

Downtown Poverty

Methods of Analysis and Interventions



A Sourcebook for Practitioners

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Editors



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FOREWORD

For the first time in history, more than half of the world's population live in urban settlements. This situation is even more pronounced in the Latin American and Caribbean (LAC) region, indeed the most urbanized region of the world. In this region, three out of four people live in cities and more than half of the population reside in urban agglomerations with more than one million inhabitants. This brings challenges and opportunities that demand attention to improve the quality of life in cities.

The region's rapid urbanization has led to an increased concentration of poor people in cities seeking access to employment opportunities, public services, and housing solutions; all of them together impose a daunting challenge for central and local governments with limited resources. Simultaneously, urbanization has also created new opportunities for enhancing the quality of life in cities through economies of scale, access to services, agglomeration, transfers of technology, proximity, and productivity.

The challenges imposed by the high number of poor living in urban settlements have been the subject of numerous policy interventions and studies. Most of the literature and shared experiences have, however, focused on the diffusion of urban poverty in peripheral slums, while little attention has been devoted to its downtown dimension. Urban growth in the region has had a notable impact on the structure of LAC cities. To date, these cities have growing peripheries, new centralities in expanded urbanized areas, and deteriorating traditional *downtowns*—the traditional geographic, historical, and business cores of the cities. The revival of downtown areas requires complex and integrated interventions that combine economic, physical, social, and cultural components involving both public and private actors.

This sourcebook is a valuable tool for practitioners. It offers a spatial analysis of urban poverty, synthesizing current views on the issues posed by its concentration, specific dimensions, and characteristics in downtown areas. It also proposes useful methodologies for measuring the complex dynamics of such concentration and suggestions of policies and programs to

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PHOTO INFORMATION**Photos were selected from the Inter-American Development Bank photo gallery**

Photo No	City	Photo No	City
1	La Paz, Bolivia	37	Rio de Janeiro, Brazil
2	Bogota, Colombia	38	Belem, Brazil
3	Rio de Janeiro, Brazil	39	Rio de Janeiro, Brazil
4	Quito, Ecuador	40	Belem, Brazil
5	La Paz, Bolivia	41	Lima, Peru
6	Quito, Ecuador	42	Panama City, Panama
7	Valparaíso, Chile	43	Salvador, Brazil
8	Quito, Ecuador	44	Esperanza, Argentina
9	Bahia, Brazil	45	Nueva San Salvador, El Salvador
10	Santo Domingo, Dominican Republic	46	La Paz, Bolivia
11	Rio de Janeiro, Brazil	47	Mexico City, Mexico
12	Panama City, Panama	48	Quito, Ecuador
13	Guatemala City, Guatemala	49	Buenos Aires, Argentina
14	Concepción Huista, Guatemala	50	El Alto, Bolivia
15	Uruguay, Montevideo	51	Rio de Janeiro, Brazil
16	Fortaleza, Brazil	52	La Paz, Bolivia
17	San Luis, Brazil	53	Quito, Ecuador
18	La Paz, Bolivia	54	Panama City, Panama
19	Recife, Brazil	55	Mexico City, Mexico
20	Villa del Carmen, Nicaragua	56	Salvador, Brazil
21	Quito, Ecuador	57	Valparaíso, Chile
22	Medellin, Colombia	58	Nassau, Bahamas
23	La Guama, Honduras	59	Ocho Rios, Jamaica
24	Quito, Ecuador	60	Quito, Ecuador
25	Panama City, Panama	61	Mexico City, Mexico
26	Salvador, Brazil	62	Pucallpa, Peru
27	Rio de Janeiro, Brazil	63	Lima, Peru
28	San Vicente, El Salvador	64	Mexico City, Mexico
29	San Vicente, El Salvador	65	Trujillo, Peru
30	Tegucigalpa, Honduras	66	Maracaibo, Venezuela
31	La Paz, Bolivia	67	Monterrey, Mexico
32	Lima, Peru	68	Oaxaca, Mexico
33	Quito, Ecuador	69	Oruru, Bolivia
34	Quito, Ecuador	70	Chihuahua, Mexico
35	Port Au Prince, Haiti		
36	La Paz, Bolivia		

Reaching a Milestone in Urban Growth

The year 2008 represents an important historical milestone. For the first time, over half of the world's population—3.3 billion people—live in urban areas (UNFPA, 2007). According to Baker (2008), this significant increase in urban population has resulted from both natural population growth and rural to urban migration. It is important to emphasize that poverty tends to concentrate in cities. More than two-thirds of the urban population live in developing countries (SIDA, 2007) and the increasing level of urbanization in those countries has been accompanied by an increase in urban poverty levels.

In Latin America and the Caribbean (LAC), immigration flows and natural population increases have resulted in a formidable expansion of major cities and a premature, accelerated rapid *urbanization* in the region.¹ Of the world's 13 mega-cities, four are located in LAC: Mexico City, São Paulo, Buenos Aires, and Rio de Janeiro.² In 2007, the region's urban population represented 78 percent of the total population. This figure is even more impressive if compared with other developing

▷ <http://siteresources.worldbank.org/INTURBANDEVELOPMENT/Resources/336387-1169585750379/UP-5.pdf>

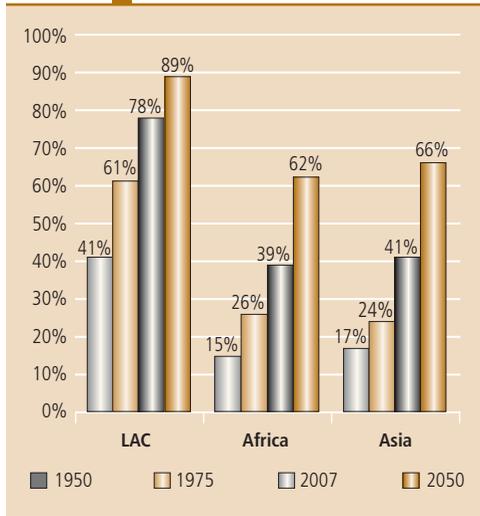


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¹ As shown in UNFPA (2007: 6) the term *urbanization* refers to “the process of transition from a rural to a more urban society. Statistically, urbanization reflects an increasing proportion of the population living in settlements defined as urban, primarily through net rural to urban migration. The *level* of urbanization is the percentage of the total population living in towns and cities while the *rate* of urbanization is the rate at which it grows.”

² Mexico City, Mexico: 19 million inhabitants (second in world); São Paulo in Brazil: 18.8 million (fourth in world); Buenos Aires, Argentina: 12.8 million (ninth in world); and Rio de Janeiro, Brazil: 11.7 million (thirteen in world) (UN, 2008c).

FIGURE 1 Percentage of Population Living in Urban Areas in LAC, Africa, and Asia



Source: UN (2008b).

regions; for the same year in Asia, the percentage of population living in urban areas was 41 percent, while in Africa, it was 39 percent (see Figure 1).

There are several impacts related to the extremely rapid population growth of urban areas in Latin America, especially those related to the living conditions of the population—such as access to housing, basic infrastructure, and sanitation. For instance, “compared with rural areas, the social condition of cities is likely to be more culturally diverse and fragmented. The safety net of family and friends rarely persists, and is not replaced by state or local government supported social security” (SIDA, 2007: 8). In addition, even though material living conditions are better than in rural areas due to better access to employment and urban services, urban transition still poses several

important challenges. These challenges include the formation of crowded and under-serviced informal settlements on the peripheries and the proliferation of inner-city slums, rundown and overcrowded areas of the city with high concentrations of poor households characterized by unsatisfactory living conditions for the population, and increasing levels of violence.³

The urban growth process, especially the one fueled by rural to urban transition, has recently slowed down.⁴ According to the UN (2008b), the average annual rate of change of urban population in LAC was 4.21 percent between 1950 and 1975 and decreased to 2.55 percent between 1975 and 2007. It is estimated that this average rate will decrease even further between 2007 and 2025 (1.38 percent), and that it will decline to .69 percent

<http://esa.un.org/unup/index.asp?panel=2>

³ As reported by UNFPA (2007: 16) and according to UN-Habitat, a “slum household” is a group of individuals living under the same roof in an urban area who lack one or more of the following: durable housing, sufficient living area, access to improved water, access to sanitation, and secure tenure.”

⁴ According to Roberts (2006), as cited in Watson (2007), the urban growth rate in LAC between 1990 and 2000 was 2.3 percent, compared with 4.1 percent in Africa and 3.3 percent in Asia.

between 2025 and 2050. Furthermore, according to Carrión, F. (2005), the percentage of the population migrating to cities decreased from 60 percent in 1950 to just 20 percent in 2005. This new scenario is significant as it provides an opportunity to focus on the qualitative aspects of urban development.

However, urbanization should not only be perceived as a challenge generator, but also as one associated with positive changes and significant opportunities for quality of life enhancement. Paraphrasing Jaime Lerner: a city, more than a problem, represents a solution.⁵ Over the past century, urban areas have outperformed rural ones in almost every dimension of economic development (e.g., education level, health condition, access to services, etc.). Moreover, as noted in UNFPA (2007: 1), “...no country in the industrial age has ever achieved significant economic growth without urbanization. Cities concentrate poverty, but they also represent the best hope of escaping it.”

The economic opportunities cities offer compared to those offered by rural areas are the gravitational force that has attracted an inflow of residents into urban and suburban areas. However, only a fraction of immigrants have been able to find formal employment, while the rest have had to make do with occupations in the informal sector, such as begging or carrying out some sort of street activity (e.g., watching parked cars and washing windows). As a consequence, a large share of population lacks a reliable source of income and often struggles to survive in very unsafe environments characterized by degraded residences, exposure to diseases due to the lack of sanitation and public services related to environment and health (water supply, sewerage, and solid waste disposal), difficulty in accessing public support services for families and youth, and the spread of crime and

▷ http://www.unfpa.org/swp/2007/presskit/pdf/sowp2007_eng.pdf



⁵ Jaime Lerner is the former mayor of the city of Curitiba and the governor of the state of Parana in Brazil.

violence. A similar phenomenon is present in several other developing countries in Asia and Africa and is also increasingly affecting cities in developed countries facing massive immigration from low-income countries.

Urban poverty reduction has become a priority for central and local governments. This issue has been the subject of numerous studies and recent projects sponsored by international financial institutions. Most of these works, however, tend to address the diffusion of urban poverty only in suburban areas and peripheral slum, and little attention has been devoted to the significant growth and impact of urban poverty in downtown areas.

Challenges and Opportunities



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In city centers, poor residents usually occupy deteriorated housing vacated by their original high- or upper middle-income households and sublet rooms that provide shelter in overcrowded and unsanitary conditions, or live in small self-built shelters in empty lots, unused public land, and under highways in unsafe and unhealthy conditions. Sometimes, poor people rent their homes (often through complex rental systems) in illegally occupied buildings left vacant by legitimate owners. Moreover, downtown areas attract a number of the nonresident poor who commute to their workplaces to engage in informal economic activities, taking advantage of the demand of residents for informal services. In this social environment, the most vulnerable people are children living on the streets without any assistance, in addition to women and the elderly

who receive limited public support and protection. Furthermore, the presence of the poor in downtown areas is likely to encourage the spread of illegal activities such as prostitution and drug dealing.

Such an environment requires complex interventions, usually combining preservation and adaptation that involves several public and pri-

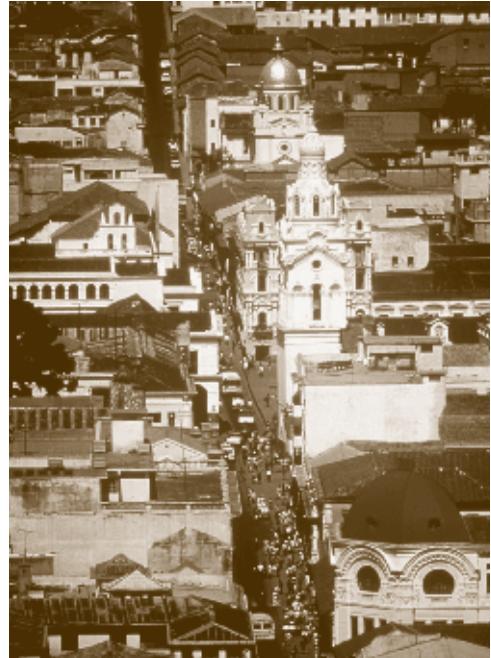
vate actors and requiring substantial financial resources. Nonetheless, the rehabilitation of historic districts and, more generally, the development of downtown areas is likely to produce long-lasting benefits that may attract public as well as private investors; the former to enhance local identity and to promote economic development, and the latter mainly to use restored buildings for commercial or residential purposes. Furthermore, these types of interventions represent an important catalyst in increasing the interest of urban residents in the patrimonial and social value of city centers.

Finally, renovated historic districts, in particular, can also serve as an important magnet in attracting local and international tourism, thus playing a significant role in urban economic development. New tourist in-

flows can spur a dynamic process as revenue from tourism may be used to finance further conservation and valorization of urban heritage in addition to other cultural activities.

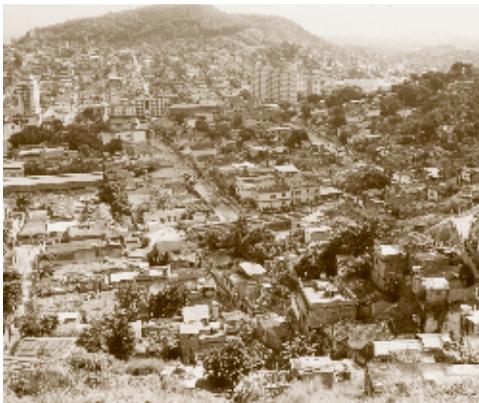
The issues involved in downtown poverty are generally different from those associated with poverty in peripheral areas; therefore, efforts to mitigate downtown poverty have specific characteristics. First of all, the focus on “downtown” makes the phenomenon site specific. Its analysis requires a preliminary identification of the area to be studied and the reasons for such a choice. Second, downtown poverty is likely to include nonresidents, while urban poverty surveys generally focus on resident households, eventually differentiated by area. To varying degrees, downtown poverty involves mobile individuals from other areas such as the suburbs and the countryside who are attracted by economic opportunities or the supply of services. Third, downtown poverty has a specific relevance, distinct from general urban poverty, in that it impacts the use and development of an area strategic to the functioning of a city.

To better understand the dynamics of urban poverty in downtown areas, in 2006 four case studies were undertaken in the urban central





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areas of La Paz (Bolivia), Quito (Ecuador), Rio de Janeiro (Brazil), and Valparaiso (Chile). A survey was conducted and several interviews were carried out with policymakers, public officials, NGO representatives, and community-based organization representatives.

In each city included in the survey, a specific area was identified in order to study the downtown phenomenon. Among other aspects, the following were taken into account: the presence of business and commercial activities, the volume of street commerce, residential use, characteristics of the resident population, financial services, political and administrative life, transport network, and traditional architecture. In each area, a sample of resident poor, resident nonpoor, and nonresident poor were interviewed (see Box 1, which details the survey methodology; Annex I, which provides a sample questionnaire; and Annex II, which includes the four case studies).

This manual, which seeks to contribute to the understanding of the phenomenon of downtown poverty and presents policies and programs to address the issue, is intended as a resource for practitioners. The main goal of this work is to describe the principal characteristics of urban and downtown poverty drawing important lessons from the Inter-American Development Bank's experience, existing literature, and the four downtown areas in Latin America examined in the case studies.

BOX 1. Focus on Methodology

Localization

In accordance with the definition of downtown areas provided in this publication, specific areas of research for each case study were identified. The survey focused on those areas where business activities are concentrated and where some rehabilitation initiatives have been undertaken. Moreover, based on the advice of local partners, specific areas—which were considered strategic for future urban development—were selected.

Sample

The sample for this survey includes three groups. The first group is comprised of nonresident poor, such as street vendors and beggars, living in peripheral urban areas and commuting downtown every day. A second group includes downtown residents, both poor and nonpoor. Those living in residential areas that are part of urban rehabilitation programs were selected for inclusion in the sample.¹ A third group includes representatives of firms in the downtown area, such as shops, restaurants, and hotels. Of the roughly 600 questionnaires that were completed, approximately 40 percent of the questionnaires were submitted to resident poor, 20 percent to resident nonpoor, 30 percent to nonresident poor, and 10 percent to downtown firms.² Moreover, the data of the survey have been integrated with the results of interviews carried out in each city with local decision makers and stakeholders, aiming at ascertaining their informed and qualified view on the main issues of the analysis and on public policies.

Screening and Poverty Line

In order to minimize costs, a simple indicator of poverty—household per capita income—was adopted. If the interviewee indicated a household per capita income value below the threshold, the interview continued; otherwise, it was interrupted. Despite

the problems related to the use of this value as an indicator instead of consumption expenditure, it should be noted that the aim of the survey is not to assess the magnitude of the phenomenon of downtown poverty. Thus, the choice of an indicator and poverty line are relatively important in terms of the quality of information that the survey is expected to yield.

Questionnaire Content

Following a brief set of screening questions about the household composition and income needed for the selection of the sample, the questionnaire was divided into two parts: a quantitative section and a qualitative section. The quantitative section includes questions related to household consumption (food and nonfood commodities), shelter, occupation, and production, access (to utilities, insurance and credit), facilities (education, health), additional expenditures (such as transportation costs), and prices. The qualitative section includes questions aimed at identifying subjective perceptions of: i) indicators of well-being and the poverty line, ii) the relative condition of the household, and iii) the type of intervention needed to reduce downtown poverty in an effective way.

¹To avoid double counting, street vendors and beggars living in the same residential area were excluded. Also excluded were slums or favelas, which are not part of a formalized and imminent project of rehabilitation, because the poor living there are relevant insofar as they come into the downtown area regularly. Clearly, not all those coming from the slums are necessarily either street vendors or poor, and in this regard, it goes beyond the scope of this research to include in the survey people working at home or in the firms of the nonpoor.

²For purposes of comparison, the size of the sample was approximately the same in the four cities under consideration. An alternative option would have been to include a larger sample in larger cities or in cities with a larger number of urban poor resulting from previous surveys or censuses.



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Besides this introduction, this handbook includes three main parts. Part I outlines the concept and attraction of downtown areas and shows the main characteristics of poverty in specific urban areas, considering poverty as a multidimensional phenomenon and emphasizing its spatial perspective. Furthermore, it also highlights results from the four case studies in downtown areas, analyzing specific vulnerability, externalities, and opinions on public interventions. Part II presents a methodology to measure poverty in the urban context, taking into account both quantitative and qualitative methods. Finally, Part III provides an evaluation of lesson learned and regional policies, highlights some successful Bank experiences in urban upgrading and local economic development, and offers policy recommendations.

DOWNTOWN POVERTY AS A COMPLEX SITE-SPECIFIC PHENOMENON

I

In LAC, more than in any other region, cities are characterized by a common urban structure derived from their colonial roots. This common scheme was designed around a main square, specifically in the area where the government and administrative center, commercial activities, social facilities, and therefore employment opportunities, were concentrated (Pacione, 2005).

Over the last 50 years, urban growth has had an impact on the traditional character of LAC cities. Currently, the modern downtown is comprised of the old market district, the historic central district, and the Central Business District (CBD), which is the area where commercial activities are concentrated (see Figure 2). In this manual, the term *downtown* will be used to refer to a city's geographical, historical, and business core.⁶ Along with business functions, various types of social amenities, leisure activities, and residential and other nonbusiness land uses also characterize the downtown area.

Downtown areas attract people from outlying areas for work and other activities involving spending money within their confines;



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FIGURE 2 Modern Downtown Structure

MODERN DOWNTOWN

CBD
+
Historical Central District
+
Old Market District

Source: Editors' elaboration.

⁶ It must be stressed that in LAC, the CBD has different characteristics than in most large North American cities. In the region, the CBD still maintains the role of the principal employment, commercial, and entertainment zones (Pacione, 2005).



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consequently, such areas evidence the most pedestrians and traffic. In addition, downtown areas are usually a focal point for transport and have a very high (if not the highest) land value within the LAC region. Nevertheless, due to the evolution of their functions, such areas still contain vast expanses of vacant land, surface parking lots, railroad yards, and dreary underpasses, representing an obstacle to urban development.

As mentioned earlier, the world is becoming increasingly urban; in the LAC region, the majority of the poor live in urban areas as a result of the high urbanization rate. According to Fay (2005), 60 percent of the poor (113 million people) and half of the extreme poor (46 million individuals) live in urban areas. Moreover, urban poverty is growing faster than in rural areas (UNFPA, 2007). By 2015, the rate of urbanization is expected to increase to over 80 percent (UN, 2008a), and if poverty rates remain unchanged, by 2015 two-thirds of the poor in LAC will be living in cities.

Before addressing the urban poverty issue, some specifications are necessary. According to Estache (2004), “the minimum population threshold for defining urban areas varies dramatically among countries, but ‘urban’ is typically characterized by density of settlement in a contiguously built-up area, by the structure of economic activity, and sometimes by administrative attributes.”

Towns, medium and large cities, and megacities have different problems.⁷ Smaller cities show more similarities to rural areas than to megacities, and therefore it is suggested to disaggregate by size of settlement or at least to examine megacities separately (Prennushi, Rubio, and Subbarao,

⁷ “The United Nations (UN) coined the term megacities in the 1970s to designate all urban agglomerations with a population of eight million or more. In the 1990s, the United Nations raised the population threshold to 10 million, following the practice of institutions such as the Asian Development Bank. From this definition, the United Nations estimates that there are 19 megacities at the world in the beginning of the 21st century” (Brocknerhoff, 2000: 10). However it is difficult to have a single and valid definition of what a megacity is, since the population concentration that characterizes urban agglomerates changes with time and context.

2002).⁸ In addition, Wratten (1995) questions dichotomous categories of urban and rural areas, instead emphasizing the relevance of spatial categories such as the inner city, the suburbs, and periurban areas.

As Bertaud (2004) points out, many cities, as they grow in size, depart from the original monocentric structure and move towards a more polycentric structure. Dominantly monocentric cities tend to have much higher densities close to the downtown than cities that are dominantly polycentric. Moreover, in dense monocentric cities the poor are more likely to consume less land and floor space than in low density polycentric cities, and consequently, the quality of their environment might be worse.

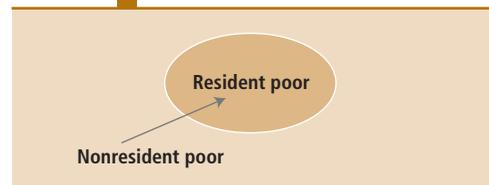
A city can be considered to comprise a series of interrelated but heterogeneous neighborhoods, or districts with links between the functions of different urban areas, which implies that the problems of one area cannot be treated separately from others. This analysis of downtown poverty illustrates such interdependence. In fact, the analysis involves a very heterogeneous set of people, including two main groups: i) the nonresident poor who come from the suburban slums daily to carry on their activities, and ii) the resident poor who live in the downtown area in formal or informal housing (see Figure 3). Among residents, a distinction should be made between the clusters of poor residents and the fairly “new” poor, (i.e., those belonging to the middle class and severely affected, for example, by economic downturns and market changes).

The results of the survey conducted for this manual offer interesting insights into the problems faced by those who live and work in downtown areas. The four case studies provide detailed information on specific cities. These two groups differ for several reasons. First, the nature of poverty may be different; for instance, what is considered poor housing or insufficient access to services may not be the same for residents and nonresidents. Second, the dynamics of poverty may be dissimilar: the extension and the composition of the resident poor may evolve over time because of changes in their social status as a consequence

▷ <http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTPOVERTY/EXTPRS/0,,contentMDK:20177140~pagePK:148956~piPK:216618~theSitePK:384201,00.html>

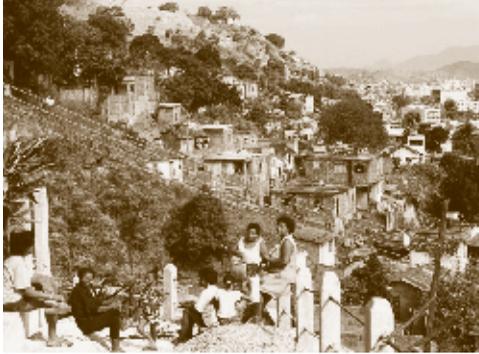
▷ http://alain-bertaud.com/images/AB_The_spatial_organization_of_cities_Version_3.pdf

FIGURE 3 Conceptualization of Downtown Poverty



Source: Editors' elaboration.

⁸ It is also suggested to examine capital cities separately because of their often better socioeconomic characteristics.



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of, for instance, urban renewal interventions, which results in a decline in their relative socioeconomic position.⁹ The group of the non-resident poor may also change in number and composition as the attractiveness of downtown areas changes, not only as a consequence of interventions in these areas that may create earning opportunities (pull factors), but also due to changes in other areas that may provide incentives for people to move to urban central areas (push factors). Third, since the two

groups may differ in terms of static and dynamic characteristics, the analysis of the differential characteristics of poverty within urban central areas can also be relevant concerning the policy actions aimed at alleviating poverty, especially as far as the localization of some actions is concerned. A particular feature of downtown poverty is its *spatial* dimension, which is closely linked with the phenomena of mobility and accessibility.

The main findings of the study confirm that the nonresident poor generally tend to be more vulnerable than the resident poor, although the intensity may differ. The poverty profiles emerging from the survey show that the nonresident poor find themselves in a more difficult situation. This group has less opportunities for social integration and less access to the labor market, as opposed to different levels of access to public utilities (electricity, gas, sewage, etc.) and services (education and health). Therefore, projects and policies aimed at poverty reduction and downtown rehabilitation should focus on both of these groups.

The analysis of downtown areas highlights a specific dimension of poverty related to several factors such as the physical characteristics of economic and commercial activities and the difficult coexistence in of poor and well-off residents. Such a situation generates both negative and positive externalities, and its impact on the poor varies according to personal characteristics (age, gender, physical condition, race, culture, habits, and household structure), which should be taken into account in the design of policy strategies. Based on this consideration, groups of nonpoor were included in the survey (such as downtown residents and shopkeepers),

⁹ These types of intervention may impact housing and labor markets.

which has provided insight into the types of externalities caused by the development of urban central areas. Furthermore, such insight allows for a broader understanding concerning the phenomenon of the reduction in the residential population that all urban centers in the study are experiencing. Finally, it also sheds some light on the scope and characteristics of the reported negative externalities that the nonresident poor cause for downtown residents and businesses.



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For instance, the massive daily entrance of workers and students is a main cause of traffic congestion and pollution in urban central areas. In addition, the high concentration of people and wealth is likely to have a negative impact on safety, as such conditions are conducive to criminal activities, vandalism, and conflicts among different social groups. Moreover, the prestigious heritage of most urban areas largely amplifies the impact of externalities. Due to the inherent fragility and representative function of such historic centers, specific regulation for their conservation and sustainable use is required.

Furthermore, the shortage of available housing and business space in downtown areas results in an increase in the value of buildings with a subsequent pressure on rental prices, which in turn is reflected in the prices of other goods. With regard to the influx of the nonresident poor, street selling and begging may constitute an additional source of negative externalities for residents and shopkeepers.

Clearly, the downtown area also provides economic opportunities, especially for the poor living on the periphery. In this regard, the results of the survey highlight the perceptions of the different groups interviewed concerning: i) the main challenges of working and living downtown, ii) the existence of conflicts among the different groups active in the downtown area, and iii) the presence of positive and negative externalities that lead to the desire to stay in or to move out of downtown.



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In order to obtain a more complete picture of these externalities, in particular those reportedly caused by the nonresident poor, the survey includes interviews with downtown shopkeepers. The main findings can be summarized as follows:

- Robbery is the main problem most frequently cited by the poor, both residents and nonresidents. The issue is also a concern of the non-poor and shopkeepers. This result may be interpreted as an indication of the relatively higher vulnerability of the poor, although it does not show that nonresidents are more vulnerable than residents. In general—in addition to theft—pollution, traffic, vandalism, and begging are the most frequently mentioned challenges indicated by the survey's respondents.
- Regarding the specific externalities that are likely caused by the inflow of the nonresident poor, begging is perceived as a greater challenge than street vending, which does not appear to be a major issue. Street vending is not among the three most frequent challenges in any of the case studies, and is considered a problem by a minority of respondents in each group. Therefore, the results suggest that street vending is not considered as a source of relevant negative externalities, possibly in consideration of the services that street sellers provide for the people downtown. These results are also consistent with those of surveys undertaken during the preparation of several IDB urban development projects.



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- The presence of conflicts among the groups surveyed is indicated by a small percentage of respondents.
- Only a minority of respondents for each group expressed dissatisfaction with their current (business or residential) location in the downtown area. However, this view is more prevalent among the nonresident poor compared with other groups. The nonresident poor are generally less satisfied with the location of

their activities downtown than the resident poor are concerning the location of their homes. This result can be interpreted as an additional

sign of the higher vulnerability of the nonresident poor. The surveys also show that a significant number of respondents would like to move their homes or businesses out of downtown.

The Spatial Dimension

The crucial role played by the *spatial* dimension implies that downtown poverty should be viewed with a marked site-specific component. Consequently, clearly defined general conclusions can hardly be reached. A conceptualization of downtown poverty is discussed below, along with the main findings of the literature.

Urban population has a significant effect on the physical size taken up by urban areas, even if the spatial form of cities is growing faster than the urban population itself. According to UNFPA (2007), while the world's urban population is expected to increase by 72 percent between 2000 and 2030, in the same period the use of land will increase by 175 percent, which implies that there will be a reduction in average urban density.

Premature rapid urbanization occurred in LAC and reached its peak during the 1970s. Angel, Sheppard, and Civco (2005) provide specific data (see Table 1). For example, if the average change for LAC is compared with other developing regions, is it clear that the urbanization process has recently slowed. As indicated in the figure, of all the regions, LAC's urban density is the one with the lowest rate of increase.

▷ http://www.unfpa.org/swp/2007/presskit/pdf/sowp2007_eng.pdf

▷ <http://www.citiesalliance.org/doc/resources/upgrading/urban-expansion/worldbankreportsept2005.pdf>

TABLE 1 Estimates of Average Urban Density and Built-Up Area per Person by Region: 1990–2000

Category	Average density (square meters)			Built-up area per person (persons per square kilometer)		
	1990	2000	Annual % change	1990	2000	Annual % change
Developing Countries	9,560	8,050	–1.7	105	125	1.7
Industrialized Countries	3,545	2,835	–2.2	280	355	2.3
LAC	6,955	6,785	–0.3	145	145	0.3
Northern Africa	10,010	9,250	–0.8	100	110	0.8
South & Central Asia	17,980	13,720	–2.7	55	75	2.7
Southeast Asia	25,360	16,495	–4.2	40	60	4.4
Sub-Saharan Africa	9,470	6,630	–3.5	105	150	3.6
Western Asia	6,410	5,820	–1.0	155	170	1.0

Source: Editors' elaboration on Angel, Sheppard, and Civco (2005: 58).



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The spatial dimension is particularly important in relation to urban poverty, as there are differences between the poor living in the inner cities and those occupying urban peripheries. While the literature has focused mainly on slums on the peripheries, no systematic attention has been devoted to the downtown poor. However, the intracity dimensions of urban poverty appear to share common elements with downtown poverty. It is widely agreed that the different manifestations of

poverty in urban areas are greatly site specific; poverty rates as well as geographical concentration vary greatly between different areas of cities. See Box 2 for a discussion of the specific spatial patterns characterizing urban poverty in developed countries.

The rapid urbanization process, in addition to even faster growth in the physical dimension of urban areas, may produce several outcomes. In this regard, visionary policies are needed, especially in developing countries where the urban population is expected to double in the next few years. Moreover, strategies aimed at improving the regulatory framework and environmental protection guidelines will also be necessary. An additional concern is the possible increase of unplanned periurban areas, which would, as a consequence, necessitate new infrastructure and services networks. Box 3 offers a schematization of the typical urban structure in LAC.

BOX 2. The Spatial Dimension of Poverty in Developed Countries

Brandolini and Cipollone (2002) show that in Italy, the smaller the urban area, the lower the poverty rate tends to be. However, in the United States, the evidence seems to point in the opposite direction, as poverty is higher in the inner cities as compared with the suburbs. Glaeser, Kahn, and Rappaport (2000) analyze the different patterns of location of the poor between Europe and the United States, questioning the conventional explanation of housing as the main determinant in location decisions. Differences

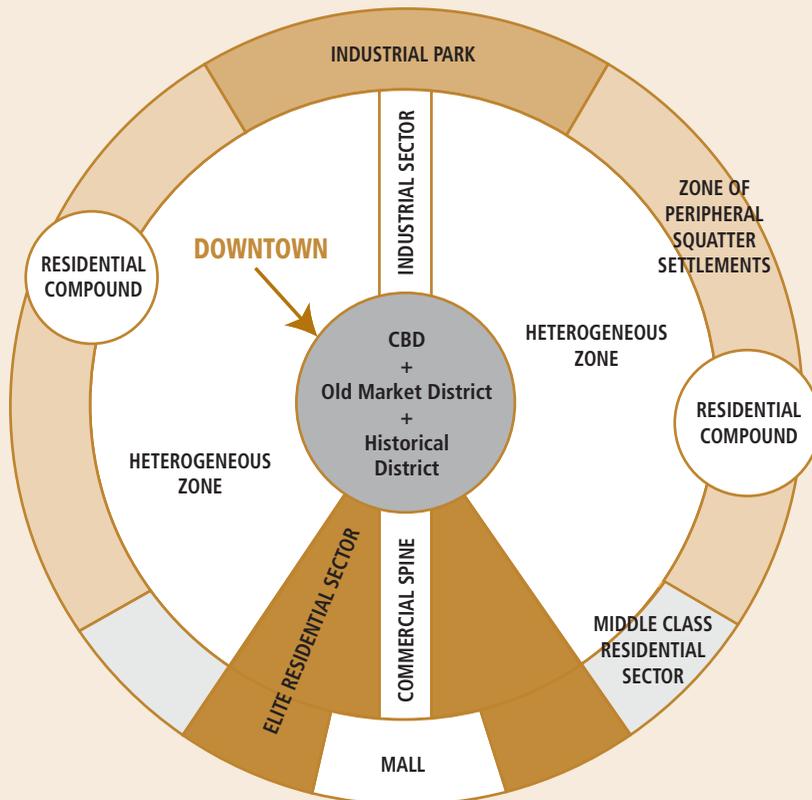
in transport policies, as well as in the redistributive attitude of city governments, are indicated as determinants of the above differences. Diverse patterns, for example, characterize metropolitan areas in the United States. In older cities with established downtowns and centralized employment, the rich often live closest to the city center, while in newer cities with decentralized employment and infrastructure targeted for vehicles, income rises with the distance one lives from the central business district.

BOX 3. The Internal Structure of LAC Cities

Following the scheme proposed by Pacione (2005), it is possible to schematize the current structure of LAC cities as a set of different specialized zones. The downtown area provides the main employment as well as commercial and leisure opportunities. In many cities, the old (often colonial) center has been neglected as well-off owners have moved to elite residential zones built along city peripheries or commercial-industrial spines (such as “tree-lined boulevards” connecting downtown with the indus-

trial district). Therefore, the historic center usually remains mostly inhabited by poor households that rent the vacant buildings. Away from the downtown, typically the urban structure embraces a series of areas where the quality of housing and the economic condition of residents decrease while the distance to the downtown increases, with the exception of residential compounds which provide upper-class communities with a secure, isolated (and often self-sufficient) living situation.

A Model of a Latin American City



Source: Editors' elaboration on L. Ford (1996) as cited in Pacione (2005: 469).

In the 1970s, the upper- and middle-class population left downtown areas and moved to the suburbs, leaving empty buildings, which were eventually occupied by more low-income people. At the same time, due to the increase in the density of central urban areas, new poor—attracted to the city by better economic opportunities—began to establish peripheral slums. Recently, efforts to rehabilitate some of these areas have been undertaken,



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thus attracting upper- and middle-class people back to city centers. Brazil provides a clear example of this phenomenon.

“Rio de Janeiro’s ‘Cidade de Deus’ (City of God), made famous by a movie of that name, was created when the residents of well-located *favelas* were removed to a new settlement on the outskirts of the city in order to permit the construction of high rise apartments for the wealthy in the original *favela* locations” (UNFPA, 2007: 82). When the market value of a neighborhood increases, poorer residents may be tempted to cash in the value of their properties and move elsewhere, gener-

ating spatial exclusion. In the event that downtown poor residents decide to stay, disparities and conflicts may emerge due to their inadequate living conditions.



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The *neighborhood effect* represents a relevant issue in the discussion of downtown poverty in LAC (see Box 4). Spatial segregation, depending on their neighborhoods, exacerbates both the resident and nonresident poor’s deprivation, and makes it difficult for them to find jobs other than informal, low-paying, or insecure ones. This effect is even more complex in downtown areas where, in addition to the resident poor, groups of nonresident poor pursue daily activities. The challenges resulting from the coexistence of these

different groups in downtown areas may generate negative externalities in terms of crime and access to services.

different groups in downtown areas may generate negative externalities in terms of crime and access to services.

BOX 4. The Neighborhood Effect

This phenomenon has been extensively analyzed by examining social interaction, exclusion, and social capital. Neighborhoods produce positive as well as negative externalities: as Fay and Ruggeri Laderchi (2005) point out, a strong neighborhood environment can discourage disruptive behavior. A more cautious approach is suggested by Gould and Turner (1997) who stress that, though most studies suggest that neighborhoods matter, evidence is not conclusive in terms of determining which specific neighborhood characteristics are more relevant and for whom. Moreover, the concentration of poverty also matters because it negatively impacts social capital and makes it more difficult to escape (Power, 2000). Mobility and deconcentration of poor families is advocated on these grounds and are experienced in some countries such as the United States (Turner, Popkin, and Cunningham, 2000). However, the effects of poverty deconcentration are controversial. Galster (2005) argues that poverty deconcentration might indeed have a negative effect on destination neighborhoods, while others (Jargowsky, 2005, and Kingsley and Pettit, 2005) question those results and emphasize that the advocated negative effects might be offset.

The neighborhood effect is one of the factors taken into account in the membership theory of poverty (Durlauf, 2000): an individual's socioeco-

nomical outcome depends upon the composition of the various groups of which he or she is a member over the course of his or her life. Such groups may, in principle, be defined by several elements including ethnicity, residential neighborhood, schools, and workplace. The relevant application of the membership theory is the role that residential neighborhoods play in transmitting poverty and inequality across generations. Baharoglu and Kessides (2004) show that poverty in cities tends to be a multigenerational reality for households that find their social and economic advancement limited even when its members have acquired basic education. In Brazil, for example, studies have shown that the capacity for the economic mobility of the poor has actually diminished over the past 30 years. For instance, many families in Rio de Janeiro have been residents of slums for more than a generation (Perlman, 2002). Poor people are also discriminated against as a consequence of their neighborhoods: Cardoso, Elias, and Pero (2003) reveal some type of wage discrimination against workers living in the favelas of Rio de Janeiro, with this negative effect being related to both professional segregation and employer discrimination.¹

¹As the authors point out, a selection bias might be included since individuals who achieve high levels of education and earnings tend to leave the favelas.

A Multidimensional Phenomenon of Cumulative Deprivation

The condition of poor urban residents is not merely determined by the economic situation, but is also affected by the influence of social, political, cultural, and environmental conditions. Therefore, an understanding of the various dimensions of urban poverty is highly relevant to devising feasible and effective solutions to poverty in the Latin American and Caribbean region.

http://www.wider.unu.edu/publications/working-papers/research-papers/2004/en_GB/rp2004-033/ <

Extensive multidisciplinary literature deals with the conceptualization of poverty. Sumner (2004) and Harkness (2004) examine the debate on the definition of poverty and well-being over the last 50 years and conclude that the extremely rich evolution in the conceptualization of poverty is not adequately supported by data reliability and availability.¹⁰

Indeed, during this period, the debate has shifted emphasis from meaning and measurement based purely on *means*, or economic welfare, to *ends* and broader definitions of well-being, which is also owing to the influential work of Amartya Sen (1999). Moreover, international agencies recognize that poverty is a multidimensional phenomenon; such recognition consequently poses the challenge of finding adequate measures to define this complex concept (see Part II).

The inadequacy of the use of income/consumption to represent well-being is almost unanimously agreed upon, because it does not incorporate crucial dimensions of well-being and does not take into account the quality of life of the population. Nevertheless, income continues to be used as a proxy for the various dimensions of poverty. Sen's *capabilities* and *functioning* theoretical framework (see Box 5), is widely recognized as the most adequate point of departure to understand the concept of poverty (Thorbecke, 2005; Subramanian, 2004; Sumner, 2004; Harkness, 2004).

http://www.wider.unu.edu/publications/working-papers/research-papers/2004/en_GB/rp2004-025/ <

Such an approach highlights the importance of the heterogeneity and the multidimensional issues underlying the urban dimension of poverty. These dimensions are not independent. It is widely recognized (Mitlin and Satterthwaite, 2002) that urban poverty is often characterized by cumulative deprivation and that one dimension of poverty is often the cause of—or contributor to—another dimension. Moreover, poverty is not a static concept; rather it is a dynamic condition of vulnerability or susceptibility to risks.

<http://www.worldbank.org/urban/symposium2002/docs/pres-paper/paper-pdf/mitlin-and-satterthwaite-dec-02.pdf> <

There is a fair amount of literature that lends credence to the idea that the extent of deprivation faced by the urban poor depends heavily not only on insufficient income or consumption, but also on inadequate outcomes with respect to health and nutrition, education, access to basic in-

¹⁰ Bibi (2005) emphasizes that since the 1990s, data on attributes other than income have been available and offers a review of the literature on multidimensional measurements distinguishing whether or not poverty measures are based on an axiomatic approach.

