



**Chronic Poverty**  
Research Centre

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Poverty Report 2008-09

## Urban Economic Growth and Chronic Poverty

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### What is Chronic Poverty?

The distinguishing feature of chronic poverty is extended duration in absolute poverty.

Therefore, chronically poor people always, or usually, live below a poverty line, which is normally defined in terms of a money indicator (e.g. consumption, income, etc.), but could also be defined in terms of wider or subjective aspects of deprivation.

This is different from the transitorily poor, who move in and out of poverty, or only occasionally fall below the poverty line.

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## Summary

Current thinking is moving away from 'urban bias' theses and towards a conception of urban areas as central to national economic transformation, as 'engines of growth' (World Bank, 1999). While a more positive view of investment in urban centres is welcomed, we need to take care over how we conceptualise and review this shift. Urban 'markets' are not just sites of economic activity and opportunity but also reflect important socio-political dynamics that can exclude and exploit, and are shaped historically.

There is global evidence that indicates rising urban poverty<sup>1</sup> in developing countries, alongside rapidly rising urban populations and urban inequality. Urban chronic poverty is characterised by household size, low levels of education among household heads, low weight of children under-five, lack of asset ownership, ethnicity, age and, to a certain degree, female-headedness and residence characteristics. Economic characteristics include dependence on the informal sector, casual employment, and unemployment. Panel data also indicates a spatial component, with the urban chronically poor tending to live in disadvantaged neighbourhoods where the average income of residents is low, employment in informal, as opposed to formal, sectors is high, and public services are limited. Residence on the outskirts of the city, where links to work are poor, is another characteristic. Small towns are likely to be a strong part of the picture, but data is rarely disaggregated beyond simple urban-rural categories and this remains poorly researched. The poverty situation in larger urban areas is often highly visible and difficult to ignore, but public policy responses are complicated by issues of illegality.

The kinds of issues faced by the urban chronically poor include unemployment and underemployment, high food prices, population explosions, homelessness, lack of sanitation, and migration from rural areas as well as from neighbouring countries particularly during times of crisis. Vulnerable urban groups include commercial sex workers, the unemployed youth, displaced people and street children. Illness (notably HIV/AIDS) and climate also have strong implications for urban welfare. Even if urban dwellers are not direct victims of (rural) climate shocks, the impact of such shocks is felt through higher prices and migration which is increasingly congesting the cities (e.g. Ethiopia).

Escape from urban chronic poverty is linked to residence neighbourhood and access to infrastructure, in Peru and Madagascar, with good geographic location creating positive externalities (probably enabling residents to access market opportunities more easily (Herrera and Rouband, 2003). Informal work is a mixed blessing –

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<sup>1</sup> See Satterthwaite (2005) on the under reporting of and measurement error in surveys of urban poverty.



depending on context – offering escape where there are high concentrations of informality (Madagascar) but not where informal workers are more isolated (Peru).

This paper draws on available urban panel literature, the 16 OPPG studies, and wider literature. It begins by outlining the evidence for urban poverty-growth relationships in both contexts of economic growth and economic stagnation, before exploring in more depth the issues of urban fragility. It is apparent that political decisions underlie the opportunities, economic inclusions and exploitation of poor people in the economy, and it is impossible to think about these dynamics without exploring the institutions that drive market formation and development. The paper outlines some of these dynamics in the context of four key markets – the urban labour market, the urban financial market, urban commodity markets and urban housing markets – before drawing some final conclusions.

In the **context of economic growth** the evidence shows that, on average, urban poverty tends to decrease more than rural poverty. However, high rates of economic growth do not always result in urban poverty reduction and urban patterns may vary considerably within countries. The evidence is not uniform, even at aggregate levels. Madagascar and Ethiopia, for example, both experienced economic stability through the 1990s. In Madagascar this stability was been associated with a decline in urban poverty (although urban chronic poverty remains high at 65%), while in Ethiopia clear growth was associated with increased urban poverty (again, chronic poverty is high).

Urban economic performance is likely to be important to aggregate growth. However, macro-economic reforms (SAP) have disproportionate effects in urban centres. In Peru the effect of macro economic restructuring on the urban labour market has been huge. Privatisation of public and para-public corporations has practically abolished job stability and reduced dismissal costs, deregulation has led to decreased job precariousness, and unionisation has plummeted. Growing insecurity in urban areas is often linked to price volatility and market instability caused by globalisation.

Rising urban inequality is now a major concern in many cities and clearly, the pattern of growth is crucial in mediating distributional benefits. In Bangladesh the urban sectors that might have had greater poverty reducing effects during the 1990s include: the ready-made garments, small and medium enterprise industries, construction, transport and informal service activities. Generating demand for unskilled and semi-skilled labour is critical.

Where economic growth has been linked with a fall in poverty and indigence, this is generally associated with employment generation. However, even in these contexts urban chronic poverty and extreme vulnerability remain, although perhaps somewhat changed by economic restructuring through growth. The reality in many contexts is that unskilled and semi-skilled employment grows scarcer, as the urban economy restructures (technological change, levels and types of investment). Qualifications required for accessing 'good' jobs become ever more elevated and an identifiable



increased sense of isolation develops among residents as gap between rich and poor expands, e.g. even in 'successful cities' in Latin America.

There are often important spatial dimensions to a national growth scenario. The geographic distribution of public spending is crucial - reflecting political decision-making. Spatial inequalities may reflect simple market distortions but, on the other hand, may reflect strong political influences or decisions about the most efficient way to allocate scarce resources, so as to benefit from agglomeration economies and the like. Purposefully targeted regional development policies in Vietnam have encouraged the development of *urban growth poles*. These three areas are of central importance for the development record of the country, but benefits have not been as wide as expected.

In contexts of ***no or low growth*** it would be expected that poverty would either stagnate or rise. This is particularly likely in urban areas where income is essential to survival and tied to macro-economic developments, whereas in rural areas consumption may be more dependent on weather and other conditions. For example, Peru was a country in recession during the 1990s. Here, urban poverty increased significantly while remaining stable in the rural areas. Urban chronic poverty was 13% in Peru between 1994 and 1998.

Evidence from the OPPG studies suggests that low growth is more often associated with higher rates of growth in the income of households in the lower percentiles than in the top percentiles. This doesn't necessarily mean that the poorest households are benefiting from low levels of growth but rather that these households are less engaged in the formal economy and households higher up the distribution have been harder hit by economic down turns.

The time frame in which the impacts of economic change are assessed is important. Perhaps reforms have strong initial negative impacts which then lessen over time. Similarly, people may take time to adjust their livelihoods. What is critical to determine is how long lasting the impacts of economic change are. Economic change that facilitates escape is only advantageous if that escape is sustained. In turn economic change that causes decline may not be too important if people are able to quickly bounce back. This is not an area that is easy to assess from the data but would clearly have important implications.

Economic decline can translate quickly into worsening urban poverty and inadequate urban service provision through changes in prices, wages and public spending during periods of economic difficulty. Not all households are able to adjust equally, and in many cities there is evidence of escalating crime, violence, and strained social fabric. In many ways illegal activity offers a viable economic response to limited opportunities and public policy is often inhibited in how it can respond because public officers may themselves be involved in what may be destabilising but financially rewarding illegal activity.



In some crises (war, famine etc.) urban centres swell with the influx of internally displaced people and new centres develop as IDP or refugee centres.

**Urban economic productivity is influenced by city government.** The provision of basic services and infrastructure, access to land, regulation frameworks, etc, are critical to how different groups of people are able to engage in urban markets. It is impossible to think about issues of inclusion, opportunity and market exclusion without considering the underlying institutions that drive market formation and development.

Arguably, labour represents the most important asset for the urban poor. It is through increasing work opportunities and returns to labour that poor households benefit most directly from economic growth. The reality is that most urban poor have to work until they die, in insecure livelihoods that have very low rates of return that inhibit their ability to exit poverty.

Quality and type of entry into the **labour market** are key to urban poverty dynamics (formal wage work is associated with being non-poor; chronic poverty is associated with: casual labour, female business activities – insecure and low return activities) and a changing labour market is a major source of urban vulnerability.

Urban labour markets are influenced by wider economic policies. Retrenchment, under SAP restructuring, for example, has had a major impact on the urban labour market in many developing countries (affecting unskilled workers disproportionately). Liberalisation has been a major policy thrust during the 1990s. This has created both new income earning opportunities (for some) but also less stable working conditions for many others.

The sectoral composition of growth influences the distribution of benefits and costs across urban populations. The manufacturing sector is important for urban employment as well as growth (for it has pro-poor outcomes, even in contexts of high inequality). Labour intensive growth paths can purposefully expand employment opportunities to the poor, which is an often stated policy objective. In reality, however, few cities promote this strategically except through a small number of specific employment programmes.

Wage employment (formal or informal) is limited in most developing cities. The development of sectors that can support a large casual labour market can have considerable wage impacts on unskilled urban labour. However, increased casual employment does not necessarily translate into increased well-being for the poor, particularly physically demanding manual labour. Integration into global markets, for example, can create new income earning opportunities but may also result in less labour stability due to increased competition pressures. The daily wage rate for casual labour underpins an entire local labour market.



Barriers to entry are much lower to the informal sector<sup>2</sup>, which, as a sector, is very important to the urban poor. However, those engaged in informal (or unregistered and sometimes illegal) work face many obstacles: inadequate access to credit and appropriate sites or premises; bureaucratic licensing requirements and regulatory restrictions; and demands by the police for bribes to operate without a licence on in non-permitted locations. The informal sector appears to be approaching saturation in some urban centres. What is very clear is the importance of city governments not destroying jobs through over-regulation (e.g. removal of informal vendors and hawkers, demolishing kiosks, confiscating stock, denying licenses, etc). Relaxation of laws can have a positive effect.

Not all informal activities are constrained, and there is potential for considerable wealth generation outside of the formal sectors. The profitable sectors of the urban informal sector are often controlled by particular groups however, and are frequently reinforced by caste, ethnicity or other social norms that make them more difficult to enter.

Labour markets often function in ways that enhance the vulnerability of certain sections of the urban population to chronic poverty. Particularly vulnerable are older people, children, women, migrants, and there are strong spatial dimensions to this as well. Evidence on labour welfare legislation is contradictory and mixed. Some indicates worse outcomes for the urban poor as a result of minimal labour protection, while other evidence indicates greater worker loyalty, higher productivity, and, within global markets, a better ability to provide overseas purchases with quality products. Clearly, this is an important area for further research.

Private sector development requires governments to provide appropriate regulatory frameworks, an attractive infrastructure investment, and a workforce with at least a basic education. Government needs to make the transition from informal to formal activities as simple as possible. However, evidence from Bangalore and elsewhere suggests that such investment requires careful design in order to respond appropriately to the reality of local labour markets.

Commodity prices are higher in urban than rural areas, and all aspects of living are marketised (services and infrastructure, as well as livelihood associated costs, e.g. paying for vending space, etc). Privatisation of services can reinforce existing forms of social discrimination pose significant economic risks to poor urban households. Policy responses to offset these high costs are urgently needed in many low income urban contexts to assist the urban poor to recover from health shocks. Appropriate

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<sup>2</sup> It is important not to over play the distinctions between the informal and formal labour markets (and economies generally) as the linkages are strong and important. Individuals can reside and work within both sectors and move between them, thereby blurring the distinction.



sanitation and water provision is also critical, particularly in peripheral areas, where limitations are a considerable strain on household productivity.

Urban price changes are a major source of vulnerability, identified by the urban chronically poor in Ethiopia and no doubt this is true elsewhere. It can be reasonably argued that because economic growth inevitably entails a higher extent of monetisation, these trends are likely to be particularly stronger in global cities or cities experiencing growth. However, the net outcome on the expenditure and earnings of the chronically poor is not entirely clear, because while price indices is higher in rapidly-growing cities, it can be presumed that it also offers more income-earning opportunities. On the other hand, lower price indices may be on account of the limited growth of that city and thereby, limited employment opportunities for the poor. Again, this remains an under-researched area.

