities, which are on average seven times more expensive than public facilities (World Bank 2003). Data for Mexico show similar results, although the urban poor there spend significantly more on housing (11 percent) than the rural poor (6 percent) (World Bank 2004b).

The greater ease of providing services to clustered rather than scattered populations helps explain some of the differences between the urban and rural poor. On average the urban poor fare much better than the rural population (poor and nonpoor alike) in terms of access to water, sanitation, and electricity (National Research Council 2003) (table 1.5). Access is also much more limited in smaller cities than in larger ones.

Despite better access to services in urban areas, the basic service needs of the urban poor are seldom fully met, for several reasons (see chapter 3). First, coverage remains far from universal. Even in relatively wealthy

Table 1.5 The urban poor generally have much greater access to basic services than the rural poor
(percent)

Population	*Piped water on premises*	*Flush toilet*	*Electricity*	*Lack of all three services*
All rural	31.4	12.6	40.5	46.4
Urban poor	58.7	33.6	79.4	14.4
Urban nonpoor	72.7	63.7	96.4	2.8

Source: National Research Council of the National Academies 2003.

Note: Figures are obtained from probit analysis. Poverty is identified as the lowest quartile of a composite asset and durable index, as there are no monetary measures in the Demographic and Health Surveys, on which the analysis is based. Data are for various years.

Argentina, 47 percent of the urban poor lacked adequate sanitation in 1998 (World Bank 2000). In Cali, Colombia, 20 percent of the poorest did not have the use of a private toilet in 2000 (World Bank 2002b). And half of *favela* dwellers in Rio de Janeiro had no sewerage connection in 2000 (World Bank 2001a). Second, quality tends to be poor, and services are often unaffordable. Third, incomplete coverage and poor quality in high population density areas has severe public health implications. Indeed, it partly explains why infant and child mortality are higher among the urban than the rural poor in a number of countries, despite higher urban access to both infrastructure and health services (see chapter 5).

Access to basic education and health services is higher in urban areas, though not necessarily for the poorest. In Mexico school attendance is almost identical among the rural and urban poor, with a slight difference emerging only among young adults 18 and older (SEDESOL 2003). More generally, the quality of these services in poor areas tends to be very low, as schools in poor neighborhoods tend to be overcrowded and the levels of repetition and drop-out high. In poor urban areas, particularly those on the periphery, accessing secondary education can be problematic. Students often have to travel some distance to attend secondary school, and public transport is not always reliable. School dropouts have few options for entering the labor market. Inactivity has been linked to violence, crime, and teenage pregnancy (see chapters 4 and 7).

Coverage and quality issues are also a problem in health. In poor areas of Montevideo, a city with good social indicators overall, residents living in marginal areas note problems of low quality or nonexistent polyclinic services, limited access to pre- and postnatal care, and lack of coordination in the delivery of services between central and local governments (World Bank 2001b).

Finally, urban living often involves high congestion costs. Land scarcity in urban areas pushes prices up, so that most housing becomes unaffordable to the poor. As a result, many live in unsafe and insecure conditions in order to remain close to the center; others seek cheaper land on the periphery on which to build, often at the cost of long and expensive commutes (chapter 3). More generally, the relatively high cost of housing tends to result in crowded households. In Argentina more than half of urban households in the poorest quintile live with an average of two or more people per room, and 17 percent have three or more per room (Angel and others 2001).

Location Patterns of the Urban Poor

An essential feature of urban poverty in Latin America is that cities tend to be highly segregated. Such segregation takes different forms, ranging

from pockets of poor neighborhoods in parts of the inner city to sprawling urban slums covering large areas of the periphery. Within these poor areas, however, there can be significant variation in income. In Brazil, for example, a significant proportion of *favela* residents are not poor, with the figure exceeding 50 percent in some cities (World Bank 2001a).