BOX 5 Sen's Capabilities and Functioning Framework

In the words of Sen (1999), functionings are the “overall freedom a person enjoys to pursue her well-being” rather than the means with which to achieve well-being, such as income and resources. According to the author, functionings range from “being well-nourished, avoiding escapable morbidity and premature mortality, etc. to more sophisticated ones, such as having self-respect, being able to participate in the life of the community and so on.” The “capability set” represents the range of potential functionings that an individual can achieve, or the argument that it is important to distinguish between achievement and the freedom to achieve in assessing both the extent and the normative significance of inequalities.

Sugden (1986: 820–21) in his review of Sen's work *Commodities and Capabilities* offers an effective clarification of the author's capabilities and functioning framework. Sen examines four traditional approaches used to assess individual well-being, all of which he considers unsatisfactory. One approach focuses on the measurement of an individual's real income, while the other three approaches concentrate on the measurement of the utility an individual

derives from consumption. According to Sugden and as detailed by Sen, “the problem is that our desires and our capacities for happiness adapt too easily to our expectations. A person who is resigned to extreme poverty may be no less happy than someone who is comfortably-off and no more keenly conscious of unsatisfied desires; but this does not mean that the poor person's level of well-being is as high as the other's. Sen proposes that one should look neither at what a person consumes nor at the happiness he or she enjoys but his or her achievement of doings and beings' or, in Sen's shorthand, his 'functionings.' A functioning is intermediate between consumption and utility. Being well-fed, for example, is functioning—a state of being—that is produced by consuming food and that gives rise to utility.” According to Sen, such a value might be attached not only to individual functioning vectors, but also to what he refers to as capabilities—that are “sets of vectors from which individuals are free to choose.” In this regard, an individual is considered advantaged to the extent that he or she has a wide range of opportunities.

frastructure, environmental hazards, crowded living conditions, personal security, identity, social relationships, and participation.

Furthermore, individual or household welfare depends on income or consumption, as well as on the perception of one's relative position in society (e.g., the existing inequality). For instance, some households that are clearly below the poverty line as an objective monetary measure might not consider themselves poor and vice versa.

Urban poverty can be viewed as a specific outcome of urban concentration that generates processes through which costs and



benefits are distributed diversely in cities. On the one hand, it is likely to concern the poor living in urban areas located in the center. While on the other hand, it seems to affect even more significantly the nonresident group, who on a daily basis commute downtown to work. This second group tends to spend most of its time downtown, implying that most of its social and productive life activities take place far from home. Therefore, the nonresident poor suffer the above-described deprivation in the settlements they come from and then face additional deprivation when they go downtown to conduct their daily activities. In fact these downtown areas, already lacking in basic services for the resident population, are greatly unprepared to receive and manage the inflows of numerous nonresidents on a daily basis.

Specific Deprivation Aspects

Some specific aspects of deprivation characterizing urban poverty involve inadequate health; deficient education; a lack of access to basic infrastructure services; exposure to environmental hazards; threats to personal security; inadequate, unsatisfactory living conditions; insufficient income levels; and vulnerability.

Health and Education

Regarding health, the health status of household members can be viewed as an important indicator of well-being. Usually, the nutritional status of children is used as a measure of outcome as well as the incidence of spe-

cific diseases (such as diarrhea, malaria, and respiratory diseases) or life expectancy for different groups within the population. If data on such health outcomes are unavailable, input proxies can be used. These input proxies include indicators such as the number of visits an individual makes to hospitals and health centers, level of access to specific medical services (for example, pre- and post-natal care), or the extent to which children receive vaccinations in a timely manner as an important



consideration for their future. Claeson et al. (2002b) present a list of health indicators.

In the field of education, the most common indicator of adequacy is the level of literacy and some level considered to represent the threshold for illiteracy. An alternative indicator is the comparison of the number of years of education completed in relation to the expected ones. Aoki et al. (2002) present a list of education-related indicators.

With regard to compulsory education, the case studies examined do not explicitly indicate the poor's relatively higher vulnerability. In fact, the discrepancies in school participation across the respondents in the different groups of children between the ages of 5 and 14 do not appear to be significant. The participation rate for all groups is over 86 percent. In addition, the nonpoor are, in general, more educated than the poor, and within categories of the poor, the resident poor are more educated than the nonresident poor.

Despite the lack of significant discrepancies between the poor and nonpoor, the perception of social exclusion due to education is still evident. Moreover, within categories of the poor, this perception is greater among the nonresident than the resident poor. This outcome reveals that education is widely seen as a means of social advancement and integration.

In the context of this discussion of deprivation, the relationship between health and poverty is a vicious circle: poverty generates ill health, and ill health generates poverty.¹¹ The same vicious circle applies to education.¹² The cumulative effect of these dimensions of poverty has been emphasized by the United Nations for Population Activities (UNFPA, 2002). Education

▷ http://siteresources.worldbank.org/INTPRS1/Resources/383606-1205334112622/4978_chap18.pdf

▷ http://siteresources.worldbank.org/INTPRS1/Resources/383606-1205334112622/5798_chap19.pdf



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¹¹ Income and, more generally, socioeconomic status are positively correlated with health. Other widely recognized determinants of health outcomes are personal behavior, physical environment, and social environment (Claeson et al., 2002a).

¹² Education outcomes are related to personal characteristics (e.g., aptitude, motivation, gender, and presence of physical or mental disabilities) as well as family circumstances (e.g., income and the educational level of parents, especially of the mother). The social environment also has an impact on education (Aoki et al., 2002).

and health outcomes are also interrelated; it is more difficult for illiterate or less-educated people to obtain information about health care. Moreover, ill health and lower survival rates reduce the possibilities to invest in children's education. These dimensions do not exhibit any particular aspects with respect to downtown poverty. However, based on the empirical investigation conducted, it appears that the health conditions of the various groups or health services supply do not show an evidently higher vulnerability of the poor; although the complaint of long waiting times, generally more frequent among the poor, may indicate an under-supply of medical personnel and a rationing system by queuing as opposed to price.

Notwithstanding these results, most poor individuals consider health as a major source of social exclusion, based on results roughly equivalent to those concerning education. It should also be noted that health is considered the main source of social exclusion for the nonpoor in all of the case studies considered for the analysis herein.



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http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2002/10/12/000094946_02100204022071/Rendered/PDF/multi0page.pdf

Access to Basic Services

Another relevant form of deprivation relates to access to basic services (Satterthwaite, 2001a).¹³ This consideration is also related to reliability, quality, and affordability (nom-

inal access might be high, although "effective" access is low). As the World Bank (2002a) has noted, urban transport can contribute to poverty reduction both indirectly through its impact on the city economy and, hence, on economic growth, and directly, through its impact on the daily needs of the poor.¹⁴

¹³ The most common indicators measure the proportion of the city population without access to water and sanitation, electricity, garbage collection, public or private transport, *etcetera*.

¹⁴ A study conducted in Karachi by Urban Resource Centre (2001) based on interviews of users, operators, and regulators of the transport system found that the major problems included a negative impact on loss of life and injuries and the loss of property due to accidents; reduced livelihood opportunities and lower potential for economic development; and low quality of life for citizens, both users and those living adjacent to high-use areas.

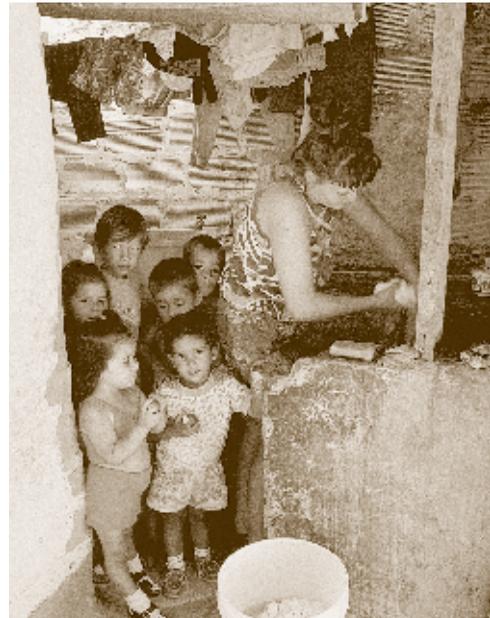
Moreover, the burden of transport expenditure on poor people may be very high. In many cases, this implies the use of informal transport, with negative effects on safety. Transport accessibility affects mainly the non-resident poor, for instance those coming downtown daily from suburban slums, but does not seem particularly relevant for the resident poor. In the case of water services and more generally, public utilities, the cost issue applies. Utilities may not be affordable for the poor—whether because of connection or consumption cost—and can be a strong deterrent to a household deciding to connect to a service. Affordability depends on pricing and subsidy schemes. Inequalities may also arise; Anzorena et al. (1998) offer evidence that households with no connections to services (predominantly low-income households) often have to purchase water at the cost per liter paid by households with connections to water supply and sewers (predominantly middle and upper-income groups) because the service is subsidized. Such a form of deprivation is likely to be severe for those living in slums (both inside and outside the city limits) and may affect downtown residents living in informal settlements as well.

▷ <http://eau.sagepub.com/cgi/reprint/10/1/1167.pdf>

Environmental Hazards

Another significant form of deprivation faced by the poor concerns environmental hazards. Satterthwaite (2003) emphasizes the impact of biological pathogens, chemical pollutants, and physical hazards as major contributors to urban poverty and its related cumulative effects. The lack of comprehensive water and sewer systems, inadequate garbage collection and disposal, and pollution create unstable urban environments, which in turn increase vulnerability to natural disasters and jeopardize public health.

Bitrán et al. (2005) show that there are variations in health indicators within urban areas depending on access to infrastructure, health services, education, the quality of environment, and the availability of services such





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<http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=1775002>

as potable water, sewerage, and waste removal. In addition, as reported by Bitrán et al. (2005), deficiencies of the physical environment in marginalized urban areas have been recognized as one of the main causes of death of the urban poor.¹⁵ For instance, it has been found that a high rate of infant mortality is directly correlated to low environmental quality, such as the lack of adequate wastewater treatment, sewerage, and sanitation.

Personal Security

Another form of deprivation concerns personal security, which is challenged in many LAC cities due to high levels of crime and violence.¹⁶ In comparison with other regions worldwide, LAC has the most insecure climate. In fact, according to the IDB (2008: 211), “apart from housing quality and access to services, the aspect of urban matters that stands out as significantly affecting the quality of life in urban areas is safety.” Furthermore, the IDB asserts that no single country in LAC provides the perception of security for its urban population (IDB, 2008). In this regard, “altering the trend towards increasing violence calls for effective responses to poverty, inequality and social exclusion” (UNFPA, 2007: 27). Therefore, the issue of personal security is extremely relevant in LAC, especially in urban environments.

As evidenced by the findings and data provided by the World Bank, violence now ranks among the five main causes of death in LAC and is the principal cause of death in Brazil, Colombia, Venezuela, El Salvador, and Mexico. Homicide rates in Latin America are among the highest of any region in the world. From the early 1980s through the mid-1990s, intentional

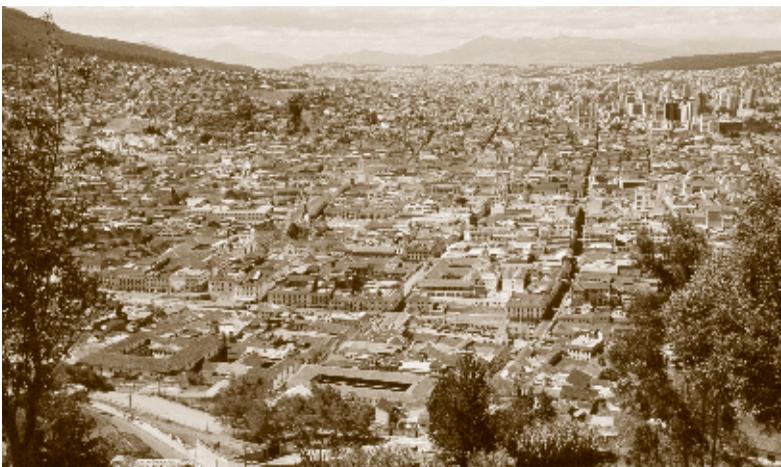
¹⁵ For instance, in São Paulo, Brazil noninfectious causes of death (chronic diseases, traffic accidents, and homicides) have a much higher incidence in poor neighborhoods (Stephens et al., 1997).

¹⁶ Vanderschueren (1996) offers a description of increasing urban crime, while Moser, Winton, and Moser (2005) examine the different categories of urban violence.

homicide rates in Latin America increased by 50 percent. Violence rates also show important variations based on age and gender, with young men most likely to be both victims and the perpetrators. Moreover, the type of violence has been an important predictor of victimization by gender. In Peru, for example, young women have been more likely to be victims of robbery than young men, while young men have been more likely to be the victims of physical aggression (Moser, Winton, and Moser, 2005). Finally, the urban poor are commonly recognized as the principal victims of violence and are also frequently considered responsible for its perpetration.

Even if poverty were not the only cause of violent behavior, according to Buvinic, Morrison, and Shifter (1999: 27) this condition “is associated with greater stress caused by uncertainty, precarious economic conditions, and overcrowding. Stress, in turn, is more likely to result in violence for those people with a predisposition to behave aggressively (either because of nature or nurture) than for those without this predisposition.” According to Moser (2004), the view that poverty is a major determinant of violence has been questioned on the grounds of empirical evidence showing that inequality is more influential than poverty. The same conclusion is supported by Fajnzylber, Lederman, and Loayza (1998), who find that changes in the distribution of income are associated with changes in violent crime rates, and in the literature review of Winton (2004).

Links between inequality and violence refer not only to income disparities, but also to other related factors, such as unequal access to employ-



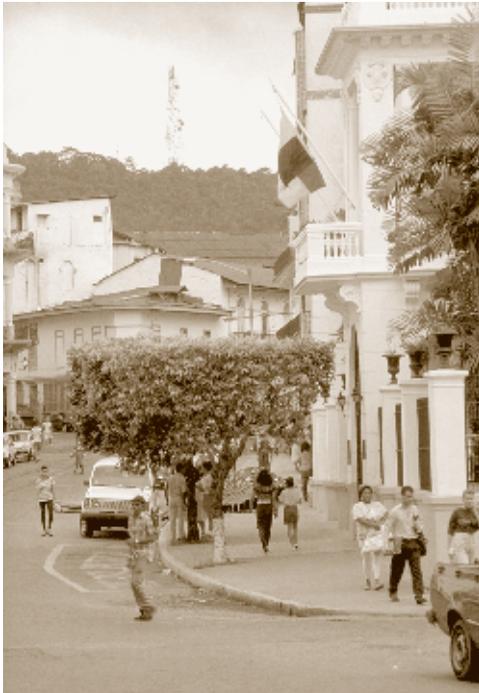
▷ <http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=363160>

▷ <http://www.brookings.edu/views/op-ed/200410moser.pdf>

▷ http://books.google.com/books?id=qfGLu8qMhwcc&dq=Determinants+of+Crime+Rates+in+Latin+America+and+the+World+-+An+Empirical+Assessment&printsec=frontcover&source=bl&ots=PY3Tb2qHig&sig=2k1sjL2slovmslB5K0pzqcbETOA&hl=en&ei=rp-QSeOIC6GbtwffmcyWCw&sa=X&oi=book_result&resnum=1&ct=result

<http://siteresources.worldbank.org/INTLACREGTOPURBDEV/Home/20843636/UrbanPoorinLA.pdf>

◀ ment, education, health, and basic physical infrastructure. Moser, Winton, and Moser (2005) stress that the unequal distribution of economic, political, and social resources combined with inequality and exclusion represent the main factors in urban violence in LAC.



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A study conducted in Jamaica (Moser, 1997) supports the idea of cumulative effects: it shows that poor Jamaicans perceive violence as a factor limiting their potential in terms of job opportunities and social capital. Violence discourages neighborhood improvements, such as investing in housing and other local infrastructure. Moser, Winton, and Moser (2005) point out that within LAC cities, disparities in violence levels show a spatial dimension based on neighborhood income levels. More prosperous areas mainly suffer from property-related crime, such as vehicle robbery, while extreme violence is generally concentrated in lower-income areas.

Violence is a widespread occurrence in downtown areas, and its incidence generally varies according to the time of the day and other conditions, such as the diversity of people in the specific area. In particular, the coexistence of poor and well-off residents and

the consequent level of inequality may give rise to violence and generate the above-mentioned externalities, which negatively impacts urban development, tourism, and investment.

Living Conditions

The inadequate, unsatisfactory living conditions faced by the poor represent another significant form of deprivation. This type of deprivation may be generated by crowded and insecure living conditions in urban slums or informal settlements. It has been estimated by the UNFPA (2007) that over 90 percent of slum dwellers today are in the developing world. In addition, as shown in Kapoor et al. (2004), 25–30 percent of the urban population in

http://econqa.worldbank.org/external/default/main?pagePK=64165259&theSitePK=469372&piPK=64165421&menuPK=64166093&entityID=000112742_20040726173422

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developing countries lives in slums or illegal settlements without access to water, sewerage, electricity, and other basic services.¹⁷

Various challenges derive from such a situation: unplanned settlements are linked with illegal tenure, the risk of eviction, and exposure to natural hazards. Moreover, those who live in self-built homes in illegal and informal subdivisions often have to pay higher prices for water and other services, and because they lack a legal address, they find it difficult to obtain entitlements—such as access to school for their children or subsidized food. Fay and Wellenstein (2005) emphasize that service coverage for the poor tends to improve over time, as settlements become formalized or simply more organized.

In Mexican barrios, for example, the key determinants of a household's access to services have been found to be the age of the house and the maturity of a settlement (as measured both by the age of the settlement and the proportion of the population that has recently migrated to it). Cumulative effects arise because the low environmental quality in these settlements has a negative impact on health. Furthermore, many poor people face a lack of social services and higher costs of transport (money and time), which represent significant obstacles to finding employment.

Income Levels

Another source of substantial deprivation, as evidenced in all of the case studies detailed in the annex section, relates to low income, which is reflected primarily in the difficulties that low-income individuals face in attempting to satisfy their basic nutritional needs.¹⁸ Nonresident poor households gener-



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¹⁷ According to the UN, as cited in World Bank (2008a), 1 billion people live in urban slums, and the number is expected to increase to 2 billion by 2030. For instance, in Brazil, 40.5 percent of urban residents (or 16 million families) are considered to be living in insecure or inadequate shelters (Rodriguez and Rolnik, 2007 as cited in Mitlin, 2007).

¹⁸ Almost 50 percent of the nonresident poor interviewed in Quito and 43 percent of those interviewed in Valparaíso have difficulties in meeting their basic needs for food; the percentage of resident poor with the same problem is 39 percent and 23 percent for Quito



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ally have a substantially lower per-capita income than the resident poor. This data may be related to the better opportunities and services offered in downtown areas. Only in the case of Rio de Janeiro is the situation reversed, with nonresidents having higher income than residents. This could be due to the growing efforts to upgrade the living conditions of the poor living in urban peripheries and slums. Examples of these initiatives are the integrated IDB programs/projects financed by the Urban

Improvement Rio de Janeiro I-II (BR-0250), whose objective is to upgrade *favelas* and unregistered subdivisions in the Rio de Janeiro municipality, combining investments in infrastructure with social development.

With respect to commuting costs (both time and the price of transportation), nonresidents are also at a disadvantage compared with residents. However, at the same time, living downtown also has some economic drawbacks. For example, the price of goods is higher in the urban center than on the peripheries, and this is also true for the housing prices. Therefore, it is not surprising that, in all four case studies, more nonresident poor own their dwellings than resident poor. The explanation may be that the limited supply of housing in central areas makes the option of buying a home unaffordable for poor residents.

In the above discussion of the various forms of deprivation, one issue that stands out is the social exclusion experienced by the urban poor (see Box 6 for a discussion of social exclusion and the participatory approach).

Vulnerability

An additional feature of urban poverty that has received great attention in the literature is vulnerability. Coudouel et al. (2002a) define vulnerability as the probability or risk of being in poverty or of falling into deeper

and Valparaíso, respectively. However, in La Paz, the differences between the two groups are less pronounced, most likely due to the low relative price of food. Finally, in Rio de Janeiro the relative positions are reversed, with the resident poor having more difficulties than the nonresident poor, although by rather small percentages of both groups.

BOX 6. Social Exclusion and the Participatory Approach

Along the lines of Sen's capabilities and functioning (1999) theoretical framework, there has been growing interest in including qualitative dimensions grounded on poor people's priorities in the definition of well-being.¹ These dimensions include independence, self respect, identity, close social relationships, empowerment, and participation. With respect to identity, Hentschel and Seshagiri (2000) refer to nonincome deprivation indicators to represent the discrimination (on the grounds of gender or race) in the workplace (in terms of lower wages) or public life (in terms of access to institutions such as the justice system, or in terms of differentiated treatment by the police). In terms of close social relationships, Abrahamson (2005) emphasizes the importance of informal networks and social ties for poor people in Europe. Empowerment is the expansion of the assets and capabilities of poor people to participate in, negotiate with, influence, control, and hold accountable institutions that affect their lives (Narayan, 2002). Lastly, indicators commonly proposed rely on qualitative and quantitative measures such as participation in general and local election voting (decision making at various levels); the extent of knowledge of local projects and district budgets (access to information) and the number, size, and revenue of active NGOs (potential for civil society monitoring).

In this context, poverty can be considered to arise when people are denied the freedom to interact as equal partners in society or assert their personal interests in the wider community. Such exclusion prevents large numbers of people from participating in the development process and may either come from caste, ethnicity, or religion, or serve the interests of corrupt elites (UNFPA, 2002). Inequality and social exclusion are also considered key elements in the emergence of urban crime or violence (UNFPA, 2007).

Participatory approaches to the issue of poverty are strongly advocated by social scientists because they challenge the view that "poor people are there to be

planned for" (Beck, 1989, as cited in Moser, 1995: 8) and also allow for the inclusion of the perception of those who bear the constraints of socially construed roles such as women, youth, the aged, ethnic minorities, new immigrants, and established urban residents (Wratten, 1995).

In general, it is important for all actors involved to have an understanding and an ownership of the values and method of the participatory process (SIDA, 2007). Moreover grassroots organizations (otherwise known as residents' associations, community organizations, self-help groups, etc.) are catalyzed by the need to secure land, resist eviction, provide themselves with water, and manage savings and credit (Mitlin, 2001). Therefore, such organizations can play important roles in shaping the relationship between the residents and institutions, especially when residents face the challenge of being pushed out because of major urban renewal projects.²

With respect to downtown poverty, it can be argued that for nonresidents, social networks (which are recognized as an important risk management strategy of the poor) may be negatively affected by mobility, since it weakens the participation of this group in social activities.

¹ According to this framework, what ultimately matters is the freedom of a person to choose his/her functionings. In order to function, an individual requires a minimum level of well-being brought about by a set of attributes.

² Satterthwaite (2001c) refers to movements such as Shack/Slum Dwellers International whose goal is to strengthen grassroots organizations, enabling them to become both more independent of external support, and at the same time, be more proactive in proposing alternative models of urban development. Grootaert and Narayan (2001) estimated empirically the impact of social capital on household welfare and poverty in Bolivia. The focus was on household memberships in local associations affecting their welfare and consumption. The magnitude of the social capital effect was found to be about 2.5 times larger than that of human capital. The returns to social capital in local institutions appear to be higher in cities than in rural areas.



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<http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTPOVERTY/EXTPA/0,,contentMDK:20238993~menuPK:492141~pagePK:148956~piPK:216618~theSitePK:430367,00.html>

(World Bank, Web site c).

In order to verify the relative vulnerability of the groups interviewed for the case studies, special attention was paid to household composition, living and dwelling conditions, characteristics of employment, and the sources of income and assets.¹⁹ In a rather consistent fashion across urban central areas, the interviews generally revealed that the nonresident poor tend to be more vulnerable than the resident poor. Because people depend heavily on labor markets and commodities, social capital and public policies pay a crucial role in the level of urban poverty (see Box 7 for a detailed analysis of social aspects).²⁰

Integration into the Labor Market is another aspect of vulnerability that is highly relevant in the context of the discussion of downtown poverty. According to the 2009 World Development Report, in LAC newcomers need about five years to become fully integrated in the urban labor market (World Bank, 2008b).

The results of the survey show that the nonresident poor encounter far greater restricted access to formal employment than the resident poor. For instance, while the problem of integration in the labor market is rather moderate in the case of La Paz, it is significant for the nonresident poor in Valparaiso, where only 17 percent of these individuals are formally em-

¹⁹ Also the exposure to violence affects vulnerability.

²⁰ In particular, food insecurity poses a particular problem for the urban poor, as they are more vulnerable to macroeconomic crises than the rural poor (Fay and Ruggeri Laderchi, 2005: 31).

<http://siteresources.worldbank.org/INTWDR2009/Resources/Outline.pdf>

BOX 7. Social Capital and Vulnerability

Vulnerability is linked to asset ownership such as human, financial, social and physical capital (Moser, 1998). “Households with well-educated members suffer less loss of welfare over time than other households” (Gootaert, Kanbur, and Oh, 1995, as cited in Amis, 1999: 31). Living in settlements subject to natural hazards in addition to negative environmental and transport externalities make the poor more vulnerable to social exclusion.

Social capital is the dimension of poverty concerned with households, networks and community, which is very important in terms of helping the poor manage risks and facilitate local solutions to problems. Woolcock (2005) offers a broad review of the main issues related to social capital in Latin America,

pointing out that the urban poor often have to deal with inadequate services and institutions indifferent to their problems; as a result, they develop coping strategies such as the use of social networks. As Mitlin (2001) indicates, these networks are based more on the links between individuals and friends than on family obligations. Wives’ community work builds social capital that leads to job opportunities, help with child care, in-kind transfers, or general moral support in times of crisis (World Bank, 2001). For instance, the phenomenon of “street children” involved in illegal activities such as begging, selling drugs, petty theft, and prostitution is closely connected to the above-mentioned causes of vulnerability, mainly the lack of family and social ties (Volpi, 2002).

ployed versus 69 percent of the resident poor and 87 percent of the non-poor (see Box 8).

The informal economy represents another serious vulnerability, closely linked with the labor market and conditions. There is ample evidence to suggest that many of those who migrate to cities in search of jobs find work in the informal sector. In downtown areas, poor people undertake informal activities in public spaces, such as jobs in small shops and workshops and construction activities. The informal economy also includes activities and workers that are less visible, such as home industries and the street economy (e.g. informal garbage collectors, waste recyclers, and street vendors).²¹ According to the World Bank (2005b) available



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²¹ These activities are quite extensive. Some examples are included in the ILO (2002) definition of informal economy: bicycle and motorcycle repairing; scrap metal recycling; furniture and metal parts making; leather tanning and shoe stitching; weaving, dyeing, and cloth printing; diamond and other gems polishing; and sorting and selling cloth, paper, and metals (ILO, 2002).

BOX 8. Employment

In 2007 the unemployment rate in LAC was 8.5 percent (ILO, 2008). The table below shows the main labor market indicator, globally and in the region.

Despite these data, it is easy to argue that most of those nominally unemployed in the region are engaged in some kind of economic activity. Even if there are several problems in estimating the size of the informal economy and figures vary across countries, this assumption is confirmed by informal labor statistics. As shown in Becker (2004), available data for LAC indicate that urban informal employment as a percentage of total urban employment increased from 52 percent in 1990 to 58 percent in 1997. Such an increase could be attributed to the growth of the labor force due to demographic factors and also to the recovery after the region's debt crisis in the 1980s. According to the World Bank, in 2007 informal employment in urban areas decreased slightly to 56 percent. This figure includes informal self-employed workers (24 percent of total urban jobs) and informal salaried workers (30 percent of total urban jobs) (Perry et al., 2007). De Soto, as cited in Loayza (1995), emphasizes the high costs to firms of remaining in the

formal sector due to taxes, regulations, and bureaucratic requirements.¹ He further points out that there are high costs associated with being informal as well. For example, the lack of proper contracts limits investment from capital markets, thus informal firms are forced to pay high interest rates for credit.

Another important consideration in the context of this discussion is the type of work performed by the principal income earner in the household, which is a major determinant of household poverty and livelihood vulnerability, with a clear hierarchy from formal waged labor, through to contract labor and finally to informal, casual work. Beneria and Floro (2004) emphasize the links between the informalization of the labor market and job vulnerability in terms of precariousness and income volatility.² They offer empirical evidence that informalization implies, among other things, longer hours of work, a negative impact on productivity (because of reduced access to capital), reduction of basic consumption (food, education, health, and utilities), and a reduction of assets to mitigate the effect of income volatility (with a negative impact for the future if assets are used to

estimates suggest that worldwide the size of informality ranges between 30 and 70 percent of GDP. Most of these entrepreneurs and workers employed

in the informal labor market are often marginalized and poor. Thus, informality represents a missed opportunity for faster economic growth and better income distribution, let alone functioning markets and rule of law.

Informal street vending represents a form of self-employment that helps feed many families, while at the same time provides essential services. According to the World Bank (2005b: 3), usually poor people decide to stay informal because “the total costs of entry, operation,



BOX 8. Employment *(continued)*

buy inputs for the production process as in the case of home-based workers).

Finally, there seems to be a relationship between gender, informality, and poverty (Sethuraman, 1998). Informal employment has a gender bias: it is generally a larger source of employment for women than for men in the developing world. The majority of

women working in the informal sector are home-based workers or street vendors. The age dimension of the informal sector is another aspect that should not be underestimated. On street corners throughout Latin America, the presence of small children selling chewing gum, cigarettes, candy, plastic toys, or magazines and newspapers is common.

Labor Market Indicators: World and LAC

	Change in unemployment rate (% point)	Unemployment rate (%)			GDP growth rate (%)			Employment to-population ratio (%)		Annual labor force growth rate (%)	Annual GDP growth rate (%)
	2002–2007*	1997	2006	2007	2006	2007*	2008p	1997	2007	1997–2007*	1997–2007*
World	–0.5	6.1	6.0	6.0	5.4	5.2	4.8	62.6	61.7	1.7	4.2
LAC	–0.4	8.0	8.5	8.5	5.5	5.0	4.3	59.0	60.0	2.4	3.3

Source: ILO, 2008.

*Estimates for 2007 are preliminary.

¹ Staying formal can also be very costly. De Soto (quoted in Loayza, 1995) finds that in a sample of 50 small manufacturing firms, the costs of staying formal represent an average of 348 percent of after-tax profits. He furthermore reports that 22 percent of such costs are due to taxes, 5 percent due to higher public utility rates, and 73 percent due to regulations (mainly labor related) and bureaucratic requirements.

² Informal employment includes both self-employment in informal (e.g., small and/or unregistered) enterprises and wage employment in informal jobs (e.g., without secure contracts, worker benefits, or social protection). In all developing regions, self-employment comprises a greater share of informal employment (outside of agriculture) than wage employment (ILO, 2002).

and exit associated with joining the formal sector are greater than the potential benefits from being formal.”

The process of formalization implies making these activities subject to the tax code and consequently increases the monthly costs that street vendors incur. Furthermore, the relocation of street vendors could cause a change in the market and a reduction in sales. As a consequence, in most of the cases these formalization efforts are not well accepted by people engaged in informal activities. Vendors may consider it more valuable to stay informal and may simply move to other areas of the city,

<http://www.devoutreach.com/mar05/specialreport/tabid/1123/Default.aspx>





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creating an even more insecure and precarious situation (e.g., selling very small quantities of merchandise and running away when necessary). Formalization requires a lengthy process of participatory consultation and communication. In addition, policies to facilitate access to credit and business training are needed. Moreover, it is also important to take into account that actions supporting formalization may benefit some sectors of the market and negatively affect others.

Significant Outcomes

In the context of the discussion in this section, a case study on Egypt developed by the World Bank (2005b: 1) offers some important considerations: “formalization would force entrepreneurs to move from a low-cost mode of operation most suited to small and micro-enterprises to a restrictive and costly formal environment, deprive the economy of an absorber of shocks in times of difficulty, and negatively affect those who cannot afford to be unemployed, leaving the Treasury as the only winner...[however formalization] would [also] lead to better protection of property rights, which would enable entrepreneurs to secure inputs at lower costs, increase access to infrastructure services and credit, take advantage of expanded markets, and avoid coping with unofficial payments to stay informal. It would equip and motivate entrepreneurs to expand their businesses, reorganize internally, and benefit from specialization and division of labor.” In summary, once the benefits to society are identified, formalization should be pursued.

However, it would be naïve to presume that the “control” of the informal sector will lead to the creation of fully legitimate businesses; nevertheless, if only a fraction of the informal sector were formalized, it would most likely substantially contribute to increased economic growth and reduce downtown poverty. According to the World Bank (2008b: 22), “while informality is a transient form for low-skill workers to adapt to a new environment, cities have difficulty in helping their transition into formality.” A successful example of the formalization of street vendors’ businesses and their relocation is an IDB

project aimed at rehabilitating Quito's historic center (IDB project: EC-0169) (see Box 9).

Along with the fact that supporting the development of legitimate business represents the best approach to employing local talents and resources, in the short term, facilitating access to credit for people involved in the informal sector is also an important means to reduce poverty. SIDA (2007: 45) points out that “in recent years, it has become widely recognized that providing small-scale credit to individuals with business in the informal sector, who would not normally be

considered credit-worthy by traditional banking organizations, can make very significant difference to local economies.”



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BOX 9. Informal Vendor Relocation in the Historic Neighborhood of Quito

In 2003, the Municipality of Quito, Ecuador launched an ambitious 10-year plan to rehabilitate the Historical Center of Quito (HCQ). The project was cofinanced by the IDB. As part of the initiative, “a political decision was taken with regard to street vendors: all street vendors would be relocated into formalized, purpose built markets” (Carrión, D. 2005: 38).

Over 5,000 out of the 10,000 informal vendors in the HCQ were relocated to the newly built commercial center, Hermano Miguel, involving 17,000 square meters to host 1,596 stands. The process took more than four years and involved negotiations with 98 traders’ organizations. Regarding the negotiations, Carrión, D. observes, “The policy stated by the mayor for negotiations was based on the premise of full transparency, non-political interference, continuous dialogue and impartiality in the relationship with all organizations, under a very clear message of irreversibility on the relocation process. Traders, for their part, accepted this, but on the condition that all of us go into the markets at the same time” (Carrión, D. 2005: 40).

The vendors’ relocation program was complemented by a cooperation agreement with wholesale traders’ organizations whose members provide supplies to the retail vendors. Under the program, wholesale vendors relocated next to the street vendors so as to continue with their businesses. Among the indicators of success of this program—which was carried out in a peaceful, planned, and coordinated manner—Carrión, D. (2005: 40) emphasizes the following results:

- Improvements in the sanitary and health conditions of traders now working in the newly built markets.
- Rehabilitated formerly occupied streets and plazas.
- Improvement in mobility for pedestrians and vehicles.
- Reduction in crime.
- Increased housing provision in the area.



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Therefore effective and specific public policies are extremely relevant for downtown poverty reduction, both with respect to non-resident and resident groups. In the absence of these public efforts, the mere possibility of earning a living (though low and uncertain) as well as having shelter (even if only in an overcrowded or informal slum) may be endangered, making poor people even poorer (see Box 10).

The interviews conducted for the survey aimed to shed light upon the perceptions that relevant social groups in downtown areas have about: i) the protection guaranteed by institutions; ii) the effectiveness of the assistance provided by the government and other agents (NGOs, church, religious associations, and private donors); iii) the priorities of public policies; and iv) economic activities designed to spur the socioeconomic development of the urban center.

The following are the major outcomes of the interviews:

- A very high percentage of those interviewed perceive some discrimination in public life related to access to the justice system and the police service and the expression of civil and political rights. In addition, the poor feel discriminated only slightly more frequently than the non-

BOX 10. Inadequate Government Interventions

Vulnerability is often made worse by the inadequacy of government in its various activities (e.g., the provision of basic public services, regulatory policies, and social policies).¹ Amis (1999) points out that municipalities have various possibilities to intervene in mitigating the effects of urban economic growth or decline upon the poor. Satterthwaite (2001a) also raises this point, stressing that the law and regulations may criminalize the only means by which half of a city's population earns a living or finds a home. As such, regulations—if applied unfairly—can have a major negative impact on the poor in the form of

large-scale evictions, harassment of street vendors, exploitative patron-client relationships that limit access to resources, corruption, and the denial of civil and political rights.²

¹ In addition, the inadequacy of government can negatively impact the effectiveness of official aid agencies and development banks since they do not implement their projects directly, but through the recipient country's political representatives and bureaucracy (Satterthwaite, 2001b).

² Cross (1995) offers an example using a Mexico City case study.

poor. Within the poor groups interviewed, respondents appear to perceive discrimination mainly concerning access to the police and the judicial system. This resulted more true for the nonresident poor than for the resident poor. Overall, these results indicate that institutions generally fail to convey a sense of protection to citizens.

- For all social groups interviewed in the four cities, the policies of the federal governments as opposed to those of local governments are considered more effective in improving individual welfare. Tentative explanations for the common pattern of perceptions could be based on insufficient information. In this regard, the media addresses national policies with relatively greater frequency and detail than the attention devoted to local policies. Moreover, the national government is the main collector of revenue, and therefore is generally perceived by the public to be less resource constrained than other levels of government.
- All groups in each city have expressed a significant preference for education as the first priority for public policies. This outcome can be interpreted as showing that there is broad awareness that human capital investments, especially those focused on youth, are fundamental in terms of improving socioeconomic conditions of households.
- In terms of sustaining the development of downtown, there is a unanimous preference among all respondents for combined support for service and productive activities, namely tourism, and artisanship, with the first category generally considered the most relevant one.

MEASURING DOWNTOWN POVERTY

II

The operational definition of downtown poverty presented in this sourcebook is characterized by the coexistence of residents and commuters. It represents a notable departure from the typical analysis of urban poverty, focusing on households and their locations. As outlined earlier, on a daily basis the nonresident poor commute to downtown from the suburbs or the countryside and interact with downtown residents, and their presence significantly impacts the local society and economy. Thus, a discussion of the methodology of poverty measurement is key to understanding the complex dynamics of poverty impacting downtown areas.



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There is a considerable and growing literature addressing the issue of poverty measurement aimed at assisting analytical investigation as well as policymaking. These studies often consider poverty on a national or regional scale, in some cases distinguishing between urban and rural poverty. They offer a detailed investigation both at a macroeconomic level—for instance assessing the effects of growth on poverty and income inequality (Ravallion, 1995; De Janvry and Sadoulet, 2000; World Bank, 2002c; Adams, 2004)—and at a microeconomic level—for example, investigating the location choice of the poor, the impact of family composition (Lanjouw and Ravallion, 1995), and access to the labor market (Coudouel et al., 2002b) and to public services (World Bank, 2003b).

New poverty estimates reveal that worldwide the number of poor people is significantly higher than originally estimated. In developing countries, the

http://www-wds.worldbank.org/external/default/WDSContentServer/1W3P/IB/1994/08/01/000009265_3970716141454/Rendered/PDF/multi0page.pdf

<http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTPOVERTY/EXTPRS/0,,contentMDK:20177536~pagePK:148956~piPK:216618~theSitePK:384201,00.html>

http://www-wds.worldbank.org/external/default/WDSContentServer/1W3P/IB/2003/10/07/000090341_20031007150121/Rendered/PDF/268950PAPER0WDR02004.pdf



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number of people living on less than US\$1.25 a day in 2005 was one in four, which means a total of 1.4 billion (1.9 billion in 1981). Notably, a World Bank working paper published in August 2008 recalculates poverty rates; estimates the global poverty measurement for 2005; updates all past estimates dating back to 1981; and utilizes household surveys, census data, national accounts, and both national and international price data. This paper introduces three major innovations in its approach.

First, the use of the results of the 2005 International Comparison Program (ICP) coordinated by the World Bank between 2003 and 2007 is introduced (see Box 11). Second, in accordance with the new poverty figures, the paper applies an updated international poverty line (US\$1.25 a day in 2005 prices). Third, the coverage of the household survey database is improved (Chen and Ravallion, 2008).

Recent research indicates that local inequality is also relevant to the success of decentralized programs for poverty reduction and the development of local communities (Mansuri and Rao, 2003). In fact, local initiatives may be taken advantage of by powerful elites that would appropriate a disproportional amount of the resources allocated to the community. The empirical analysis suggests that inequality may initially favor such a scenario due to the lack of collective action by the whole community (Elbers et al., 2004). There is also growing literature on the methodology of the dis-

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http://www-wds.worldbank.org/external/default/WDSContentServer/IW3P/IB/2004/07/27/000112742_20040727170714/Rendered/PDF/wps3313.pdf <

BOX 11. International Comparison Program (ICP)

The International Comparison Program (ICP), the world's largest statistical initiative, was established in 1968 as a joint venture of the United Nations and the University of Pennsylvania, with support from the Ford Foundation and the World Bank. The ICP collects price data for a basket of goods and services through a series of statistical surveys held every three to five years, depending on the region.

This data combined with other economic variables from countries' national accounts allows for the

calculation of the Purchasing Power Parities (PPPs). PPPs are conversion factors that enable the elimination of the price levels disparity between countries by converting to a common currency and equalizing the purchasing power of different currencies. Moreover, comparisons with GDP volumes allows for the assessment of the incidence of poverty and the relative socioeconomic well-being of countries (World Bank, Web site a).

aggregated analysis of local inequality (Hentschel et al., 1998; Elbers et al., 2004; 2005; Elbers, Lanjouw, and Lanjouw, 2003).

