

Urban Poverty

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Summary

This chapter is addressed to both stakeholders engaged in countrywide poverty strategies and local-level participants in such strategic exercises for their city.¹

The chapter is organized around two major themes:

- **Understanding the urban poverty**
- **Addressing the urban poverty**

Part 1 (Introduction) addresses the questions: What is urban poverty, and how can it be monitored or measured? After discussing the dimensions of urban poverty in section 1.1, section 1.2 sets the stage briefly with respect to context of urban poverty. Then some approaches to assessing urban poverty, and possible indicators corresponding to each dimension are outlined in sections 1.3 and 1.4 respectively

Part 2 then asks: What public actions (by both national and local governments) are needed to address urban poverty? What are the options among program interventions? And how can consensus be created for necessary decisions to be taken? The first section (2.1) discusses the wider impacts of poverty reduction. Section 2.2. summarizes the main policies and institutional elements pertinent to urban poverty reduction, both for supporting widely shared growth with equity and for sustaining poverty-targeted measures at scale. Section 2.3 describes experiences with some major operational approaches to addressing poverty and presents a menu of program options. The final section (2.4) suggests some ways to share roles and responsibilities at the national and city level, including processes of decision-making and prioritization regarding public actions.

The Interim Poverty Reduction Strategy Papers (IPRSPs) available as of February 2001 (32 in total) were briefly reviewed from the perspective of topics and issues raised in this chapter, and references to this experience to date are included below.

¹ This chapter uses the terms “cities” and “urban areas” interchangeably. It is understood, however, that “city” is a legal designation given to a specific administrative or local government structure and that many large urban areas consist of more than one city jurisdiction. The chapter also uses “local governments” or “local authorities” mainly in reference to municipalities. Although their legal status differs among countries, municipalities are understood here as the lowest organized units within the administrative apparatus of the state.

1. Understanding Urban Poverty

1.1 Dimensions of urban poverty

The **Overview** chapter of the **PRSP Sourcebook** sets out five dimensions for viewing poverty: income/consumption, health, education, security², and empowerment. The following table, an “Urban Poverty Matrix,” summarizes key features of poverty across these same dimensions in the urban context. In general, poverty and vulnerability (a dynamic concept of the susceptibility to risks of falling into poverty) in the urban context can be related to three distinctive characteristics of urban life: commoditization (reliance on the cash economy), environmental hazard (stemming from density and hazardous location of settlements, and exposure to multiple pollutants), and social fragmentation (lack of community and inter-household mechanisms for social security, relative to those in rural areas). (Moser, Gatehouse and Garcia, 1996b)

² Insecurity as a dimension of poverty is defined as vulnerability to a decline in well-being. The shock triggering the decline can occur at the micro (household level), at the meso (or community level), and/or at the national or international level (*World Development Report, 2000/2001*). Since lack of tenure security is among the key factors that can trigger decline in the well-being of the poor in cities, both at household and community levels (see also **Technical Note 2**), it is considered as a specific dimension of urban poverty in this chapter. As discussed in section 2.2, tenure security needs to be addressed, in accordance with community priorities, to complement the other strategies of poverty reduction

Table 1. Urban Poverty Matrix

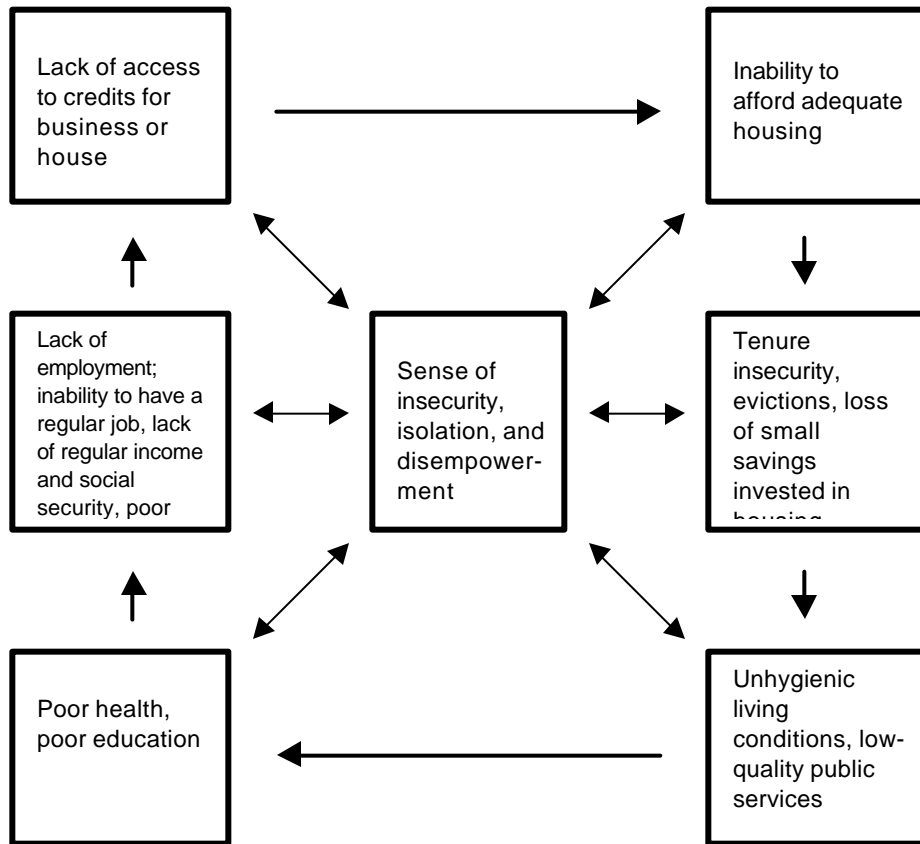
Dimension of poverty	Visible causes or contributing factors	Policy-related causes	Impacts on other dimensions of poverty
Income	<ul style="list-style-type: none"> • Dependence on cash for purchases of essential goods and services • Employment insecurity/casual work • Unskilled wage labor/lack of qualifications to get well-paid jobs • Inability to hold a job due to bad health • Lack of access to job opportunities (urban poor often have to trade off between distances to jobs and costs of housing) 	<ul style="list-style-type: none"> • Macroeconomic crises reduce real incomes • Failure of public services such as education, health, infrastructure, transport to serve the urban poor • Regulatory constraints on small enterprises perpetuate “informality” of work available to the poor, discourage asset accumulation and access to credits, and increase vulnerability of workers 	<ul style="list-style-type: none"> • Inability to afford housing and land, thus, underdeveloped physical capital assets • Inability to afford adequate quality and quantity of essential public services e.g., water, thus unhygienic living conditions and depreciated health • Poor human capital—bad health and educational outcomes due to stress, food insecurity, and inability to afford education and health services • Depreciated social capital resulting in domestic violence and crime
Health	<ul style="list-style-type: none"> • Overcrowded and unhygienic living conditions. • Residential environments are prone to industrial and traffic pollution due to juxtaposition of residential and industrial functions in cities • The poor in cities settle on marginal lands, which are prone to environmental hazards, such as landslides and floods • Exposure to diseases due to poor quality air, water, and lack of sanitation • Injury and deaths rising from traffic • Industrial occupational risks—unsafe working conditions, especially for those in informal sector jobs 	<ul style="list-style-type: none"> • Land and housing regulations can make proper housing unaffordable and result in living in disaster-prone and polluted areas • Bad policy frameworks and failure of public services such as environmental and health-related services (water and sewerage, solid waste disposal, drainage, vector control) to keep pace with population growth • Lack of labor protection (worker safety) • Poor traffic management and pedestrian facilities • Lack of safety nets and social support systems for families and youth 	<ul style="list-style-type: none"> • Inability to hold a job • Inability to earn sufficient income • Reduced ability of children to learn due to illness (e.g., lead poisoning) • Risk of injury and associated income shocks • Poor education outcomes
Education	<ul style="list-style-type: none"> • Constrained access to education due insufficient school sizes in rapidly growing cities • Inability to afford school expenses • Personal safety/security risks deterring school attendance 	<ul style="list-style-type: none"> • Incapacity of public authorities to provide for adequate classroom and school sizes. • Lack of safety nets to ensure ability to stay in school despite family economic hardships • Insecure and unaffordable public transport 	<ul style="list-style-type: none"> • Inability to get a job • Lack of constructive activity for school age youth, contributing to delinquency • Continued gender inequities

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Dimension of poverty	Visible causes or contributing factors	Policy-related causes	Impacts on other dimensions of poverty
Security	<p><u>Tenure insecurity</u> Land and housing in authorized areas are not affordable; therefore, the poor typically build or rent on public or private property. Houses lack proper construction and tend to be in unsafe areas prone to natural hazards.</p> <p><u>Personal insecurity</u></p> <ul style="list-style-type: none"> • Drug/alcohol abuse and domestic violence • Family breakdown and reduced support for children • Social diversity and visible income inequality in cities, which increases tensions and can provide a temptation for crime. 	<ul style="list-style-type: none"> • Land policies do not make sufficient developed land available for the poor • Land policies do not permit regularization of tenure in most unauthorized settlements. • Inappropriate standards and codes make housing unaffordable. • Regulations impose costly and cumbersome procedures to get registered or to obtain occupancy permits. • Lack of access to credit • Lack of employment opportunities, services, and assets (both communal and personal) stigmatize certain areas within cities as centers of crime and desolation. • Lack of safety net policies and programs 	<ul style="list-style-type: none"> • Evictions that cause loss of physical capital, damage social and informal networks for jobs and safety nets, and reduce sense of security • Inability to use one's home as a source of income—such as renting a room; creating extra space for income generating activities, etc. • Diminished physical and mental health and low earnings • Damage/loss to property and increased costs for protection and health care • Depreciated social capital such as loss of family cohesion and social isolation
Empowerment	<ul style="list-style-type: none"> • Illegitimacy of residence and work • Isolation of communities that are disconnected from jobs and services • Insufficient channels of information for obtaining jobs, knowing one's legal rights to services, etc. • Not having the rights and responsibilities of citizens 	<ul style="list-style-type: none"> • Regulatory and policy frameworks (for service provision, housing and land, and income-generating activities) make the settlements and/or occupations of the poor "informal" or "illegal". This denies them the same rights as other urban citizens. • Oppressive bureaucracy and corruption • Official or unofficial discrimination 	<ul style="list-style-type: none"> • Lack of access to urban services • Sense of isolation and powerlessness • Violence • Inefficient use of personal time and money to seek alternative forms of redress, e.g., payment of bribes

As the above matrix indicates, urban poverty is often characterized by cumulative deprivations: one dimension of poverty is often the cause of or contributor to another dimension, as illustrated below.

Figure 1.1 Cumulative Impacts of Urban Poverty



1.2 Context of urban poverty

It may be important to correct some common misconceptions, and to establish some common premises, regarding the realities and approaches to urban poverty:

Urban poverty is not necessarily an indication of economic failure. Urban poverty can be to some extent a reflection of active rural-urban migration. This is because cities offer better opportunities for individuals to improve their welfare. Indeed, cities have historically served poor people as platforms for upward mobility. Efficient urban development can play a major part in combating national poverty, both by giving migrants new chances for a better life and—even more importantly, from a country perspective—by providing a marketplace where diversified industry and services can thrive as the engine of national income growth. However, realizing the potential gains from rural migration to urban areas depends on how well cities and towns manage growth, provide good governance, and ensure services for households and private sector enterprises.

Internal migration is not a major variable explaining urban poverty. Thus, controlling migration is not a valid policy response. Studies of internal migration in many countries reveal that migrants are not necessarily among the poorest members of their original or receiving communities. Moreover, migration to cities from rural areas accounts for less than half of urban growth ; in most countries, most urban growth is explained by natural population increases within cities and by the incorporation of formerly rural areas at the urban periphery. There are no simple relationships between migration and poverty. Hence, policies that aim to restrict internal migration hurt the poor and the overall labor market, are usually ineffective (de Haan 1999 and 2000).

Urban conditions cannot be generalized across types of urban areas. Different size cities tend to have different problems. Recent UN analysis of health indicators and of housing and basic services in large cities (more than 1 million population), small cities, and towns over the past couple of decades in 43 countries shows that welfare has been deteriorating for the residents of large cities—and particularly of fast-growing ones—in almost every region (Brockerhoff and Brennan 1998). This suggests that whatever public policies seemed to favor certain cities in the past, they are not currently counterbalancing the pressures of population growth on service capacities and the failures of urban governance. But patterns differ greatly by country (see Box 1.1).