Food price stabilisation is crucial in urban settings, but is often not implemented. NGOs and community level interventions are often left to pick up the pieces (e.g. soup kitchens). Planning laws and regulations can impinge on **urban commodity markets**, particularly those that the chronically poor are likely to use, as both vendors and purchasers. Encouraging mixed land use through flexible land tenure systems allows for commodity markets to develop in ways that favour small enterprise, enable links between suppliers and customers (individual and business purchases), and social capital formation. Similarly, the provision of law and order as well as infrastructure has important implications for safe trading.

Access to financial services is also crucial to sustaining urban livelihoods. The urban poor tend to borrow sums to meet their day-to-day expenditure or to meet expenditures arising from sudden emergencies (often related to ill-health) but have limited access to formal **financial markets** in which borrowing and repayment systems are inappropriate. Rather they tend to rely on informal money lenders who provide good access but also charge high interest which undermines long term security.

Homes are used as productive capital, sometimes providing a location to trade from, providing rent through letting out rooms, or simply enabling small 'factories'. Where people live and how they use their homes is of critical importance for the urban chronically poor and economic growth. Operating from home minimises costs and often allows for easy access to markets for both finished products and for inputs (Grant, 2004).

There is no single type of **urban housing market** for the poor. Many sub-markets exist: rented beds in dormitories in cheap houses to suit (usually male) daily wage migrant workers requiring only a bed to sleep at night, or even pavement dwelling may be marketed, etc. Escape from poverty is linked to favourable residential locations where positive externalities can be harnessed. The chronically poor are not associated with a single housing type. In Madagascar for example, informal housing can be supportive. Where there is high density of informality in a neighbourhood this



can provide important solidarity networks and social capital. In Madagascar, a high proportion of informal workers worked out of their homes, used family labour and carried out sales in the neighbourhood. In Peru, in contrast, informal residence is negatively associated with chronic poverty. Here, informal residents tended to reside in outlying neighbourhoods recently established and far from the selling points of the commercial downtown areas (Herrera and Rouband, 2003:19).

The illegal status of housing for many of the urban poor can inhibit productivity. The threat of eviction for example inhibits people's willingness to invest in their homes. Neighbourhoods often lack the basic infrastructure required to enable productive work (electricity, water, etc) and illegal connection to services can result in added premiums to service charges. Unscrupulous landlords, for example, can charge high rents as the illegal sector is unregulated. A lack of formal address can inhibit access to formal documentation, employment opportunities and some government services and programmes - even when these are designed with the urban poor in mind.

Secure tenure and onsite infrastructure development can yield considerable economic benefits. However, forced evictions are often a constant threat and can have devastating results. It can take a huge effort to work with local government to stop evictions and find a more palatable solution. There are examples of housing subsidy programmes that offer better options but these are often constrained in what they can achieve (high costs of urban land, programme and broader governance structures, as well as economic difficulties and household constraints).

Herrera and Rouband (2003:12) find that housing and access to public infrastructure services clearly reflect uneven development levels. Yet, in both Peru and Madagascar, the lack of access to public **infrastructures**, such as electrical power, is a significant 'marker' of chronic poverty status. Cuts in urban public spending are often inevitable in countries experiencing economic difficulties but often also result from SAP reforms, and the privatisation of public utilities. Investment cutbacks in African urban infrastructure have left cities in a general state of dilapidation. Particularly problematic can be reductions in water supply (in Chawama in 1992, women made at least two trips a day to fetch water, with each trip taking more than an hour – such behaviour leaves less time for income-generation activities (Moser, 1996:8)). There are some examples of beneficial private sector partnerships in some cities but this approach need careful exploration.

There will be winners and losers from policies and investment choices. This is often argued on efficiency rather than equity grounds. There is a worrying trend towards increased inequality in urban areas. However, addressing inequality is harder than promoting economic growth. Urban economies are able to generate important benefits both within and beyond the centre, but this needs to be managed in ways that reflect coherence and strategic economic change. It is far too easy to destroy livelihoods with the aim of promoting fast urban growth, and if this happens specific policy responses are required.



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## 1. Introduction

This paper examines whether urban markets work for the urban poor and chronically poor in developing countries. It does this by reviewing whether and how the urban chronically poor are engaged in, or excluded from, markets. Care is needed in how we articulate and conceptualise 'markets' and 'market distortions' as urban markets are often a mix of informal and formal relationships, based not just on economics but also mediated by complex socio-cultural and political dimensions that are developed over time. This means that we need to look at the varied markets that poor people use in urban settings. It is also important to ask whether the poor experience any adverse impacts of market engagement and not only see markets as sites of opportunity. There may be instances in which markets in fact reproduce chronic poverty in urban settings. Impacts may be felt in both the immediate and longer term. Thus, we ask what tangible and intangible benefits do markets provide the urban chronically poor?

Clearly there are merits to living in urban areas. Often, more liberal city attitudes allow for greater freedoms of choice in economic and socio-cultural life, particularly among women and groups facing rural discrimination or restrictions. Urban settings can present a dynamic force for national economic growth and transformation, with potential for wider national employment generation and poverty reduction (Selolwane, 2006). However, urban possibilities need to be tempered by urban realism:

- There has been a significant under-estimation of urban poverty in national surveys. This is the result of considerable inadequacies and assumptions in measuring (urban costs of living) and data availability (on informal, illegal and inaccessible urban poverty) in urban areas (see Satterthwaite 2005 for detailed discussion).
- In many contexts, rising inequality is not only occurring at the national level but also significantly within urban centres. This considerably reduces the positive impacts of urban growth for the poor and chronically poor. In poor neighbourhoods, rising inequality is often manifest in rising crime and violence and can considerably inhibit the socio-economic activities of the urban poor;
- Rising population levels in urban areas are putting increasing pressure on the labour market, housing, and social capital in cities. By 2025 more than half the Sub-Saharan Africa population is expected to live in urban areas. Already 45% of national populations in West Africa are urban-based. In African cities populations have expanded in the absence of industrialisation and national economic growth (Bryceson, 2006:9). The basic needs of urban dwellers (food, water, sanitation, health and security) can extend beyond the city's product and service supply, reflecting economic constraints, lack of settlement organisation and /or inadequate political governance. Bryceson identifies 'urban economic carrying capacity' points



- increased urban farming, circular migration and rotating residence with rural areas, which indicate urban crisis in Africa.
- Economic crisis is often most starkly felt in urban areas; the pressures of economic crisis can exert opposing forces on social capital – both strengthening it, as reciprocity networks are increasingly called into play, and eroding it, as households' ability to cope deteriorates and community trust breaks down.
- Urban markets are not necessarily sites of opportunity but can contribute to and maintain poverty. Urban jobs can be highly exploitative and urban labour markets are often highly skewed against the poorest, who may be least able to respond to new opportunities. For example, maids often live in the homes where they work, and thus may be surveyed as living within non-poor households. However, they are often treated badly, even beaten, by their employers and have very little security when they leave their employer's household (Perlman, 2003:12).

Comparisons with rural poverty commonly indicate higher poverty incidence in rural areas. This is often much higher (e.g. Burkina Faso, Zambia). However, poverty rates and poverty reduction trends can be more complex than that, with differential impacts for different groups of the poor. There is a need to move beyond rural-urban stereotypes and to recognise that poverty incidence over-simplifies complex rates and patterns of change, and the interconnectivity of life between urban and rural areas, which constitute important aspects of both urban and rural livelihood strategies, particularly during times of duress.

City management and political systems play a part in determining not only whether city economic growth occurs but whether it occurs in a manner that redistributes, or restricts, benefits within and beyond the city. The reality is that the urban poor are often very poorly treated by the institutions that underlie formal markets (e.g. services are restricted to particular urban neighbourhoods; informal traders face regular harassment by police; etc.) which inhibits current productivity and the ability to improve their situation over time (e.g. make longer term economic investments).

Urban areas differ hugely in terms of their economic diversity and sustainability, relating to the productivity of local economies of scale and links with external markets to respond to higher concentrations of consumers. City size holds considerable implications for city management and urban economic sustainability. For example, capital cities, or demographically or politically important cities, operate very differently to smaller towns. Within larger cities, economic dynamics vary across geographical spaces as well, for example between inner city and peripheral areas. While national data may allow for some distinction between broad urban and rural trends, data on small towns and within cities is notoriously weak and this limits what we are able to observe.



## 2. Urban chronic poverty

Who are the urban chronically poor? Using panel data a number of studies have been able to characterise urban poverty in some detail. In Peru and Madagascar, for example, urban chronic poverty is related to household size, low levels of education among household heads, the weight of children under-five, economic dependence on the informal sector, and residence (notably on the outskirts of the city where links to work are poor) (Herrera and Rouband, 2003). In Ethiopia also, urban chronic poverty is linked to household composition, unemployment, lack of asset ownership, casual employment, lack of education, ethnicity, age and to a certain degree female-headedness (Kedir and McKay, 2003). Panel data also shows a spatial component to chronic poverty, with the urban chronically poor tending to live in disadvantaged neighbourhoods where the average income of residents is low, informality is high, and public services are limited.

Kedir and McKay, (2003) find that the most important urban issues in Ethiopia are unemployment and underemployment, high food prices (following the abolition of food price subsidy), population explosion, homelessness, lack of sanitation, and migration from rural areas as well as from neighbouring countries such as Somalia, Sudan and Eritrea. Vulnerable urban groups include commercial sex workers, the unemployed youth, displaced people and street children. Illness (notably HIV/AIDS) and climate also have strong implications for urban welfare. Even if urban dwellers are not direct victims of (rural) climate shocks, the impact of such shocks is felt through higher prices and migration which is increasingly congesting the cities.

What do we know about routes out of urban chronic poverty? Herrera and Rouband (2003), find that the type and quality of entry into labour markets is linked to urban poverty dynamics in Peru and Madagascar. The economic activity of the household head is an important determinant of household poverty status in urban Ethiopia too. Among the chronically poor households in urban Ethiopia, 27.5% of heads work as casual labourers or in female business activities, compared to only 7.7% for the never poor (Kedir and McKay, 2003). The informalisation of household labour from one period to the next inhibits escape from poverty in Peru, for example.

Escape from urban chronic poverty is linked to residence neighbourhood and access to infrastructure in Peru and Madagascar, with good geographic location creating positive externalities (probably enabling residents to access market opportunities more easily (Herrera and Rouband, 2003). Household heads having a second job facilitates escape from poverty in Peru. In Madagascar however it favours entry into poverty (perhaps reflecting the low quality jobs that household heads are forced to take on during difficult periods).

Informal work is a mixed blessing with community level and household impacts. In Peru the high proportion of informal workers in the neighbourhood inhibits escape from poverty. The Peruvian context is perhaps linked to 10 years of liberalisation, in



which formal employment has become increasingly precarious and left formally protected wage earners more vulnerable (Herrera and Rouband, 2003:22). In low income Madagascar, however, areas with high proportions of informal workers indicate high concentrations of human capital.

It is these complex dynamics that this paper attempts to unpack. Where possible this is achieved through focusing on the dynamics and institutions underlying urban labour markets, commodity markets, housing markets and financial markets. Needless to say this has been a tricky exercise, made difficult by a lack of data specifically geared to answering these kinds of question. Relating available literature to the available data has not proved simple.



### 3. Do the urban chronically poor participate in economic growth?

Uncertainty about the foundations of urban economies, particularly in Africa, creates some scepticism about the economic advantage of urban growth (Bryceson, 2006:4). Do different rates of growth bring sustainable opportunities for the urban poor? Does fast rural or national growth distribute economic benefits across urban areas (small towns, larger towns, cities, etc), or do the urban poor benefit most from concentrated urban economic growth? Urban agglomeration may be an important response to national level poverty reduction, but there may be cases of megalopolises that have grown too big, with very large informal markets that create a large and stagnant urban poverty.