In any event, the risks that local projects may be biased in favor of powerful groups—who are not poor—should be carefully weighed in the definition of intervention policies aimed at reducing urban poverty. Most of the procedures reviewed apply almost indistinctly to the analysis of urban and rural poverty. Nonetheless, as mentioned earlier, urban poverty has some particular characteristics—such as the dependency on cash; risks due to crime, exposure to violence, and environmental hazards; the lack of a community network providing social security; and the overcrowded and unhealthy living conditions of the slums (Baker and Schuler, 2004). In this regard, this brief review of the empirical analysis of urban poverty has practical implications for the definition of a methodology of downtown poverty evaluation.

Measurement Procedure

A common procedure for the quantitative analysis of poverty starts with the definition of the indicators of household welfare, proceeds with the specification of a benchmark level of indicator(s) of well-being—namely a poverty line that separates the poor from the nonpoor, and then arrives at a measurement of poverty (Ravallion, 1996; Coudouel et al., 2002a). Once this process is complete, a poverty profile—examining in a disaggregated manner the characteristics of the different groups—can therefore be established. Below is a brief description of the methods used to measure poverty.

Definition of Household Welfare Indicators

The literature offers an array of indicators varying in degrees of comprehensiveness and complexity that respond to different conceptualizations of poverty, which reflects not only research advances, but also in all likelihood the evolution of the debate in development economics (Sumner, 2004).

Boxes 12, 13, and 14 illustrate in detail the various characteristics concerning: i) money-metric indicators, evaluating resources to meet per-

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▷ <http://siteresources.worldbank.org/INTURBANPOVERTY/Resources/analyzingurbanpoverty.pdf>

▷ http://www-wds.worldbank.org/external/default/WDSContentServer/IW3P/IB/1996/06/01/000009265_3961214130609/Rendered/PDF/multi_page.pdf

▷ <http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTPOVERTY/EXTPRS/0,,contentMDK:20177055~pagePK:210058~piPK:216618~theSitePK:384201,00.html>

▷ http://www.wider.unu.edu/publications/working-papers/research-papers/2004/en_GB/rp2004-030/

sonal basic needs (see Box 12); ii) nonmonetary indicators related to the consumption of basic goods and services (see Box 13); and iii) the lack of key capabilities indicators (see Box 14). This third category of indicators is especially important for the urban poor because their survival usually depends on health conditions that are endangered by crowded living conditions, the lack of sanitation and potable water, and critical environmental issues.

In addition, the downtown poor, in particular, live in very insecure and unhealthy conditions, greatly due to the coexistence of resident and nonresident groups. Furthermore, the urban poor are quite vulnerable to economic downturns as they often work in the informal sector, lack insurance, and strongly rely on cash. In Latin America, 70 percent of the urban poor work in the informal sector (Ruggeri Laderchi, 2005). Unfortunately, this index is rarely used to specify the difficulties relative to the definition of a poverty line that would consist of a minimum level of functioning to identify the nonpoor. For as Thorbecke (2005: 6) notes, “it is in practice very difficult, if not impossible, to measure the capability endowment *ex ante*.”

<http://www.arts.cornell.edu/econ/et17/Erik%20Thorbecke%20files/Multi1.pdf>



BOX 12. Money-Metric Indicators

At a fundamental level, poverty may be regarded as the lack of resources to meet personal basic needs. In this sense, a first approach to measuring poverty is to make use of money-metric indicators; that is, to compare income or consumption with respect to a definite threshold, below which individuals are to be considered poor. Even though poverty is often assessed based on income, notably for its simplicity and the low cost of data collection, consumption is considered a theoretically superior indicator of well-being for the following reasons:

- Income alone does not guarantee as accurately as consumption the satisfaction of some basic needs, since this may also require access to services; and income is a less comprehensive and direct indicator of such satisfaction. Even though the consumption of the poor basically concerns food,

the consumption bundle may also include expenditures for other items required to satisfy basic needs, such as clothing and housing.

- Income is more volatile than consumption, both for the urban poor employed in the informal sector and for rural households relying upon seasonal harvests.
- Income may not be fully monetized, as in the case when consumption is based upon an individual’s own production or property (of shelter, for example).
- Income is likely not to be reported accurately in interviews, either because it is erratic, or because people feel that revealing what they actually earn would hurt them (e.g., the payment of taxes or fines).
- The same income level may guarantee a substantially higher welfare in rural areas than in urban areas.

BOX 12. Money-Metric Indicators *(continued)*

- Income is an indicator of well-being that is considered fairly inappropriate to use in national and international comparison as it can vary significantly across time and countries.

As for consumption, the components of household consumption can be broken down into four categories: food, nonfood items, consumer durables, and housing (Deaton and Zaidi, 2002). Food can be interpreted as the quantity of food consumed in the reference period (generally a month or a week) evaluated at reference prices, or the value of food consumed in the same period.¹ For purposes of analysis, information about the source of the food (purchase of a meal or ingredients, gift, self-production) or the circumstances of consumption (home, school, work, vacation) should be collected. Nonfood consumption includes clothing, household use items, transportation costs, education, and health.² It may be sensible not to include occasional expenditures or debt repayments and taxes, although some local taxes can relate to the benefit received by the revenue allocation of the local government.

The calculation of the consumption aggregate may be complicated by the inclusion of goods that are not bought in the market (such as leisure, public goods, and household production), which are rationed, or imply a flow of consumption (durable goods). A consumption measurement based on the distribution of real expenditure would not take into account the consumption of leisure and public goods, both contributing to household well-being. Problems related to the estimation of their values also suggest not including them in the computation (Deaton and Zaidi, 2002).³

In addition, households may be considered as two distinct units of producers and consumers of the products of their business. In this case, the

problem concerns the definition of the “selling” prices.⁴ Shadow prices should be estimated with rationed supply not fully satisfying demand because the market price is lower than the marginal utility of the consumer. Durable goods require a special calculation treatment because the benefits of their use go beyond the initial purchase. Therefore, the evaluation of their contribution to household welfare should not be based on the initial expenditure, but on the calculation of a user fee.⁵

¹ Some surveys (see the example of the Bangladesh Bureau of Statistics reported in Annex A of Coudouel et al., 2002a) have adopted direct intakes as an indicator of poverty and the definition of an absolute poverty line. This indicator is purely nutritional and can hardly be considered representative of the condition of poverty, since it does not consider all the other forms of deprivation of poor people who may nonetheless meet their caloric requirement.

² There is no general agreement on the inclusion of all health expenditures. The main difficulties concern their potential necessity in some particular occasions (Deaton and Zaidi, 2002).

³ It is difficult to evaluate leisure and differentiate it from involuntary unemployment or nonmarket work supplied to the household. Its inclusion in the calculation could jeopardize the quality of the welfare measurement. Demand for public goods is commonly estimated by using contingent valuation. This widespread estimation technique however may have some shortcomings, especially in estimating the demand for services that are not provided.

⁴ If the separation can be reasonably operated, it is preferable not to use the market prices but instead estimate the “farm-gate” price. Moreover, the investments and the cost of the inputs used for the production of the in kind income should not be considered as part of consumption to avoid double counting.

⁵ The most important example of durable goods is housing. For those who own their homes, a rental equivalent can be measured by referring to the market price. For people who rent their homes, this measure would be the actual rent.

(continued on next page)

BOX 12. Money-Metric Indicators *(continued)*

Once household consumption data are available, it can be converted into individual consumption by dividing it by the number of household members. Conversely, household consumption can also be determined by adding up the consumption of individual members. This method has been widely adopted and therefore it may be reasonable to maintain it for comparison with previous analyses. However, at the same time, the method does not take into account interhousehold differences, not only related to the different compositions and sizes of households, but also those influenced by other specific, more personal factors such as physical handicaps.

Furthermore, it is important to point out that in general, individuals have different needs. For example, children do not require as many calories as adults. In this regard, larger households may benefit from economies of scale in the consumption of some goods (housing, in particular). The problem of comparing the consumption of different households may be solved by the use of equivalence scales that apply a system of weights to the members of the household in order to establish the number of adult equivalents. The specific number can then be adjusted in order to account for the economies of scale, obtaining “effective” adult equivalents. Unfortunately, according to Deaton and Zaidi (2002: 48), “there are no generally accepted methods for calculating equivalence scales, either for the relative costs of children, or for econo-

mies of scale.” Among the various approaches, which are often difficult to implement, the most prevalent one appears to be the adoption of a reasonable ad hoc correction, such as the one frequently used by the Organisation for Economic Co-operation and Development.⁶ The more general approach is one proposed by the National Research Council.⁷ In addition, it is also possible to estimate equivalence scales for different countries that take into account household size and composition.

Further inequalities may also exist between the individuals of the same household. Intrahousehold differences are rather difficult to ascertain; the participatory approach might offer an effective methodology by which they can be measured. Adjustments may also be needed to account for differences in prices across different locations of the country, and may be accomplished by applying spatial deflators to income/consumption.

⁶ Denoting with AE—the adult equivalent of a household—and with N_a and N_c , the number of adults and children, respectively, in the household, it is possible to suppose that $AE = 1 + 0.7(N_a - 1) + 0.5N_c$ (see World Bank, 2005a).

⁷ That is $AE = (N_a + \alpha N_c) \theta$, where the parameter α ($1 \geq \alpha \geq 0$) is the cost of a child relative to that of an adult, and the parameter θ ($1 \geq \theta \geq 0$) is related to the economies of scale. The parameters should then be set based on the characteristics of the particular country and the sample.

Setting the Poverty Line

Once the variables used to measure the well-being are defined, the next step is to specify a threshold for the indicator(s): *a poverty line, below which is it possible to identify the poor, separating them from the nonpoor.* According to the World Bank (2005a: 43), a poverty line “may be thought of as the minimum expenditure required by an individual to fulfill his or

BOX 13. Nonmonetary Indicators—Consumption of Goods and Services

The multidimensional nature of poverty, described previously herein, requires the measurement of several variables that contribute to a description of well-being. In this respect, income and consumption does not represent a fully satisfactory indicator of well-being. This deficiency is particularly manifest in the case of urban poverty where the satisfaction of needs may depend on access to services (World Bank, 2004) and the expenditure pattern reflects a share of essential consumption for goods and services (such as transport, shelter, utilities, and health) with respect to food higher than in rural areas.

The general preference for economic over noneconomic measures of well-being is likely due to the fact that the latter, although characterized by more detailed indicators of well-being, are more complex and expensive to collect.¹ Nevertheless, a more comprehensive approach to the assessment of well-being would be through the use of nonmonetary indicators expressed in terms of consumption of a set of goods and services such as the following: food (for example: daily caloric intake, children nutrition); health (body mass index, infection rates, life expectancy, mortality, health service usage, number of hospitals and health centers at an accessible distance); housing standards (adequate space,

heating/air conditioning, materials used for building, sanitation, water supply, availability of drinkable water), education (literacy, school attendance, access to schools); clothing; environment; transportation; etcetera.² In this case, the extent of poverty can be directly measured by an index identifying a minimum level of satisfaction of basic needs contributing to the definition of the household well-being.³

¹ Mitlin (2004) finds that 22 out of 23 poverty reduction strategy papers investigated use income/expenditure measures, while just four also consider basic needs measurements. It should be noted that multidimensionality increases the difficulty of making interpersonal comparisons needed for welfare rankings; see Duclos, Sahn, and Younger (2001) and Bourguignon and Chakravarty (2002) for criteria of comparison with multiple indicators of well-being. Furthermore, Lanjouw and Lanjouw (1997) point out a possible trade-off between the comprehensiveness of welfare measures and their comparability. Bibi (2005) and Thorbecke (2005) present recent reviews of the approaches to the measurement of multidimensional poverty.

² Several studies show that expenditures for transportation services in urban areas can easily represent about 15 percent or more of monthly income (Mitlin, 2004).

³ A composite indicator of well-being is the Human Development Index (HDI), which is the weighted sum of three measures of deprivation: income, health, and education.

BOX 14. Lack of Key Capabilities Indicators

The problem of information gathering is particularly relevant for the utilization of an index portraying poverty as the lack of key capabilities, or the set of choices available to individuals (Sen, 1999). According to this latter interpretation, the composite index of wealth (already including income, assets, housing standards, and the utilization of services such as health and education) should be extended to include empowerment or

the freedom to choose alternative functioning to escape poverty. The degree of individual empowerment depends on several elements, such as the insurance coverage against risks or the existence of basic rights (freedom of speech and right to vote, for example), and participation in collective decision making (depending on, among other elements, information about public policies and the number and relevance of NGOs).

<http://siteresources.worldbank.org/PGLP/Resources/PovertyManual.pdf>



her basic food and non-food needs.”²² Setting the poverty line is a very delicate and complex matter as it involves interpersonal welfare comparison.

There are two main forms of poverty lines: relative and absolute. Relative poverty lines are defined with respect to the overall distribution of the indicator (principally income or consumption). Their aim is to define the most disadvantaged group(s) in the country, and they are not appropriate for international comparisons because the poor in advanced economies—

so defined by relative poverty lines—may be considered rather well off in developing countries. In addition, poverty lines are usually updated over time.

Absolute poverty lines are generally defined in terms of the estimated cost of a basket of goods that is minimally sufficient to satisfy the basic needs of a household, generally resulting from the combination of nutritional and nonfood needs. In other words, for any given level of utility that defines the avoidance of poverty, there is a cor-



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responding absolute poverty line defined by a basket of commodities that serves to guarantee a minimum standard of living (or level of utility). According to the World Bank (2005a), there are two main problems with this definition: how to define the reference level of utility and how to define the commodity value of the poverty line. Moreover, in order to carry out consistent comparisons of poverty rates across countries, a selected poverty line should indicate similar standards of livings independently of the time, place, or group under consideration.²³ Clearly, the definition of

²² Alternatively, it is possible to consider a poverty line for a subject as the minimum expenditure needed to reach some subsistence level of utility. The problem that utility cannot be measured may be overcome by defining a different poverty line for different households, for example, taking into account whether they live in urban or rural areas. A more common approach is to define one poverty line for all individuals and adjust the observed individual income for the household composition.

²³ In order to make comparisons possible, the poverty line may be obtained by multiplying the reference basket by the price vector and dividing by the price index in order to express the poverty threshold in real terms (Ravallion, 1998).

poverty lines should also allow for differences between the urban and rural poor. In the case of urban analysis, these measures should be designed in order to take into account the additional costs that the urban poor may have compared to the rural poor with respect to housing, transportation, and buying agricultural products that they are unable to grow themselves.²⁴



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Scholars have emphasized the difficulties of setting minimum levels of some basic needs such as clothing, shelter and, above all, information and individual rights (empowerment). Certainly, it is instead much easier to define the nutritional necessities below which an individual is considered deprived.²⁵ Concerning the availability of objective and reliable data, there are two main methods commonly used to define poverty lines according to the traditional money-metric approach: the Cost of Basic Needs (CBN) and the Food-Energy-Intake (FEI) methods (see Box 15).

Poverty lines can also be derived on the basis of subjective perceptions expressed in surveys by the households about their conditions and basic needs. Subjective measures can be used not only to set poverty lines, but also to define equivalence scales and regional differences in the costs of living. However, it is also true that subjective measures may be highly variable and incorporate prejudices and habits that are unacceptable. For example, it is possible that respondents' answers may evidence some patterns of discrimination, such as against women or some specific groups. In this regard, subjective poverty lines are very rarely utilized, although they do have a potentially relevant explanatory power that could improve upon traditional methods of poverty measurement (Ravallion and Lokshin, 1999). In conclusion, poverty estimates are likely to be significantly affected by the specific threshold and measurement method adopted.

▷ http://www-wds.worldbank.org/external/default/WDSContentServer/IB/1999/09/14/000094946_99051205342780/Rendered/PDF/multi_page.pdf

²⁴ In particular, lower poverty lines show greater poverty concentration in rural areas (Fay and Ruggeri Laderchi, 2005).

²⁵ It should be noted that international comparisons commonly use the dollar-a-day measure as a poverty line in spite of its well-known shortcomings as an indicator of well-being.

BOX 15. Definition of Poverty Lines—the Cost of Basic Needs (CBN) and Food-Energy-Intake (FEI) Methods

The Cost of Basic Needs (CBN) method defines an absolute poverty line as the value of consumption to satisfy some basic needs and this method offers the advantage of consistency. Therefore, the construction of a poverty line starts with the definition of an adequate consumption bundle, including both food and nonfood elements, and then proceeds with the estimation of the cost of the bundle. Thus, the poverty line is measured in monetary terms. The food component is calculated by estimating the cost of fulfilling a nutritional requirement (generally, 2122 calories per person per day), usually referring to a customary diet for households near the poverty line. The choice of the reference diet may substantially affect the outcome. In fact, the nonpoor may have a substantially higher per calorie expenditure than the poor. Moreover, diets vary regionally. An additional problem relates to the estimation of the cost of the food bundle. The estimates of food prices may be biased by the seasonality of prices and by their differences across regions. The use of the regional average price will tend to produce an overestimate of prices, and thus a higher poverty measure, due to the fact that the nonpoor buy higher quality and more expensive food than the poor. An alternative method would be to consider average prices calculated only for the poor.

Finally, under the CBN approach, adding the nonfood component completes the poverty line and there is no generally accepted measure for this component. A possible alternative would be to consider the cost of housing and services, or the nonfood consumption of a reference household with just enough income to buy 2122 calories of food (Coudouel et al., 2002a; World Bank, 2005a).

The Food Energy Intake (FEI) method is helpful in defining the poverty line when the prices of

goods are not available. This method is based on the hypothesis that food energy intake and income are positively correlated. Therefore, the FEI defines the poverty line as the income level (or expenditure) at which the corresponding food energy intake is minimally sufficient to satisfy some referential energy requirement (it may be 2,122 calories, but it could also be adjusted regionally or nationally). However, the FEI has several important drawbacks. Ravallion and Bidani (1994) have pointed out that the FEI method does not provide a consistent threshold, since the poverty lines generated may not indicate the same level of welfare independently of time and subgroups. In addition, the method produces results that can be strikingly different from those obtained using the CBN approach. But the main shortcoming of the FEI method concerns its fundamental hypothesis. In reality, the food energy intake may depend on variables other than income such as tastes, performed activities, sex, age, physical characteristics, etcetera. In particular, it should be emphasized that rural households are often able to get food more cheaply than urban residents and are also accustomed to consuming less expensive foodstuffs. Therefore, the per calorie expenditure of urban consumers is higher than that of rural consumers; as such, at the same level of income (or expenditure) the level of energy food of the rural consumers will be higher than that of urban consumers. The consequence is that for a given level of energy food intake, the poverty line will be lower in the rural areas than in the urban areas.¹

¹ An additional weakness of the FEI method is its sensitivity to changes in the relative price of food. A substantial increase in the price of food with respect to nonfood items would increase the poverty line.

The Poverty Headcount, Poverty Gap, and Squared Poverty Gap

Among the most commonly used poverty measures are the *poverty headcount*, the *poverty gap*, and the *squared poverty gap* (Foster, Greer, and Thorbecke, 1984) (see Box 16). It may be reasonable to consider all three measures as they take into account different aspects of poverty and may provide different information about poverty-reducing policies. The headcount index emphasizes targeting poor people just below the poverty line, although they need the least support among the poor in general. The other two measures reward more those policies helping those who are further away from the poverty line.

▷ <http://russell-davidson.arts.mcgill.ca/e473/FGT84.pdf>

Disaggregated Level Poverty Profiles

The definition of urban development programs in developing countries requires a clear poverty profile of the city providing extensive and disaggregated information on the size of the poor group, its location, the specific

BOX 16. Three Methods of Poverty Measurement

The **poverty headcount index** is defined as the share of population whose consumption (or income) is below the poverty line. The **poverty gap (PG)** aims to depict the depth of poverty by measuring the amount of resources that would be needed to lift all poor people out of poverty through cash transfers. In other words, the poverty gap is a measure of the poverty deficit. With a total population n , a poor population q , a poverty line z , and the income of individual i equal to y_i , the poverty gap is:

$$PG = (1/n) \sum_i [(z - y_i)/z], \text{ for } i = 1, \dots, q.^1$$

In terms of households, a per capita income of the household would be considered. Therefore, a poverty gap of 0.3 means that the cash transfers to fill the poverty deficit amount to 30 percent of the poverty line. The **squared poverty gap (SPG)** seeks to

measure the severity of poverty by weighting the poverty gap by itself in order to give more weight to the very poor:

$$SPG = (1/n) \sum_i [(z - y_i)/z]^2, \text{ for } i = 1, \dots, q.$$

A general formula for this class of measures could be provided by introducing a parameter α , such that $P = (1/n) \sum_i [(z - y_i)/z]^\alpha$ and taking a value of zero for the headcount, one for the poverty gap and two for the squared poverty gap.

¹ It can be shown that the poverty gap is the product of the headcount index and the income gap ratio defined as $(z - y_i)/z$ where $y_i = (1/q) \sum_i y_i$, for $i = 1, \dots, q$. The income gap ratio is defined over the population that is poor, whereas the population gap ratio refers to the whole population. This characteristic of the income gap ratio makes it a poor measure of poverty (Coudouel et al., 2002a).

http://www-wds.worldbank.org/external/default/WDSContentServer/IB/2003/10/07/000090341_20031007150121/Rendered/PDF/268950PAPE ROWDR02004.pdf

needs of the poor, and the ability of public services to meet those needs and alleviate poverty (World Bank, 2003b).

Once poverty is measured, it would then be important to shed light on its determinants and draw a map of the areas where the poor live and work. In the context of this discussion, the disaggregation level, for example, within the territorial unit of reference is highly relevant when intricacy dimensions of poverty are investigated. Such measurements are typically constrained by available data, and comparisons are often difficult because of differences among countries. Different criteria may be selected: if the administrative criterion is chosen, the municipality level is a conventional unit, though lower aggregations can be used if data are available. Alternatively, a socioeconomic characterization can also be adopted and would focus on local labor systems, for instance clusters of economically integrated and adjacent municipalities whose boundaries are set after analyzing daily commuting patterns for work (Brandolini and Cipolone, 2002).

In order to design a poverty profile, the standard procedure involves the decomposition of the aggregate poverty measurement. The profile comprehensively shows how poverty varies across areas, communities, groups, and households. Therefore, poverty profiles are particularly useful for defining poverty targeting policies.²⁶ Comparisons can also be made over time through several subsequent surveys. One common procedure is to convert nominal income into real income (or consumption) by deflating the indicators. Theoretically, a correct comparison over time would require surveys with similar sampling frames and the same methodology based on similar definitions of income and consumption. In practice, surveys differ and need corrections. An analysis of poverty may also imply an estimation of the correlates of poverty through multivariate analysis. Many poverty assessments have been conducted using the two main multivariate analysis techniques—either logit or probit analysis—depending on the assumptions about the distribution error (see Box 17).

²⁶ Drawing poverty maps can assist in targeting public interventions. Baker and Schuler (2004) suggest the need for mapping key indicators by location within cities or even by combining data sources with Geographic Information Systems (GIS). Information on the observed geographical distribution of poverty also tends to reduce the potential influence of interest groups.

A Dynamic Assessment of Poverty: Measurement of Vulnerability

A dynamic assessment of poverty is important since a static analysis does not distinguish the persistent poor from the transient poor. The present well-being of an individual is likely to influence his or her future conditions. In addition, uncertainty itself could be considered a negative component of welfare. The poor are particularly vulnerable to shocks due to a lack of assets, access to credit, and social protection. Moreover, even temporary adversity may cause persistent effects on the welfare of the poor. From this dynamic perspective, it is important to estimate the vulnerability of the poor, which can be defined in several ways, but basically refers to the risk of failing to attain or maintain a certain threshold. For the urban poor, the main factors of vulnerability are uncertainty concerning daily income from (self-) employment and social exclusion. Furthermore, the extent of vulnerability is likely to be affected by several elements, such as health and education (which have an impact on building human capital), public assistance, the lack of insurance, and restriction of access to the credit market (inhibiting a reaction to adverse shocks through consumption smoothing). Based on the levels of vulnerability, it is possible to distinguish between the *transient poor*, which refers to those individuals with a low probability of falling below the poverty line even though they may experience periods of poverty;

BOX 17. Logit and Probit Analysis

These techniques do not require observing true consumption or income. The endogenous variable is a dummy assuming a value of either one or zero, depending on whether the individual is classified as poor or nonpoor. The main problem with regressions of this type is that they are sensitive to specification errors: probit parameters will generally be biased if the distribution is not normal. Although these techniques are appropriate for targeting analysis—classifying poor and nonpoor—and to analyze the determinants of transient poverty when panel data are available, in general it is more appropriate

to use linear regression to estimate the determinants of poverty (Coudouel et al., 2002a). In this case, all the information available will be used, with a log of the well-being indicator as endogenous variable (assuming a log normal distribution) regressed on several exogenous variables concerning household variables—distinguishing the head from the other members—, geographic location, and other variables that may be relevant to the specific type of survey.¹

¹ The indicator value, for example income, can also be normalized in terms of the poverty line.

the *chronic poor*, which refers to those individuals with a rather high probability of falling below the poverty line; and the *persistently poor*, individuals who will remain most of the time in poverty. Each of these groups requires specific actions and policies. For this reason, it is important to differentiate these groups and acquire more detailed information.

In the context of this discussion, it should be emphasized that vulnerability is difficult to measure and requires information about the dynamics of welfare indicators. Multidimensional measures of welfare are highly problematic because they generally overlook the different vulnerability of combinations of attributes leading to the same level of welfare (Thorbecke and Mwabu, 2005). In fact, the rate of substitution/complementarity between the different components may change over time. If two individuals have different combinations of attributes—for example education and income—but attain the same poverty level in the present, both may still be vulnerable in different ways, as the individual with less income and more education is likely to be more able than the other to overcome adverse shocks. An additional question in terms of risk-adverse individuals is whether the uncertainty about the future is part of multidimensional poverty. If this is the case, it should be appropriately included in the poverty measurement. This hypothesis is particularly relevant for those individuals with a high-income variability who are slightly above the poverty line, but who could nevertheless be considered poor. The vulnerability analysis would provide a profile considering changes of income and movements in and out of poverty.

Collecting Quantitative Data

The three main sources of quantitative data for poverty measurement include censuses, the public administration, and surveys.²⁷ Censuses offer a complete collection of numerous and heterogeneous data concerning people, productive activities, and public policy outcomes. Moreover, they provide information at very low levels of aggregation. Although they are carried out rather infrequently (often only once every ten years), censuses are probably the single most important source of data. Population data are also

²⁷ Additional data are also collected through participatory assessments which are mainly used to gather qualitative data and are discussed in the next section.

important per se and are significant because they provide the denominators for a number of important poverty indicators. However, censuses alone are unable to perform income-poverty measurement.

The public administration is another source of quantitative data for poverty measurement as considerable amounts of data are collected by the public administration through financial and management information systems. For example, the finance offices, either national or local, collect data on tax revenue and public expenditures in different sectors. Local administrators collect data on the supply of public utilities, personnel, the location and the attendance of schools, the performance of hospitals, and so forth. Data from administrative records represent intermediate indicators that are helpful in monitoring the contribution of a factor to a particular outcome such as universal primary school, employment programs, and social assistance (Prennushi, Rubio, and Subbarao, 2002). The other indicators needed to monitor poverty reduction strategies are impact indicators, which measure the fulfillment of the goal (e.g., reduction of the numbers of poor people, informal workers, and beggars in the town center). Information on these indicators needs to be collected directly from beneficiaries through the methods indicated in the following paragraphs.

In order to gather more specific information, for example concerning a specific group of people, it is often necessary to design a survey that uses a standard questionnaire from a random sample of the selected population based on the inferences that the study seeks to draw from it.²⁸ The framing of sampling is likely to affect the result. For instance, a household survey may oversample some areas because the population density is low, such that the sample interviewed accounts for a larger share of the population than an equal sample of a larger population. Or a survey may oversample a certain group because the interviewers more frequently pick this group. On the other hand, random selection avoids selection bias that would weaken the representativeness of even a very large sample with respect to the population.²⁹

²⁸ Hentschel et al. (1998) show that surveys may improve the information provided by census-based poverty maps, although the standard errors in the estimated poverty rates are not small. Elbers, Lanjouw, and Lanjouw (2003) present a statistical procedure to combine census and survey data in distribution analysis.

²⁹ Using random sampling, it is possible to adopt statistical techniques to estimate the level of sampling error. Through the derivation of the distribution of the sample estimates, it is possible to estimate the likely range within which the true (unknown) population parameter lies.

The unit of observation is generally the household, although the analysis could be disaggregated at the individual level. Unless the aim of the survey is to measure the evolution and the variability of the well-being indicator, as in the case of the vulnerability measurement discussed earlier, the observation consists of a single interview (it may also consist of two interviews, when the questionnaire is particularly long and complex, as in the Living Standard Measurement Studies).³⁰

To ensure comprehensive coverage, the survey should include both income and consumption, the latter including the actual expenditure as well as the expected monetary value of the rest of consumption that did not imply any payment, as in the case of home-grown food or of the occupation of an owned apartment. In addition, the design of the survey and the definition of the sample should take into account the cost of collecting the data.

With respect to the amount of information sought by the survey, it is possible to identify two different models: (1) surveys covering a large sample aimed at collecting a rather limited set of data, and (2) surveys covering a smaller sample, but including a larger set of questions. The World Bank's core welfare indicator questionnaire (CWIQ) and the living standards measurement survey (LSMS) are examples of the first and the second approach, respectively (Achikbache et al., 2002) (see Box 18).

<http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTPOVERTY/EXTPRS/0,,contentMDK:20177230~pagePK:148956~piPK:216618~theSitePK:384201,00.html>

Qualitative Data

Qualitative data provide insight into households' perceptions of household vulnerability as well as the priorities and opportunities of the household members, the barriers to reducing poverty, and local differences. Moreover, they also offer a subjective identification of the poverty line and a personal evaluation of the quality of services received. The data are useful in assessing, for example, i) the individual participation in social networks and the public decision-making process; ii) the correlation of some factors, such as gender and ethnicity with poverty; iii) the level and determinants of intrahousehold differences; iv) the characteristics of the informal sector that hinder the employment of the poor; and v) the institutional, political, and social reforms that may facilitate the social and economic integration of the

³⁰ Longitudinal surveys interview the same unit of observation over an extended period.

poor. Thus, together with quantitative data, qualitative information may contribute to the measurement of welfare.

Yet the use of qualitative analysis is still in its infancy, and therefore, no consolidated evidence exists to compare the results obtained with different methods. In this regard, given the limited evidence, it is not conclusive as to which method—qualitative or quantitative—is better. Rojas, M. (2004) finds that subjective well-being and socioeconomic positions are not strongly correlated. Moreover, Thorbecke and Mwabu (2005) obtain close poverty incidence estimates under the quantitative, money metric approach. On the other hand, as Sumner (2004) stresses, the choice of indicator should reflect its purpose: economic measures might be preferable when quick, rough-and-ready, and short-run aggregate inferences are required, while noneconomic measures are considered better when medium- or longer-term trends on well-being and/or disaggregation are needed. Therefore, the purpose of different indicators, as well as both the availability and quality of data, all play a role in the selection of indicators.

BOX 18. Survey Models

The **Core Welfare Indicator Questionnaire (CWIQ)** aims to frequently provide information about the efficacy of poverty reduction programs. The impact indicators collected, generally on an annual basis, are indicators of living standards of households and of access to specific services. The CWIQ gathers data from the city residents through questions about their needs and the extent of their satisfaction with the supply of public services. However, this type of survey does not provide information sufficient to define an absolute line of poverty.

The **Living Standards Measurement Survey (LSMS)** has the goal of obtaining comprehensive information about well-being and the impact of government policies. The LSMS adopts multitopic questionnaires and pays attention to quality control. The multitopic questionnaires generally used are the household questionnaires, which collect highly detailed information on household members; the

community characteristic questionnaires, which ask community leaders and groups for information about the community infrastructure and demographic data; and the price questionnaires, which collect information on prices in the community.¹ Moreover, the LSMS follows detailed procedures designed to minimize errors and guarantee a high level of quality control.²

¹ Occasionally, separate questionnaires are adopted for school and health facilities.

² The main characteristics of the procedures are: a) attention to the representativeness of the sample (usually not larger than 3,200 households); b) the format of the questionnaire, making extensive use of screening questions, with code numbered answers, and designed so that the data can be entered directly into the computer; c) the performance of fieldwork by decentralized teams with specific functions assigned to each member, and the use of two visits so that errors arising after the first visit can be corrected; and d) efficient data management: the use of personal computers in the field ensures that the data are readily available for analysis.

There are different methods of collecting qualitative data, including socio-anthropological, longitudinal village studies, and above all, participatory assessments. Participatory assessments are investigations that generally involve the population more than households. They may involve town, village, or neighborhood meetings where citizens discuss the problems and determinants of poverty as well as policies. A limitation of the participatory method is that some groups, such as women, may have little voice and then be under-represented. On the other hand, the participatory approach may be helpful in obtaining a multidimensional assessment of poverty and producing testable hypotheses. As Thorbecke (2005) points out, interviewing may be conducted and hypotheses tested, thus establishing a relationship between quantitative and qualitative approaches.

Asset-Based Approaches

[http://books.google.com/](http://books.google.com/books?id=avbXRh2AW4MC&dq=Portrait+of+the+Poor:+An+Assets-based+Approach&printsec=frontcover&source=bl&ots=sa-GanHinI&sig=d68kRtYemWW5sgal8EUoD30K_r4&hl=en&ei=_4eQSZD-L9KgtweSvtSNcW&sa=X&oi=book_result&resnum=6&ct=result) <
books?id=avbXRh2AW4M
C&dq=Portrait+of+the+Poor:
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bl&ots=sa-GanHinI&sig=
d68kRtYemWW5sgal8EUo
D30K_r4&hl=en&ei=_4eQSZD-
L9KgtweSvtSNcW&sa=X&oi=
book_result&resnum=6&ct=
result

As suggested by Attanasio and Székely (2001: 17), high levels of inequality can explain “excess poverty” in many Latin American countries (given their average per capita income). This is in turn likely to be linked to high levels of inequality in income-generating assets and, in particular, human capital.

As explored in detail above, poverty is usually measured and analyzed using income flows as welfare indicators. This is especially due to income data availability; however, income is not always the best indicator. According to Carter (2007: 51), income does not tell much about “who the poor are, [and] why they are poor;” on the contrary, it is possible to gather useful information on the status of the poor from asset evaluation.

Asset-based approaches are directly related to assets and associated asset accumulation strategies. Assets represent not only resources, but also relate to capabilities. Therefore, through asset analysis, it is possible to explore the multidimensional characteristics of poverty and the relationship between inequalities and economic growth. Assets include not only physical and financial capital, but also individual knowledge and abilities and their socio-political role. Asset-based approaches recognize the value of the poor as managers of their assets, and consequently tend to invest, for example, in education, skilled labor, and social capital.

According to Moser (2006: 9), asset-based approaches are significant in that they “represent an important shift in focus in the historical develop-

ment of poverty research methodology, and its associated policy.” In contrast to standard poverty measures, which provide static, backward-looking measures, asset-based approaches provide a dynamic framework with a view to the future that identifies asset-building thresholds and measures movements in and out of poverty. As a more systematic, integrated approach, asset-based methods illustrate the links between different assets and highlight their potential for change through effective risk management. In this regard, they also aim to identify how to strengthen opportunities and weaken constraints. Finally, as noted by Moser (2006: 9), “in focusing on the way in which the poor themselves construct their asset portfolios, it [the asset-based approach] recognizes the importance of individual and collective agency and the links between asset accumulation and inequality, security and political stability.”

▷ http://www.brookings.edu/~media/Files/rc/papers/2006/11sustainabledevelopment_moser/200611moser.pdf

Final Reflections

In summary, measuring urban poverty, especially in downtown areas, means understanding the intrinsic nature of the area under examination. Downtown areas tend to be characterized by smaller communities and more fragmented groups. Usually residents have deep roots in the urban environment, and households tend to be less linked to their communities of origin. Moreover, the inflows of nonresidents who commute daily to downtown areas help build a heterogeneous environment. Following inductive reasoning, it is easy to assume that an area characterized by a more mixed and varied community tends to have a less structured and effective social support network. On the other hand, compared to nonresidents, the downtown poor seem to have easier access to basic infrastructure, such as hospitals and schools. Furthermore, downtown areas offer an important resource for both the resident and nonresident poor who are involved in formal and informal activities, such as waste recycling; garbage collection; and selling of cigarettes, vegetables, fruit, and various kinds of nonperishable items.

POLICIES AND STRATEGIES FOR DOWNTOWN POVERTY REDUCTION

III

International organizations such as the IDB and the Economic Commission for Latin America and the Caribbean (ECLAC) have been working to fight poverty for many years through various initiatives and projects. Their experience in developing countries shows that antipoverty policy interventions are usually focused on specific areas.³¹ Following a World Bank classification of the programs carried out in various countries, the main areas of policy intervention are those that tackle the multidimensional nature of urban poverty, described earlier in this document. These areas take into account the following:

Human capital assets:

- Labor markets, dealing with the promotion of job opportunities and training for the poor and the removal of constraints that create obstacles to the poor's access to the labor market.
- Accessibility of urban services, health, education, and the workplace using transport policies.

Physical assets:

- Housing, land, and improvement of access to housing and basic services.
- Accessibility to urban services, health, education, and the workplace, using transport policies.

³¹ Baharoglu and Kessides (2002) show how the interventions in the various policy areas are intertwined with the several dimensions of poverty. They also indicate how each of these policies relates to the strengthening of the poor people's assets, such as labor, housing, human capital, social networks, and household relationships.

Financial assets:

- Financial markets related to the improvement of access to credit.

Social development:

- Social capital building and social services and protection, dealing with the provision of a guaranteed level of income and services, such as education and health.
- Environmental concerns, dealing with the improvement of the poor's quality of living conditions.

The above-mentioned areas, as they relate to the characterization of downtown poverty outlined in Part I, are all relevant to the identification of policy interventions aimed at addressing the problem of poverty. For instance, considering that the nonresident poor commute daily to downtown areas to carry out their activities, labor market and financial market policies are particularly important in tackling problems associated with uncertain, unstable income, which arise from the informal nature of their work and thus makes them especially vulnerable.

At the same time, policies that guarantee the provision of basic services, such as education and health, are also needed for both the nonresident poor and the downtown resident poor. In this regard, it is particularly important that attention be paid to the precise number of people living downtown and those who commute on a daily basis there. Such information will help provide infrastructure and basic services targeted to real needs. Poor residents living in degraded sectors of downtown areas need up-to-date urban

services and investments designed to improve their living conditions and guard against risks to their health. In addition, housing and financial market policies are also needed for those people who suffer from a lack of stable housing. Moreover, labor, housing, and financial policies are needed to address new poverty caused by marginalization and eventually “expulsion” from certain areas as a consequence of renovation and revitalization processes.



An additional aspect related to antipoverty interventions, which has received a great deal of attention, is the relevance of governance and participation in enhancing the effectiveness of interventions (Satterthwaite, 2001a). In this regard, it has been found that the involvement of a wide range of stakeholders in the decision-making process and the careful assessment of the quality of governance structures may result in the achievement of better and more sustainable outcomes. Furthermore, it has also been recognized that the integration of participation, transparency, and social communication can also support good governance, build coalitions and constituencies around reforms, increase citizen demand for accountability, and foster participation at the local level (Bruni, 2008).

Specific Policies for Urban Environments

As shown earlier, LAC is a region with a large urban population; therefore, there is a need for poverty reduction policies and programs especially designed for urban environments. According to ECLAC (2007: 10) urban poverty in the region is the result of a combination of different issues, including “low labour productivity of groups in the bottom income deciles, compounded by low quality jobs, and family structures involving high rates of dependency.”

Overall, poverty has been declining in recent years due to the economic recovery in the region. However, at the same time, “output has recovered much faster than poverty reduction. Therefore, social programs remain an essential element in public policy, to compensate for real economic vulnerability” (ECLAC, 2007: 15).

According to ECLAC (2007: 10), the most relevant set of policies to reduce urban poverty in Latin America include those that impact the supply and demand for labor, specifically those that create more productive jobs and deliver training to enable the poor to increase their income; those aimed at strengthening human capital; and finally those that influence “the level and structure of taxation, with a progressive distribution of tax pay-

▷ http://www.eclac.org/publicaciones/xml/5/31985/DP_lcw145_ODM.pdf



ments; and the level and structure of social spending, with the same distributional aims for the benefit of low-income sectors.”

Because of the complexity of issues in downtown areas, policies aimed at alleviating problems related to poverty are more needed in those areas. At the same time, interventions need to be carried out in other areas to tackle poverty-related problems, such as targeted and coordinated provision of services in suburban areas, which may reduce the reasons for the daily convergence of people in downtown areas.

The approaches to the problem of urban poverty and their accompanying policy instruments have evolved over time, with a significant shift in the emphasis given to the various dimensions of poverty reduction strategies. In this regard, the brief overview of the evolution of urban poverty policies outlined in the following section may help set the current political stage and draw some lessons for future projects.