Box 1.1 Locating Urban Poverty in Brazil

A national urban poverty study in Brazil found that poverty is more severe the smaller the city size; even in absolute terms most of the urban poor in Brazil live in small and medium-sized cities. At the same time, however, individual welfare outcomes in the bigger cities might be worse than income measures of poverty indicate (for example, due to the effects of crowding), suggesting that an increasing focus on smaller cities should not divert attention away from the persistent problems of the big cities, particularly in the periphery of metropolitan areas. The study also confirmed high regional inequalities. Poverty incidence (poverty headcount rate) was found to be higher for all settlement sizes in the northeast and northwest relative to other regions. Poverty rates in some city size categories of these two regions were higher than those in the rural areas of richer regions.

Source: Brazil: Public Policies to Fight Urban Poverty, World Bank draft, May 1999

The concept of “city” itself is heterogeneous. In cities, the poor and rich with their different levels of assets live together, and there are significant intra-urban differentials in social, environmental, and health conditions. Manifestations of poverty are particularly site specific in urban areas. Average welfare indicators presenting overall urban conditions cannot give a correct picture of poverty within a city. It is important to know social and physical conditions of different groups and neighborhoods within the city, the forms of deprivations that they suffer, and the numbers and characteristics of these residents. In Accra, Ghana, for example, death rates are up to three times higher for those living in deprived urban areas relative to other parts of the city. In São Paulo, Brazil, even non-infectious causes of death (chronic diseases, traffic accidents, homicides) have a much higher incidence in the poor neighborhoods (Stephens et al. 1997).

The “urban poor” is a very diverse group. The urban poor represent different groups with diverse needs and levels/types of vulnerability. These differences may be traced to gender, physical or mental disability, ethnic or racial background, household structure, and people in long term poverty and in temporary poverty etc.

Urban poverty can be transitional and temporary, or persistent.: Poverty is a dynamic condition from which people move in and out e.g., due to major macroeconomic shocks. The economic crisis in East Asia in 1998, for example, hit urban households especially hard as demand for labor slackened while prices rose. The informal sector and casual laborers who are often at the brink of poverty are especially vulnerable in times of economic recession. Increasingly, however, poverty in cities is found to be an entrenched, multigenerational reality for households who find their social and economic advancement limited even when they have acquired basic education. In Brazil, for example, studies have found that the capacity for economic mobility of the poor has actually diminished over the past 30 years. Many families in Rio de Janeiro remain residents of slum³ neighborhoods for more than a generation (Perlman 1999).

Poor urban governance and inappropriate policy frameworks contribute to the vulnerability of the urban poor. Corruption, inappropriate policies, and cumbersome regulatory requirements lead to various forms of deprivations like inadequate environmental services, limited access to school and health care, and social exclusion in cities. Better urban governance is therefore a necessary condition for improving the opportunity, security and empowerment of the urban poor.

Poor people are very capable of helping themselves and can take pro-active roles in development, as long as they have access to decision making, and are given the rights and responsibilities of other urban citizens.

1.3 Assessing urban poverty

Income (or consumption) is the most frequently used proxy for poverty. Money-based poverty definitions and assessments provide a standard scale so that different population groups can be compared. For comparisons across very different types of settlements (such as between rural and urban areas), it is important that quantitative measures take adequate account of major differences in the minimum essential “consumption basket” and the differential prices faced for goods and services

Social indicators, such as life expectancy and infant mortality are also important. Definitions and benchmarks should allow the living conditions of different population groups to be compared with others.

The chapters on **Organizing Participatory Processes** and on **Poverty Data and Measurement** provide overall guidance on relevant techniques of poverty assessment.

³ In this chapter, the terms “slum,” “informal,” “illegal,” and “spontaneous” are used interchangeably to refer to settlements built (i) on public or private land without the land owner’s permission; (ii) built on land that is not legally approved to be developed; and/or (iii) built without occupancy and construction permits—even if the land belongs to the occupant and is approved for development.

Assessing urban poverty nationwide is necessary to ascertain the overall level of poverty, as well as to understand differences in poverty trends within regions and within urban areas. Identifying such locational variations would help to target interventions to cities or regions with the greatest levels of deprivation.

Local authorities need to assess the causes, characteristics, and location of poverty within their city in order to design poverty strategies and to make appropriate regulatory changes. A city poverty assessment is a tool for acquiring up-to-date information on a city's poverty and social development. The assessment uses various indicators of poverty such as are outlined in the following section 1.4 (Hentschel, 1999; Moser, Gatehouse and Garcia, 1996a).

Components of a city poverty assessment are not dissimilar to a national exercise. Various sources—such as population censuses, household consumption surveys, public utility maps, and service records—can be used to structure an urban poverty profile. Governments and stakeholder participants should prioritize the indicators to be collected and used for producing urban poverty profiles at national and local levels. Data collection and analysis involves (i) selecting the most relevant poverty indicators; (ii) determining at what intervals the indicators need to be monitored; (iii) reviewing all available data sources; (iv) selecting partners (e.g., national statistical institute) that can conduct data collection and possibly do the analyses.

Composite indexes can be constructed from sets of indicators to determine a poverty threshold. Different data sets can complement each other in estimating poverty levels, disaggregated at city and district levels.

In constructing urban poverty profiles, differences between as well as within cities can be examined. National poverty assessments will generally present a picture of differences among urban populations. For example, in Argentina a recent national poverty assessment demonstrated enormous differences among cities: while the share of population with unsatisfied basic needs⁴ was only 8 percent in the federal capital, the average for the 25 urban areas was almost 17 percent. Moreover, in 14 of the 25 towns, unsatisfied basic need levels are more than twice the national average (*Poverty Report for Argentina*, World Bank 2000).

Constructing a poverty profile at the city level will provide a snapshot showing who is poor, where they live in the city, their access to services, their living standards and so forth, thereby contributing to the targeting of poverty measures. Table 2 shows how information on the spatial distribution of urban poverty within Karachi can be used to construct poverty maps and to identify means of targeting policies and programs to the poor.

⁴ Index of unsatisfied basic needs consists of a composite index that includes access to water, crowding, housing quality, sanitation, school attendance, and subsistence capacity.

Zones	Poverty rate	Share of total poor (hhs)	Share of total population
Old city	61	18	12
Old settlement	56	10	7
Korangi	49	12	10
Site	59	27	18
Serviced areas	54	11	8
Rural fringe	67	7	4
Total Karachi		16	41

Source: Altaf et al. 1993

In a study undertaken by the city government of Buenos Aires, data on access to basic infrastructure were broken down into 21 districts within the city revealing wide differences in access to services. While 13 of the districts had less than 8 percent of their respective population lacking basic services in 1991, 4 districts had more than two or three times that level. Indeed, two districts in the south of the city had 20 and 26 percent of their population, respectively, with unsatisfied basic needs (*Poverty Report for Argentina*, World Bank 1999).

The allocation of public expenditures, particularly for infrastructure and social services, among the urban population can also be examined directly. It is important to know the incidence of expenditures at both national and city levels: Which cities, which type of households, and which areas in the city benefit from public expenditures? Incidence analysis by type of households requires availability of household surveys. Incidence analysis by geographical location requires data from planning and budget offices on where expenditures in the city are going and where taxes are raised. See the chapter on **Public Spending** for details.

In addition to a snapshot of poverty, it is important to see how city living conditions change. This will give feedback on whether the city is moving in the right direction. For example, even if poverty in the city is low relatively to other areas, an increase in poverty over time will alert policymakers and enable them to take preventative actions. Changes over time can also provide insights into the factors that help people grow out of poverty or fall into it. Measuring changes over time requires consistent definitions and measurement of poverty indicators.

Quantitative and qualitative analyses can be combined to capture the different aspects of poverty. Self-assessment methods reveal people's perception of their own poverty and deprivation as well as their priorities for poverty reduction measures (see **Organizing Participatory Processes** Chapter). Box 1.3 provides an example.

Box 1.3. Economic Crisis and Unemployment in Haiphong, Vietnam

The Haiphong city economy was affected significantly by the financial crisis in Asia and deterioration of the Haiphong port. High unemployment (15 percent), and increasing informalization of jobs have occurred. While rural-urban migration is continuing, technologically outdated industries and a shrinking service sector are unable to employ a growing labor force.

Unemployment and instability of income were rated as the most important factors leading to reduced living standards by 42 percent and 23 percent of households respectively in a city poverty survey. Not surprisingly stable and secure employment were chosen by 62 percent of the respondents as the most urgent requirement to improve their living standards.

Source: Luan et al. 1999

1.4 Indicators of urban poverty

Poverty diagnostics and monitoring of results require appropriate indicators. Table 3 suggests a menu of indicators that can be used to assess and monitor both “visible causes” and “policy-related causes” of the various dimensions of poverty. Many of the indicators shown here, especially in the Outcome Indicators column, are essentially the same as those suggested in the **Overview** chapter. Selecting indicators is an important basic task in strategy formulation⁵. The chosen indicators can then be used to assess the depth of problems over time and in relation to external benchmarks. Indicators need to be developed to facilitate stakeholder participation; indeed, the selection of indicators can be an essential focus of participation. The indicators thus validated can then be used for increasing the accountability of the public and private sectors to poor people.

For assessing urban (and rural) poverty, and especially to identify policy interventions, it is desirable to have indicators collected at the lowest practical level of aggregation. The indicators that derive from household survey data (such as data on expenditures and access to services) are often produced as averages for all urban areas of a country. However, this degree of aggregation often masks important differences among types of urban areas (e.g., small or newly growing cities compared with large and well-established cities) - see also **Monitoring and Evaluation** chapter. Differences between residents of slum-type settlements and better-serviced neighborhoods in the same city can be dramatic. Identifying such differences, for example through mapping of key indicators by location within cities or even by combining data sources with Geographic Information Systems (GIS), can help target interventions to pockets of greatest deprivation.

Some of the indicators in Table 3 are based on data collected by public agencies (e.g., mortality and morbidity rates by disease; enrollment rates; utility connection rates, etc.). These can be good starting points for formulating a poverty reduction strategy. But to identify more targeted policy responses, such data need to be differentiated by income group and/or by location within a city. Sample surveys can be a relatively quick and cost-effective way of refining general data.

⁵ Indicators to be chosen should be decided locally and with respect to policy objectives (i.e. which aspects of poverty to be analyzed). Success of policies need to be measured in terms of relative changes in the chosen indicators as well as with respect to the locally established benchmarks.

The choice of indicators will vary with the urban poverty strategy and should be decided by the stakeholders involved. A suggested minimum set of indicators that may be useful as basic instruments is highlighted with asterisks in Table 3.

Among the Interim Poverty Reduction Strategy Papers (IPRSPs) reviewed, there is some variation in terms of the availability and level of disaggregation of poverty indicators, ranging from a general description of the rural-urban distribution of poverty to more specific disaggregation between regions and groups. IPRSPs from Guinea, Ghana, Mozambique, Madagascar, and Guyana present disaggregated information on poverty incidence. Most notably, Guyana's report refers to differences not only between rural and urban, but also within the urban areas. Although the lowest incidence of poverty is in the urban areas, there are pockets of poverty in cities where the incidence is higher than the average

Where to get help in collecting and using urban indicators

Many cities are poorly equipped to collect and track urban indicators, including poverty data. Significant capacity-building inputs are required as part of any efforts to establish sustainable indicators systems at the national or local level. The Urban Observatory system is a worldwide information and capacity-building network established by UNCHS (Habitat) to help governments, local authorities, and civil society improve the collection, management, analysis, and use of information in formulating more effective urban policies. A system of comparative urban indicators has been developed by the UNCHS (Habitat) Urban Indicators Program, which can be found at www.urbanobservatory.org. Some examples of these indicators, which are also represented in Table 2, include the number of households below the poverty line; informal employment; child mortality; school enrollment rates; access to potable water; and floor area per person. There are several ongoing efforts to collect data and to develop indicators about different aspects of urban development. Addresses of other relevant web-sites can be obtained from urbanhelp@worldbank.org.

