

The Bank and Urban Poverty

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In September, 1973, World Bank President, Robert S. McNamara outlined in his address to the Governors of the Bank at their Annual Meeting what he called a major new undertaking for the Bank — a programme to help national governments alleviate poverty in the rapidly growing cities of the developing countries. This article by Edward Jaycox, currently the Bank's Director of the Urban Projects Department, and Chairman of the Urban Poverty Task Group attempts to set out the background to this major effort, outline the basic strategy that has been developed and report on progress to date.

The reason why the Bank is undertaking a major offensive against urban poverty is readily understandable in the light of the realities faced by most less developed countries today. Over the past 25 years, the urban population of developing countries has increased at the unprecedented rate of close to 5 per cent per annum—nearly twice the rate of the overall population growth of these countries. Over 550 million people have been absorbed by the cities in the developing world in a single generation. Today these cities contain over 840 million persons, or about 28 per cent of their total population. About 25 per cent of the total population in Africa and South Asia lives in urban areas; the proportion rises to between 30 per cent and 40 per cent in East Asia and North Africa, and to nearly 60 per cent in Central and South America. So while the pace of urbanization over the past 25 years has been faster than ever before the level of urbanization is still relatively low.

This makes the challenge of the future even greater. The United Nations estimates that by the year 2000 another 1.2 billion people will have to be absorbed by the existing and new cities of the developing world. Africa's urban population will triple. In Latin America urban dwellers will exceed 75 per cent of the total population. Except for the poorest countries of South Asia and Africa, at least half of the developing world will live in urban areas. About half these urban newcomers will come from natural population growth and the rest from migration to the cities from the rural areas. Most of these new city dwellers will be poor and unskilled. The resources available for accommodating this urban growth are, and will remain, severely limited. The pressures on these cities and national govern-

ments are already enormous and, by and large, the developing countries are not ready — in terms of attitudes, policies, management capacity, or ability to mobilize the financial and other resources required — for the task ahead.

The heart of the problem of urbanization lies in the rising numbers of the urban poor. If a city's population is growing at twice the national rate, the poor — in their illegal, unserviced squatter settlements, unemployed or underemployed in low productivity jobs — are typically growing at twice or three times the rate of the city's population as a whole.

The Bank estimates that currently almost one third of the urban dwellers in the developing countries lack the incomes and therefore the consumption sufficient to maintain a productive life. Over 250 million of them lack reasonable access to minimal nutrition, safe water, minimal sanitation, and basic education and shelter. We also estimate that these numbers are growing by perhaps as much as between 15 and 18 million persons per annum, and that unless much more is done to alter present trends by the year 2000 over 600 million urban dwellers will be found living in these deplorable conditions. The implications of this explosion of the urban poor for overall economic and social progress as well as for political stability are indeed stark. Appropriate national strategies to cope with this situation are generally lacking and overdue and must now be formulated in haste.

POPULATION AND RURAL DEVELOPMENT

Clearly any responsive strategy has to involve attempts to stem the overall rate of increase in population and to attack the backlog of inattention typically paid to rural development. These are major

thrusts of the World Bank's operations. Only by significantly slowing population growth and increasing productivity in both urban and rural areas can any real gains be achieved in employment rates and per capita incomes for the very poor.

Even with much greater efforts in rural development, however, there are limits to what can be achieved. The amount of land that can realistically be brought under cultivation in most countries is either quite limited or can only become productive at high and increasing costs — for clearance, infrastructure, irrigation and settlement. Furthermore, even with greatly increased output per hectare, which assumes the continuing spread of technology, fundamental questions remain. How much labour can be productively absorbed in the development process? Can per capita rural incomes be raised to reasonable level without a substantial exodus of people from the land? The problem is most dramatic in Asia. In the Philippines, for instance, assuming that agricultural productivity grows at 5 per cent per annum over the next 25 years (which would be an unprecedented feat) rural per capita incomes (now about \$75) will probably not exceed \$125 unless the urban areas absorb some 30 million people. To achieve \$125 rural per capita income in Pakistan by the year 2000 will require nearly 6 per cent per annum real growth in farm productivity, plus a shift of over 40 million people from agriculture to dependence upon non-farm employment. If the cities and towns cannot absorb and employ these people, then even these modest levels of rural income are not likely to be achieved.

Persons who will join the labour force every year up to the mid 1990s have already been born. Clearly we cannot expect rural development or population planning to reduce significantly the pace or scale of urbanization in the remaining years of this century. Utter failure on these fronts would no doubt unnecessarily aggravate the problems of increasing urbanization, but even rigorous and successful efforts will not resolve these problems in the near future.

The cities of the developing world, therefore, have an enormous if not overwhelming economic task to perform, assuming even the most favourable increases in rural productivity and decreases in hu-

man fertility. Effective national strategies will require not only continued gains in rural productivity and family planning but a very different and more efficient approach to urban development.