The Evolution of Policies and Projects

The *comprehensive urban upgrading projects approach*, which was quite popular in the 1970s, represents an important first step in the design of



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urban poverty reduction policies and formed the basis for early World Bank interventions.³² According to Gilbert (2003: 5), “early urban projects targeted low-income beneficiaries. In particular, they called for upgrading existing squatter settlements, notably through the large-scale pioneering *kampung* improvement program in Jakarta, Indonesia. The aim was to apply low physical standards to make solutions affordable to poor beneficiaries rep-

³² Solo (1999: 4) also identifies a stage in intervention policies in Latin America, which took place in the 1960s, that was characterized by eradication and total reconstruction. “By clearing away the shanty towns and replacing them with finished housing... governments could give the poor a jumpstart on their lives in the city, and avoid the blight which encourages more blight.” These programs were shown to be too costly and difficult to manage considering the time they required for completion; therefore they were not attractive to beneficiaries, who incurred further costs related to the break up of community ties.

licable on a large scale. In the same spirit, early urban projects supported new housing through low-cost sites and services schemes across several regions, as well as urban transport for the poor in a few key cities.”

In LAC, the IDB was also involved in these types of interventions, in which it invested heavily in the early 1980s (Rojas, E., 2004). The comprehensive urban upgrading projects approach was a significant part of the social policies in Latin America whose “main objectives were social modernization and the formation of human resources needed by the industrialization process and a growing state” (Solimano, 2004: 5).³³

In this type of intervention, services are provided to targeted neighborhoods, including water supply, sewerage, street lighting, solid waste collection, and drainage. In addition to these physical improvements, other services, such as health care and education, job training, and other instruments aimed at promoting income-generating opportunities, are also developed. Examples of the comprehensive interventions that took place in the early to mid-1970s included urban development projects in Indonesia, Upper Volta (Burkina Faso), and Zambia. According to Solo (1999: 7), “the first package [of investments]... addressed community needs and network services, but was followed closely by a second package with funding for individuals: home improvement loans and small business loans through government agencies and with subsidized interest rates and favorable repayment terms.” The potential benefits of the approach stem from its comprehensiveness and ability to reach all of the poor in a targeted area. Such an approach can also generate cost savings for the provision of various services. In this regard, Brakarz, Greene, and Rojas (2002) note that a model that has proven effective in addressing the problem of informal urban development has evolved in recent years. This model consists of integrated public interventions through neighborhood upgrading programs, which combine infrastructure improvements in informal settlements with the introduction of social services. This methodology of comprehensive action, which addresses urban planning matters while helping to meet the most urgent needs of vulnerable groups, has proven to be an important tool in social policy and poverty reduction initiatives.

▷ <http://www.iadb.org/sds/doc/SOC-Reassessing-SocialPolicies-e.pdf>

▷ <http://www.iadb.org/publications/book.cfm?id=419411>

³³ The author emphasizes how the “instruments for this were the expansion of education at various levels (including higher education), housing policies to cope with a growing urban population, national public health systems and pay-as-you-go social security” (Solimano, 2004: 6).

Following this model, the IDB implemented several neighborhood improvement projects, which triggered a great deal of interest on the part of the various actors involved. Consequently, the Bank has developed a set of lessons learned to systematize the methodology used in these programs, including the design, implementation, and impact assessment. *Cities for All: Recent Experiences with Neighborhood Upgrading Programs* is a resource that comprehensively presents and disseminates the information collected. In addition, it also describes informal urban development in LAC and the strategies used to address the problem.



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Within the framework of integrated upgrading projects, the *sites and services (S&S) approach* was also developed. This approach, which began during the 1970s and had a positive impact on the living conditions of the poor targeted by interventions and stimulated private participation, consisted of the “provision of a minimal core house and infrastructure on vacant land secured for *new settlement*” (Kessides, 1997: 4). According to Kessides (1999: 7), “the projects generated greater than anticipated private invest-

ment in housing—in Senegal, for example, each IDA dollar was estimated to have stimulated about eight dollars in home construction and improvement, as well as considerable employment in the informal construction industry.”

However, the main problem with the S&S approach also relates to its main benefit—its comprehensiveness. In this regard, the approach requires a certain amount of time to complete projects, especially because there are usually several different administrations and organizations involved. Therefore, the time requirement puts a severe strain from a political perspective because one term of a local or central government administration is not enough to complete a project, and the next administration may not necessarily feel as obligated to the project as the previous one was.

In general, however, as Gilbert (2003) points out in his empirical analysis of the success of World Bank urban projects, the *demandingness* of projects is negatively correlated with the projects themselves, with an estimated impact substantial enough to countervail most of the positive effects

http://www-wds.worldbank.org/external/default/WDSCContentServer/WDSP/IB/1999/10/23/000094946_99100712133741/Rendered/INDEX/multi_page.txt

of other factors.³⁴ In this regard, despite their success, by and large sites and services projects “became enclaves of relative privilege in the larger urban environment. They failed to go to scale for a number of reasons, including the fact that as pilot programs, they were exempted from building codes and land use regulations. The policy environment was often not addressed by these projects” (Buckley and Kalarickal, 2006: 64).

Furthermore, it has also been pointed out that these types of urban projects often lead to gentrification whereby poorer residents are pushed aside or “encouraged” to sell their homes to benefit affluent people (SIDA, 2007). Regarding gentrification, when neighborhoods become more attractive and increase in value, because of the structural improvement brought about by upgrading projects, poor families are “tempted to cash in on the subsidized improvements and to sell out” (Solo, 1999: 8).

Therefore, to guard against gentrification, there is a need to focus on the perspective of the urban poor, which would involve social assessment and participatory mechanisms, especially in those urban development projects concerning cultural heritage.

Social Investment Funds

It should be highlighted that large-scale upgrading projects have revealed problems of sustainability over time because of the economic and political difficulties in recovering costs, not only for investments in infrastructure, but also for operational expenses. Another effective vehicle, *social investment funds*, has been used by the IDB for small-scale poverty reduction activities.

³⁴ “Demandingness (demand of more time, effort, or attention) in urban projects can take several forms, among them: (a) complex designs involving myriad components and implementing agencies; (b) assuming a policy framework to be in place that does not actually exist, as occurred with urban projects in Mozambique (Cr1949) and Vanuatu; or (c) project design based on ideal institutional arrangements that in fact are not in place, as happened with housing in Argentina (Ln2997) that presumed a nonexistent strong federal authority and Nepal’s municipal development that foundered without a local institutional base” (Gilbert, 2003: 20).

http://siteresources.worldbank.org/INT/HOUSINGLAND/Resources/339552-1153163100-518/Thirty_Years_Shelter_Lending.pdf



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<http://info.worldbank.org/etools/docs/library/166856/UCMP/UCMP/Documents/lesson-in-urban-upgrading.pdf>



<http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=822590> <

<http://info.worldbank.org/etools/docs/library/166856/UCMP/UCMP/Documents/lesson-in-urban-upgrading.pdf> <

Through their focus on poor communities, the funds have played a positive role in promoting social action and have performed a catalytic function in raising awareness about poverty issues. In addition, they have the advantage of being able to “tailor themselves to changing circumstances without sacrificing their efficiency and effectiveness as an instrument of government policy” (IDB, 1998a: ii). The IDB has been the main external promoter of social investment funds in LAC and a major force in providing technical assistance and expertise.

Looking at the experience of the World Bank, Solo (1999) describes the *social fund* and its main characteristics as follows: i) small projects identified by groups within low-income communities, which involved the community’s expression of its own preferences and also stimulated the generation of NGOs; ii) financial contributions from beneficiaries as a means of commitment from a community and of cost reduction; iii) management of projects upon completion by the community to ensure that investments are put to good use; and iv) the need for limited amounts to avoid over-investing of money.³⁵

The economic relevance of social funds was emphasized in a cross-country evaluation of community investments: Rawlings, Sherburne-Benz, and Van Domelen (2004: 9–10) point out that “by May 2001, the World Bank had invested about [US]\$3.5 billion in social funds through more than 98 investment operations in 58 countries. These social funds had also attracted more than [US]\$4.5 billion from other international agencies, as well as domestic financing from governments.” Areas of interventions included physical improvements in the living conditions of poor neighborhoods and expansion of the services the poor could access, the development of income-generating activities, and the improvement of dwellings. They also included

³⁵ “Social funds are nongovernmental intermediaries that normally channel grant resources, according to predetermined eligibility criteria, to small-scale projects for poor and vulnerable groups. The projects are proposed, designed, and implemented by private and public agencies, such as local governments or NGOs, or by the community groups themselves. Only eligibility criteria are laid down when a social fund is established; the individual subprojects are not determined then. Social funds are vested with investment programming powers and enjoy special status, such as exemption from prevailing public-sector rules and regulations relating to procurement and hiring. Social funds select and fund projects. Social funds are typically located in the prime minister’s office, president’s office, or a line ministry” (Definition taken from the Urban Poverty section of the World Bank Web site: <http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTURBANDEVELOPMENT/EXTURBANPOVERTY/>).

the development of microfinance initiatives. The main benefit of the social fund approach has to do with community involvement and support of organizations that are independent from politics.³⁶ As emphasized earlier concerning the comprehensive approach, an advantage can also be, at the same time, a weakness.

A Shift in Social Policies

A major shift in social policies took place during the late-1980s and 1990s, which had a significant impact on approaches to combating urban poverty. As highlighted by Solimano (2004), the following features characterize the social policies in Latin American countries in the 1990s:

- The reduction of wealth and income inequality was not an explicit policy priority.
- Social policies focused on assisting the most vulnerable segments of the population (the poor, the elderly, children, the handicapped).
- Relative prices and the market mechanisms guided resource allocation, savings, and investment.
- There was an important role for private sector participation in the delivery of education, health, and pensions as a natural corollary of private sector-led development.
- Labor markets policies also changed in the direction of seeking more labor flexibility.

Similarly, over time urban poverty policies have adopted the pro-market orientation of social policies while maintaining the community-based upgrading approach, with local governments and NGOs as the main interlocutors of financing agencies. As emphasized by Watson (2007: 211)

▷ <http://www.wilsoncenter.org/topics/pubs/GlobalPoverty.pdf>

³⁶ Social funds “can provide an efficient and responsive funding mechanism to direct resources to small investments that meet priority demands of low income groups who are often not served, or poorly served, by the formal agencies and budgeting processes. SIFs have performed well in situations where the formal government institutions are extremely weak and an enclave entity is needed to fill the vacuum—as in countries emerging from periods of civil or economic crisis. How well they function to promote development of services for the poor depends very much on the rules by which they actually operate” (Kessides, 1997: 24 Annex).

“urban planning is highly reliant on the existence of stable, effective, and accountable local government, as well as a strong civil society, in order to play a positive role.”

<http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=1481567>



Furthermore, the prominent role of municipalities in the subnational lending policies of the IDB is noted by Rojas, E. (2004: 35) as he states, “early support to municipalities was a sporadic activity mostly concerned with expanding urban services, while the work done in the last two decades has been systematic and covers an ever-increasing range of subnational development issues.”

The capacity of local governments to provide services to the urban population has thus been reinforced. Within this approach, it may be important to consider once again the role of social funds as well as microfinance initiatives,

which are directed to those who do not have access to traditional credit institutions. According to the World Bank, “NGOs are generally the key actors in packaging small loans and mobilizing private savings. Government funding and small savings of households, coupled with foreign donor assistance, are the typical sources of funding. Loans can be given to communities or individuals for a variety of specific purposes” (World Bank, Web site b).



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<http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=356482>



This emphasis on a market orientation can also be found in the 1997 document that outlines the IDB strategy for poverty reduction, in which it states that it is crucial to “help the poor earn their way out of poverty” (IDB, 1997: 2), and that “to do that, the economy has to expand the number of jobs available to the poor and increase the productivity or earning power of the poor in those jobs” (IDB, 1997: 1).

Several examples of how this strategy has been implemented may be cited. For instance, the IDB has long supported microenterprises and microfinance institutions as well as programs that aim to improve the access of poor people to job market opportunities, such as the Regional Program for Strengthening Technical and Professional Training for Low-Income Women.

While there are doubts regarding the pro-market orientation of this approach,³⁷ the practice of some initiatives such as microfinance shows a certain degree of success.³⁸ In this regard, microcredit provides poor people with financial resources needed to make essential improvements to their homes or to stabilize their productive activity. It also represents an essential step towards greater access to financial resources through the traditional financial institutions. In his criticism of microfinance initiatives, Vincent (2005: 5) stresses that, “opponents of microfinance have pointed out that valuable aid money from fatigued donor agencies has been diverted to untested and nonviable microfinance programs—away from vital programs on health, education etcetera that are in dire need of such money.” In the same document the author also emphasizes the critique of the UK Department for International Development, which states that microcredit is not a suitable tool for assisting the chronically poor.



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▷ http://www.gdrc.org/icm/micro/guy_sust-micro.pdf

On the whole, it is possible to say that today urban poverty reduction policies maintain a very strong pro-market orientation, in that they tend to make use of instruments designed to improve the access of the poor to

³⁷ Solimano (2004: 8) states that “the results of social and development policies, for the region as a whole, are not encouraging in terms of rapid and sustained growth, poverty reduction and lower inequality.” In addition, the IDB’s Office of Evaluation and Oversight (IDB, 2003a: 38) is also quite critical in its evaluation of the outcomes of the Bank’s poverty reduction strategy as it reports, “the ‘de facto’ development strategy pursued by the Bank during the nineties was anchored in two main principles: pro-market reforms aimed at increasing opportunities through economic growth and job creation, and targeting as an approach to build capabilities. The pro-market reforms have not yet resulted in an acceleration of economic growth, or in a pattern of growth that would have a strong pro-poor bias. Furthermore, the relative progress obtained during the decade in terms of improved capabilities (even if not consistently pro-poor) were, at least partially offset by a failure to increase the ‘number of jobs available to the poor and increase the productivity or earning power of the poor in those jobs’ as envisaged by the strategy.”

³⁸ The Development Gateway (2004) estimated that about 40 million people, mainly in developing countries, had access to microfinance in 2004. The first Latin American bank that aimed to provide credit to microenterprises on a national level, the *Banco Solidario* (BancoSol) was established in Bolivia. “By 1997 BancoSol served more than one-quarter of the clients of the Bolivian banking system and about 15 percent of the clients of the country’s entire financial system—including non-bank financial institutions as well as banks” (Robinson, 2001: 70).

different markets. However, at the same time they are also based on the increasingly active involvement of communities and local governments. This policy orientation has clearly emerged from recent documents of the IDB and the World Bank. Regarding the IDB, Rojas, E. (2004: 47) stresses that “a combination of private and public interventions is necessary. Cities need to put in place sound regulations for the most critical urban markets, and set up taxes and user charges capable of sending the correct signals to the markets concerning the social costs of the private actors’ decisions in the city, and to induce them to contribute to the attainment of the democratically defined social goals for urban development.”

As for the World Bank, Gilbert (2003) outlines the four pillars of the Bank strategy for the reduction of urban poverty as follows: i) livability, which is a decent quality of life and opportunities for all, especially the poor; ii) good governance, which implies inclusion and accountability at



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the local level; iii) bankability, which is financial soundness and creditworthiness; and iv) competitiveness and improvement of the efficiency of markets in cities. To pursue these four interrelated objectives, the World Bank recently proposed a new urban and local government strategy. This strategy emphasizes that cities are in transition and presents a specific spatial, social, political, environmental, financial, and economic context, which requires a more holistic approach to address issues of poverty and development opportunity

(World Bank, 2000).

In terms of reducing urban poverty, the institutional capacity to design, implement, and effectively deliver policies to fight poverty is a prerequisite for good governance.³⁹ For countries engaged in a decentralization

³⁹ “Governance refers broadly to the exercise of power through a country’s economic, social, and political institutions... Three key dimensions are a) the process by which governments are selected, held accountable, monitored, and replaced; b) the capacity of governments to manage resources efficiently and to formulate, implement, and enforce sound policies and regulations; and c) respect for institutions that govern economic and social interactions” (Girishankar et al., 2002: 271). Governance represents one of the four pillars of the World Bank’s strategy.

processes, institutional capacity is a particularly crucial issue. Gilbert (2003) found a strong and significant negative correlation between poor performance of urban projects and their demandingness because of the lack of capacity to implement initiatives on the part of political and administrative institutions and organizations. Girishankar et al. (2002: 272) highlight, “good governance can be undermined by a range of factors, including lack of transparency, weak accountability, poor organization and lack of technical capacity, lack of responsiveness, inefficiency, and poor motivation.”

By contrast, poor governance implies that: i) resources have not necessarily been allocated to satisfy the most important needs of the poor, and ii) services are not being delivered or are inefficiently produced, thus wasting resources.⁴⁰ Various interventions are available to improve overall governance, such as improving the accountability and contestability of political institutions, decentralization,⁴¹ tax policies, intergovernmental fiscal relations, legal system, and public administration are the most important.⁴²

Furthermore, attention also needs to be devoted to the implementation of urban poverty policies and to the rules and institutions that influence their effectiveness. Good governance is critical to ensuring that the pro-market orientation of urban policies succeeds in improving the poor’s access to markets. At the same time, badly managed projects increase the cost to the poor of accessing the different markets and obtaining some basic services, and may eventually result in complete exclusion.

Participatory mechanisms should also be mentioned as an effective component of interventions designed to fight urban poverty. Talking and listening are part of the dialogue, and in the long term, involving citizens in the discussion produces local solutions and ensures greater sustainability (SIDA, 2007).

⁴⁰ The impact of government’s adequacy on the vulnerability of the poor is analyzed herein in the first section.

⁴¹ Decentralization is an issue in good governance in that local governments may not have the needed capabilities to effectively carry out the bulk of policies that are devolved; at the same time, it can also be seen as an opportunity to improve the governance of the system and, more specifically, of urban poverty strategies, because of the potentially close ties of local governments with local preferences.

⁴² A good source that discusses the range of issues related to governance is the Web site of the United Nations Development Programme Democratic Governance (<http://www.undp.org/governance>). See also the survey by Girishankar et al. (2002).

▷ <http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTPOVERTY/EXTPRS/0,,contentMDK:20177435~pagePK:148956~piPK:216618~theSitePK:384201,00.html>

People's participation is generally regarded as an effective remedy to poor governance. It is recognized that participation is not only a matter of organizing participative decision-making processes, but also it is quite relevant in view of the trade-offs between the various uses of downtown urban space. According to Anzorena et al. (1998: 170), "people's participation is partly about increasing the options open to them... Increasing people's options involves recognizing the diversity of needs and priorities."⁴³ As evidenced by the experience of several developing countries, attention needs to be paid to direct community involvement in the decisions and management of projects, which supports and empowers project beneficiaries.⁴⁴

A larger consideration in the scheme of interventions designed to reduce urban poverty is decentralization. The decentralization movement in LAC, as in other regions of the world, is a relatively new phenomenon. The industrialization and urbanization processes expanded the range of actors involved in decision making. The challenge is to increase the level of participation of these groups in the decision-making process and the degrees of accountability and responsiveness from each level of government. Decentralization implies a redefinition of the roles of both the central and local governments, in particular, regarding the provision of services. This involves the decisions about what should remain centralized and what would work better decentralized.

However, experience has shown that the decentralization process is problematic, as it can lead to increases in the disparities between regions and can foster competition between local governments in less than constructive ways. In addition, decentralization can undermine efficiency on the production side by breaking large infrastructure projects into parts. Moreover, if the process is only concerned with transferring the responsibility of the provision of infrastructure and services to subnational levels of government without taking into account the transfer of know-how or the necessary financial resources, it runs the risk of being interpreted simply as a way to reduce

⁴³ The authors also point out that "empowerment is more than citizens and their organizations being allowed to act and make choices. It also includes the institutional and judicial framework that guarantees their right to act, to organize and to make demands within representative political structures - and that regulates or controls the power of other groups to limit their choices or contravene their rights" (Anzorena et al., 1998).

⁴⁴ On this subject, see Dongier et al. (2002), Gibson and Woolcock (2005), Imparato and Ruster (2003), Nitti and Dahiya (2004), and World Bank (2003a).

central accountability. Finally and from a broader perspective, if the decentralization process does not lead to increases in the influence of all strata of society, and if it represents only a transfer from one elite to the other, it means that the process has failed. Accordingly, the main value—and greatest challenge—of the decentralization process is the political component, which seeks greater opportunities of participation for various groups in society.

Despite the aforementioned risks posed by decentralization, the important role of local governments in fighting urban poverty should be emphasized. Local governments are highly relevant due to the fact that they: i) can accurately assess the needs and demands of the urban poor; ii) are legally permitted to deal with land; iii) decide on the use of collective goods; and in many cases iv) manage the provision of health and education services. Therefore, local governments are increasingly becoming key actors in reducing urban poverty despite some limitations, such as a high dependency on central government financial transfers (Mac Donald, 2003).

▷ <http://www.oei.es/decada/portadas/lcg2203p.pdf>

Framing the Issues

Along with the specific urban policy instruments that target the poor who live in degraded inner-city areas or spend most of their time downtown, there are critical practices discussed in the previous section that are key to the success of poverty reduction strategies.

What needs to be emphasized is the interdependence between downtown development strategies and poverty, and the different trade-offs that it implies. In order to develop and revitalize downtown areas, it is necessary to create and support what has been called *walkable urbanism* (Leinberger, 2005). *Walkable urbanism* can be achieved in several ways, including through the rehabilitation of monuments and historical building and the establishment of new commercial activities and entertainment venues.⁴⁵ This transformation of the urban



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▷ http://www.brookings.edu/~media/Files/rc/reports/2005/03downtownredevelopment_leinberger/20050307_12steps.pdf

⁴⁵ The term *walkable urbanism* refers to the gratification and pleasure obtained from walking through a rationally planned, interestingly designed, and safe urban environment.



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physiognomy valorizes the inner character of these areas, creating values, whose main “service” is to attract people and money.

At the same time, the development of downtown areas may also create new poor, mainly through the marginalization and eventually the expulsion of people from their houses and jobs, and may even attract poor people from other areas of the city to work on downtown streets. The greater the number of these people, the worse the deprivation they

suffer. In addition, the diffusion of poverty also creates negative impacts for the development of inner-city areas through higher incidence of crime and violence, poor health conditions, *etcetera*. A vicious cycle ensues between poverty and its negative externalities.

Urban rehabilitation projects represent a fundamental instrument in resolving problems and creating better opportunities and living conditions. Providing adequate water and sanitation provision, greater urban security, and improved environmental conditions. Rehabilitation projects are also important in terms of recuperating public spaces and enabling citizens (both residents and nonresidents) to benefit from patrimonial areas. Cultural heritage preservation, in particular, can be a resource for the economic development of central urban areas. In this regard, urban rehabilitation projects should focus on at quality of results and aim to anticipate negative externalities. For example, several IDB urban upgrading and historic center rehabilitation projects have created a balance between downtown interventions and their effects on the peripheries.

The following aspects are of importance for designing these types of interventions.

- Some of the interventions previously outlined strengthen the assets of the poor, such as dwellings and human capital, which enable the poor to use more assets. However there is a trade-off that needs to be evaluated in the design of poverty reduction measures between the competing uses of urban space. It is not simply a matter of profitable use, but rather a question of correct and proper use of resources.

- The objective of preventing the gentrification of downtown areas, while improving poor people's living conditions, and promoting the development of their productive activities can be costly and difficult to implement through pro-market oriented strategies. On the one hand, it may be possible that the market price of houses (and of the works needed for their improvement according to current regulations) and of commercial space is so high that some policy instruments, such as microfinance, can be ineffective in allowing the poor to stay in the market or too costly to be implemented. On the other hand, the experience of slum upgrading projects indicates that people may be tempted to sell improved property. Thus, there are significant issues associated with the sustainability of poverty reduction policies in the short, medium, and long term. In LAC, poor downtown residents often do not own their homes and are usually informal occupants of someone else's properties. When the owner of the property sells the upgraded property, the current tenant's way of life is negatively impacted.
- Downtown poverty is not a static phenomenon, but rather a dynamic one. If efforts concentrate on targeting only the current poor in the downtown area, then the problems of the new poor may be neglected.⁴⁶ Therefore policy strategies should be designed to take such effects into account.
- Because poor people are attracted on a daily basis to downtown areas, it is important that measures be taken to ensure that their efforts to earn a living do not generate negative impacts for these areas. Efforts must be made to reinforce interventions aimed at satisfying the basic living needs of these people.



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⁴⁶ Targeting is sometimes questioned on several grounds, such as the administrative costs of a targeting system as well as its informational requirements, and its political feasibility arising from partial exclusion of those who contribute to finance targeted policies (Solimano, 2004). All these aspects have some relevance considering the dynamic issues related to the interdependence of downtown development policies and poverty.

<http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=611621>



The above issues can be effectively addressed within the framework of an integrated design of various interventions.⁴⁷ In this regard, there are already examples of integrated policies, which are based on the “programs of generation of work and income, human and social development and social protection,” (Engel Aduan, 2004: 12) and these need to be extended to urban development programs.⁴⁸

There is a need for good governance structures that can guarantee the integration of the strategies for the development of downtown areas, the fight against poverty, and the necessary participation and involvement of people in the decision-making process. City Development Strategies, for example, serve as useful tools in achieving programmatic integration and guaranteeing people’s participation in making strategic choices.⁴⁹ In order for effective coordination and control of integrated programs to take place, a crucial aspect to be evaluated is whether responsibilities are clearly attributed to the various actors involved in the definition of the strategy.



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Sector Policies

Housing

According to the World Bank (1993: 31), “the principal task of housing policy regarding the poor is to ensure that resources are translated as effectively as possible into improvements in their housing conditions, and that

⁴⁷ The integration of policies has also long been recognized as a response to the recognition that the causes of poverty are generally interrelated (Wratten, 1995).

⁴⁸ Integral policies imply “intersectorial, decentralized, and participative management, capable of integrating human, social and economic protection and promotion, and targeted on the poorest geographical areas (municipalities and communities) and families, involving their own process of development” (Engel Aduan: 12). Examples of these policies are the Project Alvorada in Brazil, the Opportunities Program in Mexico, and the Solidarity Chile Program in Chile.

⁴⁹ A City Development Strategy (CDS) is defined as “both a process and a product that identify ways of creating conditions for urban sustainability along the dimensions of livability,

improved housing conditions, in turn, contribute to the extent possible to real improvements in the well-being of the poor.”

Furthermore, there is no aspect of the built environment that involves people more directly than housing (SIDA, 2007). Housing represents one of the greatest challenges, especially for people living in downtown areas. Whether they have been living in a city for a long time or have just arrived from distant or rural places in search of jobs and prosperity, poor people that gather in downtown areas often end up living in suboptimal conditions. Regarding housing, the main challenges lie in the formal and informal characteristics of the poor’s residences. If their dwellings are formal, then the problems are most likely to be related to the maintenance of old structures and the reliability of the existing infrastructure.

If their residences are informal, the main issues are likely to be related to titling issues and the accessibility to basic services and infrastructure. In addition, the quality of housing is closely related to the quality of life of the occupant, and as highlighted by the

World Bank (1993: 27), inadequate shelter conditions have “a direct influence on poverty. If housing is too crowded, poorly built, located in unsafe areas, or inadequately serviced with water and sanitation, it can lead to increased incidence of sickness and death; conversely, good housing can lead to better health and higher rates of labor force participation... Moreover, a house is often the most important asset owned by households; as such it is subject to capital appreciation, and if legal and financial systems are adequately developed, it can be used as a source of collateral for either increased consumption or investment.”

The major housing problems in downtown urban areas include:

- **Lack of affordability:** poor people are unable to buy or rent housing in secure urban areas with an adequate provision of water, sanitation, and solid waste services. Moreover, poor people cannot afford to live

▷ http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2002/02/27/000178830_98101911194018/Rendered/PDF/multi0page.pdf



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competitiveness, good governance, and bankability” (Gilbert, 2003: 26). A complete survey of the application of the CDS to Cali, Colombia can be found in World Bank (2002b).

in areas accessible to good transport systems. Therefore, the poor end up living in inadequate conditions, either on the periphery or in downtown urban areas.

- **Informality in housing ownership or rental arrangements:** frequently, poor people own places without having legal titles or rent from informal landlords. The insecurity of land tenure implies that poor people are permanently at risk of eviction and other legal problems. Informal settlements that are unregulated are often not planned and lack adequate provision of essential services and infrastructure.
- **Poor housing conditions:** low-income people are likely to live in dilapidated housing that is often built with low-quality materials and under improper conditions. They are also likely to live in overcrowded buildings that negatively impact living conditions and the quality of life.
- **Inadequate public services:** the inadequacy of infrastructure and utilities generate inappropriate living conditions. This problem is present both in peripheral slum areas and in downtown areas. In the peripheries, people tend to live without water or sanitation, waste collection, and appropriate transportation systems. In downtown areas, poor people usually crowd in old buildings that lack adequate sanitation and infrastructure services. In this case, the improvement and adjustment of existing infrastructure to deal with the higher occupation density are needed. According to a joint MIT and World Bank (2001: 1) resource book on upgrading urban communities, “the resulting exposure to microbiological pathogens due to unsafe drinking water, inadequate sanitation, and poor waste management is one of the most serious environmental health threats in developing countries. Rapid rates of urban population growth strain the capacity of national and local governments to provide basic services. Often the resulting inability to keep pace causes human suffering, environmental damage and unsustainable patterns of development.”

<http://web.mit.edu/urbanupgrading/upgrading/index.html> <

<http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=1775002> <

In LAC the majority of the urban population own the place where they live, and this is also true for poor residents. Recent surveys carried out in 22 LAC countries show an average rate of ownership on the order of 68 percent (IDB, 2008). However, rapid rates of urban population growth

have exacerbated problems related to housing tenure, especially in downtown areas. In most cases, the nonresident poor are able to rent or own a house on the periphery, while owning is more difficult in city centers where land is generally less available and more expensive. Moreover, the mobility of the resident population in the downtown area is limited, as often families are greatly dependent on job proximity and less willing to move. The shortage of decent affordable shelters, the high rate of urban population, and the failure of public housing programs have forced urban poor residents into inadequate and rudimentary shelter alternatives.⁵⁰ For many poor residents in downtown areas, owning a house is not an option, mostly because they cannot afford it. In some circumstances, the same renters decide to sublet their own space, so as to afford living in the downtown area and sometimes as a means of earning income. This situation leads citizens to rent, sublet, or occupy informal shelters. Moreover, inadequate maintenance by landlords and renters in addition to already poor housing conditions leads to the formation of downtown multiple-family communities, and the *perpetuation* of a *spiral* of deterioration of living space and infrastructure.



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Due to uncontrolled rent control policies, subletters tend to pay increased prices for their dwellings, creating an informal housing submarket. In most cases, subletters spend more than half of household earnings on housing. Therefore, they have fewer resources to satisfy other needs—such as access to services and utilities—and comprise their overall quality of life. Moreover, many subletters rent their dwellings from existing tenants informally, which is a further sign of their vulnerability. Informal renters are the most negatively impacted by the situation since their contracts are outside legal and formal frameworks. In addition, the conditions of these arrangements do not allow them to demand clarification of their status and achieve some form of secure tenure.

⁵⁰ According to Gilbert (1995, as cited in Pacione, 2005) in Rio de Janeiro there are 394 *favelas* that house over a million people.

The housing problem can be understood as a supply and demand problem; consequently, housing policies should be designed to ensure the effective functioning of housing markets. On the supply side, poor people need affordable housing; therefore, governments should facilitate the legal and financial conditions for the construction industry to develop housing for people of all income levels. Better housing policies focused on rental markets could be key to improving the living conditions of residents, especially those living in downtown areas. In addition, government-owned subsidized rental housing could represent an option for low-income citizens. An IDB study analyzes this approach and offers recommendations for a more efficient hybrid model involving the public, private, and nonprofit sectors (see Box 19).

The example of the United States offers some interesting insights into public housing. In the United States, housing policy was established based on the idea of private property and a sense of home ownership and self-sufficiency. As a consequence, such a housing policy has a more liberal vision, especially compared with the European experience where the role of the state in welfare provision is still central. Despite such an approach, the reality is far from that vision, and is characterized by a generalized crisis related to the supply of adequate, accessible, and secure housing.

Important lessons and intervention strategies can be derived from an examination of the approach of the U.S. federal government's public housing policies. One significant program, HOPE VI, developed in 1993 by the United States Department of Housing and Urban Development (HUD) is

BOX 19. Public Rental Housing: Challenges and Options

Public rental housing has been widely used in both developed and developing countries as a housing solution for low-income populations. The study by Nelliana Villoria Siegert (2004), "What To Do with Public Rental Housing? Challenges and Options," analyzes public rental housing and presents options to improve existing models. It has been shown that the model of the state as the sole provider and manager of low-income housing has not been completely successful, as it is often excessively costly in economic, financial, and social terms. However, the

completely private model also has disadvantages. The key finding of the study is that responsibility should be shared among the public, private, and nonprofit sectors. According to the study, "the countries of Latin America and the Caribbean should opt for intermediate solutions that involve the participation of various players, and in which the State's role is to facilitate the process of providing affordable housing, so as to avoid overloading its administrative and fiscal capacities" (Villoria Siegert, 2004: 38).

designed to transform public housing projects into mixed-income developments (see Box 20).

Alternatives to the exclusive state-owned model are nonprofit corporation schemes and public-private partnerships. The creation of nonprofit corporations constitutes a less rigid alternative to the public housing system (Lane, 1995). In the United States, these corporations are eligible

BOX 20. HOPE VI

According to the United States Department of Housing and Urban Development (HUD), Hope VI consists of four main program components aimed at:

- Changing the physical shape of public housing;
- Establishing positive incentives for resident self-sufficiency and comprehensive services that empower residents;
- Lessening concentrations of poverty by placing public housing in nonpoverty neighborhoods and promoting mixed-income communities; and
- Forging partnerships with other agencies, local governments, nonprofit organizations, and private businesses to leverage support and resources.¹

Hope VI combines grants for physical revitalization with funding for management improvements and supportive services to promote resident self-sufficiency. The private sector plays an unprecedented role in the financing picture. According to an Urban Institute study of HUD initiatives, “to ensure a greater mix of tenants, HUD encouraged developers to leverage HOPE VI funds with private-sector debt, private-sector equity (raised through the federal housing low-income housing tax credit), other federal grants, local capital dollars, and infusions of philanthropic resources... The long-term implications of these changes are not yet clear, but they seem to have the potential to profoundly change the character of public housing in the United States” (Popkin et al., 2004: 17).

A significant amount of literature has attempted to evaluate the main results of the program, however due to the absence of definitive data, perceptions about the impacts of HOPE VI vary widely. According to the Urban Institute, in some cases the program is considered a dramatic success, while in others it is deemed a profound failure. Yet generally speaking, the program is characterized by some important accomplishments. Hundreds of distressed developments have been demolished, and many have been replaced with well-designed, high-quality housing. Furthermore, some projects have even had an impact on the whole community, revitalizing specific neighborhoods (Popkin et al., 2004).

On the other hand, some HOPE VI projects have been stalled by ineffective implementation on the part of the housing authority or conflicts with city governments. In some cases, developments were simply rehabilitated without really improving the conditions of distressed communities, with little impact on the revitalization of the whole neighborhood. Moreover, in some cases real estate values increased quite suddenly, making redevelopment particularly attractive. As a consequence, often the original residents have not always benefited from revitalization initiatives, but have rather been victims of the well-known process of gentrification.

¹ See: <http://www.hud.gov/offices/pih/programs/ph/hope6/about/>.

to apply for grants from federal, state, and local governments for housing purposes; furthermore, they can also receive resources from private funds. Usually representatives of the Public Housing Authority (PHA) are members of the corporation. Partnerships with private for-profit and nonprofit sectors typically yield positive results in housing management. This scheme adds private tools to the PHA's capability to address complex resident needs. Moreover, public-private partnerships are particularly successful in improving general physical conditions of communities promoting human capital development, service provision, and security enhancement (Lane, 1995).

Land price and availability, especially in downtown areas, constitute another deterrent for the industry to develop affordable housing. At the same time, land available for development requires the provision of infrastructure and public utilities on the periphery, or the maintenance of existing, but old structures in the downtown areas. According to the World Bank (1993: 28), "when housing policies are designed to enable housing markets to function well, limited resources are effectively translated into housing improvements. When markets are not functioning well, access to good-quality, affordable housing and infrastructure will be in short supply, with the inevitable result that better-off households will capture most of the benefits of housing and infrastructure improvements."

Three main factors affect the poor's ability to access the formal real estate market. First, poor people need property rights and clear laws for buying, selling, and renting houses under appropriate and regulated conditions. Second, the limited availability of financial credit is also a great deterrent for the poor to access housing. Better functioning financial markets would allow low-income people to buy and repair their houses. Finally, it is necessary to consider the provision of subsidies that would allow poor people to participate in the housing market.

Necessary and Active Interventions

Regarding interventions, upgrading is a common form of intervention to address housing conditions in low-income or slum areas. In the case of poor families living in slums (with inadequate drainage, water supply and sanitation, public lighting and electricity, streets, sideways, and transport options), upgrading mostly includes the legalization and regularization of the

properties and the improvement of infrastructure and services. As is emphasized by Fay and Wellenstein (2005), once infrastructure is created, it is necessary to make it work for the poor.⁵¹

These upgrading efforts are quite beneficial not only for people residing in the area where they take place, but also for other neighborhoods close to the degraded ones. Such efforts are also a precondition for development projects in these areas. However, infrastructure upgrading efforts are most viable, above all, when they are not focused on limited areas. In any event, investment in basic urban services should be considered a high priority due to its impact on the health conditions of poor people.

In this context, a general difficulty that needs to be addressed is uncertainty about titles or housing tenure. For example, in Mexico the share of poor homeowners with a registered title is 48 percent (Fay and Wellenstein, 2005). Moreover, some housing in poor neighborhoods is provided through informal agreements, such as lending or sharing. In this regard, the poor ownership rights structure is, in general, an impediment to investment in housing improvement. Furthermore without secure property tenure, an individual's subjective satisfaction related to his or her home is highly limited (IDB, 2008). Intervention in this field is therefore needed and may be a necessary condition for any successful program of renovation.

According to an MIT study, "recognizing title and security of tenure makes a positive contribution to both the economic prospects of the poor, as well as to the national economy" (MIT, Urban Upgrading Web site). The findings of Fay and Wellenstein (2005: 96) further support this conten-



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▷ <http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=1775002>

⁵¹ Fay and Wellenstein (2005) focus on instruments to promote access to infrastructure and to ensure consumption affordability. As for the former, the authors discuss universal service obligations and connection targets, whereas the infrastructures are managed by private operators; reduction of connection costs, through technology choices and targeted cross-subsidies; and an increase of the number and type of suppliers to promote competition. To ensure consumption affordability, they propose the use of rebalancement of the fixed and variable components of tariffs, as well as voucher programs; the adaptation of quality to some lower level or the placement of physical limits to consumption; and some forms of facilitated payment such as pre-payment or frequent bills.

tion as they note, “following a massive regularization program in Peru that granted titles to 1.2 million households and 6,000 businesses, it was found that 17 percent of households invested in home improvements in the year following titling, housing quality improved overall... and so did access to service.”

As highlighted by de Soto in his book, *Mystery of Capital*, and emphasized in a recent study conducted by the Woodrow Wilson School of Public and International Affairs and Princeton University, clear property rights is a key issue in economic development and poverty alleviation. Furthermore, secure tenure conditions bring several potential benefits, including: i) gradual investment in incremental housing; ii) increased property values, iii) increased labor mobility and the employment of women, and iv) access to credit (Brown et al., 2006). However, while there is a common agreement on the important role of tenure security, there is still a wide debate on the most appropriate way to implement regularization and titling programs. For instance, the provision of freehold title documents may produce negative externalities, such as gentrification and the encouragement of squatting. All these issues should be taken into account in the design of policy interventions along with the specific legal framework and social context of each country (Brown et al., 2006).

Regularization is surely a necessary, but not sufficient condition to ensure viable and sustainable home improvement programs in downtown areas as well as in slums. The legalization process should be accompanied by investments in basic infrastructure to allow for reasonable living conditions. Such investments include the supply of water and sanitation, waste collection and transfer to disposal areas, and improvements in the infrastructure that allows accessibility, such as streets, sidewalks, lighting, and

public transport options. Furthermore, when these areas are characterized by high population density, hospitals, schools, and public spaces—such as parks or sport fields—should be planned appropriately.

The development of the *Parque Tercer Milenio* (Third Millennium Park), located in the city center of Bogota (Colombia) is an example of urban rehabilitation and reconversion project designed to create an improved urban

https://www-edit.princeton.edu/research/final_reports/f05wws591g.pdf <



public space, which, despite its ambitious objectives, has proven controversial in view of its results (see Box 21).

Besides regularization, another important area of intervention consists of improving housing conditions for the poor. The two basic instruments to promote demand for houses and for renovation works are subsidies for low-income households and improvement of access to financial services, through programs that facilitate bank mortgages and the development of microcredit. The *Micasa* Program in Peru (Cities Alliance, 2003) is an example of a successful housing microfinance initiative. In terms of subsidies, the Chilean experience ensures coverage for low-income households, while providing other forms of support for other income groups (see Rojas and Greene, 1995). Costa Rica's approach is also interesting as it is characterized by the involvement of NGOs, which operate as developers (Ferguson, 2001; World Bank, 2002b).