Table 3. Indicators of Urban Poverty⁶

⊗ (indicates suggested basic or “core” indicators)

Poverty Dimensions	Intermediate Indicators	Impact/outcome Indicators
Income	<ul style="list-style-type: none"> • Access to credit: (e.g., % of the target population using (or eligible for) credits from formal finance organizations (including for housing and productive uses); or, the share of credits used by the target group in the total loans offered by formal finance organizations—C,I ⊗ Shares of informal employment—C,I • Share of household expenditures on housing (lowest 2 quintiles)—U,C,I ⊗ Model shares of transport for work trips—C,I • Share of household expenditures on transport (lowest 2 quintiles)—U,C,I • Mean travel time to work—C • Access to electricity—U,C,I ⊗ Regulatory delays (licensing burden on SMEs, etc.)—C • Land development controls—C • Coverage of social assistance—C 	<ul style="list-style-type: none"> ⊗ Poverty headcount—U,C,I • Poverty gap—U,C,I • Extreme poverty incidence ⊗ Female headed households in poverty—U,C,I • Income inequality (Gini coefficient)—C,I ⊗ Quintile ratio of inequality—C,I • Unemployment rate—U,C,I • Housing price/income ratio—C
Health	<ul style="list-style-type: none"> • Share of household expenditures on potable water and sanitation—U,C,I ⊗ % Household connected to water/sewerage—U,C,I • Per capita consumption of water—C,I • % Wastewater treated—C ⊗ % Households with regular solid waste collection—C,I • % of solid waste safely disposed—C ⊗ Crowding (housing floor space per person)—C,I • Air pollution concentrations—C • Shares of sources of household energy—U,C,I • Access to primary health services—U,C,I • Access to nutritional safety net—C,I • Share of household expenditures on health care (lowest 2 quintiles)—U,C,I • Share of household expenditures on food (lowest 2 quintiles)—U,C,I 	<ul style="list-style-type: none"> ⊗ Infant and under-5 mortality—U,C,I • Maternal mortality rate—U,C,I • Life expectancy at birth—U,C,I • Female-male gap in health (under-5 mortality rate by sex)—U,C,I • Malnutrition rate of children—U,C,I ⊗ Morbidity and mortality rates from public health/environment-related diseases (e.g., diarrheal, respiratory, malaria)—U,C,I • Death rates by violence—U,C,I • Injury/death rates by transport accidents—U,C,I • Mortality rates by disaster—U,C,I

⁶ It should be borne in mind that there are many ongoing efforts to develop indicators. Therefore, the objective of this section is to provide the readers with a set of illustrative indicators, rather than a definite list and definitions. There are some points noted here, e.g. disaster mitigation, discrimination in access to jobs and urban services, where specific measurable indicators need to be worked out. Nevertheless, such items were included in the above list, simply to attract the attention of policy makers and professionals to those issues which should be taken into consideration in assessing, monitoring and evaluating poverty in cities.

Poverty Dimensions	Intermediate Indicators	Impact/outcome Indicators
Education	<ul style="list-style-type: none"> ✳ Primary and secondary school enrollment rates—U,C,I • Access to vocational training—U,C,I • Share of household expenditures on education (lowest 2 quintiles)—U,C,I 	<ul style="list-style-type: none"> • Literacy rate—U,C,I ✳ School completion rates—U,C,I • Gender gap in education attainment—U,C,I • Child labor—C,I • Street children—C,I
Security ? Tenure ? Personal	<ul style="list-style-type: none"> ✳ Population in unauthorized housing—C,I • Population living in precarious zones—C,I • Scope of disaster prevention/mitigation measures—U,C • Access to police and legal system protections—C,I 	<ul style="list-style-type: none"> ✳ % of households with secure tenure—C,I • Deaths from industrial or environmental disasters—U,C,I ✳ Murder rates (and rates of other crimes such as: domestic violence, child abuse, robbery, etc.)—C,I
Empowerment	<ul style="list-style-type: none"> ✳ Extent of public consultation in local government budget decisions—C,I • Participation of residents in political or community organizations—C,I • Discrimination in access to services/jobs—C,I • Access to telephones and internet—U,C,I 	<ul style="list-style-type: none"> • Citizen involvement in major planning decisions—C,I • Public access to information about local government decisions, services, and performance—C,I ✳ Satisfaction with city services—C,I

Indicator can be collected at different levels of aggregation: U = Nationwide urban average or total (all urban areas combined), C = City-specific (citywide rate), I = Intracity (e.g., neighborhood/ward level)

2. How to Select Public Actions to Address Urban Poverty

2.1 Wider impacts of urban poverty reduction

Should national and local policymakers design public actions specifically to address urban poverty? The benefits to be gained, both for the poor and non-poor, include:

- **Reducing social inequality:** Social and economic inequalities, which are particularly apparent in urban areas and growing in many cities (Bump and Hentschel 1999) , can lead to social and political clashes. Poverty reduction tends to decrease inequality and thereby social tensions.
- **Avoiding large-scale health and environmental problems:** Health and environmental problems due to lack of proper services in slum areas can affect a whole city, as evidenced by urban outbreaks of cholera and plague in recent years (Box 2.1). Problems of inadequate water supply, sanitation, solid waste disposal, and storm water drainage, which affect the urban poor first, also create negative spillovers beyond the urban boundaries—such as reduction and deterioration of the groundwater table and surface water bodies.

Box 2.1. A Mayor's Concern: Health Problems Pose Larger-Scale Externalities

One metropolitan mayor in Turkey summed up his approach when criticizing the regulations preventing service provision to *gecekondus* (informal settlements) as follows: "Obviously I bring water and sewerage to *gecekondus*. We have to bring services to places where people are living. Legally it is a crime, but I use my own initiative. If there will be an epidemic in one of the *gecekondus* areas, it will affect not only the whole city, but the whole region. Then it will be my problem again, and it will be a huge problem."

Source: Baharoglu and Leitmann 1998

- **Mitigating the impacts of disasters:** The poor in many developing cities live in marginal land prone to environmental hazards such as landslides and floods because they cannot afford safe and well-serviced sites. Giving poor people better settlement options will mitigate the impacts of environmental hazards. Furthermore, poverty reduction measures that build the poor's physical, financial, and social assets (e.g., better income-earning opportunities, social protection policies, better quality housing, and stronger community organizations) would help them to handle the effects of disasters such as floods, earthquakes, and industrial accidents.
- **Supporting local economic development:** Helping the urban poor to improve their living conditions and human capital will support the city's productivity and economic growth. Residents of slum settlements constitute considerable proportions of the labor force (frequently in the range of 40–60 percent) in many cities. Unhealthy living conditions, lack of access to education, domestic and community violence, and social exclusion decrease the productivity of the urban labor force and hence impede economic growth. Policies and programs to reduce poverty will not only increase their productivity, but raise consumption as well, thereby boosting local economic development for the benefit of all.
- **Promoting national economic growth:** Measures that make healthy and productive environments for the urban poor involve lowering transactions costs and providing local public goods—also essential to the functioning of cities as effective marketplaces for the national economy. Cities that are inhospitable to business and deter investors usually represent even worse prospects for their poorest residents.

In general the Interim Poverty Reduction Strategy Papers (IPRSPs) focus on the rural sector. This is particularly true for Africa where urbanization levels are lowest, with the exception of a few countries. However, countries like Cameroon and Mauritania in Africa and Cambodia in Asia, devoted additional attention to urban in view of ongoing rural-urban migrations, the role of cities as markets and service centers, and the fact that rural and urban developments are inter-linked. Niger's strategy paper particularly mentions the integration of rural and urban economies through the development of small and microenterprises and investments.

2.2 Policy frameworks for responding at scale

The different dimensions of poverty and their causal factors underscore the need for policy and institutional reforms at the national as well as the city level, in order to achieve sustainable and replicable improvements in the conditions facing the poor. Programs that can directly benefit the poor in the short to medium term (described in Section 2.3) may thereby be scaled up. Policy and institutional reforms also promote the longer-term scope for poverty reduction by fostering broad-based economic growth of cities through efficient and well-integrated markets for labor, land and housing, and finance, responsive urban governance, and capable urban management. The suggested roles of central and of local governments in these policy areas are summarized in Section 2.4.

Since many of the related public policy issues are also discussed in the chapters on macroeconomic and structural reform, health, education, and infrastructure, they are not included in the policy framework of this chapter.

Policy and institutional reform areas discussed in each sub-section are:

- Labor markets
- Land, housing and urban services
- Financial markets
- Public finance
- Urban governance and capacity building

2.2.1 Labor markets

Employment opportunities for the urban poor are affected by diverse factors including macroeconomic conditions, regulatory constraints on small businesses, lack of access to job market opportunities, infrastructure, education and training, and bad health. A range of issues concerning labor market regulations and legislation, e.g. employment protection rules such as minimum wage, hiring and firing regulations, etc., can also have counterproductive effects on the poor by increasing labor costs and thus constraining job opportunities (see **Social Protection** chapter).

Possible policy interventions discussed here include:

- Support to small and microenterprises
- Increasing access to jobs and training
- Support to urban agriculture
- Supporting home-based activities
- Safety nets

Support to small and microenterprises (SMEs)⁷:

For the urban poor, small and microenterprises can be important source of income and employment (including self-employment) where no other alternatives are available. In many cities, a substantial share of the working population—sometimes as high as 50 percent—is engaged in microenterprise activity (Box 2.2).

Despite wanting to stimulate microenterprises, the response of many governments is to sweep mobile sellers off the street into back alleys, prohibit selling altogether, or subject them to strict regulations. Alternatively, the supply of rights and permits to permanent spaces may be severely restricted. Vendors stay small and mobile because they cannot afford the start-up capital to establish themselves in a permanent market where they are subject to inspection and have to pay rent, fees, and taxes.

Box 2.2. Informal Enterprises in South Africa

Towards the end of the 1980s, at least 30 percent of the total South African labor force was engaged in informal work. A distinction can be drawn between two categories of informal enterprise. In the first category are those survivalist enterprises undertaken by people unable to secure regular wage employment. The second category is that of **microenterprises**, which are very small businesses. Microenterprises often involve only the owner, his/her family members, and a few paid employees. These enterprises usually lack the trappings of formality, (business licenses, formal premises, operating permits, accounting procedures etc.), and most have only a limited capital base. Their operators typically have only rudimentary business skills. Nonetheless, many microenterprises have the potential to develop into larger and more formal business enterprises. The major focus areas for policy interventions that would allow this potential to develop are as follows: financing and credit; infrastructure and service provision; training; urban management; etc.

Source: Rogerson 1996

Various activities to improve business environments can be considered. Regulations on hygiene, license fees, and area restrictions should be reviewed. Do they help SMEs to improve their services and operate in a better way? Or do these regulations constrain the activities of small-scale enterprises and prevent them from operating effectively? Land use decisions, such as inner-city revitalization projects, often victimize small-scale enterprises and street vendors. Regularization efforts, such as high license fees, can be detrimental for small-scale entrepreneurs. For example, in Kumasi, Ghana, where the informal sector represents around 70 percent of employment, the Metropolitan Assembly tripled license fees, provoking a major confrontation with traders (Devas and Korboe 2000).

Identifying and addressing constraints may be best approached through working jointly with traders. In Senegal and Nigeria local governments and the different types of traders were brought together by an independent body to jointly analyze their problems and to come up with solutions. The building of additional and cleaner marketplaces in areas where traders want them to be located, and organizing traders to develop their own incentives for development and enforcement of rules, were deemed crucial (Tinker 1997).

⁷ Since **Pro-Poor Growth** Chapter presents a detailed guideline on supporting SMEs, only a summary of basic policy actions is presented here. Financial support for small businesses, is also mentioned in Section 2.1.3 of this chapter.

Providing advice and infrastructure can increase the productivity of microenterprises and their ability to operate in accordance with the safety and hygiene regulations. It can also foster networking and subcontracting opportunities. For example, a network of local service centers are planned in the Pretoria Witwaters-Vereeniging region, the economic hub of South Africa, to provide information and business advice services (including training, mentoring, business plan preparation, marketing, and subcontracting support) to SMEs.

Local authorities can also collaborate with large companies and help to initiate training programs.

National governments and/or city authorities may need to develop simple and appropriate taxation policies for small businesses and the banks/financial institutions that serve them. For instance, small and microenterprises should not be required to provide detailed invoices, since such responsibilities may be difficult.

Among the IPRSPs reviewed, those of Sao Tome and Principe, Mauritania, Zambia, Kenya, Niger, Mozambique, Cameroon, Nicaragua and Guyana refer to support for micro and small enterprises to tackle unemployment and poverty in urban areas specifically, or as an approach to integration of rural and urban economies⁸. For example:

- Kenya's IPRSP refers to the growing micro and small enterprise sector in cities, and envisages the development of its technical and management capacity. An action plan is being designed to assist street vendors who represent 70% of the SMEs
- In Zambia's IPRSP, urban poverty reduction is linked to increasing access to job opportunities (both formal and informal). Increasing the productivity of urban micro-enterprises and the informal sector is identified as one of the four main pillars of the poverty reduction strategy.
- Nicaragua's IPRSP declares that generation of employment and income by small businesses, particularly in towns close to urban centers, is a priority strategy for economic growth. Ministry of Development, Industry and Trade, and The National Institute for Small and Medium Enterprises have jointly developed a plan to foster small businesses' competitiveness.

Increasing access to job opportunities:

Improving physical access to jobs and markets can be facilitated through better and more affordable transport services to low-income settlements (see the **Transport** chapter).

Land use and zoning decisions should allow poor households and firms to have residential mobility. Such regulations should not require households to reside far away from employment opportunities and should also avoid incentives for businesses to locate to areas removed from their workers (Box 2.3) .

Specific ways in which governments can improve employment opportunities for the urban poor include:

- Revising regulations which, distort labor markets and discourage employment. For example, high payroll taxes and other charges can make formal labor contracts rigid and expensive.