THE BANK'S PROGRAM

The objective of any responsible urban strategy must be to increase the capacity of towns and cities to absorb the newcomers. Absorption means providing productive employment and essential services at basic levels for the unprecedented numbers of poor people who will inevitably dwell in urban areas. This may sound obvious, but for many national and city authorities this formulation of objectives would involve a major shift in attitude, away from concern for the preservation of unrealistically high urban standards, and toward, a concern for the national economy and the efficient inclusion of the urban newcomers in the development process.

The World Bank's urban poverty program, therefore, has two complementary thrusts: (1) to create productive nonfarm employment opportunities at much lower capital costs per job and in much greater numbers than would take place otherwise; and (2) to develop programs to deliver basic services to the masses of urban poor on a very large scale, at standards which they and the economy can afford. The emphasis on low capital investment per job and low cost standard services affordable by poor households is the key to the program. The basic concept is to spread a larger proportion of the available capital over a larger number of people, so that the poor gain access to some minimal level of individual productivity and to essential services they can afford to pay for. This emphasis on affordability is to ensure that these programs are financially replicable on the large scale that is needed and that unnecessary subsidies are minimized.

In order to make the Bank's urban poverty program operational, a continuing priority has been to refine and deepen our understanding of the nature and extent of urban poverty in specific countries. The statistical information necessary for a sound analysis of urban poverty and appropriate interventions is lacking for most countries. There is a general need to improve this data base, to "map" urban poverty in terms of employment, income, consumption of basic needs,

and physical location. This work is now a part of the routine country economic analysis done by Bank staff.

The country economic work of the Bank is also beginning to focus increasingly on questions of demographic, employment, and income distribution trends, and to examine implicit and explicit national strategies with respect to these trends. In this work, the complementary relationships between urbanization and rural development, and the policy variables that are important for managing equitable growth are being explored.

This economic work, together with special studies of particular sectors or issues, is intended not only to provide guidance for project selection and design, but more importantly to provide a sound basis for policy dialogues within governments and between the Bank and its borrowers.

The sectors of Bank lending which have the greatest potential to create employment and provide services to the urban poor are small-scale, labour-intensive enterprises, integrated urban projects (community development, slum upgrading, and serviced sites for shelter), water supply and sanitation, education and health, nutrition, and family planning. The Bank's operations within each of these sectors have been examined in detail to illuminate the potential beneficial impact of our lending on the productivity and welfare of the urban poor. Prototypical projects are being developed in each sector. The performances of these "new style" projects are being monitored to ensure that the experience is accumulated and can be synthesized for further development of project designs.

LABOUR-INTENSIVE

PRODUCTION

The generation of nonfarm employment opportunities at low capital cost is a major component of the urban poverty program and probably the most difficult to achieve. Most developing countries have very little capital available for investment relative to the number of people that need employment. In most countries the gap between the average amount of capital available per work place (job) and the average cost per work place in the modern nonfarm sector is enormous. Scarce capital is being concentrated on a relatively few workers, in-

creasing their productivity greatly, but leaving most of the work force without access to capital and with very low productivity.

The Bank's traditional operations in manufacturing and mining adhere to this general pattern. In heavy industry, work places financed by the Bank have cost well over an average of \$100,000 each, whereas in the average operation financed by the Bank through local intermediary development finance companies work places have cost about \$25,000. The average capital available, however, for each work place needed is \$1,000 in India, \$1,800 in Kenya, and \$13,000 in Mexico. This is not to say that the traditional projects are not economically justified; all indications are that this lending has been highly justified and has used capital sparingly relative to the manufacturing process being financed. However, it does mean that for the Bank to be involved in large-scale employment generation at appropriate costs per job created, it must find ways of reaching the poor directly in areas that it has hitherto not touched — such as service enterprises, small-scale operations, the self-employed, artisans, and cottage industries. It also means that the Bank, in many instances, must help its established intermediaries develop new modes of operation or must find new kinds of intermediaries — commercial banks, co-operatives, credit unions — capable of reaching borrowers at the "grass roots" or "curb side".

Many borrowing countries, too, lack experience in directly assisting their low-capital, small-scale sector. Basic policy decisions to redirect investment have not been made and the capacity to implement programs often does not exist. In many countries, the policies and institutions are even hostile to the small-scale labour-absorptive operations to which the Bank is now turning attention.