What do we know from panel data? Evidence is drawn from three sets of urban panel: Peru, Madagascar and Ethiopia. Each country, and their particular urban experience, is distinct. Madagascar and Ethiopia, for example, experienced economic stability through the 1990s. In Madagascar this stability has been associated with a decline in urban poverty (although urban chronic poverty remains high at 65%). In Ethiopia, however, urban poverty has increased with growth and chronic poverty is high. In contrast, Peru is a country in recession. Here, urban poverty has increased significantly while remaining stable in the rural areas. Urban chronic poverty was 13% in Peru between 1994 and 1998 (Herrera and Rouband, 2003).

Madagascar experienced an unprecedented urban economic boom which contrasted with rural stagnation, perhaps reflecting the sectoral nature of growth in late 1990s. The country made a transition from a controlled to a market economy during the 1990s, along with associated democratic political changes. The economy stagnated during the early 1990s, but recovered after 1997 to nearly 5% GDP per capita growth in 2000. Urban poverty decreased, along with poverty severity. However, incidence remains high as does urban chronic poverty, at 65%. Rural areas did not benefit from the transition and high levels of poverty remain (Herrera and Rouband, 2003). Availability of informal jobs has declined in the urban sector (capital city) but a generous public and private sector wage policy has led to benefits in every urban household category.

In contrast, household welfare deteriorated with growth in urban Ethiopia between 1994 and 1997. This was a period that tends to be regarded as one of economic recovery, driven by peace, good weather and much improved macro-economic management (Bigsten *et al*, 2003, in Kedir and McKay, 2003). Median consumption expenditure per adult declined for the total sample from 100.46 Ethiopian birr to 73.4 birr, between 1994 and 1997. This decline is evident in all regions, is monotonic over the period, and is particularly pronounced in the southern and northern regions. The decline is particularly apparent between 1994 and 1995 (*ibid*). The majority of urban



households that experienced poverty at some point over this period were chronically poor; however there is also a large amount of transitory urban poverty, mainly accounted for by previously non-poor households falling into poverty.

Kedir and McKay (2003) identify a high level of urban chronic poverty (21.5 %), along with an increasing incidence of urban poverty over this period, particularly in the cities of the north and south. Agriculture remains the dominant economic sector contributing 45% of GDP in Ethiopia and the population remains predominantly rural, with only around 15% living in urban areas (Kedir, 2005). Shocks (drought spells, famine and internal conflicts) have had important implications for both rural and urban households. In urban areas, the impact of the shocks is felt mainly through higher food prices and increased rural-urban migration, often contributing to increased urban poverty.

The ILO's People's Security Survey (PSS) of Addis Ababa, Debre Zeit, Mojo and Nazareth finds that urban households that depend on low and insecure incomes face a shrinking labour market and that most suffer from livelihood insecurity and fear losing their subsistence (Kedir, 2005: 12). Although the service sector in Ethiopia has grown, increased employment opportunities have not led to a decline in urban poverty. 1994 to 1997 was therefore not a period of economic recovery in urban areas, despite the picture at the national level, and this result appears to be robust across consumption based and subjective poverty lines (MEDAC, 1997, in Kedir, 2005).

In contrast to the other two countries, Peru is an emerging country and has recently experienced recession which particularly affected the formal modern sector of the economy. Corresponding national level poverty patterns are not very clear, but appear to have increased significantly in urban areas and remained stable in rural areas. This may reflect increased social spending in rural areas. However, the result is perhaps not very surprising considering that urban populations tend to be more closely aligned to the ups and downs of the economy. Wage earning in urban areas of Peru became increasingly precarious as a result of the liberalisation of the labour market. Urban unemployment is rising in a context where jobs are highly qualified and industry developed. Urban chronic poverty remains at 13%, and linked to levels of dependence on the informal sector. The dualism of the Peruvian economy, in which growth is driven by a dynamic primary products export sector, has hidden the magnitude of the crisis for households who suffer from the shrinkage of domestic markets (Herrera and Rouband, 2003).

City life is often highly precarious for the individual and often linked to wider economic trends. A study of economic growth in Bolivia indicated that urban poverty rates responded rapidly to economic dynamics (both growth and slow down), while poverty in rural areas followed its own dynamic (Klassen, *et al*, 2004). Strong links between economic conditions and urban poverty in developing countries can leave the urban poor highly vulnerable. Bryceson (2006:8) argues that, in Africa particularly, this precariousness imparts 'fragility to cities as economic units'.



Urban panel evidence is limited; the following section draws from evidence provided by the multi-donor funded Operationalising Pro-Poor Growth (OPPG) studies<sup>3</sup>. At an aggregate level, these country studies can be split into two growth categories. Section 4 draws on the first of these: namely, those countries that experienced high rates of growth alongside significant poverty reduction, and significant increases in intra-national inequality (Bangladesh, Brazil, El Salvador, Ghana, India, Senegal, Uganda, Vietnam). Section 5 then examines the countries that experienced low or moderate rates of poverty reduction and growth, and where inequality declined (Burkina Faso, Bolivia, Indonesia, Romania, Zambia).

### 3.1 The growth scenario: Processes by which the urban chronically poor participate or not

In growth contexts, urban poverty tends to reduce more than rural poverty on average<sup>4</sup>. In Bangladesh, higher growth in urban incomes relative to rural incomes, led to a more rapid decline of the urban head count index. In India too, the efficacy of aggregate growth in reducing poverty is higher in terms of urban poverty than rural poverty. Here, the average is -0.85 for urban poverty, but a more modest -0.60 for rural poverty (Besley, Burgess and Esteve-Volart, 2004:22).

Most Brazilian states have higher poverty-growth elasticities in urban areas than in rural areas. The differences are higher in the States of the Centre-West and the North-East, where urban elasticities can be about 4 times higher than the rural ones. However, this is not a uniform experience. The exceptions to this include the mega-city States of São Paulo and Rio de Janeiro, as well as Espírito Santo, where urban elasticities are comparatively low, possibly linked to high levels of inequality and possibly evidence of city fragility.

High rates of economic growth do not always result in urban poverty reduction. In Colombo, Sri Lanka, growth was accompanied during the early and mid-1990s by little urban poverty reduction, but a suggested increase in poverty depth and severity (Fernando *et al*, 1999:18, in Grant, 2004). Similarly in Johannesburg, South Africa, (slow) economic growth has led to labour market restructuring away from primary sectors and into services, with a decline in manufacturing employment. Demand for unskilled and semi-skilled labour has declined and new entrants to the labour market (young and African workers) have suffered (Beall *et al*, 2000, in Grant, 2004).

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<sup>3</sup> see <http://www.dfid.gov.uk/news/files/propoorgrowthcasestudies.asp>

<sup>4</sup> Findings like this are seriously tempered by the arguments put forward by Satterthwaite and others that question the validity of rural-urban comparisons and the relevancy of urban survey data itself.



There are often important spatial dimensions to a national growth scenario. Since the onset of economic reforms in the 1980s, Vietnam, for example, was able to achieve impressive rates of aggregate growth and an extraordinary reduction of aggregate poverty. However, a look at the spatial dimension of growth and poverty reduction reveals growing imbalances. The ethnic dimension, where imbalances are also growing, and the gender dimension, which shows much more balanced results, can both be related directly to the same sources as the spatial imbalances. These sources are changing patterns of rural and urban development during the different phases of Vietnam's growth.

Urban patterns also vary considerably across countries. In Ghana, for example, Accra, as the capital city, the location of a main port, and the beneficiary of significant external inflows of aid and remittances, has experienced fast economic growth over the 1990s (as well as population growth). Other urban areas however have been left behind. The rural forest zone is for key export commodities whose production has grown rapidly over this period: cocoa, gold and timber. Poverty reduction has clearly occurred in the more favoured locations, with the remainder of the country being left behind (Table 1).

**Table 1: Annualised rates of pro-poor growth: percentage changes in welfare measure between 1991/92 and 1998/99 in different regions**

	Pro-poor growth rate at poverty line	Pro-poor growth rate at 20 <sup>th</sup> percentile	Growth rate at mean
<i>By locality</i>			
Accra	7.6%	7.6%	7.3%
Other urban	0.9%	0.8%	2.3%
Rural Coastal	0.7%	0.1%	2.0%
Rural Forest	5.0%	4.6%	4.8%
Rural Savannah	-0.6%	-0.1%	1.2%
<b>GHANA</b>	<b>2.1%</b>	<b>1.3%</b>	<b>3.2%</b>

Source: McKay and Aryeetey, 2004.

Note: Authors' calculation from the Ghana Living Standards Survey, 1991/92 and 1998/99.

Urban economic performance is likely to be important for aggregate growth. However, the pattern of growth is crucial in mediating distributional benefits. Macro-economic reforms tend to have disproportionate effects in urban centres and sharp rises in urban inequality could be a major cause for concern. Evidence suggests that the income growth of richer percentiles was faster than the income growth of the poorer urban populations in countries experiencing growth (Grant, 2005).

Urban Bangladesh is experiencing one of the sharpest rises in inequality in the world, for example. Sen, Mujeri and Shahabuddin (2004) conclude that, given this worrying



distribution pattern, the acceleration of rural growth would have had greater poverty reducing effects on aggregate than urban growth did during the 1990s. Judged by growth-poverty elasticities, had the rate of urban growth between 1991/2 and 2000 been neutral in distribution, the incidence of urban poverty would have fallen by 13%, instead of the observed 7% (almost twice the actual observed rate)<sup>5</sup>. The study illustrates that the inequality elasticity of poverty is *as important* as the growth elasticity in rural areas, but even *more important* than the growth elasticities in urban areas (ibid, 2004:25). For the extreme poor residing in urban areas the case is even stronger.

Sen, Mujeri and Shahabuddin, (2004) conclude that reducing inequality through targeted policies in urban areas would have had much stronger poverty-reducing effects than general growth policies in urban Bangladesh during the 1990s. Urban sectors that might have had greater poverty reducing effects in Bangladesh (had they received stronger investment) include: the ready-made garments, small and medium enterprise industries, construction, transport and informal service activities. Growth in pro-poor sectors can aid redistribution with growth in contexts of high inequality.

In Ghana's urban areas, and especially in Accra, wage employment has contracted. In Accra this is accompanied by an increase in incomes from non-farm self employment activities. There has been a substantial increase in the numbers working in trading activities in Accra, among males as well as among females (who still dominate in this activity), and estimated incomes in these activities have increased substantially in real terms (50% or more). This appears to be the main driving factor behind poverty reduction in Accra. Construction, transport and communications sectors also show significant increases in estimated real returns too, and there was a large increase in demand for these activities over this period, probably partly driven by aid inflows, public spending and good economic performance in Accra. However, the corresponding changes are less evident in other urban areas, where non-farm self-employment activities, if anything, decreased as a source of income (McKay and Aryeetey, 2004:29).

In Brazil during the 1990s there was significant movement out of manufacturing and into the service sector. The magnitude and pace of this structural change was related to a major recession and trade liberalisation episode that took place in the early 1990s and destroyed many jobs in manufacturing (Menezes-Filho and Vasconcellos, 2004:5).

Where economic growth has been linked with a fall in poverty and indigence, this is generally associated with employment generation. However, even in these contexts, urban chronic poverty and extreme vulnerability remain, although perhaps somewhat changed by economic restructuring through growth. In Santiago, Chile, economic

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<sup>5</sup> Similarly, the incidence of rural poverty would have dropped by 12% instead of by 9%.



growth has been accompanied by rising income inequalities, and social exclusion. Certain people, particularly unskilled workers, have remained outside of the labour market for long periods of time, due to economic restructuring and technological innovation, and are unable to overcome poverty. This has particularly affected women and unemployed young people from the poor *communas* (see Grant, 2005).