⁸ A review of the currently available IPRSPs is presented at the urban web-site of the World Bank <http://www.worldbank.org/html/fpd/urban/>

Niger's IPRSP refers to the revision of labor code to increase wage flexibility and worker mobility for improving the business environment and supporting private sector development.

- Facilitating the flow of information on jobs and markets for products, e.g., through publications and through the establishment of NGOs and other organizations that can provide such services. (see also **Governance** and **Poverty Reduction Chapter**)
- Providing practical job training. The ability of the poor to benefit from growth requires good basic education and can be enhanced through job training programs. Cities can organize job training programs and workshops in collaboration with the private sector and central government to enhance the skills of the labor force.
- Facilitating child care to enable women to work. Governments can initiate simple and cost-effective programs with the help of NGOs and community based organizations (CBOs). These child-care programs can be supported with modest subsidies. Cities must ensure basic hygiene and safety through advisory services and minimal regulations. Community day-care centers started in Latin America are an example for such programs. Under one approach, a woman from the community is selected to take care of a number of neighborhood children in her home. Usually parents and the government (central and/or local) share the cost of supplies and salary of the day-care provider. Food donations are often provided for feeding the children. Early-childhood stimulation activities and basic hygiene training are also provided. The extent of program coverage varies widely between countries, but in Latin America the range is between 3,500 children in Guatemala City to 800,000 in the urban areas of Colombia. Little information is available on the costs and benefits of these programs, but the high demand for the program and its popularity in Latin America suggests that this can be a successful approach to providing child-care arrangements for working parents and especially for single women (Ruel et al. 1999).
- Supporting the sectors that have higher employment generation capacity. For example, the construction sector (including housing and infrastructure) accounts for between 40 and 70 percent of gross fixed capital formation in developing countries. It also tends to be labor intensive (UNCHS/ILO 1995). Therefore, both national and city level policies should be designed to eliminate factors that may impede development of the construction sector. Lack of financing mechanisms for both developers and home-buyers and undeveloped land markets can easily impede development of construction activity (see Section 2.2.2). Labor-intensive construction methods—like self-help housing—can also be supported. Government support of formal housing construction programs, as well as self-help housing (which is more labor intensive), would boost employment and investment (Gilbert 1992).

Box 2.3. Zoning Decisions and Job Access

In Jakarta, Indonesia, the pattern of industrial growth is resulting in the movement of low-skill manufacturing jobs to distant suburban locations. Jakarta has already made street vending illegal by severely restricting the informal food-processing and service industry. Many low-income residents in Kampung would be financially better off selling their land and moving to the suburbs where job and business opportunities are located. But the system of land rights prevents migration. Since Kampung residents typically lack secure titles to the lands, they cannot sell their land to developers for new uses. Hence, many workers must make a long commute to the suburbs each day, and many others remain under- or unemployed. The result is a no-win situation for both workers and the city.

Source: World Development Report 1999/2000

Georgia's IPRSP aims to decrease unemployment through strengthening the housing and construction sectors, in addition to supporting SMEs. Job creation for surplus rural labor migrating to cities is a priority of Cambodia's IPRSP. Labor intensive manufacturing such as garment production is supported to increase urban employment and also to attract labor from rural areas to increase rural productivity as well.

Cities can also take a role in the creation of short-term employment, for example, through public works programs. Such programs typically address urban infrastructure deficiencies through small works investments (see Section 2.2.2). Although the jobs created are only short-term, such programs provide temporary supplements to income and promote small-scale entrepreneurs.

Senegal's 1989 Public Work and Employment Project was designed to address an urgent unemployment situation in an innovative way, by setting up a public works contracting agency (known as AGETIP) with a not-for-profit status. (See also Technical Note 3:Table 3b and Box 8 on AGETIP experiences.) Senegal's AGETIP has gained success through its businesslike way of undertaking small public works. The first operation created a significant number of temporary urban jobs in the construction sector: about 8,700 person-years as compared to the 7,000 estimated at the time of appraisal. Over a three-year period, it executed over 400 microprojects such as roads, sidewalks, drainage, schools, clinics, and other public buildings. Ninety percent of the projects cost under \$200,000 and were built by small and medium enterprises. Operations based on similar principles were also adopted in Benin, Angola, Mauritania, Burkina Faso, and Mali. When these projects were evaluated by stakeholders, their impact on employment was one of the issues that the stakeholders noted favorably. All groups reported high impact on employment, income, and local capacity building. Jobs were created quickly, with unemployed urban males benefiting the most, although job creation was mostly temporary (Frigenti et al. 1998).

Mauritania's IPRSP for instance, states that labor-intensive activities in the context of new urban infrastructure programs will be carried out, to improve living conditions in the poor neighborhoods, while at the same time creating jobs and temporary incomes for the urban poor.

Supporting residual subsistence—urban agriculture

The poor often diversify income sources. Receiving food support from rural origins, using their homes as work places, and engaging in urban agriculture are among the most common strategies among the urban poor. Studies estimate that as much as 40 percent of the population in African cities and up to 50 percent in Latin America are involved in urban agriculture. Many of the producers are women (Ruel et al. 1999).

Urban agriculture enables the poor to meet subsistence needs and can provide extra income. It can improve nutrition and health. Many municipalities, however, discourage or prohibit urban agriculture activities, primarily because of associated health problems that may be caused by parasites, pests, and waste disposal. For example, in Nairobi, Kenya livestock and horticulture activities within the city remain illegal. In Kampala, Uganda, more than one-fourth of farmers face harassment by property owners and eviction threats from the city council. Urban agriculture has been quite successful in certain countries. For decades, city authorities in Lusaka, Zambia, enforced laws against crop production in the city. However, in 1977, faced with economic decline, the president urged urban dwellers to grow their own food. The Lusaka City Council

stopped enforcing the anti-urban agriculture laws and government stores made subsidized seeds for fruits and vegetables available. In 1977, 43 percent of Chawama, one of the largest slums in Lusaka, had home gardens, and a decade later 40 percent of households still had home plots (Ruel et al. 1999).

Frequently urban farmers do not own the land; rather, they use public space or vacant lots of private owners, with or without their permission. Land owners and farmers may enter into informal agreements, but because of inadequate legal frameworks governing tenancy, lease, and appropriate use, private land owners do not formally lease their land. With low tenure security and questionable legality, the farmer is not motivated to invest in the land. Legal and cultural biases against women owning or even leasing land make their attempts at urban farming even more difficult. In combination with a weak legal framework, the lack of government recognition means planners often do not think about how to provide water and drainage infrastructure to urban farming, and governments make little provision for research and extension of urban farming techniques. For example, Tanzania's National Urban Water Agency has strongly opposed the use of water for urban farming and imposed a fine on such uses.

Municipalities can remove obstacles to urban agriculture by reviewing the land-use planning and zoning decisions and adopting more flexible regulations. Regulations may need to be reviewed to see the extent to which they are relevant to the city's current economic and social context. In cities where urban agriculture is a common subsistence strategy, more flexible regulations could be adopted to help the poor develop urban agriculture rather than prohibiting it. At the same time, promoting and coordinating access to information on cropping patterns, use of fertilizers, and access to credits and marketplaces could support poor urban farmers. This was done in Dar-es-Salaam, Tanzania, and delivered by NGOs and cooperatives. In Lota, Chile, support for urban agriculture has led to a 30 percent increase in family income (Wegelin and Borgman 1995). Municipalities should also provide basic infrastructure and develop and implement environmental/public health measures against parasites and pests.

Although quite considerable proportions of urban populations in Africa and Latin America are involved in urban agriculture to diversify income sources, none of the reviewed IPRSPs, refers to urban agriculture for reducing poverty

Supporting home-based income-generating activities

Like urban agriculture, home-based production (or cottage industry) is also an important income-generating activity among the poor. Not only can housing space be used to earn rents but homes can also accommodate commercial and manufacturing activity (Gilbert 1992; Kellett and Tipple 2000). However, planning policies and land-use regulations tend to be based on the principal of separating housing and productive activities. City authorities often prohibit cottage industry to avoid health and safety hazards.

In view of the potential importance of home-based production for the urban poor, the regulatory framework can be adjusted to permit those activities while maintaining safety and providing infrastructure. City authorities can:

- Provide infrastructure services (electricity, telecommunications, water, and sanitation), which would increase the efficiency and productivity of home-based activities;
- Provide information and advisory services in relation to markets for the products, and access to credit for SMEs;
- Provide information and training on safety measures;
- Organize practical vocational training courses;
- Provide people involved in home-based income-generating activities with basic health care and labor right. This is important because isolation and lack of visibility can allow exploitation by factories and middle men (Kellett and Tipple 2000).

Safety Nets and Social Insurance

Social insurance benefits include unemployment insurance and assistance, and pensions. Safety nets/social assistance interventions include various cash and in-kind transfers programs such as child feeding, vouchers for schooling and housing, etc., that supplement income (see the **Social Protection** chapter).

A major issue for the urban poor is that they are usually self-employed, often in unregistered (informal sector) activities, or have only occasional wage employment. Therefore, social insurance benefits that depend on workers' contributions, especially pensions and unemployment insurance rarely provide adequate income replacement for workers in the informal sector or whose employment in the formal sector is occasional. This underscores the importance of other measures noted above to better integrate the poor into the regular labor market as registered small firms and employees so that they can have basic benefits and legal protections. In the meantime such workers must rely on safety net interventions that supplement income through a variety of cash or in-kind transfers. Safety nets (or social assistance programs) are often financed by national government but administered by local governments; therefore, capacity building of local governments (see section 2.2.5) is also important for the effectiveness of these programs. Non-governmental safety nets, such as NGO programs, could also be fostered by government as they may be suitable to reaching the poor who remain outside of formal employment.

The majority of the IPRSPs reviewed refer to social security and assistance programs generically, without particular references to urban areas nor to the role of local governments in administering them.

2.2.2 Land, housing, and urban services

The vulnerability of the urban poor is exacerbated by the inadequate provision of basic public services, as well as by policy and regulatory frameworks that govern land and housing supply and property rights.

This section discusses policy reforms in the areas of:

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

Mauritania's IPRSP, which considers urban poverty quite comprehensively, refers to inadequate regulatory structure of urban development, insufficient coordination between various actors (i.e. central government, local communities and professionals), as well as inadequate capacity and tools of urban planning, as the primary causes of insufficient provision of services and illegal occupation of urban land. Honduras' IPRSP refers to the settlements prone to environmental hazards in and around cities by indicating that the problem is exacerbated by poor urban planning and land shortages.

Tenure security and property rights

Illegal occupation of public or private land is often the only option for the majority of urban poor. Therefore, lack of secure tenure is a common problem in many low-income countries. In transition countries, illegal occupation is not a common practice (except in Tirana, Albania), although unclear property rights is a problem as it constrains land transactions and thus access to urban land by individuals and small-scale developers. Although land is rented out by public agencies, in many countries a rent (lease) contract cannot be used as a collateral. Armenia is one such example (Box 2.4)

Box 2.4. Land Supply in Armenia

In the major cities of Armenia more than half of the land is controlled by municipalities. This restricts land choice and acquisition, distorts real estate prices, and prevents development of land markets. Mechanisms through which the municipal land and other real estate is made available are not clear for many people. Authorities have been conservative in privatizing the urban land stock. In 1991, upon passage of the new land code, only plots up to the prescribed limit, i.e., 400 square meters (which is well above the affordability of the majority of the population)—associated with single family houses built through private resources—were privatized and registered to owners.

Urban land is still under the responsibility of Ministry of Agriculture, while urban housing is the prime responsibility of the Ministry of Housing and Urban Development. This contradictory situation often leads to delays and gaps in decisionmaking and implementation regarding urban land matters.

Source: Informal sector note on Armenian Housing and Earthquake Zone issues, World Bank 1997

Public authorities need to establish systems to provide tenure security (e.g., free-hold or use rights) in view of the country's cultural context and communities' particular circumstances. The aim should be to incorporate common practices into a formal system (Box 2.5; see also Section 2.3.2: Program Menu). If the majority of land acquisition practices and tenure systems do not fit into the current legal system, regulatory and policy frameworks have to be adjusted to incorporate current practices.

Systems need not be restricted to free-hold titles, but can be flexible. For example protected use rights can be gradually upgraded to full ownership rights. In general, public authorities need to establish and publish guidelines for property registration and development. Also, property rights should be designed to allow free transaction of property. Owners should also be allowed to use their property as collateral.

It may often be possible to sell occupied public lands to the resident communities or individuals. Such initiatives may, however, require arrangements with community groups to prevent exploitation through illegitimate claims by people who had not established residence there. For example, the National Community Mortgage Program of the government of Philippines made it possible for squatters to buy the land they had occupied for an extended time.