The typical "urban poverty project" — defined as such by virtue of its performance in employment creation — is one which creates employment at less than the national average amount of capital available per work place. This "new style" project is essentially labour-intensive, but nevertheless fully justified in economic and financial terms. It is typically financed through intermediaries, often at two levels: one national and one

very local. It includes a technical assistance or "urban extension" service, either financed and managed by the financial intermediaries or separately organized. The loan to the beneficiary bears a real positive interest rate reflecting the opportunity cost of capital and ensuring that employment is not reduced by subsidized capital. There is heavy emphasis on the strengthening of intermediary institutions and the development of a policy environment conducive to appropriately labour-intensive productive technology. The project is carefully monitored for its actual impact. In 1977 the Bank financed about a dozen projects containing components with these essential characteristics. There were over 90 under preparation at that time. By 1981 the Bank aims to lend over \$400 million per annum (in 1978 dollars) for such projects.

INTEGRATED URBAN PROJECTS

The aim of these projects is to give security of residence and access to basic services to the very large numbers of urban poor who already live or will otherwise live in unserved, illegal settlements. Essentially there are two types of integrated urban projects: the squatter settlements and the creation of serviced sites for additional low-income residence. Most often the projects contain elements of both types. Each project is, of necessity, tailor-made to the specific problems, needs, and institutional environment of each borrower. However, these projects have certain common characteristics. Their emphasis is on self-help, and they supply public finance only for those services that people cannot provide for themselves. The design of the service levels and layouts of these communities is based on what the residents can afford, given reasonable access to longer-term credit. Since we are talking of very poor people, the service levels are very low by international standards and executing the projects often requires abandoning existing unrealistic building and zoning codes. Upgrading is accomplished with an absolute minimum of relocation. New sites are selected on the basis of their access to employment centres.

The integrated urban projects attempt to cover those aspects of the community development that are critical to the productivity, health, and welfare of the people. Education, vocational training, nu-

trition, family planning, small business credit, and technical assistance elements are commonly included as integral parts of the project. Each project is aimed at initiating or promoting a long-term program. Great emphasis is placed on whether the project can be duplicated on a scale commensurate with the size of the problem. If not, it cannot meet the Bank's lending criteria, which rule out support of the unsustainable highly subsidized "showcase" project. Self-financing through recovery of full costs from the beneficiaries not only helps to assure the ability to duplicate a project but also maintains discipline over design standards and costs. Because the beneficiaries are expected to pay the costs, it often becomes not only desirable but essential that they participate in the decisions in planning and implementing the project.

The Bank has now financed 35 of these integrated urban projects in 25 countries. Up to now they have been the major component of the urban poverty program. Over 70 of these projects are under preparation, many of them "repeater" projects in countries where previous projects have been successfully implemented. By 1980 the Bank aims to lend about \$600 million per annum (in 1978 dollars) for integrated urban projects benefiting at least 5 million persons per annum (equivalent to about one third the annual increase in squatter population). Each of the basic urbanization projects is being carefully monitored to allow in-depth, ex-post evaluation and feedback to new projects.

SECTOR APPROACHES

Quite apart from the water and waste disposal components in integrated urban projects, and more important in terms of dollars invested and people served, are the "new style" projects which address the water and sanitation needs of the poor on a city-wide or national basis. Typically these projects involve public standpipes and communal washing and toilet facilities or pit latrine building programs. They involve appropriate integration of this part of the system, with and the development of, the needed trunk and source or treatment facilities. These projects require imaginative thinking about system design, cost recovery methods, pricing strategies, and coordination with urban development programs.

Nearly all the urban-located water and sewerage lending of the Bank involves important direct benefits to the urban poor. The aim is to increase these benefits to overcome the backlog of inattention to the poor and keep pace with their growing numbers.

While school enrollment ratios in urban areas are typically much higher than those in rural areas, these averages mask marked educational disadvantages for the urban poor, who usually have about the same lack of access to education as their rural counterparts. "New style" education projects are being developed to directly benefit the urban poor. These projects increasingly emphasize, nonformal education, functional literacy, primary schooling, vocational training, and adult education. More attention is now being paid to the location of schools within the low-income neighbourhoods and to encouraging the demand for basic education and skill development.

There is a great deal of evidence that in many countries the health and nutrition status of the poor in urban areas is inferior to that of the rural poor, due to unsanitary crowded conditions, lack of access to proper and adequate food, less breast-feeding of infants and generally higher costs of living. Also with heavy migration by the young, the fertility of the urban population is often increasing. The main health, nutrition, and family planning aspects of the urban poverty program have up to now been mainly addressed through components within integrated urban projects, but sectoral approaches to these problem areas are planned for the future.

OVERALL TARGET

The overall target for Bank lending to combat urban poverty is that by financial year 1980 at least one third of all urban-related lending will provide direct benefits to the poverty group. This proportion roughly corresponds to the proportion of the poor in the total urban populations of the developing world and would involve a substantial gain for the poor above their normal share of benefits from public investments. However, the target is essentially arbitrary to challenge the Bank itself to make the breakthroughs in design, to take the initiatives, and to change its own comparative advantages to be able to help its borrowers with this high priority work.