Decentralization and privatization processes have also had an impact on the provision of public utilities and infrastructure. In many cases, these processes have been implemented because the central government

▷ [http://www.citiesalliance.org/citiesalliancehomepage.nsf/Attachments/synthesis+civis/\\$File/Synthesis+CIVIS+April03.pdf](http://www.citiesalliance.org/citiesalliancehomepage.nsf/Attachments/synthesis+civis/$File/Synthesis+CIVIS+April03.pdf)

BOX 21. *Parque Tercer Milenio (Third Millennium Park), Bogota*

The project, which was awarded the *Desarrollo Urbano y Paisajismo* prize during the XX Colombian Biennale of Architecture (2006), is the result of a massive effort carried out by the Municipality of Bogota, through the *Empresa de Renovación Urbana*. Starting in 1998, the municipality developed an ambitious plan to reconvert an urban central area that was considered the most dangerous and deteriorated in the city and was characterized by a complicated social and urban dynamic. The park designed and established in the area known as *el Cartucho* involved about 17 hectares, including the demolition of roughly 600 structures and the resettlement of more than 10,000 people. The main objective of the project was the creation of a needed public space to provide recreational areas and services to the city. The park was complemented by new business and commercial activities, parking, and residences in the transition area with the nearby neighborhood of San Victorino.

The project generated negative effects. Several former residents of the *el Cartucho* moved to other surrounding urban areas without a specific relocation strategy. Moreover, the size of the park made it difficult to effectively control and maintain, which resulted in deteriorated conditions, the presence of informal vendors, unused infrastructure, and the poor delivery of services. Finally, the expected connection with San Victorino and other surrounding areas is still in the process of implementation.

The local government experienced several difficulties in managing these negative externalities. Another aspect that could have been better managed by the municipality is the use of the assets related to the project and related potential benefits, such as increases in land value and commercial and residential activities around the park.

could no longer handle the services. Consequently, when decentralization has occurred, the central government has not provided know-how and has not transferred revenue to local administrations. Therefore, without institutional and financial capacity, local governments are usually powerless in terms of implementing municipal programs, resulting in the deterioration of urban services and infrastructure.⁵²

As explained earlier, in LAC cities main business and institutional activities are still located in historic districts. This characteristic, as it relates to housing, is important because, as noted by Pacione (2005: 519), for many poor people, the close proximity of housing to jobs is very often “the most important consideration.” The same author (2005: 520) provides us with a detailed description of the housing model in downtown areas, characterized by “buildings usually legally built as residences for middle- or upper-income groups but subdivided and turned into tenements when these move to suburbs or elsewhere.” The residents of the area enjoy the “advantage of being centrally located, so usually close to jobs or income-earning opportunities.” Moreover, they also usually have easier access to schools and hospitals. In these areas, basic infrastructure such as paved streets and water and sanitation networks are present even if in most cases they appear fatigued and inadequate. Pacione (2005: 249) further describes conditions in downtown areas, noting that households are “usually very overcrowded and in poor state of repair. Whole families [live] often in one room, sometimes with no window. Facilities for water supply, cooking, storage, laundry and excreta/garbage disposal [are] very poor and have rarely been increased or improved to cope with much higher density of occupation brought by subdivision.”

By their very nature, these particular urban areas have a significant symbolic and patrimonial value that makes them important for the whole city and its inhabitants. In addition, the concentration of cultural resources

⁵² See MIT Decentralization Web site: “Decentralization implies that the responsibility of managing cities and towns lies primarily with local authorities. However, in many developing countries, the move towards decentralization has not led to a corresponding increase in local authorities’ revenue base, rendering local authorities powerless when it comes to implementation. This is partly due to the fact that national governments are unable to channel or reallocate finance to local authorities as their budgets are already strained. Inefficiencies in the legal and administrative machinery and corruption have further eroded the financial capacity of local authorities. As a result, urban service provision is deteriorating, if not completely absent, in many cities and towns, especially in developing countries” (<http://web.mit.edu/urbanupgrading/waterandsanitation/introduction/index.html#Anchor-What-33869>).

endows these downtown areas with a strong touristic and economic value. According to an IDB publication on the quality of life in LAC, home value depends on a neighborhood's facilities and services, including the distance from patrimonial cultural assets (IDB, 2008). However, despite their potential and strategic location, historic districts are delicate issues. In particular, the resident poor living in these neighborhoods usually face additional challenges, and upgrading these areas presents some specific problems.

As Delgadillo (2003: 2) points out: “the problem of housing in the downtown areas of Latin American cities has two perspectives: the historical perspective has to do with the physical deterioration of buildings that

▷ <http://www.sephis.org/pdf/delgadilloenglish.pdf>

are densely populated by low-income inhabitants; another characteristic is a high percentage of dwellings formally or informally leased; market irregularities concerning ownership, and an abundant typology of dwellings produced throughout history. The most recent approach is to recover historical downtown areas through repopulation with dwellings for medium- and high-income groups. The driving force behind this approach can be found in the reappraisal of old architectural designs, a trend toward the recovery of



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the downtown areas of First World cities, and the discovery of a potential real estate market (abandoned and subutilized buildings) that can be reactivated with relatively small investments and fiscal incentives, and ensures short- and medium-term rewards.” What are the policy implications for this dimension of downtown poverty? The general objectives should be to provide people with houses that respect basic norms for safety and hygiene, while preventing the “expulsion” of poor and nonpoor families living in areas with an increased attractiveness and profitability from their living places.⁵³ Moreover, there is also a need for programs to raise awareness of cultural patrimony, support social and cultural activities, and improve community facilities and services.

⁵³ According to Leinberger (2005: 17–18): “having households of all income levels living within walking distance provides another unique aspect to life in downtown, something not available in any other part of largely income-segregated America. This is yet another competitive advantage for a reviving downtown.”

http://books.google.com/books?hl=en&id=kRg5cz5HxZMC&dq=Poverty+amidst+prosperity:+survey+of+slums&printsec=frontcover&source=web&ots=BRzKClmCb_&sig=XWhWjCqysXWrHoS_8Gm3icbT5sc&sa=X&oi=book_result&resnum=1&ct=result

In the case of historic districts, the upgrading of informal settlements is especially aimed at old (often colonial) multiple-family dwellings, (such as *cortiços* in Brazil, *conventillos* in Argentina and Chile, and *tugurios* in Peru and México) that have never had maintenance work done. Agnihotri (1994: 14) provides a definition of the term *tugurio* that exemplifies the common condition of these settlements, which are typically overcrowded and in a state of decay. According to Agnihotri, “these settlements consist mainly of one-room apartments opening on a courtyard or passage. It is a kind of rooming-slum where each family has just one room in most of the *tugurio* buildings where cooking, washing, *etcetera* are done in the common courtyard. This courtyard contains [in the best scenario] toilets, watertaps and baths for common use.” Regarding settlements in Brazil, in São Paulo alone, more than half a million people live in *cortiços*, sharing overcrowded buildings with no working infrastructure.⁵⁴ To tackle this issue, in 2001 the Brazilian government and the IDB started a program (BR-0298) to improve the quality of life of the families living in *cortiços* (see Box 22).

BOX 22. Tenement Action Program in the State of Sao Paulo

The main objective of this program—currently in the implementation phase—is to improve the quality of life of poor families living in inadequate housing in the downtown areas in the state of São Paulo through the renovation of existing tenements and urban renewal. The program is comprised of three main components: 1) financing demand for housing solutions by granting mortgage loans to families living in tenements, supplemented by direct subsidies 2) projects and social action, through the funding of architectural and engineering designs aimed at providing

housing solutions for program beneficiaries; and 3) institutional development, improving the effectiveness of São Paulo’s housing policy.¹ A similar program is in place in Trujillo, Peru, and aims to improve the quality of life of those living in Tugurios.²

¹ IDB: <http://www.iadb.org/projects/Project.cfm?project=BRO298&Language=English>, (accessed May 2008).

² *Municipalidad Provincial de Trujillo*: <http://www.munitrujillo.gob.pe/PlanifCatastro/cht/download/PERFIL%20PROYECTO-VIVIENDA%20CHT.pdf>, (accessed May, 2008).

Furthermore, the IDB has financed several additional projects that include the rehabilitation of informal settlements located in downtown areas such as *Paraná Urbano* and *Procidades* program. In the Procidades – Niterói Urban Development and Social Inclusion Program (BR-L1055), a set

⁵⁴ See CMI Brazil, <http://www.midiaindependente.org/pt/blue/2001/12/13871.shtml>; and IDB, <http://www.iadb.org/exr/doc98/apr/br1354s.pdf>.

of actions seeking to reverse the physical and economic deterioration of the downtown core was implemented with the objective of creating better conditions for poor residents. This project also included the improvement of public squares, gardens, and parks through the supply of street furniture and lighting, as well as by planting trees. In addition, the Procidades – Vitória Urban Development and Social Inclusion Program (BR-L1057) included an urban redevelopment component including works to reclassify urban spaces and actions to encourage the repopulation of the city center, such as readapting unused buildings to serve as new residences and/or accommodating commercial activities and the restoration of properties of historical or cultural value.

In the context of these projects, buildings of some historical and architectural interest, which very often are owned or occupied by low-income households, are considered heritage. It is common that these historic buildings are in a poor state of conservation and have experienced inadequate use; therefore, the basic quality of services in terms of sanitation and infrastructure is also often poor (SIDA, 2007).

Interventions in historical areas significantly alter the cost of improving housing conditions for several reasons. In particular, regulations on the types of interventions or on the materials to be used can be stricter than the ones that apply in other urban areas. Furthermore, houses may be apartments in large buildings and therefore, there is a coordination problem where costly renovations are concerned.

The financial needs required by programs of home renovations in historical areas can be so great that they cannot be provided by instruments such as microcredit and may require a very high level of subsidies from the public sector. Often housing authorities lack the funds to provide these subsidies and even if the public sector finds the resources to finance such subsidies, the convenience of managing these programs needs to be carefully evaluated. In practice, over the long term, efforts to maintain tenants in renovated buildings can be unsustainable for several reasons. First, maintenance costs are generally high. Second, if the income situation of these people does not improve, houses may be subject to crowding and rapid deterioration. This can negatively impact the heritage value of historical buildings as well. The high occupant density and mixed domestic (residential)-commercial use poses a risk that can seriously affect the physical condition of buildings with historical value. Moreover, if the program of intervention is

large, or if these houses are part of areas subject to broader renovation and rehabilitation programs, the value and the rent of the houses will be driven up, and consequently, low-income tenants would not be able to afford their homes and would be forced to leave. A well-structured social component should be included in urban poverty reduction interventions, such as the component featured in the IDB-financed rehabilitation of historical downtown of Quito, Ecuador (see Box 23).⁵⁵

BOX 23. The Successful Case of Quito

The IDB-financed Quito rehabilitation program has achieved some success in retaining residents in rehabilitated buildings. A key factor in this project was the establishment of a mixed capital company. The *Empresa del Centro Histórico de Quito* (ECH) represents the first such public-private urban development entity in Latin America in the urban heritage rehabilitation field. The ECH, while working together with the community and receiving financial support from the central government (in the form of subsidies under the IDB-financed National Housing Policy) succeeded in retaining 75 percent of the original occupants of a renovated building. The program has also been extended to several other buildings (Rojas and De Moura Castro, 1999).

In the framework of the rehabilitation of the historic center of Quito, a program for social action was also designed. This program was comprised of

four main components. One was related to social sustainability and was planned with UNESCO support and the others targeted low-income groups living and working in the historic center, including residents and nonresidents. Specific components included social housing, formalization of informal vendors, and microenterprise promotion. In particular, the cooperative action undertaken for social housing was considered successful. This component was designed with the technical assistance of Pact Arim de Seine Saint-Denis (Pact Arim 93), a French NGO with expertise in housing condition improvement, slums upgrading, and urban rehabilitation. The Pact Arim Network is well known for its work on minimizing and containing social exclusion, considering that housing is the key issue in successful inclusion processes and in a sustainable social life for city dwellers.

To this end, successful efforts have already been undertaken by the Bank in several other historic centers, such as in Cartagena (Colombia) and in the *Pelourinho*, the historic district of Salvador de Bahia (Brazil). Another successful IDB intervention is the *Preservation of Urban Historical and Cultural Sites* (BR-O261) in Brazil, through which the Bank supported the Ministry of Culture's *Monumenta Program* in the preservation of the historical heritage of Brazilian cities (see Box 24).

⁵⁵ The whole rehabilitation effort included two phases: in 1994 the IDB financed the *Rehabilitation of Historical Center Quito* (EC-O169) and in 2005, *Rehabilitation of Historical Downtown Quito, Second Stage* (EC-L1006).

BOX 24. The Monumenta Program in Brazil

The *Monumenta* program aimed to preserve historic heritage in several Brazilian cities. The main purpose of the program was to increase the economic, cultural, and social use of project areas. The program's three main objectives were: i) to preserve priority urban historical and cultural sites under federal protection; ii) to increase the Brazilian population's knowledge and appreciation of its heritage; and iii) to improve the management of the heritage and to establish preservation priorities. Twenty-six cities were included in the program and were selected

based on their historic and artistic heritage. A main achievement of the program was the generation of public interest in historical heritage. A strong awareness campaign was carried out to inform people about the significance and value of their heritage. According to Serageldin, Shluger, and Martin-Brown (2001: 200), "educating the population develops a long-term constituency devoted to preserving the country's heritage." (For additional references, see <http://www.monumenta.gov.br/site/>.)

In terms of social capital development and income generation, the preservation of patrimonial urban areas represents a powerful investment. Activities aimed at preserving tangible heritage can create local sustainable jobs and often employ highly skilled workers. Furthermore, cultural heritage plays a critical role in promoting social cohesion and a sense of belonging, and at the same time, the preservation of public spaces provides meeting places in societies that are often divided and unequal.

The poor who own their houses also face a dilemma brought on by interventions, since poor people may find it convenient to cash in on the value of their houses and move elsewhere. As already pointed out, conflicting objectives and interests are in play here. On the one hand, there is the objective of preserving important areas of the city, such as historical centers, which can become profitable for private sector investment because of potential capital gains. On the other hand, there is the objective of guaranteeing poor people a decent dwelling. It is clear that the evaluation of this trade-off must also be supplemented by a careful analysis of the conditions of financial sustainability over time concerning the option of maintaining poor people in their houses. If, in some extreme situations, the option of "moving" people elsewhere should be taken into consideration, it will then be necessary to



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implement programs that minimize negative impacts on the population, offering solutions that respond to their economic and social needs.

In summary, while urban rehabilitation attracts new residents and economic activities, which boosts local economic development, it also poses risks for poor residents, who may lose access to cheap housing and to the economic and social opportunities offered by downtown locations. To avoid gentrification, there is a need for housing programs that target the poor in order to retain these families in rehabilitated downtown areas.

Transport

Transportation services in urban and suburban areas play a major role in cities, the economy as a whole, and impact the quality of life of the population. According to the World Bank (2002a: xii), “urban transport can contribute to poverty reduction both indirectly, through its impact on the city economy and hence on economic growth, and directly, through its impact on the daily needs of poor people.” In addition, transport systems are particularly relevant for the poor who commute downtown on a daily basis as they directly impact their ability to access various opportunities. The quality and options of transport determine accessibility to jobs and to essential services, such as health, education, and leisure. For poor people, transportation—especially public—is not simply a matter of moving from

one point to another, but rather represents being included and having equal opportunities in society.

In urban areas, spatial location is of great importance, especially in large agglomerations. Job opportunities and services tend to be situated in downtown areas while the poor live either on the periphery, with limited accessibility, or in the city center in highly inadequate conditions. Adequate housing in more convenient locations, or well-connected through public or private modes of transport, is usually unaffordable for lower-income people.



In terms of mobility, private modes of transportation greatly increase the options for people that can afford them; however, the shift to private modes of transportation is usually accompanied by public investment in road infrastructure at the expense of the investment in public transport, leading to deterioration in the quality of public transport. As a result, those who can afford private modes of transport, such as cars or motorbikes, will benefit in the short term from having better roads. However, the situation for the poor is likely to be worsened because of the exclusion and lack of equal opportunities that this process generates, which negatively impacts their mobility rights.⁵⁶ Moreover, in the long run, investments in road infrastructure that favor private over public transportation create problems of congestion and pollution, and reduce the quality of life of the whole population.⁵⁷



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In most developing countries, along with problems associated with the concentration of activities in the city center, there are also problems associated with accelerated urban growth, socioeconomic and spatial segregation, and disarticulation between urban shape and transport systems. In many cities where individual mobility appears as a main concern, urban areas tend to diffuse and sprawl in agglomerations like in the United States. Adding to this, in developing countries, transport systems are not articulated with the

⁵⁶ “Taking into account mobility rights of individuals implies the intervention of the government to ensure a supply of suitable space and public transport systems to allow everyone to reach any destination. The usual techniques to approach this problem (demand-based) have clearly demonstrated their shortcomings, resulting in the predominance of private vehicles in the street, which is the quintessential public space. The consequences have been terrible for the city and they also carry the risk of social exclusion for a large group of people: those who do not own a vehicle. For them, the massive occupation of space by private vehicles prevents them from making trips on foot or by bicycle; for them, much of their time is spent in bus transfers in a congested road” (Herce Vallejo, 2008).

⁵⁷ “Growing reliance on private vehicles has resulted in a substantial fall in the share of, and in some cases an absolute decline in the number of, trips made by urban public transport in many cities. Consequently, there has been a decline in urban public transport service levels. Sprawling, land-consuming urban structures are making the journey to work excessively long and costly, particularly for some of the very poor” (World Bank, 2002a: 25).

<http://www.eclac.org/publicaciones/xml/7/14237/lcg2210p.pdf>



urbanization process, which promotes the existence of informal modes of transport that compete with formal ones. Informal modes of transportation tend to be used by the poor because they often adapt better to their socio-economic and spatial situation; however, to reduce costs, often old and deteriorated vehicles are employed, creating inefficiencies in the use of urban spaces and creating environmental problems (Montezuma, 2003).

Those who have limited opportunities, such as the nonresident poor and those who cannot drive (e.g., disabled people and children) often find themselves socially excluded and unable to access jobs and essential services. In these cases, the links among transport options, location of services,

and social exclusion are obvious and translate into lost opportunities for a significant part of the population, with the poor being principally affected.

Transportation can be a barrier for the poor to work, go to school, and buy food. According to the World Bank (2002a: 25), “surveys of commuters in Mexico City have shown that 20 percent of workers spend more than three hours traveling to and from work each day, and that 10 percent spend more than five hours. Poor people also suffer disproportionately from deterioration of the environment,



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safety, and security because they are most exposed and less able to afford preventative or remedial action.”

Transportation to work is an issue of principal importance for the nonresident poor in particular. For example, problems associated with the availability and quality of transport systems, such as the time and money spent on it, can limit the opportunities for the poor to reach their workplaces and find employment. Some studies have shown that the two most common problems cited as barriers to accessing jobs relate to mobility: “no jobs nearby” and “lack of personal transport” (UK Government, 2003: 11).

Another factor in social exclusion is the inability of families to send their children to schools. Schooling already represents a high opportunity cost for poor families. Furthermore, when transport is bad, unsafe, or unreliable, families are unable to send their children to schools, marginalizing and excluding them even more from the job market. Similarly, poor families

http://www.carplus.org.uk/Resources/pdf/Making_the_Connections_Final_Report_on_Transport_and_Social_Exclusion.pdf



living in badly connected areas do not have regular health check-ups or take care of more serious health problems since they are not able to afford the travel costs. Finally, people need some sort of mobility options to buy food on a regular basis as well as to visit friends, access parks, and participate in other social and leisure activities (see Box 25).

Agosta (2000) illustrates all of these aspects in a study on transport systems, which was carried out with the goal of improving decision making and identifying the specific needs of the poor in metropolitan Buenos Aires. The study highlighted the following issues:

- Serious delays of public transport create problems for workers, such as arriving late to work or arriving home after hours. In particular, during peak hours buses often reach the bus stops full and do not stop for the people waiting.
- On rainy days, buses do not enter neighborhoods where streets are not well-maintained. Some schools report that they close during rainy days because children are unable to reach them.
- People have stopped looking for jobs because they cannot afford to take two or three buses to interviews.
- Some people are unable to go to hospitals when the only means of transportation to reach them are taxis and ambulances. Most often, taxis or ambulances do not want to enter dangerous neighborhoods.
- Buses entering poor neighborhoods are of poorer quality than buses serving other areas.
- Since buses have bad frequencies and poor quality, poor people prefer informal options.
- Using bicycles is not a reliable option due to the risk of being robbed.
- Potential adult students often withdraw from adult education courses due to transportation problems in reaching the schools.

Both local and federal governments in LAC have struggled to provide good transportation systems that promote social equity and adequate access to essential services. When jobs



BOX 25. Transportation as a Barrier for the Poor

Job opportunities and services tend to be located in downtown areas; therefore, a deficient transport system can represent a serious problem, especially for the nonresident poor (implying a loss of opportunities to access jobs, health care, education, and other important services). Different aspects define the quality of a transport system. These aspects are related to:

Economic Accessibility: the cost associated with travel is an important consideration. For poor people, a private vehicle is not a feasible option because of the associated costs. However, at the same time, the cost of using public transport can often be excessively high, especially when people need to transfer several times and use different modes of transport. For instance, it has been estimated that transport costs for the nonresident poor represent between 15 to 27 percent of their income (Agosta, 2000).

Physical accessibility: Often efficient infrastructure that allows people to move about is simply not available. This includes a proper mode of public transport, such as buses, trains, or infrastructure needed to allow people to walk to stations. Streets may be in poor condition or flooded; another issue is that the

distance people have to walk to arrive to the nearest bus or train station may be quite long.

Temporal Accessibility: frequency, or temporal accessibility, is also an issue when frequencies of transportation are limited or transport is not available at certain times. In these cases, people are not able to arrive at destinations when needed. For example, arriving to work on time or being able to reach health care centers after business hours may be problems. Temporal accessibility can also become an issue when the transport system is not reliable; in this situation, people are not able to estimate how long it will take for a bus or train to arrive and how long it will take to reach the destination.

Safety and Security: often, poor people decide not to undertake certain trips due to issues related to crime in their neighborhoods, fear of walking alone, or other risks associated with using a particular mode of transport. This issue affects the poor and women and children in particular.

Comfort: the comfort associated with using public transport should be taken into account. The crowdedness or lack of cleanliness of a transit mode can deter people from using it.

and services are mostly located in downtown areas and transport systems do not work appropriately, low-income people who live on the periphery end up sleeping in the streets or in precarious places they rent. A further problem to take into account is the relation between transport and the price of land. Generally speaking, the price of land increases when accessibility improves and transport investments or service improvements change the structure of land values. Consequently, investments in infrastructure or improvements in public transport may drive people out of city centers to more distant, less-expensive locations making them worse off (World Bank, 2002a).

One of the problems in transport planning is the emphasis on individual mobility—defined as ease of movement—rather than on accessibility—defined as ease of reaching destinations. In this regard, greater importance should be placed on accessibility rather than mobility given that “people rarely consume transportation for the pleasures of movement per se, but rather travel in order to reach opportunities available at destinations” (Levine, 2002: 4).

Policymaking that focuses principally on individual mobility results in people traveling longer distances, for a greater period of time, and at higher costs. Investments often include the improvement and development of road infrastructure, allowing private vehicles to move faster. As a result, people tend to move farther away from their workplaces to locations where land is less expensive, creating in the longer term the need for even more trips and longer distances with more reliance on private vehicles. Urban sprawl, which goes against adequate public transport service supply, encourages dependence on automobiles, and hence reduces accessibility to employment and to urban facilities by the poor.

As a result of these policies and investments, the World Bank (2002a: 7) notes that “motor vehicle ownership and use are growing even faster than the population in some cases, with vehicle ownership growth rates of 15 to 20 percent per year common in some developing countries.” In order to reduce automobile use, it is therefore essential to include public transport considerations in overall urban development strategies. Policies that focus on accessibility rather than individual mobility concentrate on “how to move people to key services at reasonable cost, in reasonable time and with reasonable ease” (UK Government, 2003: 1). This approach therefore requires policymakers to understand where important destinations are located and how people can reach them. This involves the existence of transport between residences and destinations and a transport mode that is accessible, reliable, and comfortable. “Solving accessibility problems may be about transport but is also about locating and delivering key activities in ways that help people reach them” (UK Government, 2003: 1). Therefore, urban development policies

▷ http://sitemaker.umich.edu/accessibility/files/accessibility_proposal.pdf



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should seek to provide greater opportunities for people to walk, bike, and use non motorized transport.

In order to improve accessibility, it is not only important to focus on the transportation system, but also on the arrangement of land uses in a neighborhood, city, or metropolitan area. According to Levine (2002: 6), “policies facilitating compactness of urban development, mixed land uses, or development clustered around high quality public transportation can all increase accessibility not by reducing the per kilometer time and money cost of automotive travel, but by reducing the total travel resources needed in order to access one’s destinations.” When the main policy goal becomes reaching destinations, rather than improving the speed of travel, the result is greater inclusiveness and equity for the urban poor.

Finally, to implement this type of solution, it is necessary to include various stakeholders in decision making, from transportation, planning and housing agencies to communities and businesses organizations. However, without a proper understanding of the urban form complexities and the socioeconomic situation, it is not possible to design appropriate solutions for the poor and at the same time urban transport strategies that promote accessibility aimed at preventing social exclusion and contributing to the city’s economic growth.

Subsidies are policy interventions commonly used in the transport sector; yet they do not necessarily benefit the poor, especially the nonresident poor. In many cases, subsidies aim to improve the supply of transport without targeting specific interventions where poor people live. Usually, governments heavily subsidize transport providers to keep fares low. While middle and upper income people—users of public transport—enjoy these extremely low fares, lower-income people living on the periphery who have to transfer from different modes end up paying three or four times more. These lower-income users therefore cannot really perceive the benefit of subsidized fares and would benefit much more from a fare integration system, which would allow them to transfer freely from one mode to another and pay for just one ticket per door-to-door trip.

In contrast with subsidies, demand-side interventions represent a better approach to serving the poor. As highlighted in Estupiñán et al. (2007: 1) “it is imperative to move away from supply-side subsidies towards demand side subsidies and to integrate transport social concerns into wider poverty alleviation efforts, which include the possibility of channeling sub-

sidies through monetary transfer systems or through other transfer instruments (food subsidies, health services and education for the poor).”

In order for transport not to be a factor in social exclusion, governments should target resources to specifically address the accessibility problems of lower income populations, such as transport options available in poor areas, safe and secure access to stations, and affordability for this particular group.

In cases where governments face pressures to keep fares low at any cost and cannot compensate providers for their losses, these low fares result in the deterioration of the public transport service, affecting low-income areas in particular, which may end up with no service at all. At the same time, upper-income sectors, which are able to pay for better transport such as private vehicles, taxis, or express services, may switch to other transportation systems, thus further deteriorating the system. It is not surprising that “the poor are willing to pay more for a better service than that provided at existing controlled fares” (World Bank, 2002a: 144).

In the context of this discussion, fare integration might be a more equitable solution that does not “penalize” the nonresident poor for living in areas with bad accessibility. In these cases, as has been mentioned earlier, people would pay just one fare for the whole trip and not for each transfer. Fare integration schemes have already been successfully implemented in some LAC countries (Curitiba, Brazil; Bogotá, Colombia; Mexico City, Mexico; and Quito, Ecuador) (see Box 26).

Another mode of transport—Non Motorized Transport (NMT)—also has the potential to be integrated in strategies to provide accessibility to the poor. This is particularly significant in Latin American and Caribbean countries, where a large share of trips are undertaken via NMT or by a combination of this method and public transport (e.g., walking/biking to and from bus stations) (see Box 27).

In fact, in some cities, “the lack of public transport combined with the inadequacy of household resources means that walking may represent up to 50% of all journeys” (Ministère de l’Écologie, du Développement et de l’Aménagement durables et al., 2007: 50)



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BOX 26. Bus Rapid Transit (BRT)

BRT systems allow passengers to transfer from one line to another without having to purchase a second ticket. Under fare integration schemes, passengers can transfer from one mode of transportation to another without buying a new ticket. Since poor people are more likely to transfer, these schemes benefit them more even when tickets have a higher value. BRT systems consist of fare integration, which is a new concept that integrates features from different modes of transport and technologies, making it a cheap and efficient option, especially for developing countries. According to the Victoria Transport Policy Institute in Canada, “Bus Rapid Transit is considered a more affordable alternative to rail in terms of improving transit service quality and attracting travelers who would otherwise drive on congested urban corridors. It was initially imple-

mented in less developed countries, such as Brazil and Colombia during the 1990s, but the concept has become widely accepted by transportation planners and transit advocates throughout the world” (Victoria Transport Policy Institute, 2008).

In places such as Curitiba, Bogotá, and Quito, these integrated transport initiatives include segregated right-of-way infrastructure, integrated fares, and improved operations and customer service. These systems tend to be cheaper to implement than train or metro systems and can provide effective public transport solutions. However, at the same time, it is important to analyze whether these modern systems really serve the corridors where poor people live taking into account that slum areas and poor neighborhoods are most often served by regular buses and not by BRT, trains, or metro systems.

In order to promote better NMT and public transport options, it is necessary to reduce the number of cars in the streets. To achieve this goal, people should have sufficient options in terms of accessibility, safety, security, and comfort.

BOX 27. Nonmotorized Transport (NMT)

While walking is the principal form of NMT, this mode of transportation also includes biking, animal-drawn carts, and human-powered vehicles. NMT constitutes the primary form of transportation in most LAC countries where a large part of the population ends up being excluded due to not being able to use motorized vehicles, as previously mentioned. In the context of transportation options, NMT has a benign social and environmental impact and also offers important options to the poor. However, “despite these obvious merits, NMT has been largely ignored by policymakers in the formulation of infrastructure policy and has

been positively discouraged as a service provider.” (World Bank, 2002a: 125).

In this regard, it is increasingly necessary to focus policies and investments on biking and walking as important forms of transportation whenever possible. Pedestrian-friendly cities are more egalitarian, more inclusive, and safer. In cities, not only working adults who are able to drive can access jobs and services, but also women, children, and the elderly from all social classes can enjoy public spaces and move around in areas that are easy and safe to walk in.

Finally, policymakers should consider that when formal systems do not work properly, informal systems tend to satisfy the demand for transport even if the informal sector is often viewed as a nuisance by national and municipal transport authorities, particularly when those authorities are responsible for the provision of conventional bus services. It may be true that the informal sector has a very poor image and reputation characterized by very low earnings and often poor working conditions, with employees being exploited by vehicle owners. Nevertheless, it must also be said that the informal transport sector has some important qualities, such as the fact that it represents a source of employment for the poor, that it provides valuable services, and that it addresses actual demand (World Bank, 2002a). However in some cases, these informal systems perform under inadequate conditions, creating more pollution and unsafe and uncomfortable conditions for passengers. Moreover, informal systems can also undermine the economic viability of regulated ones.

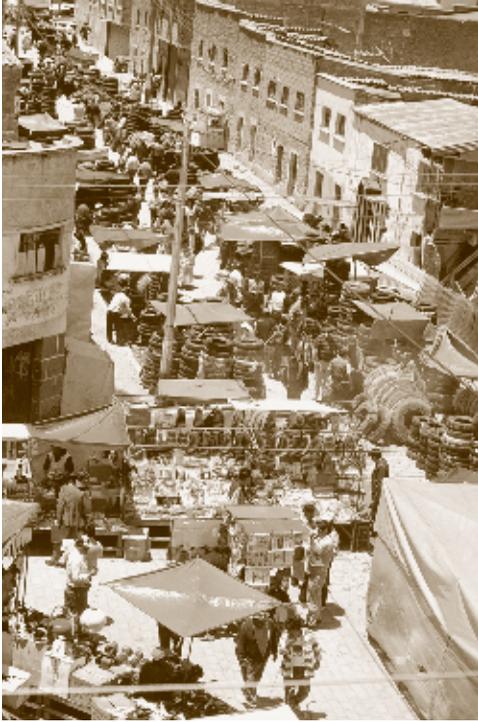
Employment

Employment is a crucial issue for the urban poor, and in the context of urban poverty interventions, it is one that warrants significant attention. Baharoglu and Kessides (2004: 134) emphasize that “for the urban poor, small enterprises and micro enterprises can be an important source of income and employment (including self-employment) where no other alternatives are available. In many cities, a substantial share of the working population—sometimes as high as 50 percent—is engaged in microenterprises activity.” Jansson, Rosales, and Westley (2004) present similar estimates: roughly 71 million jobs are generated by microenterprises, about 48 percent of the total jobs in the economy. Self-employment and small enterprises represent the traditional web of commercial and handicraft activities in historic areas of cities. Most of these activities are carried out in the informal sector, which raises the question of how to deal with the informal economy.⁵⁸ The development of downtown areas, indeed, involves the informal market, which is crucial for the urban poor in several ways.

⁵⁸ The links between the informal economy and the vulnerability of the poor are examined in Part I.

▷ <http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTPOVERTY/EXTPRS0,,contentMDK:20177531~pagePK:148956~piPK:216618~theSitePK:384201,00.html>

▷ <http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=640580>



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A key consideration is that renovation and development projects may significantly influence the cost of starting and running small enterprises.⁵⁹ First of all, these projects imply an increase in capital values of downtown locations in those areas where small firms are currently, or could potentially, be located. Second, stricter regulations on hygiene, license fees, and area restrictions aimed at preventing the degradation of the downtown areas of cities increase the costs of operating small enterprises, pushing them away from convenient locations. Moreover, in a renewed urban context, lower quality shops may find that they have fewer clients. At the same time, the development of downtown areas provides a strong incentive for people to carry out different activities in city centers because of the wider business opportunities available there. In this sense, downtown upgrading activities may create a useful platform for the develop-

ment of economic activities. Moreover, central areas often have great potential in terms of offering development options and alternatives in the use of heritage, especially in the field of cultural and creative initiatives, such as cultural industries.⁶⁰ Finally, the added value produced by renovated city centers can produce a set of positive externalities in the marketing of local products, in terms of enhancing community self-esteem, raising awareness of urban value, and understanding of cultural heritage and traditional values.

⁵⁹ Arbona and Kohl (2004) analyze the general issue of the inequalities brought about by market-oriented urban policies in the case of La Paz. The crowding-out resulting from heritage conservation programs has been pointed out by Jones and Bromley (1996).

⁶⁰ *Cultural Industries* refer to those sectors that are concerned with the creation, production, and distribution of goods and services that are cultural in nature and usually protected by copyright. These sectors are: editorial (e.g., books and newspapers), audiovisual (e.g., television and cinema), phonographic (e.g., music and radio), visual and performing arts, multimedia, sports, and cultural tourism (Quartesan, Romis, and Lanzafame, 2007).

In the design of urban poverty reduction policies, it should be recognized that while small businesses provide some income to the poor, their uncertainty and discontinuity also increase the vulnerability of these individuals. One of the general objectives of policies designed to fight downtown poverty therefore should be to avoid “informalization” and marginalization of small enterprises operating in downtown areas, while at the same time, encouraging the “formalization” of informal activities, which are usually carried out along downtown streets. However, as explained earlier, actions supporting formalization may benefit some sectors and negatively affect others. This general objective, however, needs to be balanced with two other objectives, both related to the development of innercity areas, which can be crucial to the economic and social development of the entire city. First of all, since space is limited, it is clear that promoting the permanence and extension of small and microenterprises in downtown areas reduces the space that can be used by other types of business activities that also generate employment.⁶¹ Second, with regard to historical centers and heritage rehabilitation, the compatibility of some activities with the characteristics and use of renovated buildings needs to be evaluated. It is necessary to seek a balance of the different interests competing for the same space. At the same time, it should also be recognized that the benefits of the development of small and microenterprises go beyond the mere evaluation of financial returns because these businesses also contribute to the alleviation of poverty and self-sustaining processes of income creation.⁶²



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⁶¹ It must be considered that informal work, such as street vending, is undertaken due to a lack of other alternatives, and in this sense, there is no certainty that people would prefer a formalization of their activities to other employment opportunities. However, in a survey carried out in Kinshasa among street vendors, “seventy-four percent of respondents were ready to stop their activities within the informal sector if they could find secure and well-paid jobs. Nearly 91 percent were confident that the formal sector remained preferable, as it provides a guarantee for social allocations as well as health treatment for the worker and his/her family, transport facilities and, in many cases, education costs for children, and housing” (Iyenda, 2005: 65).

⁶² The evaluation of the impact of the public support for microfinance should be even wider, according to Sharma (2000), “when confronted with this type of situation, policymakers,

Once a decision is reached as to what the desired extension of the activities of small and microenterprises should be in downtown areas, and based on their nature, different policy instruments should be considered to enhance their long-term development and financial viability. One important area of intervention concerns entry barriers that need to be removed or reduced. These entry barriers usually have to do with such considerations as the availability of convenient locations or the setup costs of commercial or manufacturing activities.

An issue that is generally raised when considering policies designed to promote small enterprises concerns urban planning rules and other regulations (hygiene, safety, etc.) because they affect the uses of buildings. Certain commercial or productive activities may not be allowed or are severely limited by current regulations.⁶³ While the relaxation of these regulations may reduce the start-up costs of the formalization of microenterprises, this issue needs to be carefully approached since urban planning rules and regulations have a significant impact on the quality of the urban environment. Such a consideration is particularly relevant to the most valuable areas of a city whose preservation is not only in the interest of the owners of the areas and buildings, but is also crucial to the economy of the entire city. As for the problem of the use of houses for carrying out commercial and manufacturing activities, it can be observed that “in many parts of the world the dwelling is also a place of production: some or all of the household members may be involved in income-generating activities, ranging from small-scale, part-time tasks with few specific spatial demands, to manufacturing activities which may dominate the dwelling environment” (Kellett and Tipple, 2000: 203).

Furthermore, some authors who have studied the issue have suggested the possibility of relaxing those regulations based on the principle

who have to allocate *public* resources between competing ends, ask how credit programs affect broader social goals such as adoption of agricultural technology, income generation, and attainment of food security. Sometimes even broader goals are considered such as women’s empowerment or environmental quality.”

⁶³ “Vendors stay small and mobile because they cannot afford the start-up capital to establish themselves in a permanent market where they are subject to inspection and have to pay rent, fees, and taxes. Many governments claim they want to stimulate microenterprises. Nevertheless, governments often respond to these businesses by sweeping mobile sellers off the street into back alleys, subjecting them to strict regulations, or prohibiting selling altogether. Governments may also deny microenterprises the rights and permits to occupy permanent spaces” (Baharoglu and Kessides, 2004: 135).

of separation between housing and productive activities, while maintaining safety (Baharoglu and Kessides, 2004). Certainly, in the context under analysis, the objective of safety must be integrated with the evaluation of the quality of the downtown environment.

Another important consideration is that within downtown development and renovation projects, buildings or portions of them may be identified and assigned to small enterprises for running specific commercial or manufacturing activities. This likely would require public ownership since the spaces should be rented at a low fee in order for the incentive to be effective. Such a scheme may be problematic due to the initial cost of buying space and adapting them to their planned uses, which, however, may be significantly reduced if the spaces are already under public ownership or if the project receives grant funding. However, regarding this option,



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what is important to consider is the ongoing cost that the public sector would bear in the future to maintain these spaces in good condition. Therefore, the financial implications of such a scheme must be carefully evaluated.

Finally, it is necessary to improve access to credit since it may be crucial for the start-up investment. Based on a survey on street enterprises in Kinshasa, it seems that “the lack of any bank credit to start their own business has also encouraged people with small amounts of money to throw themselves into street activities” (Iyenda, 2005: 63).⁶⁴ As stated in several IDB programs aimed at supporting microenterprises and giving them access to credit and other financial services, the loans should “go toward financing working capital or purchasing fixed assets to establish, consolidate, and improve the productivity of the recipients’ businesses” (IDB, 1998b: 1).

There is now considerable experience with microfinance programs, which are supported by international organizations such as the IDB. These programs provide credit to qualified participants who are usually considered too high risk by the financial system.⁶⁵ Sometimes credit is provided in

▷ <http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTPOVERTY/EXTPRS/0,,contentMDK:20177531~pagePK:148956~piPK:216618~theSitePK:384201,00.html>

▷ <http://eau.sagepub.com/cgi/reprint/17/2/55>

⁶⁴ See also Diagne, Zeller, and Sharma, 2000.

⁶⁵ IDB supports microfinance through the Global Credit Program to Microenterprises II. The World Bank is active through the Consultative Group to Assist the Poor (CGAP), a consortium



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successive steps, conditional on the repayment of the previous steps. It could also be used as a guarantee for a loan provided by a bank.

What is sometimes called the new paradigm of microfinance “emphasizes the idea that, given enabling macroeconomic, political, legal, regulatory, and demographic conditions, commercial institutions can be developed to provide financial intermediation for the economically active poor and can deliver services at the local level profitably, sustainably,

without subsidy, and with wide coverage” (Robinson, 2001: 73).⁶⁶ Therefore, access to credit is conditioned on the evaluation of the commercial viability of the enterprise, and should not be regarded as a hidden subsidy. If the general objective is to support the formalization of income-earning activities carried out by the poor, however, commercial viability does not need to correspond to normal market profitability of similar activities, but should be sufficient to guarantee the financial viability of the firm and the satisfaction of the basic needs.

It has already been pointed out that all the previously mentioned instruments should guarantee the removal of the general and specific barriers to establishing formal businesses for poor people in downtown areas. In light of the specificity of the site where the activity is carried out, two additional policy instruments could be considered. First, it may be possible that the operating costs of the enterprise are higher than in other parts of the city as a con-

of 31 public and private development agencies. Additional programs of significance include the FAO’s Rural Finance Program, the UNCDF Microfinance Program, and USAID’s Microenterprise Development Program. Also, the ILO has created a program to systematically analyze, evaluate, and disseminate financial sector issues relevant for employment and social justice: the ILO Social Finance Programme.