Property rights as a means of reducing the vulnerability of the poor is considered in many of the reviewed IPRSPs. Improving the legal framework as well as registry systems are envisaged, although most of them do not have particular references to urban contexts. Only Mauritania, Bolivia, Guinea and Kenya strategies have focused on tenure security and property rights in cities.

- Bolivia's IPRSP indicates that lack of title deeds, especially in peri-urban areas, is an important factor which increases the vulnerability of the poor people. The strategy declares that steps will be taken to update urban property cadastres; establish and improve registration of urban property; and establish a municipal appraisal system.
- Kenya's IPRSP indicates that the Presidential Commission is examining the Land Law. It is also stated that about 30,000 plots will be apportioned under the squatter regularization program to provide security of tenure. Some 300,000 titles will be issued arising from adjudication/settlement process. An overall reform of legal framework is envisaged with particular reference to the ownership rights of women.

UNCHS-Habitat launched a *Global Campaign for Tenure Security* in the last quarter of 1999. The campaign focus primarily on the strength of the security, rather than on the precise nature and form in which the tenure is applied. The campaign promotes protection of the urban poor from involuntary removal⁹.

Land and infrastructure development regulations:

Urban land supply can be limited by: (i) extensive public ownership of land and unclear land transfer procedures (most common in transition countries); (ii) unrealistic standards for land and infrastructure development; (iii) complex procedures of urban planning; and (iv) unclear responsibilities among public agencies.

⁹ To obtain more information: UNCHS Shelter Branch Tenure security Program. P.O Box 30030 Nairobi Kenya. www.unchs.org

Box 2.5. Legalization of tenure in Peru

In the mid-1980s in Lima, Peru, there were an estimated 320,000 lots located in *barriadas*, about half of which were registered. To develop the housing market by integrating informal cities, a “system for regularization of ownership” on a large scale (PROFORM) was set up. It was a departure from the generally accepted thinking whereby regularization equals individual incorporation into the formal sector. Instead, it attempted to establish a link between informal practices and the legal system. Approved in 1988 by legislative decree, this revision of the legal framework integrated certain informal standards that defined relationships within the sector and created the ‘Registro Predial’ where regularized urban and rural plots were registered.

The principles of the system were as follows:

- a) Proof of property was recognized as in the informal sector, through criteria such as permanence of occupation electricity bills, census data, etc. This allowed for the transmission, transfer, and mortgaging of registered plots. Various laws were brought under one standard and the bottlenecks of regularization procedures were eliminated.
- b) A single body is in charge of regularization, whose sole objective is to give titles and register property. The system is a decentralized one.
- c) The procedures integrated communities, rather than individuals. The new system involved the use of private lawyers and engineers rather than public servants for verifications. It involved the community for information gathering and introduced a simple but efficient accounting system.

By June 1995, official figures indicated that more than 220,000 plots had been registered through this procedure.

Source: Durand-Lasserve and Clerc 1996

Regulations both at the national and city level should support:

- Transparency in land provision by establishing a clear division of authority among public agencies, simple rules and mechanisms of provision (which are accessible by everybody), and by establishing private property rights.
- Easy market transactions through clear and simple sales and registration procedures and taxation policies. In some countries, high rates of sales taxes constrain official transactions, which lead to illegal transactions. This perpetuates the lack of clear ownership.
- Cities and national authorities should explore practical but transparent methods to promote the better utilization of public land while improving access for the poor (Box 2.6). Public land owned by national authorities (e.g., treasury or crown land) can be a major problem since cities may not have planning or development rights to such land. In many countries (including, Pakistan, Turkey, and Egypt) such land is often occupied and subdivided by informal agents and sold to the poor.

Box 2.6. Government-Promoted Squatting in Pakistan

In 1986, the Hyderabad Development Authority (HDA) began investigating the low-occupancy rate of government land in the city and the functioning of the informal housing sector. As a result, HDA decided to carry out an experiment in “government-promoted squatting.” In this program HDA adopted the strategy of private informal entrepreneurs (*dalal*) who have managed to provide the low-income people with plots at an affordable price. The *dalal* occupies land informally with tacit recognition of state officials, police, and other relevant agencies, and subdivides the land according to government planning regulations to the extent possible. Some plots are held for speculation and sold for commercial use, so that the price of plots for low-income customers is cross-subsidized.

In the government promoted squatting program, HDA started to provide the poor with regularized, though initially unserviced, plots. They earmarked an open plot and named it the “reception area.” Families in immediate need of shelter were required to bring their family and belongings and erect a makeshift house. They then moved to plots measuring 80m sq. to erect a more permanent shelter. The informal sector (*dalal*) has not been replaced completely, but continues to provide construction material and advisory services, and to locate and move people to the site. The HDA has thus taken over the role of the subdivider; it also does lobbying with other relevant authorities, since as a government agency it is better placed than any private operator for this role. In addition, residents do not have to pay large sums of money as people do in illegal subdivisions to agents who lobby on their behalf.

Source: Durand-Lasserve and Clerc 1996

- Access to serviced land may also be limited by unrealistic standards and regulations, which impede entry (see also **Water, Sanitation and Poverty** Chapter). In the state of Uttar Pradesh, India, for example, the minimum standards established under Regulations of Building Operations Act specified minimum plot sizes and infrastructure standards that only households with incomes at or above the 95th percentile could afford. More liberal regulations were proposed in 1982 that would have made the minimum permitted development affordable to households at or above 87th percentile (*Enabling Markets to Work*, World Bank Policy Paper 1993). Infrastructure standards should be made relevant to the effective demands and incomes of the poor. Households can make their own tradeoffs between cost and quality of services.

Various countries' IPRSPs (e.g. Bolivia, Cameroon, Ghana, Senegal, Mozambique, Guyana, Guinea, Guinea-Bissau, Madagascar, Burkina Faso, Kenya), refer to inadequate basic infrastructure, particularly in slums, and seek to increase water and sanitation services to alleviate poverty in cities. Countries including Albania, Mauritania and Cambodia, where rural-urban migration increases the pressure on urban services, plan to increase the supply of services to squatter settlements through community participation and labor intensive infrastructure projects. These are all sensible responses, but it is also vitally important to revise the infrastructure standards and evaluate them against the needs and affordability of the poor to make such programs replicable at larger scales. Burkina Faso's IPRSP calls for simplified water supply systems in secondary cities and seeks a regulatory framework to cover all the principles of service provision, including standards and rates.

In 1982, in the Philippines for instance, the parliament passed a law authorizing the Ministry of Human Settlements to liberalize the land development and building standards. The liberalization allowed both the National Housing Authority and private developers to undertake subdivision projects. Following liberalization, minimum development standards allow

individual lots of only 36 square meters with two-meter wide paths and open drainage facilities. Core housing with a minimum floor area of 24 square meters are also allowed (Durand-Lasserve and Clerc 1996).

Planning procedures, building codes, and construction permits

- Policies at the central level should set out a broad framework, while more detailed planning policies should be designed at the local level. For example, density levels in different parts of the city and infrastructure standards should be decided at the city level, in consultation with local communities.
- Flexibility should also be extended to building standards, construction material standards, and codes. Regulations that can be eliminated without jeopardizing safety should be eliminated in order to keep construction costs down.
- Procedures to apply for and acquire construction and occupancy permits should also be made simple, so that they are accessible to poor people with limited education and time. Lengthy and complex planning procedures also delay the provision of serviced land and housing production, leading to increases in land and housing prices.

2.2.3 Financial markets

Lack of access to credit increases the vulnerability of the urban poor by constraining their ability to improve their homes, their work, and to start new businesses. Credit underwriting is a major problem since the poor do not have property to use as collateral and often lack regular incomes.

The poor typically have little access to formal savings programs. Mechanisms to mobilize small savings of the poor are often limited to credit associations and informal solutions such as rotating savings and credit associations. NGOs or other micro-crediting organizations' ability to collect savings and to mobilize other private and public funds is also limited. In many developing and industrial countries, banks do not perceive the poor as worthwhile clients. Outright discrimination in some countries can be seen. Banks are often located so that they are out of reach of the poor. Discrimination can also be seen in how the poor are treated when they try to open up savings or checking account. Therefore, the poor may tend to accumulate savings in inefficient ways, such as informal credit unions, rotating saving and credit systems, which yield very low or no interest, or by buying tradable goods. However, experience shows that once banks begin servicing savings accounts among the low-income communities, they become more willing to make credit available to the poor.

All these bottlenecks point to the need for regulatory and policy changes in financial systems so that the poor can obtain credit and other services.. Strengths and weaknesses of microcredit for home improvements and home-ownership are discussed under finance-based programs (Section 2.3.2).

Possible policy interventions

- Promoting microenterprises by encouraging financial organizations to lend to them.
- Supporting cities, local NGOs, and banks in making credit available for seed funding and/or guarantees.
- Monitoring and regulating the performance of financial intermediaries who collect from the general public.
- Supporting conventional/formal finance organizations in moving “down-market,” e.g., through advisory assistance.

Suggested regulatory changes

- Regularize tenure, develop use rights or other forms of tenure security (in cases where it is not possible to assign legal ownership) to facilitate credit underwriting; and make necessary changes in collateral law and related regulations accordingly so that use rights can be accepted.
- Allow NGOs and financial intermediaries that meet standards for prudent savings mobilization to take deposits from borrowers and from the general public (Ferguson 1999).
- Apply liberal interest regimes to enable financial intermediaries to cover costs.
- Review licensing criteria, and avoid strict standards, regarding the entry of NGOs and private intermediaries to collect savings and extend credits; what matters is overall performance of intermediaries and their capacity to reach low-income entrepreneurs.
- Make successful NGOs and private intermediaries eligible for refinance at market rates.

Several IPRSPs seek to improve the access by the poor to financial facilities/services (without making distinction between the rural and urban areas). Almost all the strategies emphasize developing credit facilities, rather than increasing the savings schemes for the poor. Central African Republic's and Guyana's IPRSP are the exceptions that also refer to savings services. Malawi IPRSP mentions an ongoing program to (i) issue land tenure to residents of low income areas; (ii) establish a discount facility to serve housing finance institutions which lend to poor people, and (iii) establish a mortgage bank to improve housing access of low and middle income people.

2.2.4 Public finance

The policy agenda in this area that is pertinent to urban poverty reduction strategies includes:

- Cost recovery, tariffs, and subsidies (see also the overview section on **Private Sector Development, Infrastructure and Poverty Reduction**, and chapters on **Water, Sanitation and Poverty, and Energy**)
- Decentralization and intergovernmental relations (see also the chapter on **Governance and Poverty Reduction**) .

Cost recovery, tariffs, and subsidies

The scope for cost recovery is often not explored to its full potential. While poverty-oriented programs should not aim to achieve full cost recovery from beneficiaries (since that would defeat the underlying redistributive objectives), programs do need to be financially sustainable. They can achieve this through utilizing a combination of resources, including contributions from beneficiaries.

The rationale behind financing should reflect first of all the nature of the service, i.e., whether it benefits the community or the individual. For private goods/services (e.g., land title, electricity connection, and housing improvements), users can be expected to pay for these services. Responsive service delivery and convenient payment options are among the preconditions for fee collection. In the case of the lowest income groups, provision of private products/services may require subsidies for individual households. On the other hand, public or communal services (like storm drainage, urban roads and footpaths) are more appropriately financed by general taxes, or by beneficiary taxes (such as property taxes) where benefits are confined to a local area. The public sector also has an important role in funding activities having major externalities (spillover effects on the general population), e.g. public health, environmental cleanliness, and disaster protection.

Public actions to exploit available financing options include:

Taxes, tariffs and user fees: Consumers' payments of tariffs and user charges for the infrastructure services that they use should cover investment costs as much as possible. Households can be charged property taxes or ground fees/use-right fees once free-hold ownership or any other form of tenure security is issued for the land that they occupy. Payment procedures should be made simple and flexible.

Interest rates: Very low or negative interest rates deplete available funds and result in credit schemes for low-income people becoming like lotteries. In other words, only a few fortunate households benefit from such credit schemes, which are not financially sustainable.

Targeted subsidies: The lowest income groups may not be reached even when costs are kept low by appropriate codes and standards. In such cases, provision of essential services will require subsidies. These should be transparent and clearly targeted to those in need. Transition economies have inherited a legacy of inefficient subsidies. In Latvia, for example, 70 percent of households were receiving rent subsidies between 10 to 15 percent of their income. Cumulatively, these rent subsidies were more than double the amount of GDP allocated to housing investment. Rather than being a fraction of housing investment as in OECD countries, housing subsidies were a multiple of it. Housing subsidies in Latvia were also non-transparent and were regressive in distributive impact since they were given to virtually all households (Buckley, 2000). Demand-side housing subsidies based on income eligibility criteria, in the form of vouchers permitting households to purchase (or rent) housing units in the market, are generally more efficient than supply-side subsidies (e.g., state subsidized housing construction programs). (See Technical Notes to **Social Protection** chapter.)