In Brazil, regions associated with pro-poor growth tend to exhibit the following characteristics: high initial levels of human capital, a low share of households with children, good initial infrastructure, a high share of people living in urban areas and low wage differentials between white/non-white and male/female (Menezes-Filho and Vasconcellos, 2004:24). Over the last 30 years, urban life in Brazil (Rio de Janeiro) has however become characterised by greater inequality, de-industrialisation, erosion of worker protection, and growth in the informal sector (Perlman, 2003:22). As illustrated by an older respondent in Perlman's study, parents used to tell their children "if you don't stay in school and study, you'll end up being a garbage collector" but now, to even apply for the job of a garbage collector, you need to show you have finished high school, and even then thousands of applicants compete for the same positions. The goal posts have changed. As unskilled and semi-skilled employment grows scarcer, the qualifications required for accessing 'good' jobs are becoming ever more elevated' (ibid, 35).

In Rio's *favelas*, household income has increased over the last 30 years, controlled for decreased purchasing power of the minimum wage, and the *favelas* have witnessed considerable upgrading in terms of infrastructure, and increased goods and appliances in homes. Children are found to have more education than previously, and higher incomes, if they are working. However, there is also an identifiable increased sense of isolation among residents (Perlman, 2003:22). The widening gap between rich and poor is reflected in the sense that individuals feel 'more distant from the world of *asfalto* (the formal life of pavement) than they did thirty years ago... do not feel like full-fledged citizens and ironically feel less empowered within their communities than they were during the military dictatorship' (ibid: 15).

The urban economy restructures along with economic growth. The structure of these changes is clearly important to how labour markets develop and engage different sections of the urban population. In Santiago, Chile, economic growth has led to employment generation, which has had a positive impact, in terms of overall poverty reduction, but the chronically poor in Santiago are unskilled workers in the informal sector (typically women and young people) who find it difficult to enter the formal labour force on account of either economic restructuring or technological innovations (in Grant, 2004). Also, workers in certain sectors of the informal economy face social exclusion.

**Box 1: Changing urban employment – the decline of domestic work in Rio**

When Perlman first visited the Rio's *favelas* in 1968-69, she found that women's income was mostly generated through domestic work. This work enabled women and their children, to live in their employer's house during the week and return to the *favelas* with money at the weekend. This set up allowed for broader benefits (ability to save money, good food, access to good health care and good schools in the area for their children). Today, this kind of set up is much rarer, reflecting reduced purchasing power of the middle class, increased tendency to live in smaller apartments (rising costs of urban housing), the institution of minimum wage and benefit requirement for domestic help, as well as laundromats, food-delivery, frozen foods, and new domestic appliances. More affluent families have cut their domestic help down to one or two days a week.

This structural change can be linked to changes in the female labour market:

- High unemployment among women, especially since it has been difficult for women to break into other areas of work.
- Mean income for men is nearly R\$587 compared to less than R\$382 for women in Rio.
- Increased part-time home-based work for women, allows for combined domestic activities with paid employment, but it also means that earnings are more erratic.
- More women are insecure about their working conditions today than they were decades ago.
- Many have gained employment in stores where there is greater prestige, but they work more hours and earn less.
- The incidence of female-headed households has increased from 18.1 percent in 1991 to 24.9 percent in 2000.

Source: Perlman, 2003: 32

The spatial dimensions of growth tend to reflect a geographical distribution of public spending – reflecting political decision-making rather than simple market distortions. These decisions may reflect strong political priorities regarding the most efficient way to allocate scarce resources, so as to benefit agglomeration economies and the like. Purposefully targeted regional development policies in Vietnam have encouraged the development of *urban growth poles*<sup>6</sup>. These three areas are of central importance for the development record of the country. Their share in GDP rose from 42.5% in 1990 to 46.6% in 1995 and 54% in 2002. Their contribution to GDP growth is 60%, their contribution to the growth of industrial production is 72%, and 59% to the growth of the service sector. In the three growth poles 88.5% of domestic investment and 96% of FDI is realised, they are responsible for 80% of Vietnam's exports and 67% of

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<sup>6</sup> These include the provinces around Hanoi, around DaNang and around Ho Chi Minh City



state income (Le Dang Doanh 2004, in Klump and Bonschab, 2004:32). However, there are limitations to how far benefits are distributed beyond the growth poles.

In contexts of economic growth, urban poverty reduction is not necessarily assured. There are many examples where aggregate urban poverty reduces more than aggregate rural poverty but there is considerable variation across countries. Rising urban inequality is a worrying trend and reflects the restructuring of vulnerability with growth, particularly within the urban labour market. Next we examine the context of low growth for comparison, before unpacking further some of the processes that occur within urban markets that mediate relationships between urban chronic poverty and economic change.

### **3.2 The no-growth or low-growth scenario: Does low growth impact on urban poverty?**

In no or low growth contexts it would be expected that poverty would stagnate or rise. This is particularly likely in urban areas where income is essential to survival and tied to macro-economic developments, whereas in rural areas consumption may be more dependent on weather and other conditions. For example, Peru was a country in recession during the 1990s. Here, urban poverty increased significantly while remaining stable in the rural areas. Urban chronic poverty was 13% in Peru between 1994 and 1998.

In this section we examine those OPPG studies of countries that, at an aggregate level, fall into the second growth category, namely those that experienced moderate rates of poverty reduction and growth, and where inequality declined (Burkina Faso, Bolivia, Indonesia, Romania, Zambia). Evidence suggests that this pattern of development was associated with higher growth (or lower negative growth) in the income of households in the lower percentiles than in the top percentiles (Grant, 2005). This does not necessarily mean that the poorest households are benefiting from low levels of growth but rather that these households are less engaged in the formal economy and wealthier households have been harder hit by economic downturns.

Whether no/low economic growth results in stagnant or rising urban poverty is likely to relate to the underlying reasons for low levels of economic growth in the first place. In Bolivia, for example, external shocks (such as terms-of-trade shocks, El Niño and declining capital inflows) all served to lower economic growth in the latter half of the 1990s and contributed to rising poverty. Bolivia is a highly segmented society with relatively sharp segmentations along a formal-informal divide, a rural-urban divide, and an ethnic divide. The formal-informal divide is related, among other things, to: tight labour market regulation in the urban formal market; poor credit access for informal producers and other barriers to formalisation; relatively little opportunities for migrant workers to gain entry into the formal economy; and the small size of the



formal sector. Urban incomes are closely tied to macro-economic developments. Rural incomes were more dependent on weather conditions and the cocoa economy, resulting in only slow growth during this period, but also growth that was generally more pro-poor than that found in the urban areas.

Zambia experienced pro-poor growth of 1.1 percent per year overall during 1991-1998. This growth was driven by rural areas which outweighed the decline in urban areas. Urban per capita consumption growth was consistently negative for all of the urban population, with only low and high consumption households performing better than the average. This pattern relates to political bias and not low growth alone. High and severe rural poverty in Zambia reflects the long-standing urban bias of government policies and the prolonged neglect of rural areas<sup>7</sup>.

Zambian poverty was already high in 1991, with 68.9 percent of the population falling below the nationally-defined poverty line. Rural poverty was much higher than urban poverty. Around 88 percent of the rural population in 1991 was poor, accounting for approximately 70 percent of the country's poor population. By contrast, 46 percent of the urban population was poor. National poverty rose during the 1990s, but the experiences of rural and urban areas were markedly different, reflecting government attempts to turn around the urban bias created through urban copper mining industry. While urban areas experienced sharp increases in the incidence of poverty, especially during 1991-1996, poverty in the rural areas fell slightly, despite a small initial rise. Trends in the severity of poverty are even more divergent. The severity of urban poverty rose during the 1990s, while it fell dramatically in rural areas. These trends offset each other to produce relatively stable but rising poverty at the national level.

Considering the close ties between the economy and urban incomes, it is likely that urban poverty is more susceptible to decline in this context than rural poverty. In Burkina Faso, for example, macro-economic shocks had adverse effects on poor households' incomes, and especially in urban areas, at least in the short and medium term. Growth-elasticity of poverty measures show that, between 1994 and 1998, 1% GDP per capita growth at the national level was accompanied by an *increase* of the

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<sup>7</sup> The history of the copper mining sector has created a long-standing urban bias in Zambia. The country's rural areas were depopulated and distributed to white farmers, with little supporting investment in infrastructure. Given this economic vacuum, the rapid inflow of foreign investment in copper mining created a domestic migratory system that fostered urbanisation, and concentrated economic activity and wealth within urban areas. Non-urban investment was directed towards transporting copper and capital goods between the small Copperbelt region and the southern border. The dominance of mining and urban political power, and the resulting rural-urban divide, still underpins Zambia's development despite changes in the political control of the country.



national poverty headcount of 0.9%. In rural areas this elasticity was slightly lower (0.7%) and in urban areas it was much higher (5.8%). During this period poverty increased in the rural as well as the urban areas (Grimm and Gunther, 2004:25).

The time frame by which the impacts of economic change are assessed is important. Perhaps reforms have strong initial negative impacts which then lessen over time. Similarly, people may take time to adjust their livelihoods. What is critical to determine is how long-lasting the impacts of economic change are. Economic change that facilitates escape is only advantageous if that escape is sustained. In turn, economic change that causes decline may not be too important if people are able to quickly bounce back. This is not an area that is easy to assess from the data but would clearly have important implications.

While poverty increased alongside economic shocks (devaluation and structural adjustment programs) in Burkina Faso, the longer term effects on macro-economic growth was more positive. Over time this appears to have impacted on poverty too, with elasticities improving between 1998 and 2003. During this later period, elasticities were  $-2.9\%$  (national),  $-2.7\%$  (rural) and  $-3.2\%$  (urban), showing macro-economic growth clearly leading to poverty reduction. Over the whole period however the growth elasticity of poverty is slightly negative in rural areas, (i.e. macro-economic growth led to poverty reduction) and slightly positive in urban areas, (i.e. macro-economic growth was not sufficiently strong to reduce poverty).

National economic growth can be impeded by poorly performing cities. The following section examines the context of urban fragility and conflict, before then looking at broader issues around engagement in urban markets and institutions in Section 4.

### **3.3 Economic stagnation and state fragility in urban areas**

Economic decline can translate quickly into worsening urban poverty and inadequate urban service provision. Moser (1996) studied four urban communities in countries that experienced economic difficulties in the 1980s. All four countries (Zambia, Ecuador, the Philippines, and Hungary), experienced high inflation and low or declining per capita income. She found that changes in prices, wages and public spending during periods of economic difficulty increased hardship for poor urban households.

Even in extreme crisis, people are not passive, but engage a number of management strategies to minimise expenditure and protect existing income and assets. Of course, not all households are able to adjust equally. Moser links escalating crime and violence to economic crisis and strained social fabric, but, in many ways, illegal activity offers a viable economic response to limited opportunities. Mombassa, Kenya, experienced little economic growth and little decline in overall poverty levels. Lack of law and order is a major problem facing this city that has affected its



economic potential, such as tourism and as a port, both of which have an unmet potential to generate employment for unskilled workers (Grant, 2004).

In some crises (war, famine etc) urban centres swell with the influx of internally-displaced people and new centres develop as IDP or refugee centres. Potts (2006) agrees that the considerable population growth of Uganda's war affected northern cities (Gulu and Lira) has little to do with economics. In urban Ethiopia, Kedir (2005) argues that IDPs are a major but overlooked issue, with considerable associated economic and health (HIV particularly) concerns.

El Salvador was in economic and social crisis by the end of the 1980s. Per capita income was only 70 percent of its 1978, pre-conflict, level. In urban areas, unemployment affected 9 percent of the labour force (23 percent of those in the bottom quintile) and underemployment affected 50 percent (72 percent of those in the bottom quintile). The country's economic infrastructure was shattered. Major dislocations of the population made it difficult to carry out surveys and so (as is the case in many conflict situations) data remains weak. It is a very real challenge to prevent economic decline within contexts of extreme fragility.