⁶⁶ One of the key principles of microfinance established by CGAP is that microfinance can pay for itself, and must do so if it is to reach very large numbers of poor people. Most poor people cannot access good financial services that meet their needs because there are not enough solid institutions providing such services. These institutions need to charge enough to cover their cost, but cost recovery is not an end in itself. Rather, it is the only way to reach scale and impact beyond the limited levels that donors can fund. A financially sustainable institution can continue and expand its services over the long term. Achieving sustainability means lowering transaction costs, offering services that are more useful to the clients, and finding new ways to reach more of the unbanked poor (<http://www.cgap.org/keyprinciples.html>).

sequence of the higher rents. This special need could be addressed through the tax system, designing forms of tax relief, both at the local and the central government levels. Second, training activities for business owners may be necessary to improve their entrepreneurial ability and to develop specific abilities to increase the commercial attractiveness of their activities.

As shown previously, many low-income people, both residents and nonresidents, are employed by downtown businesses (often informally or even illegally). To remedy this situation, governments can put in place incentives for local businesses to hire low-income people formally or even to formalize their current employees, in this way increasing their access to health insurance, paid holidays, and other social benefits. In addition, local governments could also subsidize part of the salary of these workers so as to lower the burden of the companies to guarantee the workers' rights. Such measures would ensure that low-income people who have jobs also enjoy the safety net associated with it, and would decrease the vulnerability of households benefiting from the program.

Local governments could also employ poor heads of households who would perform basic activities for the city, such as cleaning sidewalks, basic street maintenance, and watching parked cars on streets. This could improve the safety of the neighborhood in which these municipal employers work. At the same time, it would also provide basic income to those who cannot find jobs and reduce the vulnerability of households benefitting from the program. Moreover, it could even return to the market a group of people who would otherwise be unemployed and provide them with basic skills that may be productively used in the future.

Public support could prove valuable as well in exploiting other urban-related key resources. Besides the increasing recognition of the significance of cultural industries in economic terms, it is also widely held that these industries are "essential to maintaining the cultural identity of LAC countries" (Quartesan, Romis, and Lanzafame, 2007: 2). The craft sector, in particular, is closely linked to the poor and could represent an important generator of wealth and a key factor in guaranteeing cultural diversity. Handicraft producers in the region run mostly micro-enterprises whose businesses could



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<http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=1152852> <

benefit from urban upgrading, mainly due to their close connection with the tourism industry. Yet despite this relationship, this sector is still “poorly organized and dispersed, there is no consensus among the actors, and there is some resistance to becoming more business-oriented” (Quartesan, Romis, and Lanzafame, 2007: 23).



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In this sense, local government could play a key role in the socioeconomic development of downtown areas and could improve the chances of poor people to find jobs in the formal market. For instance, providing fiscal incentives and mechanisms to access easy credit and even specific training for the poor engaged in cultural industry sectors are all measures that can improve the poor’s employment possibilities (see Box 28).

BOX 28. The Importance of Cultural Industries in Local Economic Development

Over the past decade, cultural industries “have increasingly become one of the main sources of greater production and employment in many countries... In this regard, Latin American and Caribbean countries have begun to identify new opportunities and are actively seeking sustainable solutions to maintain these industries as an integral part of cultural and economic life. This development has been brought about by growing concern on the part of LAC countries that their cultural industries will be marginalized by globalization” (Quartesan, Romis, and Lanzafame, 2007: 1). The IDB has played an important role in supporting cultural industries in response to the demand of LAC countries. In 2007, the first regional study evaluating the importance of these industries in local economic development was published (Quartesan, Romis, and Lanzafame, 2007). Based on this study, the IDB initiated projects to support local cultural industries in LAC cities. Specifically, the Bank’s ICF/FMM Division has launched two projects with components

concerning local cultural industries: i) The Revitalization of the Old City of Montevideo (UR-T1050) and ii) The Revitalization of Historical Downtown Cartagena de Indias (CO-T104). In addition, as part of the Bank’s Multilateral Investment Fund (MIF) portfolio, there are two projects currently being implemented: i) Cultural Industries as an Engine for Socioeconomic Development-Centro Histórico Quito and ii) Cultural Industries as an Engine of Socioeconomic Development for Cali.

The objective of these projects is to contribute to the development of the cultural economic sector in the urban environment of LAC cities, promoting local cultural industries as development and economic opportunities. The Bank’s interventions are being carried out through both the public and the private sectors to create more favorable institutional frameworks and fiscal incentives, support public/private partnerships, strengthen cultural micro-, small- and medium-sized enterprises, and foster local cultural identity.

Health Care and Education

Health care and education issues must be addressed in interventions aimed at reducing urban poverty. In the context of this discussion, human capital development figures prominently. Human capital is often referred to as the level of education or the health of the population, and is represented by such indicators as the years of schooling, school enrollment ratios, infant mortality rates, the life expectancy of the population, and so on. It is often assumed that a better human capital stock will bring about better chances for development, while “income inequality has a negative, long-term effect on physical capital, which, in turn, indirectly lowers average education levels” (Grier, 2002: 892).

It is important to take into account the existing synergies among the various aspects of development (UN, 2003), as improving human capital alone cannot produce development, but it can certainly facilitate it. According to the UN (2003: 93), developing countries face three main challenges in expanding primary education:

- *Limited resources.* Relative to rich countries, developing countries spend much less per student and as a proportion of GNP at all levels of education.
- *Inequity.* When spending is low, rich people often capture a much larger share of it—so poor people do not benefit as much.
- *Inefficiency.* Inefficient spending means that a high share of recurrent spending goes for teacher salaries, leaving little for learning materials. In addition, low-quality teaching means that students do not learn as much as they could.

Regarding health in Latin America, as in other parts of the world, the challenge at present is the so-called epidemiological transition from infectious to chronic noncommunicable diseases. There is broad consensus on identifying urbanization as one of the main factors that has contributed to this change.⁶⁷

⁶⁷ On average, the health of urban residents in developing countries is better than that of rural dwellers, in part because urban areas usually offer better health care and healthier living conditions than most rural areas. Infant and child mortality rates are lower in urban areas than in the countryside. The average child born in an urban area has a much better

▷ <http://faculty-staff.ou.edu/G/Robin.M.Grier-1/lasimult.pdf>



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<http://siteresources.worldbank.org/INTLACREGTOPURBDEV/Home/20843636/UrbanPoorinLA.pdf>



Institute decries deficiencies in the physical environment in marginalized urban areas as one of the main causes of death among the urban poor. UN-HABITAT finds that high child mortality is directly correlated to low environmental quality (lack of wastewater treatment, sewerage, and sanitation).⁶⁹

The distribution of health outcomes varies within urban areas (Bitrán et al., 2005).⁷⁰ Regarding health, as Fay and Ruggeri Laderchi (2005) report, coverage and quality differ between poor and rich urban areas. Significant differences in health within the urban population are also emphasized by Montgomery and Hewett (2003); they find evidence that the health of poor households depend not only on their own circumstances, but also on the socioeconomic composition of their neighborhoods.⁷¹ In the same vein,

chance of survival than a rural child. In 54 of 57 countries with data from the Demographic and Health Surveys (DHS), infant mortality rates—deaths before age one per 1,000 live births—were lower in urban areas than in rural areas. Similarly, child mortality rates—deaths of children ages one to five per 1,000 children—were lower in urban areas than in rural areas in 56 of the 57 surveyed countries (Hinrichsen, Salem, and Blackburn, 2002).

⁶⁸ Suarez-Berenguela (2000) presents some evidence of the differences between rich and poor groups in terms of utilization of health care services, as compared with their health needs.

⁶⁹ The approach adopted by the IDB is quite interesting and shows the relevance of the problem. In a health sector development program for maternal and child health care in Peru, for instance, a subcomponent of the project relates to environmental health, whose objective is “to help prevent diseases and infections that are caused mainly by unhealthy conditions in the environment, in complement to the activities of the SMI [program of maternal and child health care coverage]” (IDB, 2003b: 17).

⁷⁰ The countries with the most unequal distribution of health indicators are Brazil, Bolivia, and Peru.

⁷¹ Montgomery and Hewitt use 85 surveys of the Demographic and Health Survey (DHS) program; the survey dates range from 1990 through 2001, and in all, some 50 countries in 6 developing regions are represented.

Wen, Browning, and Cagney (2003) find that neighborhood levels of poverty, income, and related factors influence the health of the population.

Nevertheless, the available data do not provide any evidence about the specific incidence of this problem in downtown areas. However, at the same time, it is recognized that poor neighborhoods in downtown urban areas experience a lack of adequate access to basic services.⁷² Even if the problem were confined to suburban slums, the daily mobility of their residents to downtown areas would negatively impact these areas since there is a potential for suburban poor residents to spread disease due to their bad housing condition. Therefore, investments in infrastructure in these areas would also benefit downtown areas and should be regarded as a priority.

Moreover, even if in urban areas the availability of health services is greater than in the rural areas, the poor still experience problems of accessibility. Wyss (2003: 7) reports that “household surveys in N’Djaména, Douala, and Dar es Salaam indicated unsurprisingly that sick people of the poorest socioeconomic class depended more often on self-treatment, and consulted public and private health services less often.” (See also Suarez-Berenguela, 2000.) The barriers to accessing health care services by the poor are multifaceted. First, there is a financial problem. The informality and the discontinuity of the poor’s income may not allow them to contribute to social health insurance or community-financing schemes, nor to pay health care services out-of-pocket when needed. Of course, this barrier can be overcome through the design of the coverage of the health care system, moving to systems of universal coverage, or considering a much more limited scope of intervention, and focusing on specific health care services. An interesting example of the latter approach is illustrated by various projects developed under Conditional Cash Transfer (CCT) programs (see Box 29).

As mentioned earlier, cities are characterized by a higher supply of health care services, when compared to the rural areas, but at the same

⁷² There are disparities within a city that are “often masked by official data on access to water and sanitation, which do not accurately reflect problems with the quantity, quality, and reliability of services—or the numbers of people sharing facilities in dense settlements. In Accra, Ghana, for example, only 12 percent of the richest quintile of the population, but more than 66 percent of the poorest quintile, share one toilet or latrine with more than 10 other households. Some 44 percent of households in Mysore, India have water connections, but only 8 percent of those in informal settlements do” (World Bank, 2003a: 122).

BOX 29. Conditional Cash Transfers (CCT)

As described by the Third International Conditional Cash Transfer Conference, these “programs provide money to poor people conditional on them making investments in their children’s human capital such as school attendance or regular use of preventive health care services.”

CCT programs are an innovative way to provide social protection to the poor, by way of attempting to overcome the vulnerability some groups experience and building their human capital. Since 1995, CCT programs have been implemented in more than 15 countries in LAC (Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, the Dominican Republic, Honduras, Jamaica, Mexico, Nicaragua, Peru, and El Salvador).

CCT programs benefit recipients in multiple ways. Two of the most important effects relate to income and human capital development. First, because the program is a cash transfer, it creates an income effect for recipients. Second, the transfer guarantees

coverage for the children concerning education and health services; that is, human capital.¹

According to the Third International Conditional Cash Transfer Conference, CCT programs adopted in a number of countries have proven to be effective in promoting human capital accumulation among the poor. Specifically, “there is clear evidence of success in increasing enrollment rates, improving preventive health care and raising household consumption. Despite this promising evidence there are concerns regarding constraints of the supply of social services, trade-offs between social assistance and human capital formation goals, and the fit, effectiveness and appropriateness under different country conditions—especially for low-income/low-capacity countries.”²

¹ See <http://info.worldbank.org/etools/icct06/about.htm>. For additional resources, see Rawlings and Rubio, 2003; Engel Aduan, 2004.

² For a detailed account on CCT programs, see Alain de Janvry (2006).

<http://whqlibdoc.who.int/publications/9241590130.pdf>

time, the geographical distribution within a city of these service is uneven and a cause of the accessibility problem for the poor. The World Health Organization (WHO) (2002: 23) points out that “two further factors reducing demand for health interventions among the poor are the distance to the appropriate point of interaction with the health service, and high user costs. The physical difficulties of accessing health care can be a significant problem, especially in the poorest countries: in many parts of Chad and countries with similarly low levels of wealth, health services are underused because people cannot get to them.”⁷³

Even if the conditions reported by WHO are typical of rural areas, it may be that in large cities, people have to travel to access basic services, which can be as time consuming and costly, such as traveling from some

⁷³ The relevance of the distance to be traveled to access health care services is confirmed by other studies regarding the developing countries. The Bangladesh Demographic Health Survey 2000, for instance, shows that 80 percent of women feel that not having a health care facility nearby is an obstacle to accessing health care.

village to the nearest city. Indeed, one of the reasons why people move to downtown areas, permanently or during the day, is access to services. Moreover, some people may not access health care services, wherever they are provided, because they are occupied all day traveling or trying to earn their living, as in the case of the nonresident downtown poor.⁷⁴ Sometimes, the lack of access is also due to information inconsistencies concerning the existence of available services.

The close-to-client health system, outlined by WHO (2002) is an interesting approach to addressing the most important health problems (vaccination, infectious diseases: such as malaria, tuberculosis, HIV/AIDS, etc.), and the difficulties in accessing services. Its main objective is to reorganize the supply of health care services to ensure the actual delivery of services to the places where people live and work. It consists “of relatively simple hospitals, not necessarily capable of the full range of interventions expected at teaching hospitals, of health centers, and, in some circumstances, smaller health posts and their outreach services, along with the infrastructure and personnel directly responsible for the delivery of interventions through categorical programs.⁷⁵ Though medical supervision will be necessary, a great deal of the work



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in this close-to-client part of the health system can be carried out by people other than doctors: by nurses and paramedical staff with various degrees of training, including midwives” (WHO, 2002: 51).⁷⁶ The development of outreach programs could be quite useful for addressing the needs and for providing crucial health information to the poor who spend much of their time

⁷⁴ Wyss (2003: 7) notes that “there is the question of the availability of time for a woman to seek health care because in many households men are not earning, and women are responsible for providing for the family’s basic needs, which means that women’s time is of increasing economic significance.”

⁷⁵ Categorical programs are those programs targeted to or designed for a particular group of people.

⁷⁶ This approach implies a correction of the orientation of most developing countries to invest in specialized and costly services, such as hospitals. The WHO (2002: 64) reports that “in one survey of 29 developing countries, over two-thirds were found to spend more than half of their recurrent health budget on hospitals.”

along downtown streets. The organization of these services could be implemented also through the involvement of NGOs, as is already being done in some developing countries.

The consumption of education services by urban poor presents a pattern with characteristics similar to that of health care services.⁷⁷ Access to education is generally crucial as a way of escaping the trap of intergenerational poverty transmission. It is also important to prevent children from spending their days on downtown streets. Of course, the solution to the accessibility problem requires, first of all, investments in infrastructure to increase the number and distribution of schools within the city. At the same time, incentives for families aimed at emphasizing the importance of education are also needed. The integral approach proposed by the IDB seems to offer useful insights into guaranteeing children access and permanency in the different levels of education. This approach emphasizes a *Life Cycles Perspective*, which is “a strategy that proposes the integration of social protection, human, social and economic development programs, organized according to the stages of the life cycle, as a way to facilitate successful transitions among the key phases of this cycle. Integrated offer of services and programs to the diverse members of a family must be considered as a starting point of a planned process to give up the poverty situation” (Engel Aduan, 2004: 39). Within such an approach, instruments such as conditional transfers—which are already being used by several Latin American countries—play an important role.

In summary, health care and education issues are especially important in downtown areas, as most public infrastructure and services are located there. Consequently, improving infrastructure and services to meet the needs of the real population is essential. Furthermore, the problem of accessibility also needs to be addressed, taking into account the actual group of users, which consists of both residents and nonresidents.

<http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=611621>



⁷⁷ “In Mexico, school attendance is almost identical among the rural and urban poor, with a slight difference emerging only among young adults 18 and older. More generally, the quality of these services in poor areas tends to be very low, as schools in poor neighborhoods tend to be overcrowded and the levels of repetition and drop-out high. In poor urban areas, particularly those on the periphery, accessing secondary education can be problematic. Students often have to travel some distance to attend secondary school, and public transport is not always reliable” (Fay and Ruggeri Laderchi, 2005: 36).

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SURVEY METHODOLOGY AND QUESTIONNAIRE

I

This annex includes a detailed description of the survey methodology applied to the four case studies that focus on the urban central areas of four Latin American cities—La Paz, Bolivia; Quito, Ecuador; Rio de Janeiro, Brazil; and Valparaiso, Chile. Following this description is the questionnaire used in the four cities.

Localization

In accordance with the definition of downtown areas provided in this publication, specific areas of research for each case study were identified. The survey focused on those areas where business activities are concentrated and where some rehabilitation initiatives have been undertaken. Moreover, based on the advice of local partners, specific areas—which were considered strategic for future urban development—were selected.

Sample

The sample for this survey includes three groups. The first group is comprised of non-resident poor, such as street vendors and

beggars, living in peripheral urban areas and commuting downtown every day. A second group includes downtown residents, both poor and nonpoor. Those living in residential areas that are part of urban rehabilitation programs were selected for inclusion in the sample.¹ A third group includes representatives of firms in the downtown area, such as shops, restaurants, and hotels. Of the roughly 600 questionnaires that were completed, approximately 40 percent of the questionnaires were submitted to resident poor, 20 percent to resident non-poor, 30 percent to nonresident poor, and 10 percent to downtown firms.² Moreover, the

¹ To avoid double counting, street vendors and beggars living in the same residential area were excluded. Also excluded were slums or *favelas*, which are not part of a formalized and imminent project of rehabilitation, because the poor living there are relevant insofar as they come into the downtown area regularly. Clearly, not all those coming from the slums are necessarily either street vendors or poor, and in this regard, it goes beyond the scope of this research to include in the survey people working at home or in the firms of the nonpoor.

² For purposes of comparison, the size of the sample was approximately the same in the four cities under consideration. An alternative option would have been to include a larger sample in larger cities or in cities with a larger number of urban poor resulting from previous surveys or censuses.

data of the survey have been integrated with the results of interviews carried out in each city with local decision makers and stakeholders, aiming at ascertaining their informed and qualified view on the main issues of the analysis and on public policies.

Screening and Poverty Line

In order to minimize costs, a simple indicator of poverty—household per capita income—was adopted. If the interviewee indicated a household per capita income value below the threshold, the interview continued; otherwise, it was interrupted. Despite the problems related to the use of this value as an indicator instead of consumption expenditure, it should be noted that the aim of the survey is not to assess the magnitude of the phenomenon of downtown poverty. Thus, the choice of an indicator and poverty line are relatively important in terms of the quality of information that the survey is expected to yield.

Questionnaire Content

Following a brief set of screening questions about the household composition and income needed for the selection of the sample, the questionnaire was divided into two parts: a quantitative section and a qualitative section. The quantitative section includes questions related to household consumption (food and nonfood commodities), shelter, occupation, and production, access (to utilities, insurance and credit), facilities (education, health), additional expenditures (such as transportation costs), and prices. The qualitative section includes questions aimed at identifying subjective perceptions of: i) indicators of well-being and the poverty line, ii) the relative condition of the household, and iii) the type of intervention needed to reduce downtown poverty in an effective way.

Questionnaire

PART 1 – HOUSEHOLD PROFILE

Section A – Household identification

A.1 INTERVIEWER'S NAME: _____

A.2 DATE OF INTERVIEW: _____

A.3 NAME OF THE PERSON BEING INTERVIEWED: _____

A.4 DISTRICT NAME: _____

A.5 CLUSTER: _____

A.6 HOUSEHOLD NO: _____

Section B – Household composition

Write down the names of all persons who normally live and eat together in the household.

	1	2	3	4	5	6	7	8	9	10
Member name										
Head										

B.1 Sex

Male										
Female										

B.2 Does [NAME] contribute to household income? (yes or no)

--	--	--	--	--	--	--	--	--	--	--

B.3 What is [NAME]'s relationship to the head of household?

Head										
Spouse										
Live-in partner										
Son/daughter										
Parent										
Other relatives*										
Not related										

* (i.e., grandson, granddaughter, cousin, uncle, aunt, son in law, daughter in law, etc.)

By bicycle									
By another personal mean of transportation									

Section D – Health

D.1 Did [NAME] receive health care services from:

Church									
Private for-profit organizations									
Private nonprofit organizations									
Community									

D.2 Was [NAME] sick or injured in the last 6 months?

Yes									
No									

D.3 What sort of sickness/injury did [NAME] suffer? (more than one answer can be marked)

Fever/malaria									
Diarrhea									
Accident									
Dental									
Skin condition									
Eye									
Ear, nose, or throat									
Other									

D.4 How many days of work did [NAME] miss due to illness or injury?

None									
One week or less									

Too expensive										
No drugs available										
Treatment unsuccessful										
Other										

D.7 How does [NAME] generally reach the health care provider? (More than an answer can be marked.)

Walking										
By public bus										
By train										
By another privately supplied mean of transportation										
By bicycle										
By another personal mean of transportation										

D.8 Why did [NAME] not use health care services in the last 6 months? (More than an answer can be marked.)

No need										
Too expensive										
Too far										
Other										

Section E – Employment

Exclude persons under five years of age.

E.1 Did [NAME] do any type of work in the last 6 months?

Yes										
No										

If yes go to E.3

Between 30 and 45 min.										
Between 45 min. and 1 hour										
Between 1 hour and 1.5 hours										
Between 1.5 and 2 hours										
More than 2 hours										

E.14 How does [NAME] generally reach the work place? (More than an answer can be marked.)

Walking										
By public bus										
By train										
By another privately supplied mean of transportation										
By bicycle										
By another personal mean of transportation										

Section F – Household assets and amenities

F.1 Does the household or a household member:

Own the dwelling	_____
Rent the dwelling	_____
Use the dwelling without paying rent	_____
Other	_____

F.2 How many rooms are there in your dwelling?

1	2	3	4	5	6	7	8	9	10

F.3 How many beds (double beds count as 2) are there in the dwelling?

--	--	-------

F.4 Is the dwelling used for purposes other than living?

Yes		_____
No		_____

F.5 Does the household own any of the following?

Electric iron		_____
Refrigerator		_____
Television		_____
Radio		_____
Watch or clock		_____
Sewing machine		_____
Gas/electric stove		_____
Bicycle		_____
Motorcycle		_____
Car or truck		_____
Cart		_____
Mobile phone		_____
Video player		_____
DVD player		_____
Personal computer		_____

Include only those in working conditions

F.6 Does the household have electricity?

Yes		_____
No		_____

F.7 How often in the last three months did you have problems satisfying the food needs of your household?

Never		
Seldom		
Often		
Always		

F.8 How do you compare the overall economic situation of the household with one year ago?

Much worse now		
A little worse now		
Same		
A little better now		
Much better now		
Don't know		

F.9 How do you compare the overall economic situation of the neighborhood with one year ago?

Much worse now		
A little worse now		
Same		
A little better now		
Much better now		
Don't know		

F.10 What is the source of drinking water?

Piped into dwelling or compound		
Public outdoor tap or borehole		

Vendor or truck		_____
Other		_____

F.11 What kind of toilet facility does your household use?

None		_____
Flush to sewer		_____
Flush to septic tank		_____
Pan/bucker		_____
Covered pit latrine		_____
Uncovered pit latrine		_____
Ventilation improved pit latrine		_____
Other		_____

F.12 What is the main fuel used for cooking?

Firewood		_____
Charcoal		_____
Kerosene/oil		_____
Gas		_____
Electricity		_____
Other		_____

F.13 What is the main fuel used for lighting?

Kerosene/paraffin		_____
Gas		_____
Electricity		_____
Generator		_____
Battery		_____
Candles		_____

Section G – Policy perception

G.1 Do you feel “excluded” because of your:

	Very much	Somewhat	Hardly	Not at all
Health	A	B	C	D
Education	A	B	C	D
Race	A	B	C	D
Gender	A	B	C	D

G.2 Do you feel excluded because of your neighbourhood?

	Very much	Somewhat	Hardly	Not at all
	A	B	C	D

G.3 Do you perceive discrimination in public life:

	Very much	Somewhat	Hardly	Not at all
In the access to the justice system	A	B	C	D
In the access to police services	A	B	C	D
In the expression of your civil rights	A	B	C	D
In the expression of your political rights	A	B	C	D

G.4 According to your perception, who is more effective in improving your life conditions?

- a. National government
- b. Local government
- c. NGOs
- d. Church
- e. Private donors

- G.5** According to your view what should be the priorities of public policies downtown?
- a. Education
 - b. Health
 - c. Public parks and outdoor spaces
 - d. Development of commercial areas
 - e. Parking
 - f. Public toilets
 - g. Waste disposal
- G.6** According to your view, what economic activities are needed to improve the downtown economic environment?
- a. Tourism
 - b. Shops and services
 - c. Art crafts
 - d. A combination of all
 - e. Other

PART 2 – QUALITATIVE INQUIRY

Section H – Street activities

- H.1** What types of merchandise or service best describe the nature of your activity? (Mark ONE answer.)
- a. Food
 - b. Textiles
 - c. Handicraft
 - d. Water
 - e. Services (garbage collection, ...)
 - f. Other. Please specify: _____
- H.2** Is your activity formally carried out?
- a. Yes
 - b. No
- H.3** How long has your activity been in operation? (Mark ONE, include time at this and any previous locations.)
- a. Under 1 year
 - b. 1–5 years
 - c. 6–10 years
 - d. 11–20 years
 - e. Over 20 years

H.4 Is your activity fixed in location or mobile?

- a. Fixed
- b. Mobile

If b go to 6

H.5 How long have you been in your current location? _____ year(s)

H.6 How satisfied are you with the present location of your activity? (Mark ONE answer.)

- a. Very satisfied
- b. Satisfied
- c. Neutral
- d. Unsatisfied
- e. Very unsatisfied

H.7 Are you planning to move?

- a. Yes
- b. No

H.8 If you plan to move, where would you like to move?

- a. Another location downtown with better services
- b. Another location outside downtown

H.9 Where were you located before?

- a. Another city
- b. Same city but another area outside downtown
- c. Another location downtown

H.10 Do you perceive the existence of conflicts with:

	Very much	Somewhat	Hardly	Not at all
Residents	A	B	C	D
Shopkeepers	A	B	C	D
Street vendors	A	B	C	D
Police	A	B	C	D
Municipal authorities	A	B	C	D
Others	A	B	C	D

H.11 According to your view, what are the challenges of working downtown?

	Major challenge	Minor challenge	Don't know	No challenge
Conflict with other street vendors	A	B	C	D
Pollution	A	B	C	D
Traffic	A	B	C	D
Theft	A	B	C	D
Vandalism	A	B	C	D
Extortion	A	B	C	D
Begging	A	B	C	D
Street-vending	A	B	C	D
Others	A	B	C	D

H.12 According to your view what should be the priorities of public policies downtown?

- a. Education
- b. Health
- c. Public parks and outdoor spaces
- d. Development of commercial areas
- e. Parking
- f. Public baths
- g. Waste disposal

H.13 According to your view, what is needed to improve the downtown economic environment?

- a. Tourism
- b. Shops and services
- c. Art crafts
- d. A combination of all
- e. Others

Section I – Downtown residents

I.1 How satisfied are you with the present location of your home? (Mark ONE answer.)

- a. Very satisfied
- b. Satisfied
- c. Neutral
- d. Unsatisfied
- e. Very unsatisfied

I.2 Are you planning to move?

- a. Yes
- b. No

If not f go to 4

I.3 Where would you like to move?

- a. Another location downtown with better services
- b. Another location outside downtown

I.4 Please rate the degree to which you are experiencing the following challenges for living downtown:

	Major challenge	Minor challenge	Don't know	No challenge
Conflict with building owner	A	B	C	D
Conflict with other residents	A	B	C	D
Expensive rent	A	B	C	D
Expensive shopping	A	B	C	D
Pollution	A	B	C	D
Traffic	A	B	C	D
Poor building condition	A	B	C	D
Theft	A	B	C	D
Vandalism	A	B	C	D
Extortion	A	B	C	D
Begging	A	B	C	D
Street-vending	A	B	C	D
Other	A	B	C	D

I.5 According to your view, what should be the priorities of public policies downtown?

- a. Education
- b. Health
- s. Public parks and outdoor spaces
- d. Development of commercial areas
- e. Parking

- f. Public baths
- g. Waste disposal

I.6 According to your view, what is needed to improve the downtown economic environment?

- a. Tourism
- b. Shops and services
- c. Art crafts
- d. A combination of all
- e. Other

PART 3 – BUSINESS ACTIVITIES

Section J – Business

J.1 What best describes the nature of your business? (mark ONE answer)

- a. Restaurant
- b. Retail (shop)
- c. Service (business)
- d. Handicraft
- e. Other. Please specify: _____

J.2 Types of merchandise or services. _____

J.3 How many employees do you employ? _____ (including yourself)

J.4 What is the square footage of your store or business? _____ square meters

J.5 How long has your business been in operation? (mark ONE, include time at this and any previous locations)

- a. under 1 year
- b. 1–5 years
- c. 6–10 years
- d. 11–20 years
- e. over 20 years

J.6 Does your business own or lease the space in which it is located?

- a. Own

- b. Lease
- c. Lease, want to purchase

J.7 How long have you been in your current location? _____ year(s)

J.8 Has your business increased in the last two years?

- f. Yes
- g. No, it decreased
- h. No, it is the same

If c go to 10

J.9 For what reasons?

- a. Improvement/decline customer service
- b. Improvement/decline management
- c. Improvement/decline marketing efforts
- d. Improvement/decline local/national economy
- e. Improvement/decline downtown business environment
- f. Improvement/decline in competition by street vendors

J.10 Do you have plans to expand or reduce operations for your business in the foreseeable future? (mark ONE)

- a. I plan to expand products/services or square footage downtown.
- b. I plan to expand products/services or square footage at a location outside the downtown.
- c. I plan to reduce products/services or square footage downtown.
- d. I don't have any plans for changes.

J.11 How satisfied are you with the present location of your business? (mark ONE)

- a. Very satisfied
- b. Satisfied
- c. Neutral
- d. Unsatisfied
- e. Very unsatisfied
- f. Plan to move

J.12 Are you, or the building owner, considering any building improvement projects?

- a. Yes
- b. No
- c. Don't Know

J.13 Please rate the degree to which you are experiencing the following business challenges? (Mark ONE answer for each item.)

	Major challenge	Minor challenge	Don't know	No challenge
Conflict with building owner or tenant	A	B	C	D
Difficulty recruiting or retaining employees	A	B	C	D
Expensive or unavailable utilities	A	B	C	D
Expensive employee wages or benefits	A	B	C	D
Expensive rent	A	B	C	D
Expensive shipping or transportation	A	B	C	D
Insufficient financing	A	B	C	D
Insufficient parking	A	B	C	D
In-town competition	A	B	C	D
Out-of-town competition	A	B	C	D
Poor building condition	A	B	C	D
Restrictive business regulations	A	B	C	D
Shoplifting or theft	A	B	C	D
Unskilled workers	A	B	C	D
Vandalism	A	B	C	D
Extortion	A	B	C	D
Begging	A	B	C	D
Street vending	A	B	C	D
Traffic congestion	A	B	C	D
Other _____	A	B	C	D

J.14 How strongly do you agree or disagree with the following statements? (Mark ONE answer for each item.)

	Strongly agree (2)	Somewhat agree (1)	Neutral (0)	Somewhat disagree (-1)	Strongly disagree (-2)
Local police protection is outstanding.	A	B	C	D	E
I feel safe downtown, even at night.	A	B	C	D	E
Local fire protection is outstanding.	A	B	C	D	E
Local waste management service is outstanding.	A	B	C	D	E
Local municipal services are well worth the level of local taxation.	A	B	C	D	E

I always try to buy products and services locally.	A	B	C	D	E
I always direct customers to other downtown businesses.	A	B	C	D	E
I seek ways to cooperate with complementary downtown businesses.	A	B	C	D	E
The existing downtown businesses mix helps my business.	A	B	C	D	E
The look and feel of downtown helps my business.	A	B	C	D	E
My building façade draws customers into my business.	A	B	C	D	E
My window and store displays help my business.	A	B	C	D	E
My advertising helps my business.	A	B	C	D	E
My business is open when customers want to shop.	A	B	C	D	E
Employees of my business show great customer service.	A	B	C	D	E
Downtown city X is an excellent place to have a business.	A	B	C	D	E

J.15 What steps to improve the economic prosperity of downtown need to be taken at this time?

- a. Tourism
- b. Shops and services
- c. Art crafts
- d. A combination of all
- e. Other

1. LA PAZ

1.1 City Overview

1.1.1 *Summary of the History and Population Dynamics*

La Paz, the capital of Bolivia, was founded in 1548 in a large and steep basin created by the Choqueyapu River and other rivers belonging to the hydrographic system of the Rio La Paz. Located at 3,625 meters above sea level, La Paz is characterized by an urban expansion of a crown of urban settlements perched on unstable cliffs around the valley. Often, the poor quality of homes and the peculiar geomorphology of the city make residents more vulnerable to the catastrophic effects of landslides, collapses of the buildings, and floods, and such disasters have resulted in many casualties over the years.

The municipality of La Paz includes an urban area of 18,009.8 hectares and a rural area of 183,180.8 hectares. The city experienced relatively slow growth until the beginning of the twentieth century when it rapidly developed as an important tin mining center and became the political heart of the country.¹ In the first half of the century, the population

grew from 60,000 to 267,000, with an annual growth rate of about 3 percent (La Paz LIDER, 2006). The city continued to expand vigorously until the beginning of the 1980s. In 1976, there were 635,285 residents in La Paz. Yet, in the last two decades of the twentieth century, the population growth rate of La Paz progressively declined. The rate declined from 1.8 percent between 1976 and 1992 to 1.1 percent between 1992 and 2001. This decline was, in large part, due to the lack of available new space (due to the physical constraints of the basin where the city is positioned) that attracted industrial plants (such as the oil refinery) and the airport on the plateau on the edge of the valley. The last national census (2001) reported an urban population of 789,585 in La Paz.²

These new establishments and the sustained residential demand supported a migration towards nearby El Alto and other towns.³ El

¹ Through this activity, a new economic elite emerged; these elite competed with those who had made their fortunes in silver mining, but who were negatively impacted by the decline of world demand for silver.

² The total population including the rural Macrodistrict of *Hampaturi/Zongo* is 793,292.

³ Between 1996 and 2001, the town recorded a total net outflow of 43,664 inhabitants (Gobierno Municipal de La Paz, 2006).

Alto, which was initially developed as a settlement for the servants of the families in La Paz, had a population of 11,000 in 1950 (Sandoval and Sostres, 1989). In the years that followed, El Alto experienced massive immigration. Following the revolution of 1952, *campesinos* freed from haciendas established settlements. Later in the 1980s, the town experienced further immigration of thousands of *campesinos* that left their plots of land because of the droughts related to El Niño. Finally, there were inflows of former mine workers who came in the wake of the closing of mines due to the adoption of liberal economic policies. For these reasons, the population growth in El Alto was 9.2 percent between 1976 and 1992 and 5.1 percent between 1992 and 2001, reaching a population of 647,350, in 2001.⁴ At present, middle-class families are also being attracted by the supply of affordable housing not far from the center of La Paz. Nevertheless, residents of El Alto continue to be notably poorer than those in La Paz.

It is worth noting that a comprehensive view of the socioeconomic dynamics of La Paz should not overlook the demographic evolution of El Alto. In fact, unlike the other cities included in this study, La Paz is characterized by the formation of an important conurbation with the city of El Alto due to their close proximity. According to the last census in 2001, these two municipalities constitute approximately 18 percent of the national population, which was about 8.3 million at that time.⁵ Therefore, any analysis of intervention policies in La Paz and its urban center should also take into account the impact that they would have on migration flows from El Alto.⁶

1.1.2 Institutional Framework

Bolivia is a republic that is administratively divided into nine departments, organized in provinces. The administration of these provinces is broken into sections of provinces and cantons (*cantones*) and municipalities (*secciones municipales*). The latter are subdivided into macrodistricts, and districts are formed by basic territorial organizations (*organizaciones territoriales de base*, OTBs).

Each department is administered by a prefect acting as representative of the national government, whereas the provinces are administered by the vice prefect (*subprefecto*), and the cantons by the *corregidor*. La Paz belongs to the Department of La Paz (which has a population of 2.3 million, equivalent to about 28 percent of the national population in 2001) and the Province of Pedro Domingo Murillo (which has about 1.5 million inhabitants and includes El Alto, Palca, Mecapaca, and Achocalla). The urban area of the La Paz municipality is divided into seven macrodistricts, 21 districts, and 536 OTBs (see Table 1.1).⁷

⁴ El Alto became an autonomous municipality in 1988.

⁵ See UDAPE Web Site: <http://www.udape.gov.bo/>.

⁶ The negative externalities caused by the daily inflow of thousands of people from El Alto and nearby rural regions may also contribute to intense protests and at times violence, as was seen during the October 2003 riots.

⁷ Three more OTBs are included the rural Macrodistricts of *Hampaturi* and *Zongo*. Data for seven additional districts are not provided by the census (Gobierno Municipal de La Paz, 2006).

TABLE 1.1 Municipality of La Paz

Macrodistrict	Area (KM ²)	Population	Districts
Municipality of La Paz	2,012	789,585	21
1. Cotahuma	16	153,655	4
2. Max Paredes	13	164,566	4
3. Peri ferica	26	159,123	3
4. San Antonio	23	115,659	4
5. Sur	64	127,228	3
6. Mallasa	33	5,082	1
7. Centro	5	64,272	2
Total	2,192	1,579,170	42

Source: INE, 2001.

The main levels of political decision making are the national and the municipal governments. La Paz and El Alto are two separate municipalities, in spite of the norm, prescribed by the Law of Municipal Governments of joint responsibility for those municipalities forming a conurbation.

The institutional framework of Bolivia's politics and administration shows a rather high degree of decentralization. However, at the same time problems of coordination exist between different levels of government; for example, in the education and health sectors, private institutions are regulated at a national level, while public ones follow the municipal law. Special regulations therefore apply to institutions affiliated with the police, army, fire department, federal government, *et cetera* (Gobierno Municipal de La Paz, 2004a). In the context of this discussion, as an administrative entity, the municipality has a primary role in the definition of welfare and development policies.⁸ It also raises taxes locally, mainly from property, business, vehicles, and business licensing.

The proceeds go to a general fund controlled by the city council.

Moreover, since 1994, the Law of Popular Participation assigns 20 percent of the national budget to the municipalities in the form of revenue-sharing funds on a per capita basis. These funds constitute an important financial resource for La Paz and are probably the main one for most municipalities. This law dictates that the allocation of these funds by the municipal government involve a process of participatory planning, involving representatives of the community. These representatives are charged with: a) approving the spending plan, b) guaranteeing the respect for specific guidelines, and c) ensuring that funds are spent as decided. Funding is allocated for the following five areas: schools, health, urban infrastructure, irrigation, and sport facilities. It is also mandates that 85 percent of the funds assigned on the basis of the Law of Popular

⁸ The council (which is elected for five years and appoints the mayor) and the executive carry out municipal policy-making.

Participation are spent on construction, while the rest are to be used for maintenance and administration (see Arbona and Kohl, 2004).

A few important examples concerning the activity of the Municipal Government of La Paz in terms of economic and social development are the *Foro Municipal Para el Desarrollo Económico Local* and the *Programa de Rivitalización y Desarrollo Urbano* (PRU). The first is a forum for local development organized for the first time in July 2004, whose main aim is to define the main directives of development and policies of intervention through the active participation of the major actors involved, which includes the central and local governments, economic agents (including firms of all sizes), nongovernmental associations, international institutions, and the university. This forum represents a fundamental step in development planning concerning La Paz and is an important example of the participatory decision-making process that is employed as a model by the local administration. The PRU is a major and extensive project, financed by a loan of the Inter-American Development Bank (IDB), with the main goals of carrying out urban rehabilitation—with special attention to the development of the city and the improvement of commercial areas—and supporting entrepreneurial activities (see below).

The Chamber of Commerce plays an important role not only in the definition of a city's policies, but also and above all, in its economic development. Among the many programs administered by the Chamber, those worth mentioning include those related to ed-

ucation; technical and legal support; and access to credit specifically targeted to small firms, which aims to help entrepreneurs move into the formal sector and engage in new, productive activities.⁹

1.1.3 *Economy and Sociodemographics*

Based on the size and the political and economic relevance of La Paz, it is important to evaluate its socioeconomic aspects within a more comprehensive national scenario. In Bolivia, the crisis of the mining industry, the inadequate industrial development sector, and the lack of capital investments in agriculture have caused an intense migration towards the main urban areas in recent decades. The situation has been made even more critical by the negative economic shocks that began in 1999 (such as the outflows of foreign investments, the exchange devaluation, the worsening of the current account balance, and the eradication of the cultivation of coca). In 2006, about 60 percent of the national population was living in poverty, and 38 percent of these impoverished were living in conditions of extreme poverty.¹⁰ In addition, due to the sluggish economic growth of the country, most immigrants have been unable to find formal employment and have basically been forced to carry out small manufacturing positions and service- and commercial-related activities.

⁹ These also benefit from a reduced membership fee.

¹⁰ See UDAPE Web Site: <http://www.udape.gov.bo/>.