Most of the processes that led to segregation between rich and poor in Latin America took place over the course of many decades and were linked to the development of motorized transport and suburbanization. There have been, however, examples of rapid change in the patterns of urban settlement, such as the location transition that occurred in Montevideo, Uruguay, between 1989 and 1996 (Baker 2001). Households affected by job losses during the major recession of the mid-1990s moved from the center, where accessibility to jobs and services was good, to the more isolated, undeveloped periphery. This resulted in an increasing pattern of polarization across different areas of the cities.[10] In many cities, such as Buenos Aires and Mexico City, more affluent groups are pursuing a strategy of "proximity and high walls" in gated communities (Caldeira 1996).

The costs of segregation along income and geographic lines have been estimated to be substantial by models that analyze the premium households are willing to pay to live in neighborhoods with given characteristics.[11] In Bogotá a 10 percent increase in average travel time to employment centers reduces the desirability of a location by 2.5 percent (Baker and Lall 2003). Increasing travel time for a poor household from 45 minutes to 90 minutes reduces willingness to pay for housing by $55–$75 a month.

Arguably, however, the concentration of the poor in particular areas has effects stretching well beyond commuting times and rental values. Residential location and neighborhood composition may have a number of far-reaching influences on households' socioeconomic future. A comprehensive review of the evidence finds that a strong neighborhood environment can discourage or sanction disruptive behavior by individual residents and therefore criminal behavior by young people (Gould and Turner 1997).

Building on this type of evidence, Durlauf (2001) suggests that the main effects the social composition of a neighborhood can have on individual behavior are peer group effects (in which individual choices are influenced by the choices of others), role model effects (in which the preferences of older members of a neighborhood influence younger members' preferences), social learning (in which information on some of the choices available is derived from the experiences of others), and social complementarities (in which group members' outcomes are directly affected by outcomes of other members). All these types of interactions are externalities and suggest that policies encouraging socioeconomic mixing may have important "social multipliers."

Neighborhood effects may also be compounded by stigma, which affects poor people's access to jobs and increases other forms of discrimination. In Montevideo residents of peri-urban slums cite stigma as a major problem in securing a job. In Rio de Janeiro 85 percent of slum residents sampled perceived discrimination against people living in *favelas* (Perlman 2003). A recent study of Rio's *favelas* found that residents there earn 10–47 percent less than people from other neighborhoods who work in similar occupations and have the same education, age, and gender characteristics (Cardoso, Elias, and Pero 2003).

Awareness of these negative externalities in the United States has led to policies that explicitly encourage local housing agencies to promote mobility and deconcentration of poor families (Turner, Popkin, and Cunningham 2000).[12] Neighborhood effects, particularly the implications for housing policies that cluster low-income people together, should also be considered in Latin America.

Conclusions

This chapter examined urban poverty trends in Latin America, analyzed how they are affected by demographic and economic changes, and looked at who the poor are and where they live. The main findings can be summarized as follows:

Poverty is urbanizing, but urbanization reduces overall poverty. The urbanization of the population is resulting in an urbanization of poverty, but it is also helping reduce poverty. Poverty incidence is systematically lower in urban areas than in rural areas (at least in developing countries). This is because urban areas tend to be more productive, with economies of agglomeration allowing for higher wages, deeper labor markets, and better opportunities for the poor. The key challenge, then, is to help the poor take advantage of the opportunities urban areas offer.

Poor urban households share many characteristics with the rural poor, with some notable differences. Like their rural counterparts, the urban poor tend to have larger families, lower education levels, and less access to services than richer households. But returns to education are higher and underemployment is a more serious problem for the urban poor than the rural poor, and self-employment is not significantly associated with higher poverty. In terms of services, the urban poor tend to have higher nominal access than their rural counterparts; the key challenge they face is one of quality and effective access. Overall, however, there are tremendous variations in access by the urban poor to services. The availability of services (of good or bad quality) is determined largely by the age of a settlement, with new peri-urban settlements typically underserved.

Urban poverty is more responsive to overall growth than rural poverty. This suggests that sustained poverty reduction could be possible, but much depends on the degree of integration of the poor into the broader urban economy, their ability to access jobs and build up assets to raise themselves out of poverty and rely on during crises, and their access to government programs and institutions. The effects of macroeconomic crisis are likely to be highly differentiated, with socioeconomic characteristics—particularly those pertaining to labor market integration—greatly affecting household vulnerability.