There is another question, however, that relates to whether or not crises present moments of opportunity which, if seized, can produce considerable poverty benefits (growth with equity). Recovery growth was pro-poor in El Salvador during the 1990s, for example, and more significant during the first half of the decade. This was not true in the rural areas however and an urban bias is noted during the early part of the 1990s. During the second half, however, this was reversed somewhat and rural incomes recovered, resulting in more impressive rural pro-poor growth than in urban areas (Marques, 2004:28). Both inflation and unemployment were higher and more volatile in the early 1990s than the later 1990s, affecting the purchasing power of the poor, as well as wages and employment (ibid, 2004:31).

Unfortunately, there is not much evidence to better unpack these dynamics at the urban level. We examine some of the dynamics relating to urban fragility in Section 4 below, but big questions remain regarding how urban centres respond to national crises, and in turn what this means for recovery growth and poverty reduction.



## 4. Urban labour market dynamics and corresponding policies

Arguably, labour represents the most important asset for the urban poor. It is through increasing work opportunities and returns to labour that poor households benefit most directly from economic growth. Quality and type of entry into the labour market is therefore integral to urban poverty dynamics.

Panel evidence from urban Ethiopia indicates that 27.5% of chronically poor households' heads work as casual labourers or in female business activities, compared to only 7.7% for the never poor. These are insecure or low return activities and it is not surprising that the chronically poor are disproportionately represented. The never poor are much more likely, and the urban chronically poor much less likely, to be wage workers compared to other groups. There are significant numbers of unemployed household heads in each poverty group, but the proportions are highest among the chronically poor. In most of these respects the transitorily poor are intermediate between the other two groups (Kedir and McKay, 2003).

Increasing the number of economically active members in a household can increase the chance of exiting poverty, but this depends on the quality of labour acquired. Panel evidence from urban Peru and Madagascar indicates that increasing the number of household members entering the informal sector actually hinders exit from poverty. Indeed, the more household members involved in the informal sector in these countries, the poorer they are (Herrera and Rouband, 2003) indicating poor quality, low-return work.

Generally, those who have obtained and retained jobs in the formal sector have experienced significant improvements in income levels. Unsurprisingly, participation in the urban labour market as a public service wage earner, a white collar work, or outside the primary sector limits the risks of chronic poverty in Peru (Herrera and Rouband, 2003).

However, wage employment (formal or informal) is limited in most developing cities. In urban Ghana, for example, only one-fifth of households were engaged in waged employment during the 1990s. The urban informal sector created few waged opportunities and the lack of private sector investment over this period contracted formal wage employment (McKay and Aryeetey, 2004). In urban Brazil (between 1976 and 1996) individuals situated below the 12<sup>th</sup> percentile were affected by a change in occupation to unemployment or out of the labour force (Ferreira and Barros, 1999, in Menezes-Filho and Vasconcellos, 2004). At the bottom end of the distribution, the poorest people also have greatest difficulty in getting back into work (reflecting low levels of education). This is consistent with evidence indicating rising urban inequality in Brazil.



Changing labour markets are often a major source of urban vulnerability. The empirical evidence on the functioning of labour markets under different conditions of growth and its impact on chronic poverty is limited and often generates a contradictory picture (Grant, 2004). The loss of a job by the household head, unemployment or inactivity surprisingly reduced the risk of entering poverty in urban Madagascar. This reflects the fact that household heads only leave the workforce or declare themselves unemployed once households have reached a sufficiently high income level (Herrera and Rouband, 2003). In urban Ethiopia too, pensioners are significantly more likely to be 'never poor' (Kedir and McKay, 2003) and again this may be simply a reflection of the fact that only non-poor householders are likely to retire.

The restructuring of the formal sector and increased competition in the informal sector contribute to declines in household income (Moser, 1996:5). Retrenchment, under SAP restructuring, has had a major impact on the urban labour market in many developing countries (affecting unskilled workers disproportionately). Liberalisation has been a major policy thrust during the 1990s. This has created both new income earning opportunities (for some) but also less stable working conditions. Retrenchments and liberalisation together have brought considerable labour market reform and restructuring to many cities, often affecting both the poor and the non-poor through reduced dismissal costs and reduced job security. In urban Peru: stable jobs dropped from 65% in 1989 to 23% in 1994 and to 13% in 1997; unionisation dropped from 58% to 13% between 1989 and 1997; and private sector wages (in companies with over 10 staff) declined by 0.5% in 1997-98 and another 1.3% the following year; unemployment rose from 7.2% to 9% in just three years (1996-1999) and urban poverty increased significantly (Vedera, 2000, in Herrera and Rouband, 2003).

Public sector retrenchment in Ethiopia (in response to IMF and World Bank pressure) along with privatisation has helped create an excess labour supply in the economy. This tends to keep wages low. Increasingly, casual labour paid on a daily basis is all that is available to many. The proportion of urban households in certain communities in Addis Ababa engaged in casual work rose from below 5% in 1989/90 to 35% in 1995 (MEDAC, 1999, in Kedir, 2005). Alongside this dramatic rise in casual labour is increasing instability of household income, with increasing vulnerability to poverty.

In Peru, formal employment has taken a severely precarious turn, following 10 years of labour market liberalisation, which has left formerly protected wage-earners more vulnerable (Herrera and Rouband, 2003:22). This has created an unexpected security within the informal sector. Increasing the proportion of informal workers, private sector wage earners and inactive workers/unemployed (with respect to public sector wage-earners) in households slightly raises the risk of entering into poverty.

Changes in labour market structure relate to the sectoral composition of growth or economic change. Integration into global markets can create new income earning opportunities but may result in less labour stability due to increased competition



pressures. Buyers demand higher quality at lower prices with faster and more timely delivery of products (Jenkins, 2003). Growth within sectors that require a highly skilled labour force (e.g. software industry growth in Bangalore) generates little employment for the poor and may in fact displace the informal sector. Countries may have to choose between increasing employment in the unskilled sector as a way of lifting the largest numbers of people out of poverty, or trying to upgrade within value chains and developing niche markets as a way of raising skill levels (Jenkins, 2003).

Export growth made a significant contribution to increased employment in both Vietnam and Bangladesh during the 1990s. However, workers typically have no benefits or contracts and are more susceptible to being shed during periods of low labour demand. Disadvantages of flexibility are disproportionately absorbed by women, who make up the majority of casual and seasonal labour forces. Flexible employment may have enabled more women to enter the labour force but they are often employed on less favourable terms. Women working in the export sector tended to be younger, single and recent migrants to the city. They tend to be from poorer households facing an absence of alternative employment in the countryside. The poorest workers in the sample were to be found outside the garment industry in casual wage labour or petty trade in the hidden informal sector. Expansion in women's labour market opportunities through the availability of a new form of employment, led to more stable form of employment, which enabled part of salaries to be remitted back home (to benefit the rural economy). However, long working hours and, in comparison to international standards, poor working conditions are evident in Bangladesh (Jenkins, 2003).

The development of sectors that support a large casual labour market may have a greater wage impact for unskilled urban labour. However, increased casual employment does not necessarily translate into increased well-being for the poor. Hard physical casual labour (e.g. rickshaw pulling in urban Bangladesh, and port work in Vishakapatnam) can have adverse health consequences, and in spite of the increased wages, labourers may be physically unable to work all available days and may incur work-related health expenditures (including work-related accidents, exhaustion, etc.) that hinder the movement out of poverty.

The performance of the manufacturing sector is important for urban employment as well as growth. Box 2 shows how this sector can produce pro-poor outcomes, even in contexts of high inequality. However, a reduction in urban poverty incidence does not necessarily translate into a reduction of chronic poverty. Workers in certain parts of the informal economy face considerable social exclusion and/or find it increasingly difficult to enter the changing labour market because of economic restructuring or technological innovations despite fast growth.

**Box 2: The Ready-made Garments (RMG) sector in Bangladesh**

From its very modest beginnings in the early 1980s, the ready-made garments (RMG) industry has registered phenomenal growth, to become the leading industry and the leading export product in Bangladesh. The sector provides a vivid example of how spill-over effects and learning-by-doing can result in the fast growth of manufactured exports. By the mid-1990s, the sector contributed between 20 and 25 percent of total value-added and employing between 40 and 50 percent of the total workforce engaged in medium and large scale manufacturing. Its share in total exports rose from barely 4 percent in 1983/84 to 75 percent by the end of the last decade. The growth of RMG was especially rapid in the 1990s, escalating from fewer than 100 operating units in 1990/91 to nearly 3000 units by the end of the decade. And, its value added increased from Tk. 10 billion, in 1988/89, to Tk. 35 billion, by 1997/98.

It is suggested that the additional income generated by the exceptionally rapid growth of RMG in the 1990s offered a significant boost to demand for services and other non-tradables. Since garment workers happen to be some of the poorest among manufacturing workers, their spending pattern must have been skewed more towards the inferior quality goods and services produced in the informal non-tradable sector than those produced in the formal tradable sector or those imported from abroad. This must have provided a significant boost to the informal economy.

(Osmani *et al*, 2003, in Sen, Mujeri and Shahabuddin, 2004: 44-45)

In Ghana the manufacturing sector is dominated by small firms, with low productivity and poor export performance (McKay and Aryeetey, 2004). Shifts away from manufacturing and towards service sector growth have been linked to reduced opportunities for the urban poor (e.g. Johannesburg). Rising unemployment in urban Zambia is linked to declining manufacturing (at rate of 5.9% per annum between 1991 and 1998). The largest declines have been in the food and textiles sectors, which have traditionally been more lower-skilled and labour-intensive (Thurlow and Wobst, 2004). Despite industrial growth in Uganda, this has not however kept pace with urban population growth, due to the magnitude of migration (Okidi, *et al*, 2004).

That said, getting work within the services sector can also result in increased household income. In El Salvador for example, having a household head employed in the mining, manufacturing, electricity, construction, commerce, transport, or services sectors increases per capita income by up to 70 percent as compared to working in agriculture (Marques, 2004: 17).

Wage employment is limited in developing countries. Most commentators argue that there has been a trend towards informalisation of the labour market in recent years (Mitlin, 2003). Barriers to entry are much lower in the informal sector and, as a sector, it is very important to the urban poor. However, those engaged in informal (or unregistered and sometimes illegal) work face many obstacles: inadequate access to credit and appropriate sites or premises; bureaucratic licensing requirements and



regulatory restrictions; and demands by the police for bribes to operate without a licence on in non-permitted locations (Rakodi, *et al.*, 2000).

In Zambia, the informal sector appears to be approaching saturation. Agriculture as well as migration to rural areas has provided a source of employment for those that lacked primary education and faced few alternative options (Thurlow and Wobst, 2004). In Ghana too the urban informal sector also created only few opportunities in the face of public sector retrenchments (McKay and Aryeetey, 2004).

It is important not to over play the distinctions between the informal and formal labour markets (and economies generally). It is clear that the formal-informal distinction is not always clear and the linkages are strong and important. Individuals can reside and work within both sectors and move between them (Hart, 1973, in Amis, 2004a). Benjamin (2000) argues for the importance of economic clustering in which local economies benefit from a diversity of (formal, informal, and mixed) economic activities that are mutually beneficial to traders in complex trading relationships. There are many situations where informal enterprises may be illegal in one dimension (e.g. health and safety or social security legislation) but may also be paying local taxes (Grindle, 1980).

Not all informal activities are constrained, and there is potential for considerable wealth generation outside of the formal sectors. The profitable sectors of the urban informal sector are often controlled by particular groups however, and are frequently reinforced by caste, ethnicity or other social norms that make them more difficult to enter (Amis, 2004a:148). Illegal drug dealing is the clearest example with serious negative repercussions for the wider community (see Perlman, 2003, on urban Brazil).

Clearly, labour markets function in ways that increase the vulnerability of certain people. Older people, particularly those that are on their own, are often dependent on wage labour and this is a feature of their poverty (Mitlin, 2003). It could be hypothesised that the old have to under cut their wages in order to remain in the informal labour market. Employment in the formal sector may be difficult because of age restrictions. Further, while formal sector employees are better off than their informal sector counterparts (e.g. entitled to pensions) such benefits may not be enough to meet their basic needs because of factors such as inflation, or increasing expenditure on medicines (see Perlman, 2003).