Decentralization and intergovernmental relations

Unclear responsibilities and conflicting incentives within intergovernmental fiscal relations are among the major causes of failures in service provision. Whatever the motivating forces behind political decentralization, in practice it has not necessarily improved service delivery, especially when intergovernmental fiscal relations do not support clear accountabilities.

In Hungary, the concession of local political autonomy preceded the separation of local budgets from the central government budgeting system (Bird and Wallich 1992). As a result, local governments have lacked a financially sustainable revenue base, so that the social safety net, for which local governments bear major responsibility, risks being inadequately financed.

In Brazil, decentralization took the form of a substantial increase in revenue sharing and in the taxing powers of local government (Shah, 1991). It was not, however, accompanied by a corresponding delineation of local expenditure responsibilities. Thus, although local governments have more money to spend, they are no more accountable for the quality of their services than they were before the reforms.

In Ghana, political decentralization was not accompanied initially by a commensurate transfer of significant decision-making authority to local government. The national government continued to appoint the municipal executive and the heads of municipal departments. Hence, it effectively continues to control local spending decisions (*Better Urban Services* – World Bank 1995).

Various elements of intergovernmental relations that may warrant review include assignment of functions, sharing of revenues, and borrowing powers.

Decentralization should not shift the responsibility for the provision of basic service to local governments without a corresponding resource base. Central governments may find it more difficult to decentralize the revenue side of budget than the expenditure side. However, it is important to do both since shifting central government budget deficits to local levels will merely serve to exacerbate service failures there.

Stability in revenue sharing is important. Many national governments decrease transfers to local governments when confronted with national budget deficits. This kind of instability makes investment planning at the city level difficult.

While intergovernmental transfers are important, mobilization of local resources through locally based taxes and fees is also needed to alleviate service deficits. Local authorities must be given the authority to levy taxes. At the same time, knowledge and political will are also required to use that authority appropriately. It is important that local authorities increase local revenues in progressive ways (permitting redistribution to the lower income groups). One of the best means for this is through property taxation.

Reforms may also be needed to provide municipal governments access to credit for financing capital investment. In addition to improving the allocation of grants and revenues to create sound incentives for responsible municipal performance, grant financing should increasingly be replaced with loan financing as the local authorities become creditworthy. Municipal credit institutions or municipal development funds (MDF) are one important source of financing (see Section 2.3.2 and Technical Note 3 regarding “Finance-based programs: Municipal Development Funds”).

Several IPRSPs (e.g. Honduras, Nicaragua, Ghana, Senegal, Niger, Mauritania) referred to decentralization by indicating that the legal frameworks have already been changed to devolve the responsibilities and rights to local authorities. But current assessments point to lack of financial and human resources at local levels, requiring capacity building programs and resource mobilization plans to fully implement decentralization.

2.2.5 Urban governance and capacity building

Designing appropriate policy frameworks for urban poverty reduction and implementing them fairly and effectively requires good urban governance and capacity building involving a range of stakeholder groups (see also the **Governance** chapter).

Policy actions for good urban governance include accountability and responsiveness to the public; anticorruption policies and practices; and capacity building.

Local as well as central authorities should be accountable to the general public. Authorities must consult with the general public about their needs, requirements, preferences, and satisfaction with services. The city of Seoul, South Korea, for example, operates “citizen complaint centers” every Saturday when the mayor and other top administrative staff make themselves available for a “day of dialog with the citizens.” This can help governments prioritize public expenditures (Box 2.7).

Box 2.7. Developing Communication Channels With Citizens

In Tijuana, Mexico, given the city's rapid population growth, accelerating environmental deterioration, and the difficulty in enhancing tax yields from its citizens, the mayor felt a boldly innovative approach would be essential. His administration developed an Urban Activation Plan, the largest integrated plan for priority infrastructure investments ever proposed by a municipality in the state. The government of Mexico was to fund 25 percent of the cost, the business sector 15 percent, direct beneficiaries 20 percent, and the community at large the remaining 40 percent. The city then held a public referendum (*Consulta Publica*) to find out if its citizens were willing to pay its share of the cost; the referendum passed with 66 percent of the vote.

Source: The Urban Institute 1995

In some country contexts, a strong central audit function can bring to light information that increases accountability. In France, for example, auditing of local government contracting has proved a useful tool in avoiding abuses by local authorities as decentralization has proceeded. However, audits function primarily as an input to a broader system of accountability. Unless the government system clearly articulates the public interests that are meant to be served by the audit function, the discipline that audits are supposed to impose can easily be subverted (*Better Urban Services*, World Bank 1995).

Several IPRSPs refer to anticorruption efforts at national level, nevertheless, most of them do not examine the requirements to implement similar efforts at local government level.

Poor people often disproportionately bear the costs of corruption. Corruption therefore not only causes inefficiencies in utilization of scarce resources, but is also inequitable. Governments can take various steps to reduce the scope for corruption: privatization of provision and management of services, more transparent rules, and public disclosure (see the **Governance** chapter).

Capacity building is needed for several reasons. Municipalities have relatively little experience with participatory planning. Decentralization and consequent new responsibilities are major challenges for local authorities. Lack of experience and management capacity also impede their struggle against poverty. By the same token, many NGOs are not completely equipped to deal with public authorities.

Capacity building takes place by training local personnel and community leaders and giving them more access to national and international experience; increasing the exchange of information among international, national, local organizations, and communities (e.g., through professional associations of local governments and NGO networks); direct experience; and by better management of information. The establishment of knowledge networks to enhance learning and institutional memory that can be shared by public, private sector and community agents should be a part of capacity-building strategies.

Most of the reviewed IPRSPs refer to capacity building at local level for authorities and NGOs, and to the need for participation of the civil societies. These plans (or proposals) however, do not convey any details in relation to methods, implementations etc. More concrete actions would be expected to be presented in the advanced drafts of the full PRSP.

New planning and management techniques, such as action planning, can be effective as part of efforts to build capacity for participation (see Section 2.3.2). Support should be given to communities and community-based organizations to facilitate access to information and to interact with public agencies (Box 2.8). Encouraging the urban poor to become organized (for example, through citywide slum associations) can help them to exchange experiences and to negotiate effectively with public authorities and the private sector (including land owners) to . Also see the **Organizing Participatory Processes** chapter.

Box 2.8. Capacity Building of Community Development Councils (CDCs) in Sri Lanka

Elected community development councils (CDCs) were introduced in the mid-1980s in Sri Lanka to promote participation and to encourage local governments to interact with communities. However, lack of a clear mandate and capacity issues made institutional and functional endurance impossible. Political problems (local and national) further hampered them.

In a project known as “Pilot Scheme for Low-Income Settlement Upgrading,” the positions and roles of CDCs were strengthened. Community capacity building and giving communities access to public organizations were among the primary objectives of the pilot project. Japan Overseas Cooperation Volunteers (JOCV) formed a team with a local NGO to activate the CDCs. The independence of JOCV from local political pressures was one of the key reasons for the success of this effort. At the first pilot site, Badowita, where 1,000 households reside, the CDC developed their own water supply system, drainage system, and sewerage scheme. The community contributed to the capital investments. Based on the success of the first pilot project, the same CDC has become active in other upgrading projects and assisting other CDCs and community-based organizations.

Source: Japan Bank for International Cooperation, Sri Lanka Office

The Habitat Agenda adopted at the second United Nations Conference on Human Settlements in Istanbul in 1996 commits UNCHS (Habitat) to working towards the establishment of good urban governance and commenced *The Global Campaign for Good Governance*. The Campaign is designed to promote accountable and transparent urban governance, which responds to and benefits all sectors of society, particularly the urban poor, and which strives to eradicate all forms of exclusion.¹⁰

2.3 Interventions at the project/program level

2.3.1 Monitoring and Evaluating existing projects and programs¹¹

This section highlights issues to be taken into consideration in monitoring and evaluating the effectiveness of urban projects or programs in terms of impacts on the poor.¹² First, a list of

¹⁰ More information on the good governance campaign can be obtained from UNCHS (Habitat): P.O Box 30030 Nairobi Kenya. www.unchs.org/govern.

¹¹ This section does not repeat the concepts and strategies presented in Chapter 4, “**Monitoring and Evaluation.**” See also *Evaluating the Poverty Impact of Projects: A Handbook for Practitioners*, Judy L. Baker, World Bank, 2000.

¹² The terms “projects” and “programs” are used interchangeably here, although “projects” often refer to activities whose duration and coverage are more limited than under “programs.” When projects are expanded to cover the large majority of potential target beneficiaries and have sustainable financing over a long term, they would usually be deemed “programs.”

basic questions is provided, followed by an example of monitoring and evaluation of one type of project, slum-upgrading (Box 2.9).

Monitoring and Evaluating urban poverty reduction projects

Questions to be asked

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

Key considerations

The dimension(s) of poverty that the project will tackle should be identified clearly, so that the relevant indicators can be used. Objectives should be monitorable to be able to evaluate project outcomes. Urban poverty is heterogeneous, and different groups in the city may suffer from different types of deprivations. Thus, projects should involve clear targeting and monitoring the differential impacts on the target groups. Each dimension of urban poverty has “visible causes/contributing factors” and “policy related causes” (see Table 1). Both Intermediate and outcome/impact indicators should be traced. For example: in a job-creation and income-generation program, both increased access to credits¹³ and to practical/vocational training¹⁴ would be intermediate indicators, while the changes in unemployment rate, and in income inequality, etc., would be the outcome/impact indicators. The relevant indicators need to be collected at the appropriate level of disaggregation to capture effects from the project.

Additional indicators (tailor-made) are required in particular cases, depending on the project, characteristics and expected risks and outcomes of the project.

¹³ E.g., percentage of target group using or being eligible to get credits from formal credit organizations—or the percentage of formal loans given to the target group – say, in the last two or three years

¹⁴ E.g., the availability of vocational training for target groups at local level; or percentage of target group attending to training programs

Box 2.9. Designing Project Monitoring and Evaluation: Example of the Caracas Slum-Upgrading Project

Three main factors have led to very poor living conditions in the barrios of the Metropolitan Area of Caracas: (i) lack of adequately defined property rights; (ii) absence of proper mechanisms to resolve the problem of providing local public goods; (iii) lack of credit to facilitate housing construction. The combination of these factors has led to very poor living conditions in the barrios of the MAC. The project targeted two separate agglomerations of barrios in Caracas. Together these two agglomerations contain 12 distinct barrios and a population of 184,000.

Project objectives	Expected Output	Intermediary indicators	Outcome/Impact indicators	Monitoring and evaluation activities*
<p>To improve the living conditions of the target population through a package of services that include:</p> <ul style="list-style-type: none"> ▪ Titling ▪ Access to home improvements through credits; ▪ Water, electricity, sanitation, drainage, public lighting (as lack of proper service provision was a major problem); 	<ul style="list-style-type: none"> ▪ Constitution of local co-management groups ▪ Development of barrio improvement plans ▪ Execution of barrio improvement plans ▪ Provision of legal title and registration of titles in targeted barrios ▪ Improved capacity to carry out and coordinate upgrading projects at the community, municipal, and metropolitan levels ▪ Increased access to housing improvement credit by low-income households in barrios 	<ul style="list-style-type: none"> ▪ # of co-management groups constituted in first year of project ▪ # of implementation-ready barrio improvement plans constituted at the end of year one ▪ # of "legal" household water, sewer, and electricity connections; ▪ percentage change in public lighting coverage in barrios; ▪ # of kms. of drainage constructed or rehabilitated; ▪ percentage change in conduction capacity of drainage ▪ # of kms. of new and/or rehabilitated primary and secondary access roads constructed ▪ # of new property titles issued 	<ul style="list-style-type: none"> ▪ Measured change in property values and land market activities in the targeted barrios ▪ Measured comparison in perceived quality of life (measured against baseline Social Assessment Survey) ▪ Measured/observed changes in productivity and solidarity of communities in the target barrios at year 3 and 5. ▪ Measured improvements in quality of life due to the physical investments ▪ Measured change in capacity to target and coordinate investment in metropolitan Caracas 	<ul style="list-style-type: none"> ▪ Monitoring of land values and activity in the targeted barrios in comparison with a control group ▪ Focus groups and household surveys to determine perceived quality of life changes, ex-post, using Social Assessment baseline data as a point of comparison ▪ Collection and processing of data on access to and quality of services ▪ Midyear and ex-post independent evaluation of project executing agency

*To be conducted by the Project Executing Agency's quality control teams, which includes the project management unit, and technical and control units for different barrios. All project information fed into the central management information system, and requisite data on project execution, to be shared between all levels of project administration. This will include monthly generation of management reports and periodic impromptu site visits to ensure quality control
 Source: Project Appraisal Document (report no: 17924 VE)

2.3.2 Menu of selected project/program options

Programs in this section are discussed under three headings: integrated urban development projects; land and housing projects; and finance-based interventions.