The proliferation of small firms is a parallel phenomenon to the existence of a large informal sector, which is also supported by the growing phenomenon of urbanization. In 2004, only 45 percent of Bolivia's GDP derived from the productive sectors, while the rest was determined by commerce and services. The Department of La Paz is the second most productive (after Santa Cruz), contributing 24 percent of the national GDP with an unemployment rate of only 4.8 percent in 2004, (Consejo Mayor de Desarrollo Regional, 2006).¹¹

The productive structure of the city of La Paz reflects the predominance of micro and small firms (with no more than 20 employees) and of the commercial sector in the country. In 2002, according to official data, there were more than 187,000 micro and small firms in Bolivia, about 18 percent of which were located in La Paz and 30.2 percent of which were in La Paz and El Alto together (CEP, 2004). The national share of productive establishments with fewer than 20 workers is 98 percent. On the other hand, in the city of La Paz, 97.7 percent of all establishments have no more than four employees.¹² Moreover, commerce accounts for 56 percent of economic activities.¹³ In fact, a common occupation in the city of La Paz is commerce on public streets. In 2004, there were 36,921 officially registered vendors operating in the streets, according to the Public Registry of Commerce on the Streets (*Registro de Comerciantes en Via Publica*) (Gobierno Municipal de La Paz, 2004b). This amounts to 11 percent of the economically active population in the city. Furthermore, the sectors with

higher potential exports, such as textiles and leather, account for only 22 percent of the industry in the department (Consejo Mayor de Desarrollo Regional, 2006).

In La Paz, family participation in economic activities is significant. In fact, 65 percent of those employed in firms (including the owner) have family connections. This result also applies at a national level (68 percent) (Gobierno Municipal de La Paz, 2004c). In 2001, poverty affected more than 66 percent of the department population. In the same year, 35.9 percent of the La Paz population were living in conditions of moderate poverty, while 28.3 percent were in conditions of indigence and 2.1 percent were considered socially excluded (INE, 2001).

The challenge for reducing downtown poverty seems closely related to the daily inflows of street vendors and beggars. These people are attracted by the opportunities offered by the presence of a large amount of workers and students whose number is substantially higher than that of downtown residents.

1.1.4 Downtown

The downtown area of La Paz studied here includes part of the macrodistricts 1 (Cota-

¹¹ However, the department ranking drops to sixth place when per capita GDP is considered.

¹² 2001 data; see Larrazábal and Montaña, 2002; Gobierno Municipal de La Paz, 2004c.

¹³ In the department of La Paz, 74 percent of the product derives from commerce and services.

huma) and 7 (Center) and, in particular, of the districts 1 and 6.¹⁴ The resident population in the downtown area is about 1,750 people (with a density of 111/ha), which amounts to 10.6 percent of the population of the whole downtown area (*Casco Urban Central*, CUC) (Gobierno Municipal de La Paz, 2004b).

Sixteen thousand people live in the CUC. However, there are more than 70,000 students and 2,400 teachers present in the area on a daily basis. Moreover, the number of public sector workers is between 8,500 and 12,000, and between 1,600 and 3,200 people work in the markets. About 70 percent of the workers living in the CUC are self-employed.

The area includes about 30 percent of available employment and total economic activities and 64 percent of the street commercial activities of the CUC (Gobierno Municipal de La Paz, 2004a, 2004b).¹⁵ However, a survey conducted by the Gobierno Municipal de La Paz (2004a), which interviewed about 4,300 people working on the streets of the CUC (12 percent of the total of the municipality), found that only 6.6 percent of them were residents of the area.¹⁶ The same survey indicated that almost all the workers earned less than US\$2 a day, while 20 percent earned less than US\$1 a day.

The economic and social demographics of the residents in downtown La Paz (district of *Centro*) do not show conditions of extreme poverty. According to the methodology of the basic need satisfaction, 95 percent of the population of the CUC cannot be considered poor, although 45 percent of them are near poverty.

Moreover, 84 percent of the poor live at a level of moderate poverty (Gobierno Municipal de La Paz, 2004a). In fact, several indicators in addition to the satisfaction of basic needs—such as the illiteracy rate, average years of schooling, number of household members who graduated from high school, and rate of employment—are generally above the average with respect to La Paz. This applies both to the whole CUC and to the focused area in this study (see below).

In the *Centro* district, there is a high rate of literacy (98.2 percent) and a relatively high rate of school enrollment (82.2 percent). The main problem of the traffic and crowding conditions seems to be partly caused by the concentration in downtown La Paz of students coming from the rest of the metropolitan area. In the CUC there are 94 schools providing education up to the secondary level, 47 institutions of higher education, and five universities. The students residing in the CUC represent just 7 percent of the total student population in this area (Gobierno Municipal de La Paz, 2004a). This significant inflow of students from other areas into downtown, along with teachers and school

¹⁴ The area is delimited to the north by the Pando, Montes and Sucre avenues, to the east by the Coroico, Bueno and Zuazo streets, to the south by the c. Zapata and the a. 20 de Octubre, and to the west by plaza Eguino and a. Illampu.

¹⁵ The share of workers owning their shops is about 44 percent. Among the other workers, 47 percent have some family relationship with the owner (Gobierno Municipal de La Paz, 2004b).

¹⁶ Others working on the streets of the CUC include 36 percent from El Alto, 27.7 percent from the east side, and 20.3 percent from the north side.

personnel, is a major cause of traffic congestion in the CUC. This congestion causes several problems for the social and economic environment of the city. In this respect, it seems necessary to relocate some of the schools outside of the CUC, as well as some of the street vendors and public offices. These actions would reduce the vehicular traffic in the center and could allow for the implementation of policies aimed at rehabilitating the historic center.

As for the provision of services, water and electricity are supplied to 89.5 and 94 percent of the population, respectively. The sewage system covers only 58 percent of the city. Also the drainage system is absolutely inadequate: when it rains, roads are often transformed into dangerous rivers. However the city plans to implement a program to improve the system (see subsection 1.1.5). The provision of gas is also being extended to complete the city coverage. Garbage is collected regularly in the whole city. Furthermore, more than 91 percent of the population has access to health services, and 28 percent of the population has private insurance (Gobierno Municipal de La Paz, 2004a).¹⁷

Finally, it is interesting to note that almost 89 percent of those working in the area under study were not interested in changing the location of their businesses, and only 3.7 percent intended to move them outside the CUC (Gobierno Municipal de La Paz, 2004a).¹⁸

1.1.5 Urban Development Policies

An important initiative has been launched by the department of La Paz for the development of the territory is the Departmental Develop-

ment Plan (*Plan Departamental de Desarrollo de la Prefectura de La Paz*). This initiative has the following priorities: tourism, infrastructure, education, health, investments in the manufacturing and agriculture industries (especially those related to export-oriented production), and biodiversity.

The main project directed at improving the development of the urban center of La Paz is the *Programa de Revitalización y Desarrollo Urbano* (PRU), which, as mentioned earlier, is being financed by an IDB loan. The project's overall objective is to promote the urban, social, and economic development of the center of La Paz by reversing the process of physical and social deterioration of the city center (BO-0216). More specifically, the program aims to improve productivity and income, together with the socioeconomic conditions of vulnerable groups (i.e., fostering social inclusion), and also enhance the urban and environmental quality of the inner city.

The total estimated cost of the program is US\$34.1 million, of which US\$28.5 is the IDB loan and US\$5.6 million is the country counterpart funding.¹⁹ The program is currently in

¹⁷ In the CUC there are 15 health centers: 4 depend on the Municipality for administration and infrastructure, 2 belong to the national police, 3 to insurance companies, 2 to the church, 2 to NGOs and 2 are private.

¹⁸ These percentages are substantially similar to those resulting from the interviews conducted for the present study (see subsection 1.2.3).

¹⁹ The loan is administered by the *Empresa del PRU* which is a consortium of private and public agents. Transfers are made under the direction of the coordinator of the PRU to the municipal government, which is then in charge of paying the costs of the projects.

the implementation phase and is expected to close in 2010. The program is comprised of the following three components: a) rehabilitation of the urban environment; b) promotion of social and economic development; and c) institutional strengthening.

The project's first component, the rehabilitation of the urban environment component aims to: i) reverse the deterioration in the center of La Paz (for example, financing public investments which would increase property value); ii) improve the supply of public spaces, vehicular circulation, and the infrastructure for commerce and services; and iii) reduce the environmental vulnerability of the city center. The budget for this component amounts to US\$21.7 million. There are two subcomponents: (1) upgrading public spaces in the CUC and (2) strategic urban interventions in the Central Urban Park (*Parque Urbano Central*, PUC). Currently, this component includes 20 strategic projects for a total budget of approximately US\$20.2 million (US\$11.5 million for the CUC and US\$8.7 million for the PUC).

The project's second component, the promotion of social and economic development, aims to improve the quality of life of people who live and work in the metropolitan area of La Paz through the provision of social and economic activities. This component is further divided into the following subcomponents: i) social development and assistance of vulnerable groups, ii) support for productivity and informal employment in the city center, and iii) services for building consensus and social support. The total budget for this component is US\$4.5 million and will be used to

finance a competitive social development fund and a competitive productive fund.

The first social development and assistance of vulnerable groups subcomponent, with a budget of US\$2 million, will finance projects presented by civil society organizations aimed at providing services to groups such as women, disabled, children, and the elderly who work or live in the streets. The second subcomponent focusing on support for productivity and informal employment in the city center, with a budget of US\$2.5 million, aims to support training and technical assistance projects for self-employed workers and owners of small businesses. Under this subcomponent, support will also be provided for the creation of the following: i) a semipublic enterprise promoting the certification and marketing of products made in La Paz, ii) multiservice centers assisting and promoting the activities of self-employed workers, and iii) an information system for those services.

The implementation of the project's second main component, the promotion of social and economic development, is proceeding slower than the implementation of the first component of the plan. The main reason seems to be the lack of companies and organizations that are willing and qualified to provide the required services, which is reasonable, considering the cost of the project proposals and the uncertainty about the success of the program. However, at the same time, the PRU is making efforts to promote the project to attract more service companies.

The project's third component, institutional strengthening, seeks to develop the

capacity of the municipal government to design and execute policies and investments for urban development, environmental protection, economic promotion, and supply of social services, especially to vulnerable groups. With a budget of US\$2.8 million, this component will finance the following: i) a La Paz city center development corporation, ii) the strengthening of operating areas, iii) the strengthening of the administrative and financial area, and iv) a promotion and dissemination program.

In addition, the following projects target the La Paz area, and are currently being implemented with the support of the IDB:

- Master Drainage Plan for La Paz: technical cooperation with a budget of US\$750,000 (plus country counterpart funding of US\$100,000).
- Northern Corridor Highway Program, La Paz–Caranavi Section: US\$33.148 million loan (plus country counterpart funding of US\$8.287 million).
- Entrepreneurial Culture Promotion Program (BO-M1007): US\$1.2 million technical cooperation.

1.2 The Survey

1.2.1 Methodology²⁰

The area of investigation includes districts 1 and 6. The axis formed by the avenues of *Mariscal Santa Cruz* and *16 de Julio* divides the area into two sectors, denominated by east

and west. In this division, only five roads have continuity between both sectors and they correspond to the existing bridges from the colony. Along this axis there are mostly buildings with commercial shops on the ground floor and business offices on the upper levels. The area selected represents a well-defined neighborhood, having as a main gathering point, and center of exchange between both sectors, the square of San Francisco. This central area is also particularly representative from both a historical and socioeconomic point of view.²¹ It is characterized by a predominantly commercial rather than residential use. In addition to a concentration of formal and informal commercial activities, the area shows a concentration of financial services and represents the core of the political and administrative life of the city. For these reasons, there is significant traffic congestion in this area on a daily basis.

For this survey, 354 downtown residents were interviewed. These residents lived in 72 out of the 114 blocks included in the area. The selection of poor residents in the area of inves-

²⁰ A series of interviews were carried out by the *Centro de Estudios y Proyectos* (CEP) under the supervision of Jose Zelada. A further group of interviews with the following local administrators and stakeholders was conducted by CREA, with the kind assistance of Jose Zelada; Marco Camacho Peña (coordinator of the PRU financed by the IDB); Rolando Carrazana Rocha (chief official of the territorial management, municipal government of La Paz); Oscar Medina Ramallo (first vice president, national chamber of commerce); and Pedro Souza (director of governability, municipal government of La Paz).

²¹ This same area has also been researched by a study commissioned by the municipality of La Paz (CEP, 2004).

tigation was problematic, since a specific characteristic of the center of La Paz is the marginal number of officially poor residents, at least according to the Unsatisfied Basic Needs method. Therefore, it was considered that (relatively) poor residents living in downtown homes (*tugurios*) were qualitatively comparable to nonresidents who commute daily to carry out daily life and work activities downtown. The benchmark adopted to separate poor residents was therefore a coefficient of 0.75 for number of beds per person living in the household. Those interviewed for the survey included a sample of poor nonresidents comprised of 185 street vendors, as well as a sample of 60 firms.

1.2.2 Household Economic Profile

Relevant differences among groups arise when households' overall economic conditions are examined. Apart from the above-mentioned differences in earnings, there are also differences as far as the overall economic revenue of households is concerned. The opportunity to obtain income from sources other than work is not equally spread across groups, with the nonresident poor having the fewest opportunities. On average, from the other sources of income the nonresident poor obtain less than the resident poor and, of course, less than the nonpoor, and there are gender differences as well, given that households with a male head have more additional income than those with a female head.

Overall, total monthly consumption shows very relevant disparities across groups (see Table 1.2). Then, apart from the differ-

ences between the poor and nonpoor, relevant differences also occur *within* the poor in terms of total income: the nonresident poor and, within this group, households with a female head, suffer greater deprivation. The difference in income between the poor and the nonpoor is enhanced when the family size of each group (see Table 1.8) is taken into account.

The differences in total income across groups—between poor and nonpoor as well as *within* the poor—are somehow complemented by the differences in the consumption pattern of the different groups: overall, as expected, the nonpoor own more commodities than the poor. *Within* the poor, residents have more commodities than nonresidents (except for those related to transport).²² Among the set of commodities included in the questionnaire (electric irons, televisions, radios, sewing machines, gas/electric stoves, bicycles, motorcycles, cars or trucks, carts, mobile phones, video players, DVD players, and personal computers) the only commodities that are more widespread among the nonresident poor are carts. The greatest differences arise for commodities with more marked technological features, such as mobile phones, DVD players, video players, and computers.

The satisfaction of food needs differs across groups, not only between the nonpoor and poor but also *within* the poor, since the nonresident poor are less able to satisfy these

²² A greater percentage of the nonresident poor than the resident poor own a sewing machine, which may also have economic uses.

needs. The composition of expenditure shows some differences across groups although it is difficult to identify a well-defined pattern. The share of total income (monthly earnings plus additional sources of income) allocated to rent, public utilities, and food is higher for the nonresident poor and the resident poor than for the nonpoor, although—as mentioned earlier—the satisfaction of food needs differs among groups. Moreover, the nonresident poor allocate twice as many resources to transport and education compared to the resident poor.

It is interesting to point out that different perceptions exist among groups about the evolution of their economic condition in the previous year; notwithstanding the overall worse deprivation suffered by the nonresident poor, they have a more positive evaluation of their

condition than the nonpoor and a slightly more positive evaluation than the resident poor.

Interesting differences arise among groups when the perception of the overall economic situation of the neighborhood is taken into account; these differences mainly depend on their *location* and also relate to their economic status. Overall, the greatest problems seem to refer to the downtown area, affecting the nonpoor more than the resident poor. Gender differences occur in the sense that the nonresident poor households with a female head tend to have less optimistic perceptions than those with a male head.

Therefore, apart from the expected difference between poor and nonpoor, overall, a *spatial* dimension of poverty appears to emerge. Differences exist within the *poor*, between nonresidents and residents, with a less vulnerable

TABLE 1.2 Consumption

	Nonresident poor	Resident nonpoor	Resident poor
Allocation of total income			
Rent	6.83%	4.82%	6.95%
Food	28.04%	20.87%	21.88%
Transport	13.96%	7.39%	5.92%
Public utilities (energy, gas, water)	8.72%	6.96%	8.48%
Clothes	6.43%	5.94%	4.25%
Health care	2.08%	2.65%	2.82%
Education	11.16%	6.18%	7.59%
Other	3.06%	4.39%	5.47%
Problems in satisfying food needs			
Never	29.19%	57.20%	33.33%
Seldom	47.57%	36.36%	51.11%
Often	12.43%	5.68%	12.22%
Always	8.65%	0.76%	3.33%

Source: Author's elaboration based on survey data.

status for the resident poor than for the non-resident poor at the individual as well as at the household level. Nonresidents are mainly self-employed in the informal sector, with lower average per capita earnings. Nonresident poor households have a lower total income, own fewer commodities, and are less successful in satisfying food needs. In addition, the nonresident poor need to allocate a greater share of income to transport and education, as well as a greater share of time in accessing their workplaces and basic services.

1.2.3 Survey Results

Education and Health

The data based on the questionnaire show that services such as education and health

do not exhibit major problems and cannot be considered to be a cause of absolute deprivation, although disparities exist across groups. As far as compulsory education is concerned, most people between the ages of 5 and 14 attend school, with percentages of attendance at well above 90 percent (see Table 1.3). No major differences exist among the groups with regard to school participation. As expected, overall lower participation rates occur for those between the ages of 15 and 24, but it is worth noting that nonpoor residents exhibit the lowest participation rate.

When the *level of education* is examined, however, major differences are evident between the nonpoor and poor as well as *within* the latter group. Overall, the poor are less educated than the nonpoor. Moreover, females are less educated than males. The government is

TABLE 1.3 School Participation and Provision

	Nonresident poor	Resident nonpoor	Resident poor
School participation (5–14 years old)	92.36%	94.55%	95.52%
School participation (15–24 years old)	45.96%	27.23%	31.25%
Education provider (5–24 years old)			
Government	83.40%	47.53%	54.76%
Church	0.40%	0.62%	0.00%
Private organizations	6.32%	45.06%	25.00%
Private nonprofit organizations	0.40%	3.70%	7.14%
Community	0.00%	0.00%	1.19%
Problems in using education (15–24 years old)			
No problem	73.91%	80.25%	79.76%
Lack of books and supplies	9.88%	7.41%	10.71%
Poor teaching	5.14%	6.79%	0.00%
Lack of teachers	2.37%	0.00%	1.19%
Facilities in bad condition	2.77%	1.23%	1.19%
Other problems	2.77%	0.62%	1.19%

Source: Author's elaboration based on survey data.

the main provider of education resources. Private for-profit organizations are the second most important providers of such resources (mainly to the nonpoor), while other providers (churches and nonprofit and community organizations) play insignificant roles. Marked differences occur among groups, according to poverty/nonpoverty status as well as location. For example, the nonresident poor rely far more than other groups on public schools. A possible explanation for this difference—all other things equal—is that the nonresident poor are less able than the resident poor to afford the costs of private education.

On the whole, the quality of education seems to be satisfactory, since a majority of those who attend school do not experience problems, although the nonresident poor

tend to experience more problems than other groups. However, greater disparity occurs with respect to accessibility.

In summary, a tentative conclusion is that on the whole the poor are less educated than the nonpoor, although they do not suffer serious deprivation compared to the nonpoor. At the same time, differences arise within the broad category of the poor, with the nonresident poor showing a higher level of deprivation. As far as health is concerned, no major issues with sickness or injuries are evident, and at the same time, no relevant differences in the health status characterize the three groups (see Table 1.4).

The answers do not allow for a clear understanding of the overall causes of sickness or injury, since a relevant share of respondents

TABLE 1.4 Health Status

	Nonresident poor	Resident nonpoor	Resident poor
Respondents who were sick or injured in the six months prior to the survey	26.27%	28.42%	24.75%
Number of weeks out of work due to sickness or injury			
None	30.66%	43.56%	46.53%
One or less	16.98%	12.12%	7.92%
Between one and two weeks	6.13%	4.92%	4.95%
More than two weeks	12.26%	6.44%	8.91%
Kind of sickness or injury suffered			
Fever/Malaria	3.30%	13.64%	5.94%
Diarrhea	1.42%	2.27%	3.96%
Accident	5.19%	6.82%	4.95%
Dental	10.85%	9.09%	2.97%
Skin condition	2.83%	0.00%	2.97%
Eye	5.66%	4.17%	4.95%
Ear, nose, or throat	32.55%	33.71%	16.83%
Other	33.49%	33.71%	44.55%

Source: Author's elaboration based on survey data.

indicated that “other causes” aside from those listed in the questionnaire (malaria, diarrhea, ear, nose or throat, teeth, skin, eye, accident) were relevant. However, it is worth noting that overall no systematic differences across groups seem to emerge.

Marked differences among groups arise with respect to health status, measured in terms of the numbers of days of work missed due to illness or injury. These differences mainly depend on the spatial dimension of poverty, since the nonresident poor exhibit a

worse health status than the resident poor and nonpoor. However, these differences might be representative not only of differences in health status, but also of differences in employment among groups.

As demonstrated in Table 1.5, most of the respondents who were injured in the six months prior to the survey used health care services, while it is worth noting that a relevant share of the nonresident poor did not use any, despite exhibiting a worse health status (as has been outlined above). Some of

TABLE 1.5 Health Care Provision for Sickness and Injury

	Nonresident poor	Resident nonpoor	Resident poor
Where respondents sought health care services			
Private/nonprofit clinic/hospital	9.43%	9.47%	13.86%
Public clinic/hospital	22.64%	26.14%	28.71%
Community health center	13.68%	9.85%	10.89%
Private doctor/dentist	5.19%	9.47%	6.93%
Pharmacy/chemist	7.08%	20.45%	15.84%
Traditional healer	0.94%	1.14%	0.00%
Other	2.36%	3.03%	1.98%
Did not seek health care services	24.53%	11.74%	6.93%
Reasons for not receiving treatment			
No need	26.92%	45.16%	14.29%
Too expensive	38.46%	25.81%	42.86%
Too far	7.69%	3.23%	0.00%
Other	21.15%	3.23%	42.86%
Problems while waiting/receiving attention			
No problem	38.13%	48.93%	65.96%
Facilities were not clean	0.63%	2.58%	0.00%
Long waiting time	23.13%	18.03%	10.64%
No trained professionals	10.00%	7.30%	1.06%
Too expensive	12.50%	7.73%	3.19%
No drugs available	2.50%	0.00%	0.00%
Treatment unsuccessful	5.63%	0.86%	1.06%
Other	1.88%	2.58%	0.00%

Source: Author's elaboration based on survey data.

the respondents who did not use health care services explained that cost was the reason; while others felt they did not need the services. For the nonresident poor, distance was the main reason for not seeking health care services.

Of those respondents who sought care, the highest percentage across all groups chose public clinics or hospitals as their providers. Slight differences among the groups in choice of provider can be noted in the sense that the nonresident poor relied more than others on community health centers and less on private providers. The most relevant difference among groups can be seen in the use of the pharmacy, which was more common among residents, both poor and nonpoor, than among the nonresident poor.

However, differences are more marked regarding the quality of health care services experienced by different groups. Overall, all groups expressed that they had problems. The nonresident poor experienced more deficiencies and mainly complained about long waiting times, the cost, and the unsatisfactory training of professionals. The other problems listed in the questionnaire (e.g., unsuccessful treatment, no drugs available) are perceived as negligible, but are still more relevant for the nonresident poor than for residents, both poor and nonpoor.

Therefore, in terms of health status, there are differences related to the spatial dimension of poverty as the nonresident poor suffer a form of deprivation in terms of a worse health status, enhanced by a lower use of health care services and additional problems.

Transport

The relevance of the spatial dimension of downtown poverty and its effects on deprivation are confirmed when the accessibility of different services and facilities is taken into account, the major effect being that the nonresident poor are also “time poor.” The nonresident poor, in fact, spend more time than residents reaching essential services such as school, health care services, and work. Moreover, facilities such as food markets are less accessible to them. The *spatial* dimension also affects the means used to access services and work (see Table 1.6).

Public buses are the main means of transport, mainly by the nonresident poor, with relevant economic effects on their budgets. Residents, both poor and nonpoor, mainly walk to reach school and health care providers, due to the manageable distance, and the nonresident poor also tend to walk, despite the distance, because of the cost of public transport.

Employment

The level of participation in the labor market of the population between the ages of 15 and 65 is not high and some differences among groups are evident, mainly *within* the poor (see Table 1.7); in this group the nonresident poor show the lowest participation rate. The different number of nonrespondents across the groups would suggest caution in drawing conclusions. Moreover, it is worth noting that the phenomenon of child labor exists in both

TABLE 1.6 Transportation

	Nonresident poor	Resident nonpoor	Resident poor
Means of transportation used to reach school			
Walking	53.75%	52.47%	64.29%
School bus	24.11%	21.60%	17.86%
Public bus	12.65%	8.64%	9.52%
Train	0.00%	1.23%	0.00%
Another privately supplied mean of transportation	1.98%	11.11%	3.57%
Another personal mean of transportation	0.94%	1.14%	0.00%
Means of transportation used to reach health care provider			
Walking	32.50%	33.05%	25.53%
Public bus	44.38%	56.65%	44.68%
Train	2.50%	3.00%	1.06%
Another privately supplied mean of transportation	0.00%	1.29%	0.00%
Means of transportation used to reach work			
Walking	19.43%	34.29%	24.86%
Public bus	67.83%	48.10%	48.55%
Train	0.64%	0.00%	0.00%
Another privately supplied mean of transportation	1.27%	6.67%	3.47%
Another personal mean of transportation	1.27%	1.90%	0.00%

Source: Author's elaboration based on survey data.

the nonresident poor and the resident poor groups. In this regard, even though the percentages of the nonresident poor and the resident poor between the ages of 5 and 14 who work are low, a condition of deprivation affecting poor groups, nonetheless, is present.²³

Indeed, the percentage of people who were both unemployed and not actively seeking work in the six months prior to the survey was quite high, and therefore the reasons put forward by the respondents were somewhat unexpected. According to the respondents, the lack of a job was not the major reason for not being at work; in fact, being a student was the most relevant explanation offered by the poor

as well as the nonpoor, with the second reason in order of importance being household/family duties.

Most of the respondents who had a job did work continuously in the six months prior to the survey, although the nonresident poor show a higher degree of instability than the other groups.²⁴ On the other hand, among those who worked, the nonresident poor seem

²³ In this age group, 4.05 percent of the nonresident poor children work and 4.92 percent of the resident poor children work. Such a percentage is zero for the nonpoor children in this age group.

²⁴ The main reasons put forward by the nonresident poor for not working continuously was the lack of job opportunities.

TABLE 1.7 Occupation

	Nonresident poor	Resident nonpoor	Resident poor
Participation in the labor market in the six months prior to the survey	53.68%	58.66%	61.57%
Continuity of occupation in the six months prior to the survey	80.89%	90.71%	86.13%
Number of hours worked per week			
Less than 10 hours	7.96%	14.29%	14.45%
10–20 hours	9.87%	17.38%	21.39%
20–30 hours	10.83%	16.19%	10.98%
More than 30 hours	60.51%	45.00%	34.68%
Average monthly earnings (Bolivian Pesos)	845	2,070	1,311
Occupation			
Housewife	14.33%	15.95%	13.29%
Retiree	0.64%	2.14%	0.58%
Self-employed formally	18.47%	19.05%	16.18%
Self-employed informally	41.08%	16.19%	15.03%
Formally employed	10.51%	26.90%	22.54%
Informally employed	4.78%	5.48%	10.98%

Source: Author's elaboration based on survey data.

to have worked more than the others: more than half of the nonresident poor worked more than 30 hours per week. From this survey, it is possible to conclude that nonresident females tend to work more than nonresident poor males. The greater effort of the nonresident poor, however, does not necessarily imply higher earnings for this group; major disparities occur among groups, and again, the nonresident poor are at a relatively greater disadvantage.

The different degree of instability of work is somehow related to the specific features of the job carried out by members of the various groups, the nature of their employers, and the economic sector they work for. Though caution should be used in com-

paring the figures, because nonrespondents vary across groups, there are some differences worth noting. Such differences are mainly related to location, without major gender differences. Nonresidents are mainly self-employed, namely in the informal sector, but also in the formal sector; however, the resident poor do not clearly follow this pattern, since they work almost equally as employees (mainly in the formal sector) and as self-employed. A similar pattern holds for the nonpoor. These figures seem to show the greater vulnerability suffered by the nonresidents *within* the poor group generated by the informality of their positions.

Given the above features, it follows that the nonresident poor mainly work for family

businesses, while the resident poor and non-poor are employed both in the private and in the public sectors and also work for family businesses. Along with the above differences, there are also some gender differences: *ceteris paribus*, within each group, more males than females work as employees for the government or the private sector, while more females work for family businesses.

In line with the economic features of the city, commercial activities are the most widespread across all the groups, but with different weights according to location. For the nonresident poor, this is their main activity, followed by work in “other services” and in the transport sector. However, residents, both nonpoor and poor, apart from working in the commercial sector, are also involved in “other services,” administration, health, and education (these two latter activities are mainly carried out by the nonpoor).

Housing

A relevant source of vulnerability and deprivation is living in informal settlements, with inadequate access to basic services. This does not seem to be the case for the downtown poor, since informal arrangements seem to play a marginal role, while some differences exist across groups as far as the ownership of dwellings is concerned.²⁵ Ownership is more widespread for the nonpoor, and *within* the poor, a larger share of nonresidents than residents own dwellings (see Table 1.8). In this regard, a tentative explanation for the difference between the nonresident poor and the resident poor in terms of their housing situ-

²⁵ Often informal arrangements occur when people occupy a dwelling and pay rent, but without a lease or contract, especially because the places they inhabit are underserved or would be considered inappropriate by government standards.

TABLE 1.8 Housing

	Nonresident poor	Resident nonpoor	Resident poor
Legal status of dwellings			
Ownership	48.11%	51.89%	42.22%
Rent	36.76%	32.95%	30.00%
Informal arrangements	9.73%	8.33%	11.11%
Other	3.24%	4.55%	11.11%
Size and occupancy			
Number of rooms	3.75	4.92	3.544
Number of beds	3.77	4.19	2.767
Family size			
Average number of members	4.41	3.52	4.53
Other uses			
Purposes other than living	16.76%	19.70%	30.00%

Source: Author's elaboration based on survey data.

ations, which is not supported by other indicators of the overall economic situation of the two groups, is that the downtown real estate market features are such that ownership is not affordable for the poor. Gender differences arise since, for all groups, ownership is less widespread when the household has a female head.

The average size of dwellings—as measured by the number of rooms—is almost similar *within* the poor group, being larger for the nonpoor with some gender differences (e.g., being smaller when the head of the nonresident poor and the resident poor household is female).

Dwellings are provided with basic services. On average more than 90 percent of dwellings have electricity and piped drinking water, while sewage and gas for cooking are slightly less widespread. No major differences exist among groups, although the nonresident

poor seem to be slightly disadvantaged in this respect.

Problems of Downtown Poverty

Earlier it was described how downtown La Paz is affected by a daily large inflow of people who come to the area to work and study, thus creating congestion. The data confirms that the main problem faced by residents living downtown is related to the overcrowded conditions of the area. Looking at the data in Table 1.9, it is evident that a large majority of the residents view pollution and traffic as major challenges for living downtown. Other challenges are those that, at least potentially, can be related to the activities of poor people, such as begging and street vending, and—to a minor degree—theft and vandalism. There is not much difference in the answers related to the different socioeconomic status of the respondents.

TABLE 1.9 Challenges Experienced by Residents

Challenges	Resident nonpoor	Resident poor
Conflict with building owner	19.01%	30.00%
Conflict with other residents	31.18%	30.00%
Expensive rent	24.71%	41.11%
High cost of staple goods	44.11%	51.11%
Pollution	71.10%	76.67%
Traffic	73.00%	72.22%
Poor building condition	38.78%	43.33%
Theft	71.48%	80.00%
Vandalism	66.54%	74.44%
Extortion	38.40%	35.56%
Begging	61.22%	51.11%
Street vending	61.98%	55.56%
Other	11.79%	13.33%

Source: Author's elaboration based on survey data.

To widen the perspective and understanding of the problems of downtown poverty, 60 firms were also surveyed. Table 1.10 depicts the main characteristics of firms in the sample. They are, on average, relatively small firms, in line with the average size of the firms in the city, and all of them have been located for a moderate amount of time in the downtown area. Table 1.11 points out the overall issues faced by firms in conducting business in the downtown areas and the percentage of these firms who felt each issue was a challenge (either major or minor).

Table 1.11 indicates that a significant majority of the firms in the downtown area cite shoplifting and theft as significant prob-

TABLE 1.10 Characteristics of Businesses Activities

Nature of business	
Restaurant	8.33%
Retail	40.00%
Service	28.33%
Handicraft	16.67%
Other	6.67%
Average number of employees	3.51%
Average size of the store (sq. meters)	53.32
Years in business	
Under a year	13.33%
1–5 years	33.33%
6–10 years	30.00%
11–20 years	13.33%
Over 20 years	8.33%
Ownership of the store	
Owners	45.00%
Tenants	53.33%
Tenants, interested in purchasing	—
Average permanence in current location (years)	9.10

Source: Author's elaboration based on survey data.

TABLE 1.11 Challenges Experienced by Businesses

Challenges	
Shoplifting or theft	78.33%
In-town competition	71.67%
Begging	71.67%
Street vending	70.00%
Vandalism	65.00%
Unskilled workers	60.00%
Expensive shipping or transportation	56.67%
Traffic congestion	56.67%
Insufficient parking	55.00%
Insufficient financing	51.67%
Extortion	51.67%
Out-of-town competition	50.00%
Poor building condition	50.00%
Expensive employee wages or benefits	38.33%
Expensive rent	38.33%
Restrictive business regulations	33.33%
Difficulty recruiting or retaining employees	30.00%
Expensive or unavailable utilities	30.00%
Conflict with owner or tenant	26.27%
Other	5.00%

Source: Author's elaboration based on survey data.

lems in doing business, immediately followed by begging, in-town competition, and street vending. Vandalism, unskilled workers, traffic congestion, shipping and transportation costs, insufficient parking, extortion, and insufficient financing are also rated as significant problems by a percentage of firms (ranging from 52 to 65 percent). Even if there are some differences between residents and firms related—for instance—to begging and street vending, which are greater issues for firms, there is also quite a wide convergence in terms of indicating the same problems. It means that the negative externalities potentially created by the downtown development are not only rep-

representative of a nuisance for nonpoor people, but of potential conflicts occurring in the society as a whole. Table 1.12 summarizes the main characteristics of the street activities of those interviewed in the survey.

TABLE 1.12 Characteristics of Street Activities

Nature of street activities	
Food	26.49%
Textiles	19.46%
Handicrafts	16.76%
Water	1.08%
Services	3.78%
Other	30.27%
Percent of activities carried out in a formal way	73.51%
Duration of activity	
Under a year	10.81%
1–5 years	29.19%
6–10 years	15.14%
11–20 years	25.41%
Over 20 years	14.59%
Percent of activities with fixed location	71.89%
Average permanence in current location (years)	11.8

Source: Author's elaboration based on survey data.

Their activities appear to be relatively stable since most of the street vendors expressed that they were carrying out their activity in a formal way, having been at their current location for an average of 12.8 years, which is fixed for about 72 percent of them. However, as for the main challenges (either major or minor) faced by the nonresident poor, the data in Table 1.13 show that the most relevant problem is theft, followed by pollution, vandalism, traffic, and begging. Interestingly enough, 55 percent of the re-

TABLE 1.13 Challenges Experienced by the Nonresident Poor

Challenges	
Conflict with other street vendors	55.14%
Pollution	68.11%
Traffic	65.41%
Theft	78.38%
Vandalism	66.49%
Extortion	47.03%
Begging	59.46%
Street vending	56.22%
Others	14.59%

Source: Author's elaboration based on survey data.

spondents considered street vending itself a problem, revealing the existence of conflicts within this group. This is confirmed by the reply to Question H.10 in the questionnaire, which asks how respondents perceive the existence of conflict with other groups and institutions: 41 percent replied that they felt the existence of conflicts with street vendors, either very much or somewhat.²⁶ However, only 28 percent of the respondents perceived the existence of conflicts with residents and 23 percent perceived the conflict with shopkeepers. It may be an indication that even if residents and shopkeepers consider street vending as one of the problems faced in the downtown area, the conflict is not very explicit or strong. Of course, the conflict perceived by a large majority (56 percent) of the nonresident poor is the one with the municipal authorities, which is presumably related

²⁶ Question H10: Do you perceive the existence of conflicts with residents, shopkeepers, street vendors, police, municipal authorities, others?

to the implementation of the regulations of their activities.

The interviews conducted with decision makers and opinion leaders in La Paz show views of the problems faced in the downtown area, which are in line with the concerns of residents and shopkeepers.

There is wide agreement that the problem of downtown poverty is hardly residential. On the contrary, it is mainly attributable to the daily inflows of the poor (or marginally poor), such as beggars and street vendors from the urban settlements near La Paz (El Alto, in particular). The most relevant issues related to downtown poverty, which emerged in the interviews, are health and economic development, followed by public order and then social integration. Moreover, it is also acknowledged that the concentration of schools, universities, public and private (business) offices, and political and financial institutions create problems such as traffic congestion and pollution.

Impact on Welfare

Even if some problems characterizing the downtown environment are widely recognized as such, on one hand they do not seem to significantly affect the welfare of residents, since only slightly less than 8 percent of residents expressed dissatisfaction with their current location (in fact, only one of the respondents said that he/she was very unsatisfied), with more or less the same proportion being maintained in the two groups of poor and nonpoor. In addition, only one of the firms in the survey reported being dissatisfied with the location

of its business downtown.²⁷ Conversely, about 22 percent of the nonresident poor respondents expressed being dissatisfied or very dissatisfied. Such disparity may be considered as an implication of the greater vulnerability of these people and, consequently, of the possibility of suffering more when facing the same problems as other socially and economically “stronger” groups.

On the other hand, when investigating whether people want to move from their current location, as a further indication of the severity of problems faced when living and doing business downtown, the situation for the residents appears serious. About one-third of the residents in the survey replied that they planned to move from their homes, a figure which contrasts with the share of residents expressing being dissatisfied or very dissatisfied with the current location of their homes. Moreover, among those who were planning to move, slightly less than 18 percent reported being dissatisfied or very dissatisfied, a percentage higher than the one for the overall group, but still a minority. The reason for this apparent discrepancy can be twofold. First of all, not all respondents who planned to move would necessarily have abandoned the downtown area. Regarding the location where people would have liked to move, the majority simply preferred to stay downtown, moving to another location with better services. Second, it is probably the case that, notwithstanding the

²⁷ It must be noted, however, that 20 percent of the respondents express a neutral judgment on the current location of their business activity.

TABLE 1.14 Respondents that Plan to Move from Current Location (*Home, Business, Street Activity*)

	Nonresident poor	Resident nonpoor	Resident poor	Firms
Plan to move from current location	26.49%	31.56%	42.22%	1.67%
Plan to move to another location downtown with better services (% of those who plan to move)	67.35%	52.63%	52.63%	N/A
Plan to move to another location outside downtown (% of those who plan to move)	18.37%	36.84%	36.14%	N/A

Source: Author's elaboration based on survey data.

feeling of satisfaction with their residences, there are people that are adversely affected by other factors that induce them to move. It is therefore interesting to investigate whether the behavior of those planning to move varies between the two groups, since this may be an indication of different abilities to deal with living conditions downtown, which changes based on different socioeconomic conditions. Table 1.14 shows that the behavior does indeed vary, as the share of residents who wanted to change location is higher in the poor versus the nonpoor group.

Considering the ranking of the various problems listed in Question I.4 for the two groups of poor respondents and the nonpoor respondents who wished to change their location, it is possible to observe that, for the nonpoor, the ranking of the problems—on the basis of the share of those indicating that a problem is either a major or a minor challenge for living downtown—did not change very much when compared to the one for the overall sample of residents (pollution, traffic, theft, vandalism, begging and street vending).²⁸ For the poor who wanted to change residences, the cost of renting a house was, however, one of the main limitations: 55 percent of them regarded the

cost as a major/minor problem. Therefore, this may be an indication that the relative economic vulnerability of poor with respect to other residents figures in the decision to change residence. The consequence, in terms of policy, is that programs aimed at the revitalization of downtown, when increasing the value of housing, may have a negative impact on the living conditions of some residents in that they would be pushed out of their houses. However, as pointed out above, even if the economic conditions of the resident poor factor in their decision to move, it does not imply that they will leave downtown. In fact, the share of poor people who wished to move outside downtown was about the same as the one for the nonpoor: around 36 percent. A large majority (60 percent) of the resident poor who planned to leave downtown perceived the poor conditions of their building to be a significant problem. This may be an indication that some areas within downtown are marginalized; that is they suffer from a lack of investment in the

²⁸ Question I.4: Please rate the degree to which you are experiencing the following challenges for living downtown: conflict with building owner, expensive rent, expensive staple goods, pollution, traffic, poor building condition, theft, vandalism, extortion, begging, street vending, other.

restoration of buildings, which thus induces people to leave.

As for businesses, only one respondent expressed plans to move from downtown. The implication is that, even if there are problems in conducting business downtown, they are not significant enough for the firms located there to close their businesses or to induce them to move from their current locations. However, even if there have been problems in the recent past, they have not been so dramatic to induce the change of location of the downtown surveyed firms, nor overall significant enough to have negatively impacted the size of their business. Table 1.15 summarizes the answers relative to the change in the size of business in the two years prior to the survey and to the investment plans for the future.