The vast majority of urban women in the three developing country communities studied by Moser (1996) worked in petty trade and services in the informal sector, as domestic servants, laundresses, street sellers or scavengers, for example. These women are forced by desperation to enter competitive, dead-end occupations with low pay and long hours. In 1992 women working in the informal sector earned less than men, and the earnings gap was greater than in the formal sector (Moser, 1996:5) Women, on an average, get lower wages than their male counterparts. Further, women in the informal sector who are self-employed are concentrated in



'low-paying' activities, such as petty trade, hawking or street-vending. A particularly vulnerable group within this category are young mothers who also play the additional role of care-providers (Perlman, 2003). For this group, the lack of facilities such as toilets, drinking water and waste disposal at work place is likely to be particularly inhibiting.

Young children form another vulnerable group in the labour market. Children may be engaged in exploitative activities, such as those hazardous to health (scavenging on a dumpsite) or endangering their safety (performing tricks at traffic lights) or affecting their long term self esteem (begging, sex-trade). Households most vulnerable to child labour are: female-headed households; households where adult members are ill and unable to earn a livelihood; or, in general, households experiencing a decline in income. Within the household, the most vulnerable members are older and girl children, who may drop out of school and limit their future opportunities. In certain contexts, girls stay at home to look after younger siblings while parents go out to earn income.

The continuous inflow of people into cities can be destabilising and place enormous pressure on the labour market, potentially decreasing wages particularly in the informal labour market, as well as on service provision and housing. As a result, additional migration is often politically discouraged by: denying permanent registration, issuing only temporary registration for money or by other means of creating barriers, for example, (Oxfam, 2003, in Klump and Bonschab, 2004). However, as long as the underlying economic incentives for migration remain strong, such measures are likely to make migration more costly to the migrants rather than preventing them. The result is that an increasing number of migrants are bound to live in the informal sector. Living in the informal sector usually confines migrants to unskilled, low-paid and low-security labour. Living in the informal sector also means non-eligibility for services; for example, in Vietnam, social and economic services such as low interest loans, exemption from school fees, are provided under the Hunger Eradication and Poverty Reduction targeting program (HEPR) but are not available to those that lack access to land and housing (Anh *et al*, 2003 in Klump and Bonschab, 2004).

There are spatial factors too that limit the accessibility to urban jobs, in particular, inner cities closer to the commercial centres find it easier to access employment opportunities vis-à-vis the peripheral areas (Urban Resource Centre, 2001). Often, lack of an efficient transport system makes it difficult for residents in peripheral areas to access these opportunities.

Despite the speed of growth, the sectoral composition of economic growth and change has strong implications for how benefits are spread across the urban population. Box 3 outlines some of the main labour market policy responses that are relevant to the urban chronically poor. However, it is important to recognise that urban labour markets are highly influenced by wider economic policies and investments outside of the labour sphere.

**Box 3: Urban labour market policies for chronic poverty reduction**

There are a number of things that governments can do to improve the quality and entry into the labour market for the urban chronically poor. In addition to the specific policy areas outlined below, other broader measures that are not explored here also have significant implications for the urban labour market, such as health and education policies, flexible migration controls, and so on, which need acknowledgment.

**Promoting labour intensive growth**

Few cities are found to actively pursue labour intensive growth paths (Grant, 2004). Colombo, Sri Lanka, is an exception. Here labour intensive growth is promoted through export production, which the Sri Lankan government and Greater Colombo Economic Commission have actively encouraged. Labour intensity was also integral to the historical development (notably major infrastructure construction) of Gaborone, Botswana, and the city has proved successful both in terms of growth and poverty reduction. The Botswana government boosted employment generation in the city through supporting private sector initiatives through grants, subsidised loans, and deferred tax<sup>8</sup>. Entrepreneurship flourished where there was effective demand (mainly government demand) in transport, construction, housing, commerce and financial and business services (Selolwane, 2006:290).

Labour intensive growth has been a stated objective since the early reform period in Ethiopia (Dercon, 2000) but employment generation does not feature prominently as a measure in the PRSP (Kedir, 2005). Notably, urban Ethiopia has a small informal sector and (despite retrenchments) public sector work is still valued more highly than the private sector – affecting the kinds of work that the unemployed (usually not including the poorest) are willing to do.

Although not a structural focus, many cities do pursue labour intensive programmes<sup>9</sup>. Most programmes aim to provide short term employment to the beneficiaries (not always the

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<sup>8</sup> Financial Assistance Policy (FAP), the Accelerated Land Servicing Programme, and extension services like the Trade and Investment Promotion Agency (TIPA) and Integrated Field Services (IFS).

<sup>9</sup> Examples include World Bank financed projects in Colombia, Djibouti, and Benin, and CARE financed programme in Ethiopia. The Colombia Community Works and Employment Project (2000-2003) is designed to finance small labour intensive infrastructure projects to help the vulnerable to cope with the high unemployment rate that has been a fall out of the 1999 economic crisis. The Djibouti Social Development and Public Works Project (2003-2005) is similarly aimed at creating both employment for the poor and the necessary infrastructure in poorest neighbourhoods of Djibouti. The Agence d'Exécution des Travaux Urbains (AGETUR) in Benin supported the development of SMEs and encouraged employment of both skilled and unskilled labourers. Employment has given a major boost to the local economy and infrastructure has had significant community level impacts. The Ethiopian Food for Work programme has been fairly successful in targeting extremely poor urban areas (communities under \$40/month and later \$60/month) and paying labourers in-kind (food and oil). In this case the workers were women and construction work was explicitly aimed to provide food security for the poor. It failed in providing long-term security however – often the main criticism of these programmes.



poorest) and build infrastructure for poor communities. In some cases the programmes are broader and expand to include the development of a small and medium enterprise sector (e.g. AGETUR, Benin). Improved infrastructure is much needed in many cities and these programmes go some way to ensure this. In Benin, in addition to roads, the city drainage has been improved, latrines installed in public gardens, and social areas developed. Reduced levels of crime have been reported (Grant, 2004).

These programmes often benefit the targeted workers, but the benefits do not last longer than the programme itself. This approach is often criticised for not being linked to broader city-wide economic development and for therefore working in isolation and remaining unsustainable. It is not always easy to target the chronically poor through these programmes, as they tend to provide work for able-bodied people and often men (although women were targeted in Ethiopia's Food for Work programme).

### **Wage rate and labour welfare legislation**

The reality is that most urban poor have to work until they die, in insecure livelihoods and at very low rates of return that inhibit their ability to exit poverty. The daily rate for casual labour underpins an entire local labour market and is a key mechanism through which the benefits of growth may or may not pass to poor workers.

Workers in the informal sector usually lack any labour protection. They may be engaged in hazardous activities that damage their health in the long run, and women and children may be abused by employers but risk their livelihoods if they complain.

And yet, minimum wage regulation and labour welfare legislation does not necessarily ensure a better outcome for the urban poor. It can lead to a decline in employment (such as of domestic helpers) and inhibit the development of a sector. Besley *et al* (2004) find that regulating in a pro-worker direction is associated with increased urban poverty in India (under the Industrial Disputes Act) and argue that attempts to redress the balance of power between capital and labour can end up hurting the poor and lower per capita manufacturing output. In Indian states, where pro-worker legislation has been applied, the result has been an increase in the non-registered sector (Besley, *et al*, 2004).

It remains the case, however, that flexible workers need greater protection. Jenkins 2003 argue that this protection does not have to undermine the competitive position of a sector but can result in much enhanced worker loyalty, higher productivity, and within global markets a better ability to provide overseas purchases with quality products. Clearly, this is an important area for further research.

### **Flexible trading laws and associated land use legislation**

Informal traders' positions are often very fragile, dependent not only on the uncertainties of passing trade but also vulnerable to the exploitative behaviour of those with the power to enforce oppressive regulations. Informal traders, like all retailers, usually prefer busy pedestrian sites in central business districts, even though these are often areas of conflict. The location of the informal sector is one of the key issues in relation to its regulation (Amis, 2004:145).

It is important that city governments do not destroy jobs by over regulation (e.g. removal of informal vendors and hawkers, demolishing kiosks, confiscating stock, denying licenses, etc.). Given the inherent difficulties in implementing diverse legislation, municipal (and national) governments tend to be selective (or perhaps arbitrary) in what they implement (Grindle,



1980). These often respond to non-poor demands for city beautification or master-planning approaches, but can seriously damage urban productivity among the poor and poorest. Relaxation of laws can have a positive effect and often occurs in response to organised protest by vendors (e.g. Cebu, Philippines, SEWA in Ahmedabad, India, etc.). In Cebu the municipal government realised the importance of the informal sector to the urban poor and asserted a policy of 'maximum tolerance'.

#### **Encouraging private sector investment**

In many developing cities, the formal private sector only employs low numbers of the urban work force, (e.g. 15% in Burkina Faso – OPGG study) and even fewer of the urban poor. Development of the private sector requires governments to provide appropriate regulatory frameworks, an attractive infrastructure investment, and a workforce with at least a basic education. Governments need to make the transition from informal to formal activities as simple as possible. In Burkina Faso the administrative steps required to make this transition was significantly reduced to two days, but additional costs (tax and social security contributions) remained high and inhibited many informal enterprises making this transition. Investments into the informal sector remain important to labour market stability and (inclusive) economic growth.

Private sector investment needs careful design consideration to respond appropriately to the reality of local labour markets. The encouragement of high-tech industry in Bangalore, for example, has not favoured local employment development but has instead increased land values and forced out small enterprise and undermining the local economy (see Grant, 2004).

Clearly there are strong equity issues surrounding formal private sector development and this should not be regarded as single route to increasing household incomes but could be seen as part of an overall scheme of employment creation. There are important urban (and broader) governance implications that need to be taken seriously – ensuring public security, enforcing laws and reducing corruption so that private enterprises work in a 'transparent and rewarding environment' (Kedir, 2005).



## 5. Urban commodity market dynamics and corresponding policies

Prices are higher in urban areas than in rural areas, and all aspects of living are commoditised (services and infrastructure, as well as livelihood-associated costs, e.g. paying for vending space, etc.). This presents considerable problems for the urban (chronically) poor, who have considerably higher levels of expenditure to meet compared to the rural poor. In urban Ethiopia, households were asked why they think their welfare has changed and the most cited reason related to price changes (Justino and Litchfield, 2002, in Kedir and McKay, 2003). It is worth investigating the links between changes in major commodities and household welfare.

It can be reasonably argued that because economic growth inevitably entails a higher extent of monetisation, these trends are likely to be significantly stronger in global cities or cities experiencing growth. Also, it can be *a priori* assumed that cities experiencing higher growth or global/mega-cities will have higher price indices than cities/towns experiencing stagnation. The net outcome on the expenditure and earnings of the chronically poor is not entirely clear, because while price indices are higher in rapidly-growing cities, it can be presumed that these contexts also offer more income-earning opportunities. On the other hand, lower price indices may be on account of the limited growth of that city and thereby, limited employment opportunities for the poor.

Poor quality and reach of public services creates a space for private providers. Quite apart from the fact that the pricing of these services may put them beyond the reach of chronically poor people, they may not cater to special needs of these groups. Privatisation of services can reinforce existing forms of social discrimination (e.g. caste hierarchies and girls' access to education).

### Box 4: Urban commodity market policies for chronic poverty reduction

**Ill-health costs** pose significant economic risks to urban poor households (e.g. direct costs of treatment and non-medical care, indirect costs of lost income of both affected household members and/or their carers, as well as psychological costs of worry and stress). See Begum and Sen (2004) for a detailed case study of these costs and their economic consequences for workers in the rickshaw trade in urban Bangladesh. Policy responses to offset these high costs are urgently needed in many low income urban contexts to assist the urban poor recover from health shocks. Appropriate sanitation and water provision is also critical, particularly in peripheral areas.