Urban project/program interventions have not always been designed with poverty reduction as a major aim, but they can be and increasingly should be. The following summaries draw on experiences with these interventions, particularly noting lessons for improved poverty impact and sustainability—such as that these programs need to be worked out through partnerships with communities and private sector. Assessment of past experiences provides lessons for decision-makers in selecting and combining interventions in the context of specific city and national poverty strategies.

Detailed descriptions of each of these types of programs, and examples, are provided in **Technical Note 3**.

Integrated urban development projects (slum upgrading)

In one form of upgrading, a package of services (generally comprising clean water supply, sewerage, street lighting, improvements in streets and footpaths, solid waste collection, and drainage) is provided to raise the well-being of a targeted community (defined by geographical areas or neighborhoods). In addition to physical improvements, income-earning opportunities, health clinics, school facilities, and community centers can be included in such packages¹⁵. An alternative and less comprehensive approach to upgrading involves reaching a larger share of residents in the city lacking one or other basic services (the target group thereby defined by their lack of one or more basic service[s], rather than by certain neighborhood[s]).

The two approaches are not always entirely distinct, in that neighborhood upgrading may involve a sequenced provision of services over time, or only a partial package of services, depending on community demand. Choices between the two approaches would be based on various factors including community demand and willingness to pay for particular services, cost and design issues (e.g., location, geology, and physical layout of settlements), and institutional issues (e.g., capacity of municipalities, NGOs, or other agencies to manage an integrated improvement program) (see **Technical Note 3**, Table 1, and for principles of scaling up slum upgrading, see box 1)

Land and housing projects

Housing projects: Provision of affordable housing to low-income households mostly take the form of “site and services,” and “core housing projects.” Beneficiaries develop serviced plots and core housing units depending on their demand and availability of savings and credit. Target groups are generally households that need to relocate from unsafe areas or residents currently without tenure security (e.g., squatters). Loans may be made available to beneficiaries either by formal credit organizations or by NGOs (see **Technical Note 3**, Table 2a). Key issues in such

¹⁵ Where to obtain more information: Thematic Group on Services to the Urban Poor: The World Bank, Urban Help (e-mail: urbanhelp@worldbank.org). A compact disc (CD) on urban upgrading is also available from, and can be accessed online, at: <http://web.mit.edu/urbanupgrading>; e-mail address: urbanupgrading@mit.edu

housing projects are to effectively target poor households by keeping design standards low so that units remain affordable

Land regularization and tenure security programs: There are two basic approaches to deal with informally occupied urban land: (i) provide property rights (ownership); or (ii) provide use rights, without changing the tenure status. In the former approach, in addition to providing tenure security, the objectives include supporting the development of land and housing markets in order to increase the local revenue base. In the latter approach, tenure security and mobilizing community resources for home improvements are the basic objectives. Which approach is appropriate should be decided with reference to local social circumstances, land ownership structure, and priorities of residents (see **Technical Note 3**, Table 2b).

Finance-based interventions

Municipal development funds (MDFs), social funds and AGETIPs, and microfinance each fall under this heading.

Municipal development funds (MDFs) are parastatal institutions that lend to local governments for infrastructure investments. MDFs usually start as an intergovernmental approach to municipal credit supply, structured as parastatal organizations, but then evolve to become financial intermediaries focusing on municipal credit. MDFs do not provide credits exclusively for poverty-alleviation programs. However, they are included in this menu as a financing tool since they can be used for poverty reduction objectives, like basic infrastructure investments in low-income areas and development of marketplaces, schools, and clinics for poor residents (see **Technical Note 3**, Table 3a).

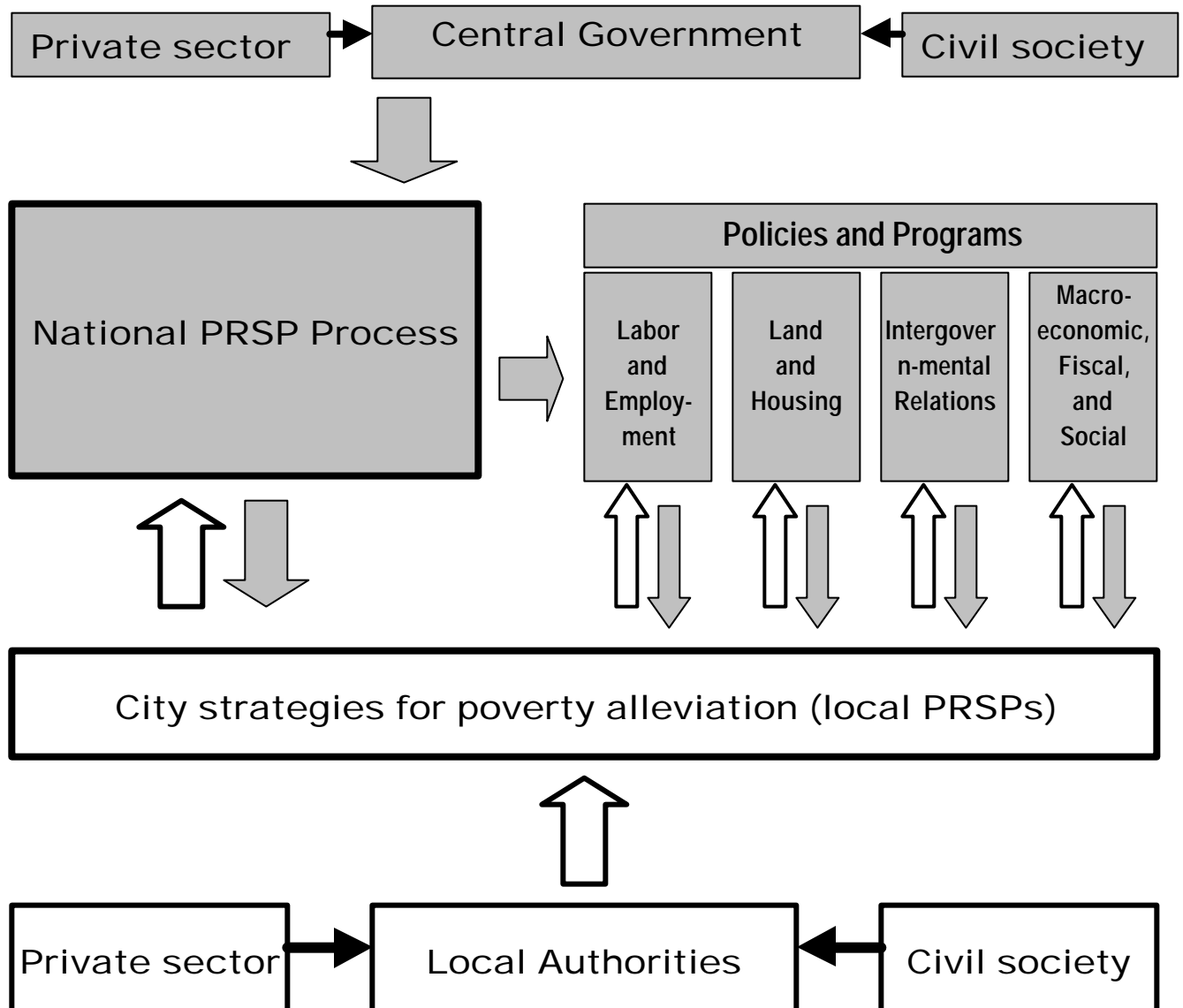
Social funds and AGETIPs are non-governmental entities that select and finance projects where the formal government institutions are weak; for example, in countries emerging from a period of civil or economic crises. Political independence can be a primary advantage of these entities. Social funds are intermediaries that channel grant resources to small-scale projects for poor and vulnerable groups, based on proposals prepared and implemented by a variety of organizations such as CBOs and NGOs (see the **Community Driven Development** chapter). AGETIPs are delegated contract managers for public works; they prepare and implement subprojects, usually for municipal governments, which take charge of the works upon completion (see **Technical Note 3**, Table 3b).

Microfinance schemes target low-income and moderate-income households that do not qualify for formal/traditional credit. NGOs are generally the key actors in packaging small loans and mobilizing private savings. Government funding and small savings of households, coupled with foreign donor assistance, are the typical sources of funding. Loans can be given to communities or individuals for a variety of specific purposes. Loans for housing/home improvement can have multiple benefits because the poor often work out of their homes and rent out extra space as a source of income (see **Technical Note 3**, Table 3c).

2.4 How to determine priorities and develop consensus for urban poverty reduction strategies

Urban poverty reduction strategies need to be grounded and implemented at local/city level. However, scaling up requires simultaneous efforts by both national and local governments to eliminate impediments at both levels. While central governments address policy matters and regulatory impediments nationally, and initiate nationwide programs (see section 2.4.1 and Table 4), local authorities should design strategies to make appropriate interventions and regulatory changes in the city (see section 2.4.2 and Table 5). Local experiences should be fed back to national governments to influence their support to cities, as well as for redesigning national programs (Figure 2.1).

Figure 2.1. National-local feedback process for **urban poverty reduction strategies**



2.4.1 What can national governments do for urban poverty reduction?

Design of a poverty reduction strategy, at the national level needs to consider how urban poverty reduction can contribute to progress overall, and complementarities across regions and sectors.

Three priority areas of focus for city and national governments are suggested here for their high pay-off for urban poverty reduction: i) employment/labor markets (including safety nets); ii) land, housing, and infrastructure (including private financial markets); and iii) intergovernmental relations (including municipal finance and capacity-building).

It should be reiterated that interventions in other sectors, i.e., education, health, transport, and energy, macro-economic and fiscal stability are also important to reduce poverty in cities. However, the above three areas are suggested as the primary themes for agencies working on urban and local government issues.

Perceiving urban poverty reduction in a wider context and with reference to the many dimensions of poverty and its cumulative impacts (see Table 1): would help national authorities to design their policies and strategies in a more effective way. Much of what has been discussed about urban policy would help other sectors to improve their poverty impact as well. To cite only a few examples: reducing the incidence of communicable diseases through better housing and infrastructure services; reducing crime and strengthening governance through community involvement in improving neighborhoods; increasing employment and savings through efficient housing markets; supporting macroeconomic stability through sound intergovernmental fiscal relations, fiscally responsible local government, and a strong urban labor market.

Table 4. Summary of actions that can be taken by national governments for urban poverty reduction strategies

<p>Policy-Level Decisions</p>	<ul style="list-style-type: none"> • Develop urban poverty alleviation strategies/measures as a component of macroeconomic and social development plans, and sectoral policies. • Develop instruments to help local governments respond to the demands placed on them in alleviating poverty at local level (e.g., through fiscal transfers, matching grants, etc.). • Ensure stability in revenue sharing with local authorities. • Synchronize the elements of decentralization, e.g., balancing the transfer of decisionmaking as well as revenue generation authorities to local authorities. • Take actions against corruption by supporting privatization of service provision, ensuring transparency and accountability. • Design policies to remove distortions in labor markets and disincentives to hiring of low-income workers. • Support equal opportunities and policies against discrimination against gender, ethnic origin, etc. • Remove constraints on sectors with high employment generation capacities, e.g., housing construction. • Design policies and support actions to remove bottlenecks in supply of developed land. • Provide local authorities with freedom to establish land use and zoning regulations. • Support tenure regularization and transferable property rights. • Ensure political and economic stability.
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<p>Programmatic Innovations</p>	<ul style="list-style-type: none"> • Initiate and promote national programs, for example, in Indonesia, national government support for the Kampung Improvement (slum upgrading). Central government support is one of the underlying factors of the program's success and replicability. • Promote micro enterprises by encouraging financial organizations to lend to them and making funds available as seed funding or guarantees to facilitate resource mobilization. • Transfer/sell unoccupied government land (treasury land) to local authorities to help them in their poverty reduction strategies.
<p>Regulatory framework</p>	<ul style="list-style-type: none"> • Identify/diagnose national policy impediments to improving the living conditions of the urban poor in major sectors, e.g., land, housing, infrastructure, health, education, labor markets. • Liberalize interest rates to facilitate operations and cost recovery of microfinance organizations. • Develop simplified and appropriately designed taxation policies for small businesses, banks, and financial institutions. • Accept paralegal practices to facilitate collateral and credit underwriting for SMEs • Establish standards of public accountability for local authorities (e.g., municipal auditing requirements). • Clarify responsibilities between different levels of government agencies • Make worker protection measures and social benefits affordable and accessible to low-income groups; reduce barriers to the inclusion of informal-sector workers
<p>Monitoring and coordination</p>	<ul style="list-style-type: none"> • Support and monitor poverty outcomes in cities through national agencies, e.g., statistics institutes, based on agreements with local authorities on appropriate and realistic benchmarks. • Coordinate intercity efforts at sectoral level. • Support training and dissemination of municipal experiences, e.g., through national associations of local authorities. Foster intermunicipal cooperation.