Income inequality is not systematically higher in urban areas than in rural ones, but cities are characterized by great heterogeneity. This can be explained almost mechanically by the lower incidence of poverty in urban areas. The implication is that it may be harder to target the poor or predict how different socioeconomic groups will be affected by a shock. Heterogeneity also springs from the wide array of what is considered urban (from small towns to megacities, from central cities to distant peri-urban areas just being settled).

Heterogeneity notwithstanding, Latin American cities tend to be highly segregated. Exclusion is a key challenge facing the urban poor, despite their much greater proximity to wealth, services, and opportunities. This gives rise to negative externalities, which result in less access to jobs, lower earnings, lower educational achievements, higher crime and violence, and stigma associated with particular neighborhoods. Such a concentration stems from a variety of mechanisms, including the sorting role played by the land and housing markets and the ability of the most affluent to negotiate access to key infrastructure and services. (For a discussion of the positive and negative effects of social interactions in poor areas, and between the poor and their surrounding environment, see chapter 4, on crime and violence, and chapter 7, on social capital.)

Annex

Table 1A.1 Distribution of Household per Capita Income: Inequality Indices

	Urban					*Rural*				
Country/Year	*GINI*	*CV*	*E(0)*	*E(1)*	*E(2)*	*GINI*	*CV*	*E(0)*	*E(1)*	*E(2)*
Argentina 2001	52.2	1.276	0.517	0.497	0.814					
Bolivia 2002	54.0	1.573	0.525	0.593	1.237	57.3	1.514	0.699	0.620	1.147
Brazil 2001	57.7	1.787	0.616	0.676	1.596	53.1	1.852	0.519	0.602	1.714
Chile 2000	56.5	1.920	0.577	0.678	1.844	52.4	3.064	0.494	0.719	4.695
Colombia 1999	55.1	1.952	0.560	0.646	1.905	55.0	2.714	0.580	0.717	3.683
Costa Rica 2000	44.2	0.987	0.350	0.344	0.487	44.0	1.040	0.356	0.352	0.541
Dominican Rep. 1997	48.0	1.369	0.407	0.454	0.936	47.5	1.723	0.405	0.480	1.485
Ecuador 1998	52.2	1.655	0.496	0.561	1.370	54.1	2.092	0.591	0.640	2.189
El Salvador 2000	50.6	1.775	0.510	0.529	1.576	46.9	1.107	0.435	0.396	0.613
Guatemala 2000	55.8	1.622	0.569	0.620	1.316	51.8	1.594	0.518	0.550	1.270
Jamaica 1999	54.9	2.091	0.575	0.665	2.185	46.8	1.392	0.399	0.427	0.969
Mexico 2000	50.9	1.552	0.456	0.531	1.205	52.1	1.854	0.505	0.581	1.718
Nicaragua 2001	56.7	2.881	0.584	0.815	4.150	52.2	2.439	0.542	0.581	2.975
Panama 2000	52.2	1.358	0.501	0.516	0.922	54.4	1.597	0.583	0.583	1.275
Paraguay 1999	50.3	1.577	0.450	0.512	1.243	59.9	4.852	0.714	0.941	11.769
Peru 2000	44.0	1.218	0.354	0.389	0.742	47.3	0.988	0.446	0.382	0.488
Uruguay 2000	44.6	1.040	0.347	0.357	0.541					
Venezuela 1998	46.3	1.226	0.381	0.405	0.752	45.4	1.051	0.389	0.370	0.553

Source: Compiled by Leo Gasparini, Universidad Nacional de la Plata, Argentina, based on latest available country household survey.
Note: CV = coefficient of variation. E(1) = Theil.