**Planning laws and regulations** can impinge on urban commodity markets, particularly those that the chronically poor are likely to use (buy and sell). Encouraging mixed land use through



flexible land tenure systems allows for commodity markets to develop in ways that favour small enterprise, enable links between suppliers and customers (individual and business purchases), and the formation of social capital. A related issue is that of law and order. Breakdowns can severely restrict local economic activities, needless to say, affecting the urban poor disproportionately. Infrastructure (such as street lighting) can have enormous positive impacts on trading, by creating safer spaces and lengthening the trading day.

**Food price stabilisation** is crucial in urban settings, but is often not implemented. NGOs and community level interventions are often left to pick up the pieces. These interventions can be successfully linked into sustainable economic production. E.g. Peru's community kitchens (*comedores populares*) involved Lima's poor collectively purchasing large quantities of food and preparing meals for members, and was an important source of food security during economic crisis in 1990. The success of the programme attracted government and donor interest and led to expansion of the project into skills training and financing to transform the kitchens into self-sustaining restaurants (IFPRI, 2001b).



## 6. Urban financial market dynamics and corresponding policies

The urban poor tend to borrow sums to meet their day to day expenditure or to meet expenditures arising from sudden emergencies (often related to ill-health). The urban chronically poor, however, have arguably limited access to formal financial markets. Banks rarely offer loans or have repayment structures that are tailored to the particular needs and characteristics of the urban poor. The requirement for collateral for accessing formal bank loans obviously inhibits borrowing among the poor, who also require some form of flexible repayment scheme as they tend not to have steady cash inflows.

Informal money lenders tend to be relied upon by the chronically poor. This sector is more likely to lend to the poor as and when they require, and often take lack of collateral into account. However, the rates of interest charged are often extremely high and can inhibit household stability over the longer term.

Informal savings groups, such as chit funds (Bangalore), stokvels (Johannesburg), marandara samitis and sattu (Colombo) serve as a source of accessible credit to the urban poor. These informal groups act in ways similar to extended social capital networks (e.g. kinship) by pooling resources at a community or group level rather than a household level, and thereby extending out to financially weaker households. Despite much promise, these networks still often fail to protect the interests of the most vulnerable members of the community (Beall, 2004).

### Box 5: Urban financial market policies for chronic poverty reduction

Provision of **credit** on acceptable terms is an obvious policy response. Governments can encourage group-lending schemes that are adapted to the realities of poor households. There are institutions that appear to have achieved positive results in lending to poorer clients. In the case of Mibanco (Latin America's biggest micro-finance institution) low-income, salaried workers living in the same communities as well as micro-entrepreneurs, are targeted clients. Its success has been credited to its willingness to finance incremental investments, base loans on household assets rather than mortgages, provide a longer repayment period and low interest rates, as well as rapidly processing loans. While it is not clear how far the poor and chronically poor benefit from the scheme, there are still lessons to be learnt. The principle of incremental borrowing allows clients to invest progressively and encourages high repayment<sup>10</sup>.

<sup>10</sup> See <http://www.citiesalliance.org/> for other examples.



The Self Employed Women's Association Bank is a well-known institution that has been successful in providing **financial services** to the urban poor (Sharon *et al*, 2002). All 25,464 (in 2000/01) clients of SEWA bank are self-employed women in trades such as block printing, handloom weaving, embroidery, fish and vegetable vending. The services provided by the bank include: savings, secured and unsecured loans and insurance schemes. SEWA's success is also important because besides providing women with financial services, it also addresses other issues that are of crucial interest to women such as maternal health, child care, etc. However, the main drawback of SEWA bank is that since its members are self-employed women, it is not addressing the financial needs of the large number of persons engaged in wage employment.



## 7. Urban housing market dynamics and corresponding policies

Where people live and how they use their homes is of critical importance for the urban chronically poor and for economic growth. The proportion of informal workers in a neighbourhood notably reduced the risk of chronic poverty in the Madagascan capital. By contrast, in Peru, this variable had the expected negative impact, though it was not significant. The result could signal a greater integration of informal workers in Madagascar as informality density in a neighbourhood is linked to the importance of solidarity networks and social capital. In fact, in Madagascar a greater proportion of informal workers worked out of their home, used family labour and carried out sales in the neighbourhood as opposed to their Peruvian counterparts who resided in recently established outlying neighbourhoods, far from the selling points of the commercial downtown areas (Herrera and Rouband, 2003:19).

Panel data shows that, in both urban Madagascar and Peru, escape from poverty is linked to favourable residential locations, where positive externalities can be harnessed. Good geographical location enables better grasp of market opportunities and allows for higher income generation (Herrera and Rouband, 2003). There is no regulation in rural areas of Uganda, where poor and non-poor alike build their own houses using materials available to them – trees, grasses, soil. In contrast the urban housing market is much more managed (Ssewanyana and Bategeka, 2006).

In the era of liberalisation, the role of the Minister of Housing in Uganda is the regulation and enforcement of standards in building construction. The policy of liberalisation has affected the housing industry in a fundamental way. The National Housing and Construction Corporation (NHCC) has sold off many houses to private buyers. The Ugandan Government also encourages individuals and private firms to build houses for themselves. Uganda has witnessed significant expansion of the housing sector in the last two decades. As such, housing schemes are hardly in place for the poor. Even when efforts are made by the public sector to provide housing for the poor, the rich, more often than not, grab such opportunities for themselves (Ssewanyana and Bategeka, 2006).

There is no one type of urban housing market for the poor. The market place is characterised by substantial differences, depending on location, wage levels, quality of construction and so on (Amis, 2004). Mitlin (2003:17) identifies 8 types of housing (sub-) markets, each responding to different categories and needs of poor urban individuals and households (e.g. rented beds in dormitories in cheap houses to suit (male) daily wage migrant workers requiring only a bed to sleep at night). At the extreme, urban contexts are typified by large numbers of homeless people, who are



not only likely to be chronically poor but are often missed by surveys and policy debate.

Homes are used as productive capital, sometimes providing a location to trade from, providing rent through letting out rooms, or simply enabling small 'factories'. Operating from home minimises costs and often allows for easy access to markets for both finished products and for inputs (Grant, 2004). The illegal status of housing for many of the urban poor can inhibit this activity, however, as people are unwilling to invest in homes, particularly if they live with the threat of eviction hanging over them. Further, neighbourhoods lack the basic infrastructure required to enable productive work (electricity, water, etc.). Illegality has other negative consequences for urban housing markets too. Unscrupulous landlords can charge high rents for example as the sector is unregulated. Illegal connection to services can result in added premiums to service charges (Mitlin, 2003:25). The lack of a formal address can also inhibit access to formal documentation, claims on specific government services and programmes even when designed with the urban poor in mind, and even employment opportunities<sup>11</sup> (ibid).

Lack of resources inhibits movement to more secure locations and, even if resources become available, residents are often unwilling to move far from sources of income and support. Forced evictions can have devastating results. Residents are usually relocated to the city periphery, where they may have to spend considerable time and resources travelling back into the city for work. Housing project locations are often less viable economically, displace kinship and social networks, and diminish earnings. It can take a huge effort to work with local government to stop evictions and find a more palatable solution (see Moser, 1996:4 for Commonwealth, Manila example, and outputs from the Slum Dwellers Association for examples across Africa and Asia).

**Box 6: Urban housing market policies for chronic poverty reduction**

Clearly, demolition and relocation of settlements is not the best solution for the urban poor. In some cases (e.g. dangerous locations) it is essential that settlements be removed however there are more productive ways of doing this than forced displacement. Alternative approaches include providing secure tenure and onsite infrastructure development where possible, as well as collaborative planning with communities.

**Providing legal title and upgrading settlements**

<sup>11</sup> Illegal settlements are often cursed by stigma in wider urban society. This is particularly the case with settlements associated with high level of crime and violence (particularly drug trafficking) and can have considerable impact on recruitment as employers tar all residents with the same brush. Further, fear within settlements can have severely detrimental effects on local economic activities too. See Perlman, 2003, for detail on these dynamics in Rio de Janeiro's *favelas*, and Beall, 2003, for Johannesburg.



Legal title is needed to give households security. Providing secure tenure and infrastructure can yield considerable economic benefits. In Belo Horizonte, Brazilian slum dwellers have benefited from the enactment of a land act that has provided security of tenure and an opportunity to regularise their status (Tibaijuka, 2005). In South Africa, relaxation of restrictive planning laws allowed slum dwellers to carry out investment in their houses. As a result, the houses could also be used to carry out productive activities and provide an additional source of income (Grant, 2004).

There have been 3 phases of policy effort regarding the *favelas* in Rio de Janeiro: 1. eradicate favelas; 2. upgrade them; 3. integrate them into the city (Perlman, 2003). The most recent response has been the Favela-Bairro Project, which has focused on upgrading the physical infrastructure in *favelas* as a means of integrating them into surrounding neighbourhoods. However, despite some success, Perlman is concerned that this massive program has not addressed issues of insertion in the market or the state, or provided a general, inclusive model of development (Perlman, 2003: 20).

### **Flexible planning laws**

Roughly 60% of land in Kampala continues to be under *mailo* tenure and ultimately subject to Bugandan tribal leadership of the Kabaka. *Mailo* land is not amenable to the enforcement of basic buildings and sanitation regulations let alone urban planning, as urban technocrats and politicians work at cross purposes. The gulf between politicians' vote-seeking acquiescence to the flouting of building regulations and urban technocrats' insistence on demanding standards in the face of abject poverty has undermined the possibility of realistic urban planning (Bryceson, 2006: 23).

Where the regulatory environment is flexible, home owners are able to sell part of their property or build new homes on their plot – or expand the existing one – to accommodate their children's newly formed families (see Moser, 1996, for examples of unregulated land markets in Cisne Dos). Relaxation of the enforcement of the planning laws in South Africa has resulted in the construction of backyard shacks in the townships and in the use of housing as productive capital. As a result, the townships are less homogeneous and the use of public and private space has changed. Prohibition of trading in townships has been ended and hawkers, retail outlets, taxis and so on are now an important part of local life (Grant, 2006: 47).

### **Housing subsidy programmes**

There are a number of fairly large scale programmes that have been pursued in different cities. For example, Mitlin (forthcoming) identifies programmes in Chile, Mexico, the Philippines, and South Africa. The most innovative of these programmes are able to provide the urban poor with their most basic need – access to urban land with security of tenure without collateral. However, they are often constrained in what they can achieve, given the high costs of urban land, programme and broader governance structures, as well as economic difficulties and household constraints.



## 8. Urban infrastructure

Economic infrastructure is critical in enabling poor urban communities to work productively. Key urban infrastructures include water, transport, and electricity, as well as health care and sanitation. The circumstances in which services are provided often determine the effectiveness of delivery. In Cisne Dos, where the community organised to obtain water and electricity through 'bottom-up' process, the level of services has been higher, and services have been sustained longer than in other contexts (Moser, 1996: 7).

Herrera and Rouband (2003:12) find that housing and access to public infrastructure services clearly reflect uneven levels of development. Madagascar has fallen far behind in matters of public investment over a long period of time, while in Peru over nine out of ten urban households had access to electrical power and three quarters enjoyed running water, these proportions drop to only 60% and 14% in the Madagascan capital. In both Peru and Madagascar, the lack of access to public infrastructures, such as electrical power, is a significant 'marker' of chronic poverty status. On the outskirts of large cities, the considerable geographic expansion of so-called 'human settlements' made up of precarious housing explains why in Peru (and also Antananarivo) the lack of indoor toilets is also associated with chronic poverty (Herrera and Rouband, 2003:19).

Cuts in public spending are often inevitable in countries experiencing economic difficulties. Investment cutbacks in African urban infrastructure have left cities in a general state of dilapidation. Particularly problematic can be reductions in water supply. In restricted water sites, the urban poor often turn to freely available sources (ponds, streams) or the private sector, purchasing drinking water from vendors often at very high prices. In Kumasi women and girls spend a large proportion of their time collecting and storing water (Grant, 2004). In Chawama in 1992 women made at least two trips a day to fetch water, with each trip taking more than an hour (Moser, 1996:8). This leaves less time for income generation activities. Community responses allow for problem sharing, cost sharing, and self help (Bryceson, 2006). However community initiated water schemes are rarely able to meet local demand.