2.4.2 What can cities do for poverty reduction?

How to establish poverty reduction strategies at city level?

City stakeholders, whether in industrial, transition, or developing countries, can seek proactive roles in defining a shared vision of their city's future and improving residents' quality of life, particularly for the urban poor. A city development strategy (CDS) is a process devised and owned by local stakeholders to formulate a holistic vision for their city. The process involves analysis of the city's prospects for economic and social development, identification of priorities for investment and development assistance, and implementation through partnership-based actions.¹⁶

In this section the “**strategic planning**” (or **action planning**) method is presented briefly to illustrate how cities could get started and how they can proceed in the development of poverty

¹⁶ To learn more about city experiences with city development strategies, see:

http://www.worldbank.org/html/fpd/urban/city_str/cds.htm and the home page of the Cities Alliance, a multi-donor partnership launched by the UNCHS (Habitat) and the World Bank in 1999 that mobilizes external finance and knowledge sharing for city development strategies, as well as scaling-up of services to the urban poor (<http://www.citiesalliance.org/citiesalliance/citiesalliancehomepage.nsf>).

reduction strategies.¹⁷ It should be noted that strategic planning is **not** an attempt to blueprint the future. Strategic planning looks at the chain of cause-and-effect consequences over time of an actual or intended decision. Nor is it a set of wishful thoughts; it should relate the actions to resources available or that can be mobilized realistically. Finally, like a national poverty reduction strategy, it should not involve the preparation of massive, detailed and interrelated sets of plans. It concentrates on a few issues on which there is consensus regarding priority.

Strategic planning is designed to overcome the typical shortcomings of traditional statutory planning tools. However, strategic planning and traditional methods of planning are not mutually exclusive. Strategic/action planning method is applicable without abandoning the conventional methods completely. It can be used both at city and neighborhood/community level for decisionmaking and strategy design (Boxes 2.10 and 2.11).

What are the steps of the strategic planning process?

- **Identification of the problem(s)**, its causes and consequences, and relations to other problems. For example, this can involve designing a problem tree with stakeholders to identify multiple problems and how they are linked. Problem identification requires collection and analysis of data. Information gathering (i.e., encompassing factual and quantitative data, as well as observations/qualitative analysis) for a rapid assessment of the poverty situation and an overview of policies and programs addressing poverty are best initiated before problem analyses with the stakeholders.
- **Formulating objectives**, which should be specific, measurable, realistic, and time bound. It may be necessary to return to step one and reanalyze the problem. The objectives have to be appraised against the constraints and opportunities that would work against and in favor of achieving objectives. This analysis (which is also called as **SWOT**, i.e., analyzing Strengths, Weaknesses, Opportunities, and Threats) is the basis for determining options for actions. Again it may be necessary to go back to the problem and analyze further the causes (visible and policy-related causes).
- **Developing strategies** and formulating options for influencing the key forces. Coordination and integration to avoid overlaps and waste of resources is necessary. The chosen options should be compatible.
- **Task definition**: breaking down the strategies or action plan(s) into tasks to be implemented by specific responsible agents, and defining the time frames. One of the tasks is to monitor progress. Feedback to the stakeholders on progress of action plans should be ensured.

Consensus building is needed to (i) define shared goals, priorities, and strategies over a medium-term horizon; and (ii) mobilize resources. A broad range of stakeholders should be represented, including regional authorities and local representatives of central governments (as they can play important roles in creating conducive conditions and providing support for city

¹⁷ This type of planning is known as “strategic development plans” or “action planning” in different contexts by different groups of professionals. It is a widely used technique in various urban development and capacity-building programs carried out by multilateral and bilateral donor organizations, e.g., the UN, the Cities Alliance Program (initiated by the World Bank and UNCHS), the German Technical Assistance Program (GTZ)—(where the approach is referred to by the acronym ZOPP), and the Institute for Housing and Urban Development (I H S - The Netherlands), among others.

strategies), citizens, civil associations, and private sector. Flow of clear, correct, and complete information among the stakeholders should be a part of the strategy from the beginning.

City consultations are a primary means of reaching consensus among the stakeholders. There are various different ways of arranging city consultations. For example, in Vitebsk (Belarus) an action plan was developed for inner-city revitalization and meetings were carried out at different platforms with different stakeholder groups (Box 2.10). City consultations in Cali for a city development strategy were organized as an extensive event with interactive software (Box 2.11). Local media can be a primary means for inviting stakeholders to discussions, informing the general public about the purpose, and disseminating decisions and strategy choices.

Box 2.10. Action Planning in Vitebsk, Belarus

Stakeholders' different, yet complementary interests: The municipality's interest was to promote the inner-city area as the core of cultural and commercial activities and to support economic development. The private sector was interested in finding vacant premises in the center. The residents of the inner-city area, especially those with ground floor apartments wanted to improve their housing conditions. The majority of the ground-floor apartment owners are lower-income households living in damp and unventilated conditions. Neither the households nor the municipality have sufficient financial means to renovate these units. One of the options was to enable people to shift the residential space to commercial uses by selling or renting to the small-scale private sector. Such a strategy would also lead to more jobs.

Participation of stakeholders: In Belarus, the state is still large and pervasive and there was no traditions of grass-roots activities. It took much time and effort to get different interest groups to participate. Local media was a primary tool to invite residents and the private sector to open discussion. Although the idea of discussing the inner-city problems and strategies to solve them was attractive, people hesitated to speak, lacking such experience and doubting that much could be done. In addition to general invitations through the media, a more personal approach was required, and the chief architect of the city contacted the residents and NGOs personally.

Achievements: The local authorities started to communicate with the general public. Another achievement is that the municipal planning department, the main authority for inner-city revitalization, rehabilitation of housing stock, and issuance of construction permits and land use changes, managed to get its own budget account. It is now a separate legal entity, able to raise funds and disburse them more or less at its own discretion, which is an important step toward decentralization. The municipality started issuing permits for commercialization, and a couple of shops opened in the center. It should be noted that, although the national government has recently passed a decree against changing the functions of residential premises, there is an intense debate surrounding the legislation.

Source: Baharoglu and Lepelaars 2000

Box 2.11. Consensus Building in Cali City Development Strategy (CDS) in the late 1990s

Several Factors motivated a city strategic process: First, Cali has suffered a generalized decline of the trust of citizens and stakeholders. Second, the city was in the midst of the worst economic crisis in its recorded history, with GDP falling since 1995 and unemployment exceeding 20 percent. Third, the latest figures on poverty show a doubling from 1994 to 1998 and rising inequality levels. The education system is not closing the gap between social classes; it is not providing young people with the skills to enter and participate successfully in the labor market; and its quality and coverage have worsened. Violence, and particularly homicides, have become one of the most important problems for Caleños and is the most tangible symptom of the decline of city livability. Fourth, the financial situation of the municipality was critical, with a large debt and debt financing obligations. Intensive collaborative work to revive the city began in early 1999.

City consultation and prioritization of problems: The first step was a participatory consultation process to identify and rank city problems. Around 250 people from different sectors and groups in Cali were invited to participate in the consultation meetings. This was not intended to be a statistically representative survey, but rather a poll of opinions to gauge the level of agreement around the most important problems. The consultation was made using computer software that permitted anonymous group feedback. The participants represented many different groups, i.e., NGOs, citizens, private sector, academia, sectoral professional associations, youth organizations, sectoral departments of government, municipal government, and central government. There was good representation by gender and age group as well.

The results: There was a significant consensus among participants in the selection and ranking of issues. “Economic reactivation and employment generation” together was the number one issue in five of the six sessions, placing well above other problems identified. “Social development /poverty alleviation / attention to vulnerable groups” and “Peaceful coexistence/safety/urban violence” virtually tied for second place. This consensus provides a good basis for formulating strategic priorities for action that will attract broad support from the stakeholders.

Source: Cali Report, World Bank 2000

Urban financial and organizational audits: a complementary approach for city strategizing

Urban financial and organizational audits is a method to prepare municipal investment programs. These audits set out, on the one hand, the priority investments to be financed by a project; and on the other hand, the improvements or reforms the municipality intends to make in its management. These audits can complement city poverty assessments. The urban audits method has recently been used in World Bank-supported projects in Senegal and Burkina Faso to determine priority investment programs.

- The objective of the urban audit is to propose, after a diagnosis of the city's needs, a coherent set of priority projects that can be undertaken given financial constraints (Box 2.12).
- The financial audit reveals what are the municipality's financial resources, and thus, how much capital expenditure it can expect to commit under the project. The audit generally covers 10 areas: the municipality's financial situation, revenues and expenditures, arrears and risks, monthly cash flow, investments in the past years, dimensions of the priority investment program (sources of finance, average and projected revenues, monthly payments, etc.), projection test, financial equilibrium, and performance indicators.
- The organizational audit identifies the reform measures the municipality decides to undertake. These audits can lead to negotiation of a contract between the municipality and the state.

Box 2.12. The Urban Audit Framework

The urban audit is essentially a diagnostic tool, with the objective of establishing a priority investment program for a municipality.

Expected outcomes include identification of (a) needs and priorities; (b) the municipality's financial capacity, as defined by the financial audit (conducted at the same time with the urban audit); (c) a list of investments suitable for funding given available resources (e.g., urban service upgrading project—as a part of the urban poverty alleviation program).

Outline of an urban audit:

- Urban site and location: the municipality within its region; the city within its natural setting (slopes, flood risks, erosion, water table etc.)
- City organization: municipal boundaries, divisions into districts and neighborhoods, physical growth, land occupancy
- Recent projects and future commitments
- The urban economy: economic activities and employment
- Demographics and land needs: population trends for the city and the region since the last census, population by district and type of housing; density per district (according to infrastructure and services inventory); need for serviced sites
- Urban infrastructure and services: inventory and classification of neighborhoods based on needs and existing services
- Priority projects: inventory of requests submitted by localities (location, cost, priority); classification of needs in terms of (i) requests submitted; (ii) finances available; and (iii) categories of projects eligible for financing; priority investment program and maintenance program; execution schedule
- Project sheets on priority investments: economic justification and the social and environmental impacts of the investment

Source: Farvacque-Vitkovic and Godin 1998

Table 5. Summary of actions that can be carried out at municipal level for poverty reduction strategies

Policy issues	<ul style="list-style-type: none"> • Making poverty reduction a priority of city development strategy. • Increasing revenue generation through progressive taxation, instead of relying only on intergovernmental transfers. • Reaching consensus on a strategy, through coalition building with all the interest groups. <p>This requires:</p> <p>(i) Transparency and sharing of information with interest groups. For example, referendums (in countries where poor are registered to vote) can heighten public awareness of key issues and obtain clear mandates for action.</p> <p>(ii) Encouraging stakeholder participation, e.g., resident associations, neighborhood communities, or specific groups in the community (such as women).</p>
Program Innovations	<ul style="list-style-type: none"> • Initiating programs at the city level (e.g., refer to options presented in Section 2.2). • Providing access to information on jobs and markets for poor communities.
Regulatory framework	<p>Adopting realistic and flexible regulations:</p> <p><u>Land</u></p> <ul style="list-style-type: none"> • Increasing tenure security within the scope of cultural possibilities and community priorities. • Trying to make land rights tradable to facilitate land market transactions. • Simplifying registration procedures. • Recommending and encouraging better use and supply of developed land, especially in underutilized areas. <p><u>Housing</u></p> <ul style="list-style-type: none"> • Simplifying construction and occupancy permits. • Applying realistic standards regarding minimum plot size, building materials, and construction codes. • Accepting multiple use of dwellings. <p><u>Infrastructure and services</u></p> <ul style="list-style-type: none"> • Simplifying subscription procedures and allowing subscribers to pay the fee in affordable installments. • Applying realistic and affordable standards of service. • Cooperating with water vendors and other informal providers to serve the poor. <p><u>Employment/ labor markets</u></p> <ul style="list-style-type: none"> • Alleviating constraints on SMEs such as high license fees. • Allowing urban agriculture and home-based-income generating activities.
Monitoring and evaluation	<ul style="list-style-type: none"> • Carrying out city poverty assessments to update information on poverty and its causes. Such assessments can be a basis for a city poverty strategy. • Developing and using indicators and measurement benchmarks to evaluate achievements. • Monitoring implementation of strategies and impacts of policies and programs on the poor. • Disseminating results to the stakeholders.
Financial issues	<ul style="list-style-type: none"> • Introducing cost recovery. Although in poverty alleviation programs complete cost recovery cannot be expected, community resources should be mobilized and beneficiary contribution (through labor and/or cash) should be sought. • Targeting subsidies to well-defined groups for better cost recovery and effective utilization of scarce resources. • Levying local taxes for local actions rather than relying simply on central budget transfers.

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