Table 1A.2 Population, Urbanization, and Poverty Estimates, by Country, 1998
(percent, except where otherwise indicated)

			Poverty incidence			
Country	*Population (millions)*	*Share population urban*	*Total*	*Urban*	*Rural*	*Share poor in urban areas*
Argentina	36	88	n.a.	17	n.a.	n.a.
Bolivia	8	62	63	52	82	50
Brazil	166	80	34	27	58	65
Chile	15	85	26	24	43	76
Colombia	41	74	65	55	80	66
Costa Rica	4	58	25	20	29	49
Dominican Rep.[a]	8	63	28	21	37	49
Ecuador	12	62	n.a.	60	n.a.	n.a.
Guatemala	11	39	50	26	66	20
Honduras	6	51	58	41	71	37
Jamaica	3	55	19	14	22	44
Mexico	95	74	26	15	55	43
Nicaragua	5	55	55	45	67	46
Panama[a]	3	55	49	35	74	37
Paraguay	5	55	55	36	77	36
El Salvador	6	58	32	16	53	30
Uruguay	3	91	n.a.	.17	n.a.	n.a.
Venezuela	23	86	44	37	54	81

Sources: Poverty estimates are from Siaens and Wodon (2003). Population and urbanization rates are from the World Bank (2004b), World Development Indicators database.

Note: n.a. = not available.

a. Data are for 1997.

Table 1A.3 Urban Population Distribution across Latin America

City size category	*Number of cities*	*Population (millions) 2000*	*Average growth rate 1990–2000 (percent)*	*Mean city size within category*	*Median city size within category*
Small (20,000–100,000)	8 7	5.4	20.8	64,900	64,600
Medium (100,000–500,000)	3 26	65.0	18.7	199,500	169,800
Large (500,00–1 million)	4 0	28.5	20.8	713,100	660,200
Very large (1–5 million)	4 3	87.1	25.6	2,030,000	1,740,000
Mega (more than 5 million)	7	78.4	16.0	11,200,000	10,600,000

Source: Baker and Lall 2003, based on data from the UN World Cities Database on 500 cities in 18 countries.

Endnotes

1. De Ferranti and others (2005) discusses this issue in depth. Changing the definition of what is urban affects what share of the poor are deemed to be urban, but the effect is weaker than that of changing the poverty line. This is because, as discussed in this chapter, there is substantial continuity across settlement sizes, so that any reasonable change in the cut-off will have only a relatively small impact.

2. On this issue, see Tacoli (1998) and the World Bank rural and urban poverty "toolkits," available at http://poverty.worldbank.org/library/view/12995.

3. This section draws heavily on Baker and Lall (2003).

4. The contribution of urbanization was small relative to the improvements in poverty incidence in both cities and rural areas, however (Brandolini and Cipollone 2003).

5. Maloney, Bosch, and Cunningham (2003) show how in urban Mexico even in "normal periods," different types of households faced very different income variability. That variability can be attributed to the characteristics of the microenterprise sector, in which a minority of firms does either much better or much worse than salaried workers and firm mortality is very high. In contrast, over the same period less educated households faced lower variability in income than other groups, possibly because of their limited chances of accessing jobs with wage growth prospects and their willingness to increase household labor supply in times of crisis.

6. This figure may have an upward bias, since some respondents may have thought that answering yes to food insecurity questions would have given the household a chance to access subsidy programs.

7. Indeed, Golan and Wodon (2003) find much higher elasticities once inequality is kept constant. Unfortunately, their results are not disaggregated by urban and rural areas.

8. The annex presents a variety of inequality measures for rural and urban areas for 16 countries for which data are available. These measures capture different aspects of the distribution. While the Gini index is the most widely quoted of the indices, it is most sensitive to inequality in the middle of the distribution, which is just one aspect of inequality.

9. While conclusive inequality comparisons can be obtained from the Lorenz curves only for countries that fall in quadrants I or III, being in either of those quadrants does not imply Lorenz dominance. It is possible that using other indexes would suggest different assessments of relative inequality in urban and rural areas.

10. Such polarization is seen by decomposing income inequality (Theil index) data at the level of census sections or neighborhood clusters into "within" and "between" area components and observing decreases within areas and increases between them.

11. The seminal work of Alonso (1964) and Muth (1969) demonstrates how sorting is defined over the relationship between relative expenditures on commuting and land consumption. An important extension to these models investigates how both preferences for community homogeneity and trips to multiple city centers affects household optimization decisions.

12. The Section 8 Program provides subsidies (equivalent to about 70 percent of rent) to low-income families for renting moderately priced housing.

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