SAP induced cutbacks in transport infrastructure, alongside the municipal ineffectiveness in maintenance of existing city roads and network expansion to keep pace with the physical expansion of the city, means that some of the worst roads in the country are found in the capital cities, where vehicle load is heaviest (Bryceson, 2006). The privatisation of public utilities and the introduction of metered charges have put services out of the reach of vast numbers of the urban poor. Private services are often perceived to be of higher quality. However, accessibility then becomes a function of ability to pay with serious implications for health. In many countries, urban public utilities (such as electricity and water) have been increasingly sold to foreign multinational firms. In Dar es Salaam the profit-making concerns of the international consortium supply water to the city conflicted with the water



requirements of the poor urbanites. Water rates rose and those domestic consumers who could not pay or had illegal connections were penalised by having their water supplies cut (Action Aid International, 2004, in Bryceson, 2006:26).

The Ugandan Government has experimented with private sector participation in water management - ownership of infrastructure and its expansion have remained largely the responsibility of government. The management contracts normally provide for further investment in the sector by the private operator. Regarding rural water and sanitation, government still plays a major role in putting investment in place. However, there is increased private sector participation and also community or beneficiary participation. The communities are responsible for the maintenance of the rural water sources. However, functionality of boreholes is very low - once the facilities breakdown, the communities find it difficult to raise money to repair them or are simply not willing to repair them, preferring to revert to unsafe water sources (Ssewanyana and Bategeka, 2006).

The possibilities of pro-poor growth with co-operation from the private sector need to be explored. One such strategy is adopted by the Ahmedabad Municipal Corporation, where private companies are involved in maintaining essential infrastructure in the city, such as parks, gardens, road sides, and thereby, generate employment in return for advertising rights (Grant, 2004). In China, in the cities of Chengdu and Baotou, it seems that a policy of equity grants for the poor and fiscal incentives for builders who provide housing for the poor has helped to build 6 million houses (Tibaijuka, 2005). However, there has been little long-term thinking or strategy to link with the wider issues of city economic growth, so that in most cases these initiatives work in isolation from wider social and economic dynamics, with implications for their sustainability (Grant, 2004:50).



## 9. Policy implications – final reflections

Scattered evidence exists on the conditions of the urban chronically poor under different growth conditions. Studies on individual cities or urban areas that have experienced different growth rates or different impacts within varied national growth scenarios allow us to infer some of the dynamics affecting the poor and chronically poor. However, further studies *specifically designed* to improve our understanding of urban poverty dynamics under alternative growth scenarios remain missing. It would be interesting to compare the conditions of poor in high growth cities, such as Bangalore or Shanghai, vis-à-vis cities with little economic growth, as in Africa, and cities experiencing stagnation on account of fragile political situation, for example, Kabul in Afghanistan.

Urban level data remains pretty weak and there is much debate about the appropriateness of survey data to capture the extent and full experience of urban poverty. This seriously inhibits what can be said, comparatively, about rural and urban areas. Data weakness is even starker when analysis attempts to draw a distinction across different urban centres, and data is particularly weak in relation to small towns.

There is also little research that currently draws links between policy and micro impacts at the urban level. We have attempted, and managed this, to a limited extent in this paper, but it is difficult to draw firm conclusions between growth scenarios across and within countries. It is a bigger research project to unpack the transmission channels of macro policy changes to the household or individual level, varied from country to country, and sector to sector within countries.

It is clear that national economic growth can be impeded by poorly performing cities. Harris (2002, in Amis, 2004a) argues that city managers become increasingly important in economic management, with some cities doing much better than others in expanding the demand for workers. However, most municipal administrations have little understanding of the city economy's strengths and weaknesses, and a city's economic policy tends to be limited to attracting investment (tax breaks, free land in industrial parks, and so on), without much attention to whether the costs of these 'incentives' are greater than any benefits (ibid).

The productivity of the urban economy can be much influenced by the actions of city government. Ensuring that basic infrastructure and services are provided and are accessible to all can have a profound effect on businesses, enabling them to function without resorting to costly alternatives. Similarly, ensuring access to land and secure tenure for embryonic enterprises, on terms that are appropriate to the ways in which they operate, is also a strategically important role for municipal governments. City governments also have a role, in ensuring access to primary healthcare and primary education, through which the poor build up their human capital (Grant, 2004: 51). Notably, it is easier for city governments to destroy income opportunities



(demolitions, re-settlement in remote locations, repressive regulation of informal sector trading, and poor quality of services) than to create them (Amis, 2004a; Grant, 2004).

The urban economy is important for aggregate growth. In many countries services and industry growth is stimulated by urban activities (e.g. Ethiopia in 1990s). It is not only urban specific growth policies that affect the urban economy however. Macro-economic policies also tend to have a disproportionate effect in urban areas, particularly in large urban centres, with many macro-economic reforms being essentially urban-focused. In Ethiopia these include financial market liberalisation, much privatisation, policies regarding the investment code, road infrastructure (surprising high share<sup>12</sup>), etc. The importance of being able to stimulate a better investment climate is well recognised within urban areas, but, as in Ethiopia, many of these reforms are not been completed (Dercon, 2000).

In Peru the effect of macro-economic restructuring on the urban labour market has been huge. Major labour market reforms have been undertaken to respond to privatisation of public and para-public corporations. Job stability has been practically abolished, dismissal costs reduced, deregulation has led to decreased job precariousness, and unionisation has plummeted (from 58% in 1989 to just 13% in 1997) (Herrera and Rouband, 2003).

SAP reforms responded to an underlying assumption of urban bias in African economic development policies, which were perceived as damaging national economic growth (Potts, 2006). As such, many of these reforms involved allocative shifts in resources to the rural sector (exports) and against urban production, jobs and investment (ibid).

Rising urban inequality is now a major concern. Many countries provide evidence that inequality-reducing policies may yield greater capacity for urban poverty reduction than growth policies do alone.

Inequality is not just a quantitative experience: rising crime and insecurity further limits the productivity of certain groups and areas. When local economies are strongly driven by overt violence and fear, they can inhibit the functioning of the poor. Public policy is also often inhibited by public officers' involvement in, and their benefiting from, destabilising, but nevertheless financially rewarding, illegal activity. While *favela*-based drug-traffickers are often better armed and visually apparent than the public policy, this often comes with the complicity of the police, who may themselves confiscate arms and drugs in one area only to sell them on in another (Perlman, 2003:22). Issues such as police pay or broader public office incentive structures, for example, therefore have some relevance to this discussion.

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<sup>12</sup> 52.2% of approved road infrastructure investment allocated to Addis Ababa – however implementation rates are much lower in Addis than other larger regions.



It is therefore impossible to think about issues of inclusion, opportunity and market exclusion without thinking about the underlying institutions that drive market formation and development. Addressing inequality is much more difficult than promoting economic growth. It is not simply a matter of transfers, even if there were the resources available for these, it is also about increasing the participation of the poor (Grant, 2004:42).

The geographic distribution of public spending is also crucial, reflecting considerable political decision-making. Spatial inequalities may reflect simple market distortion but on the other hand may be the most efficient way to allocate scarce resources, so as to benefit from agglomeration economies and the like. It is difficult to unpack this question, however, the felt impacts of such inequality can be both economically and socio-culturally detrimental to development if it is extreme or becomes a source of conflict and unrest. What is the most efficient allocation of activities across space to reduce the number of chronically poor people? To answer this we need to better understand what kinds of public spending seem to be more important for the chronically poor in the areas where they are concentrated (e.g.: infrastructure investment versus agricultural development, through land policies). There may be micro level answers to this question.

It is likely that there will be winners and losers of policy focus and investment across a country, and this is often argued for on efficiency rather than equity grounds. Performance of particular areas is not sufficient however. We need to know what type of policies help what type of geographical area develop and with what multiplier effects. What are the circumstances that enable pro-poor and even pro-chronically poor growth expand beyond the particular area to benefit most widely. Are there economic policies which better encourage the links between different areas?

The dichotomy drawn between urban and rural areas is to an extent a false one, and moving away from this is important. Linkages between hinterland cities, urban agglomerations and urbanised regions may be important in enabling poor rural regions to gear up to the demands of the global economy, as well as driving up wage rates, providing opportunities for migrants etc<sup>13</sup>. However, this remains an under-researched area, and while this is clearly important, it is also clear that the impact of urban economic change within the urban setting itself remains an important and poorly understood dynamic.

We need, for example, to link the urban sector, as a whole, to the agricultural sector. There is limited urban level empirical evidence to draw on but it is likely that the effects of agricultural policy and agricultural development on urban labour (and possibly commodity) markets are strong. The impact on urban wages of high rural migration to urban centres can be detrimental to the well-being of particular groups of the urban poor, for example. In Bangladesh, a doubling of cereal production, on the

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<sup>13</sup> Andrew Shepherd, personal communication.



same amount of cultivated land, since Independence has helped to sustained the food security and contribute to real price decline for rice benefiting the urban poor (Sen, Mujeri and Shahabuddin, 2004). Prudent agricultural policies in Vietnam also make efficient use of rural unskilled labour (Klump and Bonschab, 2004).

The development of a strong domestic agriculture market may have very important impacts on urban food prices. In Burkina Faso agricultural development has decreased the prices of food staples mainly consumed by the poor, and increased the demand for locally (informally) produced goods, thus also decreasing the pressure of rural-urban migration on informal wages (Grimm and Gunther, 2004). That said, this is context driven. In Zambia, for example, although agricultural growth generates the highest returns for pro-poor growth, the small size of the agricultural sector and high levels of urban poverty suggests that accelerating agriculture alone will be insufficient for both broad-based and rapid poverty reduction (Thurlow and Wobst, 2004).

Urban economies must be more than just markets for agriculture but must also generate other important benefits for rural communities. Urban earnings are important remittance income to rural households, playing a part in decreasing absolute poverty nationwide (see Selolwane, 2006, for discussion of this in relation to Gaborone). In Vietnam the role of urban growth poles in spurring economic growth, involving capital and skill intensive production, has meant a critical part has had to be played by indirect growth-poverty channels, such as voluntary remittance and public transfers, to offset spatial imbalances. This has worked to varying degrees with the lack of physical infrastructure being a major obstacle to spreading the benefits of concentrated growth (Klump and Bonschab, 2004).

Countries are not immune to globalisation. Growing insecurity in urban areas, for example, is often linked to price volatility and market instability caused by globalisation (Rahmato and Kidanu (2003) in Kedir, 2005). Work by Leautier (2005), linking city performance and city governance to globalisation, found that globalisation and city governance (namely, accountability that results in better performance in terms of access and quality of delivery of infrastructure services) are significantly and positively related. She concedes that more evidence is needed but provides useful evidence on the potential of agglomeration economies. Looking at Africa where urbanisation has tended to occur without globalisation, and also where high urban growth has occurred without corresponding economic growth, she argues that the role of cities in the development of the region seems to be crucial but little is understood about it: why is the African case special? Is it about poorly governed cities? Or is it about the 'wrong' pattern of urbanisation (e.g. very unbalanced urban systems)?

It is worth concluding by acknowledging the extraordinary adaptations that are made by urban residents in order to cope with the effects of these impacts which often leave previous livelihood completely unviable (Potts, 2006). Current thinking has moved away from 'urban bias' and projects urban areas once again as central to



national economic transformation, as 'engines of growth' (WDR, 1999) with a renewed awareness of the plight of urban poor and their needs (ibid). However, many cities are not growing economically. Urban governance is an important factor. The challenge facing city governments is both to attract inward investment and to develop a skilled labour force while simultaneously protecting the productive activities of the poorest (Grant, 2004:49).



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