Only 8.3 percent of the respondents said that business had decreased for their firm in the two years prior to the survey, while the majority declared an increase in business. The firms that experienced a decrease in business were, on average, smaller than the others (2.4 employees, on average, compared to 4 in firms that declared an increase in business), had been at their current location longer (an average of 19.2 years versus 7.9 years for the newer firms), and were owners of their buildings (80 percent compared to 28 percent of those who had an increase in business). It seems, then, that the firms that suffer some economic problems are the less dynamic ones, due to their age and size. In a sense, this impression seems to be confirmed by how the different firms perceive the main reasons for the variation in the extent of their business

TABLE 1.15 Economic Situations of Firms in the Downtown Area

Firms which experienced a decrease in business	8.33%
Firms which experienced an increase in business	53.33%
Firms for which business remain the same	36.67%
Firms planning expansion downtown	43.33%
Firms planning expansion outside downtown	11.67%
Firms planning a reduction downtown	1.67%
Firms not planning any changes	36.67%

Source: Author's elaboration based on survey data.

in the recent past. There is a substantial difference in the evaluation of the different factors proposed in Question J.9 between those who experienced a reduction in business and those who experienced an increase.²⁹ In the case of the former, the main cause of variation was attributed to the decline in the downtown business environment (60 percent), immediately followed by a decline in local/national economy (40 percent); for the latter, the most important factors in their positive change was related to their capacity to improve customer services (84 percent), management (72 percent), and marketing efforts (66 percent). Therefore, some of the problems that may arise from downtown poverty and from the general environment in this part of the city are felt strongly by less dynamic firms. Overall, however, the existence of these problems are not significant enough so as to cause serious economic difficulties for firms located downtown, as is shown by the limited number of those suffering a reduction in business. This

²⁹ Question J.9: For what reasons has your business increased in the last two years?

result is further confirmed by the firms' plans for future investments: more than half of the sampled firms were interested in making further investments, and most of them were planning to make such investments downtown.

Finally, about 26 percent of the nonresident poor planned to move, a figure consistent with the share of this group that expresses some degree of dissatisfaction with their current location. Those who wanted to move outside downtown represent 28 percent of the group who were planning to change the location of their street activity.

In summary, on the basis of the data from the survey, it is possible to say that people living and working in downtown La Paz perceive some of the typical problems and conflicts related to its development. The impact of these problems appears to be greater for those people who are economically and socially vulnerable—the resident poor and the nonresident poor—while businesses do not appear to be significantly affected.

2. QUITO

2.1. City Overview

2.1.1 Summary of the History and Population Dynamics

At the beginning of the nineteenth century, during the Bolivarian revolution, Quito was a town of 10,000 inhabitants. It became the capital of the newly established Republic of Ecuador in 1830. Quito is located in the Guayl-

labamba river basin at 2,850 meters above sea level and is surrounded by several volcanoes. The closest one, the Guagua Pichincha, occasionally shows some eruptive activity leading to the deposit of ashes that has caused problems for the local economy, especially when it has forced the temporary closure of the airport.

With an area of about 290 square kilometers, Quito had a population of 1,399,378 in 2001 (INEC, 2001). In the late 1970s, it experienced significant immigration, while the rate of population growth later decreased. It went from 4.34 percent in 1982 (MDMQ, 2006) to 2.71 percent between 1990 and 2001 (80 percent of which was due to natural population increase and 20 percent because of a positive migration balance). In 2001, Quito was the destination of 13 percent of all migrants in the country (World Bank, 2004). The territorial structure of Quito shows a radial form of urban expansion starting from the center. The historic center of Quito (*Centro Histórico de Quito*, CHQ) was declared a World Cultural Heritage Site by UNESCO in 1978, and is one of the largest and most important in Latin America. It consists of 4,200 buildings located in an area of 376 hectares (230 hectares are open spaces).

2.1.2 Institutional Framework

Ecuador is divided into 22 provinces (*provincias*). Each province, governed by the prefect, is subdivided into nine cantons. Quito is the administrative capital of the province of Pichincha. The municipal decree (*ordenanza*

municipal) of December 14, 2000 established the territorial regulation of the Metropolitan District of Quito (*Municipio del Distrito Metropolitano de Quito*, MDMQ), organized into nine metropolitan zones and two delegations (together, they are called *Administración Zonales*) and constituted by 32 urban and 33 rural parishes (*parroquias*) (see Table 2.1).³⁰ The historical center parish belongs to the district Manuelita Sáenz (M. Sáenz).

A large portion of the municipality's revenue is raised locally. From 2000 to 2005, central government transfers made up 40 percent of the income of the municipality. Political and administrative decision making is rather decentralized, even within the municipal stage. The municipalities have a substantial autonomy in the definition of the policies and allocation of funds. For example, IDB loans are often made directly to the MDMQ, while the state assumes the role of guarantor of the repayment of the debt. In some cases, the municipality is also the executing agency, although the programs related to the historical downtown of Quito are generally executed by the *Empresa de Desarrollo del Centro Histórico* (ECH), the agency ad hoc constituted for this function.³¹

Decentralization goes deeper than the municipal level, since the parish councils (*juntas parroquiales*) also participate in autonomous ways in the definition of policies and allocation of municipal funds. The participatory system includes also the neighborhoods (*barrios*). On the one hand, such participation improves the information available for the decision making, allowing the

community to express its priorities. It also reinforces the degree of control of the implementation and evaluation of the projects, thus deterring corruption. On the other hand, broad participation may cause coordination problems, overload the bureaucratic system, and create a cumbersome system of overlapping permissions.

2.1.3 *Economy and Sociodemographics*

To interpret the socioeconomic characteristics of Quito and the phenomenon of downtown poverty, it is useful to take into account that the current situation is mainly due to the economic turbulence that the country experienced in recent decades and, in particular, to the economic crisis at the end of the twentieth century. Beginning in the 1980s, Ecuador's economy suffered from a slow growth rate, to be ascribed mainly to the stagnant productivity growth and GDP volatility due to the vulnerable domestic economy and poor economic policy (World Bank, 2004). While in the 1971–1980 period the annual rate of growth of real GDP was 5.65, in per capita terms in the following decade, the rate decreased to –0.47 percent. Furthermore, the

³⁰ Quito is also the seat of the canton (*cabecera cantonal*), equivalent to DMQ. The total population is 1,839,853 if the suburbs of Quito are included.

³¹ The ECH is "a unique autonomous agency that was created in 1994 with the goal of preserving the historic center's unique architectural and cultural legacies and stimulating the area's socio-economic development." (IDB, 2004).

TABLE 2.1 Metropolitan District of Quito

Metropolitan zones	Area (KM ²)	Population 2001	Population growth rate 1990–2001 (%)
Metropolitan District of Quito	404,346.3	1,826,096	2.71
1. Quitumbe	4,931.5	190,535	10.02
2. Eloy Alfaro (Centro-Sur)	58,011.3	411,767	1.31
3. Manuelita Sáenz (Centro)	2,253.5	224,014	–0.005
4. Eugenio Espejo (Centro-Norte)	7089.3	368,298	0.98
5. Equinoccial-Delicia	57,861.5	263,873	4.42
6. Calderón	10,751.1	90,983	7.59
7. Tumbaco	8,758.5	59,576	4.79
8. Los Chillos	59,522.7	116,558	4.23
9. Aeropuerto	62,225.2	71,792	5.56
10. Delegación Noroccidental	84,476.1	11,975	0.14
11. Delegación Norcentral	48,465.6	16,725	–0.01

Source: Author's elaboration based on survey data.

last decade of the century was characterized by zero growth (0.01 percent; see World Bank, 2004). The main crisis took place between 1998 and 1999, and was triggered by the simultaneous occurrence of a number of unfortunate events, such as the natural disaster of El Niño and the decline in oil export prices. The situation was further aggravated by inadequate macroeconomic policies proposed by the authorities; as often happens in Latin America, these policies led as to a loss of credibility, fiscal deficits, devaluation, and hyperinflation (with an annual rate above 50 percent) outflows of foreign capital, and ultimately severe banking problems and the default on external debt. The dollarization of the economy was then introduced as an extreme remedy to attract foreign investments. In spite of the protests and the impact on employment in the short run, the adoption of the U.S. dollar as a domestic currency helped to

keep inflation under control and strengthen credibility with a positive impact on foreign investments.³²

The measures immediately showed some positive results and GDP grew by almost 2 percent in 2000.³³ Nonetheless, the damage was considerable. In that year, 70 percent of the population was below the poverty line, one of the results of the 1998–99 crisis.

Clearly, the crisis implied a substantial redistribution in the economy of Ecuador.

³² The U.S. dollar is still Ecuador's official currency.

³³ Per capita GDP grew by 2.4 percent annually in the 2001–2002 period. The actual speed of recovery is somewhat slower than expected, especially considering the benefits from the oil price increase. Several different reasons have been offered to explain the weak performance of the Ecuadorian economy, such as the fixed exchange rate, the inefficient public sector, the lack of institutional and bureaucratic reforms, widespread corruption, and the obsolescence of the productive system (MDQM, 2004).

The price of tradable goods with respect to nontradable goods declined. Because of the different consumption patterns, the non-poor benefitted more than the poor by the decline in prices. The cost of the consumption basket decreased by 19 percent for the former and by 2 percent for the latter (World Bank, 2004). The poverty rate in the country went from 40 percent in 1990 to 45 percent in 2001. The increase was particularly severe in urban areas for several reasons. First the crisis encouraged rural-to-urban migration, especially of poor people, thus intensifying poverty in urban areas. Second, these flows caused a boost in the supply of labor in urban areas with a negative impact on the marginal return.

An additional obstacle to the solution of the poverty problem is the relatively poor performance of the country both in health and education. This is possibly due to the volatility of social expenditures, which tend to be procyclical, and furthermore have shown a declining trend: in 2002, they were lower than in 1980 (World Bank, 2004). Nonetheless, the illiteracy rate in the country fell, although marginally, in the 1990s from 11.7 percent in 1990 to 10.8 percent in 1999. In a similar fashion, during that period, the infant mortality rate decreased from 30 percent to 18 percent per thousand births and the population mortality went from 5 percent to 4.5 percent.

On the basis of the consumption aggregate, in 2001 about 19 percent of the population in Quito was below the poverty line.³⁴ This value is sensibly lower than the Pichincha province average (30 percent), the national

average (45 percent), the level in rural areas (58 percent in the Costa region and 66 percent in the Sierra region), and the average of the country's other principal city, Guayaquil (34 percent) (World Bank, 2004).³⁵ It is, however, striking to note that the number of poor in Quito increased by 125.8 percent in the period 1990–2001 (World Bank, 2004). This percentage is higher than the city's population growth rate for the same period.³⁶

2.1.4 *Downtown*

Quito's downtown area is highly complex and fragile—one that is a monumental center of outstanding quality combined with poor degraded neighborhoods. This peculiarity makes the historic center a true “people's heritage” (Carrión, 2003). The population of the historic center is estimated at about 50,000 inhabitants (INEC, 2001). The density, which is not uniform, is 2.7 times higher in the peripheral zones than in the central one.

³⁴ Setting the poverty line at a level of consumption equivalent to US\$1.3 per capita per day.

³⁵ On the other hand, consumption inequality was higher in Quito than in Guayaquil and rural regions.

³⁶ It is also somewhat surprising that poverty growth during that period was more sustained in those cantons where poverty was lower and where the level of education and the access to basic services were higher. Explanations for this counterintuitive result are: i) the financial and banking crisis that especially affected urban middle-class households (and the fact that urban areas had lower poverty levels than rural ones in 1990); and ii) the fact that migration was directed towards those cantons with better living conditions.

The peripheral area is mainly residential, whereas the central one is a concentration of commercial activities (more than 14,500 economic units). Informal commercial activities have an important role in the life of the historic center. It is estimated that about 10,000 informal vendors operate in the historic center, with about 80 percent located in the inner zone.

The areas selected for the study were those including conventillos and the main street markets, namely: San Roque, La Ronda, Av. 24 de Mayo, Mercados San Francisco y Central, and Mercados Arenas. In 2001, the district of M. Sáenz had the lowest percentage of poor population (20 percent) as well as extremely poor population (4 percent), following the districts of Eloy Alfaro (18 percent and 4 percent, respectively) and Eugenio Espejo (13 percent and 4 percent, respectively).³⁷ The share of the poor population decreased substantially in most of the other districts starting in 1990, when it was 29 percent (8 percent of extreme poor) (INEC, 1990; 2001).³⁸

Moreover, in the CHQ, there is a good provision of utilities. The public system of water provision covers from 97.6–99.7 percent of the housing in the various neighborhoods. However, the supply of drinkable water reaches less than 70 percent of the housing in two neighborhoods (San Roque and San Diego) and less than 80 percent in six of them. In addition, the coverage of the sewage system is very good (always close or above 90 percent). Similar conditions are shown by the service of garbage collection (with the marginal exception of San Diego where the coverage is

about 94.5 percent). Lastly, the provision of gas covers a large portion of this area (89.7–97.3 percent of housing).

Concerning residence dynamics, Table 2.1 shows that the historic center parish had a reduction in population in contrast with the other parishes.³⁹ Parishes with the lowest percentages of poor (Eloy Alfaro, Eugenio Espejo, in addition to M. Sáenz) are those that have experienced less immigration. Moreover, Eugenio Espejo and M. Sáenz have the highest density.⁴⁰ The phenomenon of low (or negative) immigration in the central areas could then be interpreted as evidence of a process of gentrification with the poor moving out of densely populated areas towards less dense, more degraded zones.

2.1.5 Urban Development Policies

In the last decade, several important projects have been carried out in Quito and its metropolitan area including the rehabilitation of the urban heritage of the HCQ, the improvement of the peripheral road system, the enlargement and improvement of the system of drainage and water supply in town and the valleys, and

³⁷ The definition of poverty follows the *Unsatisfied Basic Needs* methodology.

³⁸ Exceptions are the Noroccidente and Norcentral delegations and the Aeropuerto district.

³⁹ A process of size reduction has also been experienced earlier starting from the early 1990s.

⁴⁰ Respectively, 51.95 and 99.41 person/km² (INEC, 2001). However Eloy Alfaro has one of the lowest (7.1 person/km²).

the completion of the airport (MDMQ, 2006). About 25 new projects—in their definition or implementation stages—are also identified in the General Plan of Territorial Development (*Plan General de Desarrollo Territorial*, PGDT). These projects cover many different issues, such as urban revitalization, transportation, sanitation, community spaces, culture, and business.

In November 2001, the government of the Metropolitan District of Quito approved an ordinance, *La Ordenanza de Zonificación*, linked to the PGDT, which constitutes an important instrument of territorial planning and management. The directives of conduct and the priorities for the interventions of district aimed at improving the territorial development are included in Quito's development plan: *Equinoccio 21. Quito hacia el 2025*.

With regard to Quito's development, the best conditions for a comprehensive and effective development policy are: i) the participation of the community in the decision-making process, aimed at reinforcing the sense of belonging to the history and present of the town, and ii) coordination with the other administrations of the region, needed for the relevant political, social, and economic interactions between Quito and a large portion of the national territory.

The PGDT recognizes the necessity of defining policies supporting the social inclusion of the marginalized share of population and the social mobility that is still lacking in the Ecuadorian society. Regarding infrastructure, the plan indicates the priority of actions concerning the following: development of the

road and transportation system of the MDMQ, protection of the city environment, territorial decentralization of productive activities, improvement of health services coverage, support of economic activities with good prospects of contributing to the economic growth of the MDMQ, and improving knowledge about the characteristics of the MDMQ.

As for the CHQ, the plan includes the undertaking of an urban project aimed at rehabilitating the most important public buildings and spaces. This goal implies the improvement of the infrastructure of the historic downtown and its use for residences through improvement in the living conditions (better services, greater security, and more public spaces for the community). Attention is also devoted to housing in areas with no historic value. The main challenges in this regard are: i) to reinforce the legal system to better define and guarantee property rights; ii) to guarantee an integrated system of services for residents; and iii) to rationalize the use of the territory, guaranteeing adequate spaces for the future economic and social development of the city, and relocating residents and commercial and productive activities to less densely populated areas.⁴¹

Given the geomorphology of the valley where Quito is located, the large extension of the town and the inadequacies of the road system and public transportation, traffic is a huge problem in Quito. Traffic congestion is

⁴¹ The “*Pon a Punto Tu Casa, Barrios Periféricos*” program aims to extend urban improvement efforts to the poorer and peripheral neighborhoods.

particularly dramatic in the narrow streets of the historic center, where it poses a serious threat to the fragile urban and environmental system. Therefore the improvement of the public transportation system appears strategic to the city's development and especially its historic center (Jarrin, 2004). Other problems, also emphasized in interviews with administrators and stakeholders, are public safety (especially in specific zones and in the evening) and the degradation of the housing in the old town. These phenomena represent not only a difficulty for the everyday life of the residents, but also raise concerns about impacts on tourism, considered by many to be fundamental to Quito's economic development.⁴²

The IDB has financed several programs of technical and financial assistance for the rehabilitation of Quito's historic center, which have been completed. Despite many initiatives, local policies have had little success in alleviating the poverty phenomenon in Quito, in general, and in its historic center, in particular. The Municipal Division on Human Sustainable Development (*Dirección de Desarrollo Humano Sustentable*) has mainly limited itself to isolated actions for supporting single mothers and street children. Measures designed to address the problems of robbery, public safety, prostitution, street drug dealing, and the like are rarely undertaken by the local government and are mainly restricted to repressive interventions by the police. Even if the Bank's ECH loan did not include specific actions aimed at poverty reduction in the central areas, it included actions targeting urban

rehabilitation, infrastructure improvement, and street vendor relocation in shopping centers within the area.

In conclusion, improvements in the built heritage of downtown Quito did not seem to effectively mitigate the phenomenon of downtown poverty. It has not been determined if this outcome is the result of incomplete actions for tackling the problem or the consequence of slow or erroneous implementation of otherwise correct policies. Other projects concerning the urban area of Quito which are currently supported by the IDB include:

- “Rehabilitation of Historical Downtown Quito. Second Stage:” US\$8 million loan (plus country counterpart funding of US\$2 million), which is in an initial phase of implementation.
- “Municipal Modernization & Neighborhood Improvement: Phase 1:” US\$37.1 million loan (plus country counterpart funding of US\$12.5 million) which was approved in June 2006.
- “Integral Management of Water Resources in Quito:” US\$140,000 technical cooperation (plus country counterpart funding of US\$30,000), which was approved in November 2006.

⁴² A long-lasting solution to these problems requires comprehensive planning by the administration. This view appears to be endorsed by the *Plan Bicentenario 2005–2009*. The plan indicates the programs and projects that Quito and its metropolitan district should complete in order to reach the goal of sustainable socioeconomic development. It presents four strategic axes: economic, social, territorial, and institutional.

2.2 The Survey

2.2.1 Methodology⁴³

The area of investigation included the CHQ and interviews of 360 residents were conducted. The area for the sample of 246 poor residents was chosen on the basis of a selection of well-identified degraded urban sites applying a random selection method.⁴⁴ The other 114 nonpoor residents were selected randomly from a group of housing complexes built in the last 10 to 15 years by the Municipality and the ECH, constituted for the implementation of the programs of Rehabilitation of the Historical Center of Quito, funded by the IDB.⁴⁵ A sample of 207 nonresident poor was selected from within popular low-price food markets and other merchandise selling places in the center.⁴⁶ In addition, a selection of 61 commercial establishments was made within a pool of representative rehabilitated areas built by the municipality and the ECH in the last 10 to 15 years.⁴⁷

2.2.2 Household Economic Profile

Significant differences among groups arise when overall household economic conditions are examined. Apart from the above-mentioned differences in earnings, there are also differences in terms of the overall economic revenue of households. The opportunity to obtain income from sources other than work is not equally spread across groups; only a very small number of respondents indicated that they obtain income from sources other

than work, with the nonresident poor having the fewest opportunities. On average, however, from the other sources of income, the resident poor obtain less than the nonresi-

⁴³ The investigation of the phenomenon of downtown poverty in Quito included a series of interviews conducted by URBANA Consultores, under the supervision of the Dr. Andres Jarrin and Cristina Peña. A further group of interviews with the following local administrators and stakeholders were conducted by CREA with the kind assistance of Andres M Jarrin; Francisco Duque (vice president of the Corporación del Centro Histórico Quito); Francisco Jijon (director of the Strategic Planning and Project Department of the Municipality); René Vallejo Aguirre (director of the Department of Territory and Housing of the Municipality); Gustavo Novoa (ECH).

⁴⁴ As mentioned earlier, the areas selected for the study included conventillos and the main street markets, namely: San Roque, La Ronda, Av. 24 de Mayo, Mercados San Francisco y Central, and Mercados Arenas and surroundings. Once the sites were chosen, a random selection scheme was used by applying an interval number (a counting clockwise method using a random interval number). For households, each case was selected using cadastre maps through the random selection method. Also the starting point was randomly selected. Each interviewer started from a previously selected house or route to collect information. In the event that no one was home, a second attempt was made. A replacement of the house was done only when several attempts to speak with residents were made without success.

⁴⁵ Cases were chosen randomly from a randomly selected condominium list. For each case, an appointment had to be arranged in advance through the property managers.

⁴⁶ After the initial choice of the places, the selection method of the routes and cases was random. The case selection was done using a discrimination initial residence question that defined whether or not the interview should be completed.

⁴⁷ First, a meeting with the downtown business association was held to obtain a roster of business divided per categories, period of activity, etcetera. The sample was selected from the roster. Visits were arranged in advance with poorer and peripheral neighborhoods.

TABLE 2.2 Consumption

	Nonresident poor	Resident nonpoor	Resident poor
Allocation of total income			
Rent	16.11%	3.48%	24.48%
Food	47.50%	29.13%	47.49%
Transport	10.46%	5.61%	5.06%
Public utilities (energy, gas, water)	9.32%	6.49%	7.74%
Clothes	2.29%	5.62%	1.35%
Health care	8.03%	10.13%	4.73%
Education	1.91%	4.35%	2.64%
Other	0.18%	1.26%	0.45%
Problems in satisfying food needs			
Never	19.81%	78.95%	26.42%
Seldom	31.40%	17.54%	34.15%
Often	30.92%	2.63%	25.20%
Always	11.87%	0.88%	14.23%

Source: Author's elaboration based on survey data.

dent poor and, obviously, less than the nonpoor as well. Also, in terms of this additional income, gender differences arise: on average, households with a female head have less additional income than when the head is a male. Overall, total monthly consumption shows very relevant disparities across groups (see Table 2.2). Differences *within* the poor occur also in terms of total income and the greater deprivation suffered by the nonresident poor and, within this group, by households with a female head.

Differences in total income across groups—*between* the poor and nonpoor as well as *within* the poor—are somehow complemented by differences in the consumption pattern of the various groups: overall, as expected, the nonpoor own more commodities than the poor. Among the commodities included in the

questionnaire (see Annex I, Question F.5), the greatest differences have to do with commodities with more marked technological features, such as mobile phones and computers, and based on the means of transportation (motorcycles, cars, and trucks), which are owned in very small percentages by poor people, regardless of their location.

The satisfaction of food needs dramatically differs between the poor and nonpoor and within the poor, with the nonresident poor being the most disadvantaged. Moreover, such a capability is further worsened for the poor, especially for the nonresident poor, when the head of the household is female.

The composition of household expenditure shows some differences between the poor and nonpoor as well as *within* the poor. When expenditure is related to total house-

hold income (monthly earnings and also other sources of income), it is worth noting that the nonresident poor allocate twice as many resources to transport and health as the resident poor, and that differences, though to a lesser extent, hold also in terms of the expenditure for public utilities (water, energy, gas). However, the resident poor allocate a greater percentage to rent than the nonresident poor, probably because ownership is more common among the nonresident poor than among the resident poor and because the buildings downtown have a higher commercial value than in more peripheral areas. In addition, some gender differences are worth noting: both for the nonresident poor and the resident poor, when the head of the household is a female, a greater share of the budget is allocated for rent, probably because, as mentioned earlier, the ownership of dwellings is less common when the head of the household is a female. The consequence is the lower satisfaction of the other needs and, therefore, the worsening of the overall household situation.

It is interesting to point out that different perceptions exist among groups about the evolution of their economic condition in the last year, with the poor—both nonresidents and residents—having a more negative evaluation than the nonpoor. Such a perception is even more negative for members of households with a female head. Different attitudes among groups also emerge when the overall economic situation of the neighborhood is taken into account, since the nonpoor exhibit a more negative evaluation than

the poor. Differences between groups do not depend on location, but rather on their economic status.

Therefore, apart from the expected difference between poor and nonpoor, overall, a *spatial* dimension of poverty seems to emerge, though to a limited extent. The nonresident poor seem to suffer a more vulnerable status than the resident poor, mainly at the household level. The nonresident poor mainly work as self-employed in the informal sector and spend more time to go to work and to access services; nonresident poor households have a lower total income, own fewer commodities, and are less able to satisfy food needs, while allocating a greater share of income in transport. Also, nonresident poor households with a female head are more vulnerable overall.

2.2.3 Survey Results

Education and Health

The data of the questionnaire show that services such as education and health do not exhibit major problems and cannot be considered to be a cause of absolute deprivation, though disparities exist across groups. As far as compulsory education is concerned, most of the people between the ages of 5 and 14 attend school, although differences exist among the groups, with the nonresident poor having the highest participation and the resident poor the lowest (see Table 2.3). Much lower participation rates occur for those people between the ages of 15 and 24 with major dif-

TABLE 2.3 School Participation and Provision

	Nonresident poor	Resident nonpoor	Resident poor
School participation (5–14 years old)	91.01%	96.83%	85.96%
School participation (15–24 years old)	46.60%	71.43%	37.02%
Education provider (5–24 years old)			
Government	90.44%	58.42%	88.64%
Church	0.00%	0.99%	0.00%
Private for-profit organizations	5.58%	40.59%	10.91%
Private nonprofit organizations	1.59%	0.00%	0.00%
Community	2.39%	0.00%	0.45%
Problems in accessing education (15–24 years old)			
No problem	88.45%	91.09%	92.73%
Lack of books/supplies	5.18%	4.95%	3.64%
Poor teaching	0.80%	1.98%	0.45%
Lack of teachers	2.39%	0.00%	0.00%
Facilities in bad condition	3.59%	0.00%	1.36%
Other problems	4.38%	1.98%	1.82%

Source: Author's elaboration based on survey data.

ferences among groups—namely between the poor and nonpoor—and the resident poor still in the most disadvantaged group. For this age group, the most common reason put forward by the nonresident poor and the resident poor for not attending the school is cost and a lack of interest.

When the level of education is analyzed, marked differences occur between the poor (both nonresidents and residents) and nonpoor. Looking at the “polar” cases, clearly those respondents with no formal education are poor, and a similar but opposite pattern characterizes the other extreme, with very few poor respondents having a university education. As expected, overall, the poor are less educated than the nonpoor; moreover, *within* the poor, nonresidents are less educated than residents.

Education is provided mainly by the government, and private for-profit organizations are the second most important provider, namely for the nonpoor, while the other providers, (churches, nonprofit organizations, and community entities) play a negligible role. Marked differences occur among groups, mainly related to financial status, since the nonresident poor and the resident poor rely far more than the nonpoor on public schools; a possible explanation is that with other things being equal, the nonresident poor and the resident poor are not able to afford the costs of private education.

Overall, the quality of education in Quito seems to be satisfactory since a major share of those who are at school do not experience problems and no major differences arise among groups, although the nonresident poor

TABLE 2.4 Health Status

	Nonresident poor	Resident nonpoor	Resident poor
Respondents who were sick or injured in the six months prior to the survey	19.72%	20.00%	19.85%
Number of weeks out of work due to sickness or injury			
None	65.38%	85.14%	70.73%
One or less	19.87%	8.11%	16.46%
Between one and two weeks	4.49%	1.35%	3.66%
More than two weeks	10.26%	5.41%	9.15%
Kind of sickness or injury suffered			
Fever/malaria	10.26%	2.70%	4.88%
Diarrhea	3.85%	0.00%	6.10%
Accident	1.28%	1.35%	1.22%
Dental	0.64%	2.70%	0.61%
Skin condition	1.92%	0.00%	1.83%
Eye	1.92%	4.05%	0.00%
Ear, nose or throat	12.18%	2.70%	10.98%
Other	69.87%	87.84%	78.05%

Source: Author's elaboration based on survey data.

tend to suffer more problems than the others. Differences arise among groups as far as accessibility is concerned.⁴⁸

A tentative conclusion stemming from the questionnaire is that the poor suffer a form of deprivation in terms of the education level reached compared with the nonpoor, as well as in terms of quality of the service; the *spatial* dimension of poverty generates only minor differences *within* the poor. As far as health is concerned, no major conditions of sickness or injury seem to occur, and no relevant differences in health status characterize the three groups (see Table 2.4).

The answers to the questionnaire do not allow for a clear understanding of the overall causes of sickness/injury since a relevant share of respondents indicates that causes other than

those listed in the questionnaire (malaria, diarrhea, ear, nose or throat aches, teeth, skin, eye, accident) are relevant. However, it is worth noting that overall no systematic differences across groups seem to emerge; for all groups, ear, nose, or throat problems are the most relevant cause of sickness/injury (although with different levels of intensity), which may also be related to the above-mentioned problem of traffic congestion that characterizes the downtown area in Quito.

Concerning health status, however, marked differences among groups, measured in terms of the numbers of days of work missed

⁴⁸ The lack of books, supplies, and teachers, along with a lack of quality in many facilities seem to be the most relevant accessibility issues.

TABLE 2.5 Health Care Provision for Sickness and Injury

	Nonresident poor	Resident nonpoor	Resident poor
Where respondents sought health care services			
Private/nonprofit clinic/ hospital	22.44%	50.00%	16.46%
Public clinic/ hospital	37.18%	31.08%	43.29%
Community health center	17.31%	6.76%	13.41%
Private doctor/dentist	5.77%	6.76%	4.88%
Pharmacy/chemist	3.21%	5.41%	12.20%
Traditional healer	1.28%	0.00%	0.00%
Other	1.92%	0.00%	1.22%
None	10.90%	0.00%	8.54%
Reasons for not receiving treatment			
No need	64.71%	0.00%	50.00%
Too expensive	29.41%	0.00%	35.71%
Other	0.00%	0.00%	14.29%
Problems while waiting/receiving attention			
No problem	69.78%	79.73%	76.00%
Facilities were not clean	1.44%	0.00%	0.00%
Long waiting time	23.74%	10.81%	23.33%
Too expensive	2.88%	5.41%	0.00%
No drugs available	3.60%	1.35%	2.00%
Treatment unsuccessful	0.00%	0.00%	0.67%
Other	2.16%	2.70%	0.00%

Source: Author's elaboration based on survey data.

due to illness or injury, are evident. These differences occur between the poor and nonpoor, the latter having a better health status, as well as to a lesser extent *within* the poor, with nonresidents exhibiting a worse health status than the residents. However, these differences might be representative not only of differences in health status, but also of differences in employment among groups.

According to the survey, most of those who were injured or sick in the six months prior to the survey used health care (see Table 2.5), but it is worth noting that a share of the nonresident poor and, to a lesser extent, of

the resident poor did not use any, even though they exhibited a worse health status than the nonpoor, as outlined above. Overall, the use of public clinics/hospitals is the most widespread for the nonresident poor and the resident poor. This is followed, in terms of relevance, by private providers and community health centers, with different weights between these two groups, in the sense that the nonresident poor rely on private providers more than the resident poor. Private providers play a major role for the nonpoor. The most relevant difference refers to the use of the pharmacy, which is more common among the resident poor, and

to a lesser extent, the nonpoor, than among the nonresident poor.

Differences are more marked regarding the quality of health care services experienced by the various groups. Overall, all groups indicate that they have experienced problems, with the nonresident poor having more problems than the others; all groups mainly complain because of the long waiting time, while the expensive cost is claimed as a problem mainly by the nonpoor. The other problems listed in the questionnaire (dirty facilities, no drugs available) are perceived as negligible, but are still more relevant for the nonresident poor than for the nonpoor and the resident poor.

Therefore, differences exist between nonpoor and poor both in terms of health status and the ways health care needs are satisfied. Nonpoor residents seem to enjoy a better health status, mainly using private providers, and experience fewer problems in accessing health care. Moreover, some differences occur *within* the poor as well, with the nonresident poor suffering a worse health status and experiencing more problems accessing health care.

Transport

One relevant aspect of the *spatial* dimension of downtown poverty refers to the accessibility of different services and facilities. Nonresidents, in fact, spend more time than residents to reach essential services such as schools, health providers, transportation, and work. Moreover, even facilities such as food markets are less accessible for them. The *spatial* dimension also affects the ways in which res-

idents and nonresidents access services and the workplace (see Table 2.6).

Public buses are the most used means of transport, mainly by the nonresident poor, with relevant economic effects on their budgets. The nonpoor and the resident poor mainly walk and the nonresident poor, even considering the distance, walk to school and to visit with health care providers, a possible reason being the economic burden related to the use of public transportation. The nonpoor use private and personal means of transportation on a much greater scale than the other two groups

Employment

The participation in the labor market of the population ages 15 to 65 is not very high; still differences among groups, mainly between poor and nonpoor (see Table 2.7) are evident, with nonpoor residents showing the lowest participation rate. Moreover, it is worth noting that the phenomenon of child labor mainly occurs for both the nonresident poor and the resident poor, although the percentages of children between 5 and 14 who work are not high. This, however, implies a deprivation condition for the poor.⁴⁹

However, the percentage of those without work in the six months prior to the survey was quite high, and the reasons put forward

⁴⁹ In this group, 6.75 percent of the nonresident poor children work and 7.19 percent of the resident poor children work. Only 1.61 percent of the nonpoor children work.

TABLE 2.6 Transportation

	Nonresident poor	Resident nonpoor	Resident poor
Means of transportation used to reach school			
Walking	42.63%	54.46%	75.00%
School bus	35.06%	33.66%	18.64%
Public bus	19.52%	0.00%	5.00%
Another privately supplied mean of transportation	2.79%	6.93%	1.36%
Another personal mean of transportation	0.40%	4.95%	0.00%
Means of transportation used to reach health care provider			
Walking	43.88%	43.24%	62.00%
Public bus	53.96%	27.03%	36.00%
Another privately supplied mean of transportation	2.16%	12.16%	1.33%
Another personal mean of transportation	0.00%	18.92%	0.67%
Means of transportation used to reach work			
Walking	17.65%	35.22%	56.14%
Public bus	78.88%	35.22%	42.56%
Train	1.07%	1.26%	0.26%
Another privately supplied mean of transportation	1.07%	13.84%	1.04%
Another personal mean of transportation	1.34%	14.47%	0.00%

Source: Author's elaboration based on survey data.

by the respondents differ across groups (being a student is the main explanation offered by all groups). Among those who work, almost all worked continuously in the six months prior to the survey; most people worked more than 30 hours a week, with some differences across groups: namely, the nonresident poor seem to work fewer hours than the others. This difference is reflected in lower monthly earnings for this group as well.

A further qualification for these differences might be found in the specific features of the job carried out by the members of the different groups. The nonresident poor are mainly self-employed, both informally as well as formally, and the nonpoor mainly work in the formal sector, both as employees and also

as self-employed. However, the resident poor exhibit less-marked features. From this perspective, some differences in terms of gender occur, in the sense that more females tend to be self-employed than males.

Consistent with these labor features, the nonresident poor mainly work for family businesses, while the nonpoor work not only for family businesses, but also for the government and the private sector. Again, there are differences between the nonpoor and poor and *within* the poor, with the nonresident poor exhibiting a more vulnerable status depending on informality. Some differences in terms of gender also occur: *ceteris paribus*, within each group, more males than females work as employees for the private sector and

TABLE 2.7 Occupation

	Nonresident poor	Resident nonpoor	Resident poor
Participation in the labor market in the six months prior to the survey	73.33%	65.16%	72.54%
Continuity of occupation in the six months prior to the survey	99.47%	99.37%	98.69%
Number of hours worked per week			
Less than 10 hours	4.01%	0.00%	1.57%
10–20 hours	5.61%	5.03%	2.09%
20–30 hours	10.16%	3.77%	5.74%
More than 30 hours	79.68%	90.57%	89.30%
Average monthly earnings (US\$)	560.00	1,300.00	720.00
Occupation			
Housewife	4.81%	10.69%	1.04%
Retiree	0.00%	0.63%	0.26%
Self-employed formally	32.89%	25.79%	27.68%
Self-employed informally	46.26%	11.32%	38.38%
Employed formally	11.23%	50.94%	25.33%
Employed informally	4.28%	0.00%	6.01%

Source: Author's elaboration based on survey data.

for government (the latter being relevant only for the nonpoor), while more females work for family businesses. In line with the economic features of the city, commercial activities are the most widespread across all the groups, but with different weights based on location. For the nonresident poor and the resident poor, this is the main activity followed by “other.”

Housing

A relevant source of vulnerability and deprivation is living in informal settlements, with inadequate access to basic services. This does not seem to be the case for the downtown poor, since informal arrangements seem to play a marginal role. Nonresidents experi-

ence this more frequently than residents, with higher incidences occurring when the head of the household is female.

Major differences exist across groups in terms of the ownership of the dwelling (see Table 2.8): ownership is more prevalent in the case of the nonpoor than the poor, and *within* this latter group, ownership is more relevant for the nonresident poor. A tentative explanation for the difference between the nonresident poor and the resident poor, which is not supported by other indicators of the overall economic situation of the two groups, is that the downtown real estate market features are such that home ownership is not affordable for poor.

The average size of dwellings, as measured by the number of rooms, differs across

TABLE 2.8 Housing

	Nonresident poor	Resident nonpoor	Resident poor
Legal status of dwellings			
Ownership	21.74%	78.07%	10.16%
Rent	70.53%	17.54%	84.96%
Informal arrangements	7.25%	4.39%	4.07%
Other	0.48%	0.00%	0.81%
Size and occupancy			
Number of rooms	3.27	4.86	2.699
Number of beds	3.25	3.38	2.557
Family size			
Average number of members	3.82	3.25	3.36
Other uses			
Purposes other than living	8.21%	15.79%	8.94%

Source: Author's elaboration based on survey data.

groups. This might depend on the fact that the nonpoor use dwellings for purposes other than living more often than the two other groups. The size is slightly smaller when the head of the household is female. Crowded conditions, as measured by the number of beds, do not appear to be a problem

Dwellings are provided with basic services; on average, more than 90 percent of dwellings have access to electricity, gas for cooking, and sewage, with the only service less widespread being piped drinking water.

Downtown Poverty: Existence and Nature of the Problems

The interviews carried out in the survey reveal the existence of some challenges, mainly the ones related to the diffusion of poverty in Quito (as well as in the rest of the country), resulting from the macroeconomic problems experienced by Ecuador in addition to the

relatively little success of poverty alleviation measures to date, especially at the local level, and the serious traffic problem in the narrow streets of the historic center, owing to the specific geomorphology of the valley and the inadequacies of the road system and public transportation. Not surprisingly, then, for the residents in the sample, theft, traffic, pollution, vandalism, street vending and begging are problems that a majority of people perceive as challenges—either major or minor—faced in living downtown, as shown in Table 2.9.

There are, however, relevant differences in the perceptions of the existence of these problems between the two groups of residents, with such perceptions being higher for the nonpoor. These differences may be due to several factors, such as the fact that the poor tend to live in degraded neighborhoods, which are less affected by congestion, and have lower income levels than the nonpoor. This im-

TABLE 2.9 Challenges Experienced by Residents

Challenges	Resident nonpoor	Resident poor
Conflict with building owner	7.02%	10.98%
Conflict with other residents	15.79%	12.60%
Expensive rent	9.65%	27.64%
High cost of staple goods	26.32%	23.17%
Pollution	78.95%	49.19%
Traffic	78.95%	52.85%
Poor building condition	24.56%	35.77%
Theft	74.56%	62.60%
Vandalism	64.04%	43.90%
Extortion	37.72%	29.67%
Begging	57.89%	40.24%
Street vending	65.79%	43.50%
Other	7.02%	2.44%

Source: Author's elaboration based on survey data.

plies that poor neighborhoods are less attractive to thieves and beggars, and, at the same time, that the nonpoor are the main targets of this phenomena.

To increase the understanding of challenges faced in the downtown area, 61 firms were also surveyed. Table 2.10 shows the main characteristics of the firms in the sample, while Table 2.11 points out the overall issues faced by the firms in doing business downtown. This table reveals that a majority of firms, almost three-quarters of those interviewed, indicate the existence of restrictive regulations for business as a significant problem, immediately followed by in-town competition and insufficient parking. Shoplifting and traffic congestion are rated as major/minor problems by about 50 percent of the firms interviewed.

Compared to the ranking observed for the residents, there appears to be some convergence on the issues of theft and traffic,

TABLE 2.10 Characteristics of Business Activities

Nature of business	
Restaurant	11.48%
Retail	55.74%
Service	—
Handicraft	3.28%
Other	29.51%
Average number of employees	6.98%
Average size of the store (sq. meters)	448.62
Years in business	
Under a year	8.20%
1–5 years	13.11%
6–10 years	19.67%
11–20 years	9.84%
Over 20 years	49.18%
Ownership of the store	
Owners	49.18%
Tenants	47.54%
Tenants, interested in purchasing	3.28%
Average permanence in current location (years)	17.56

Source: Author's elaboration based on survey data.

TABLE 2.11 Challenges Experienced by Businesses

Challenges	
Restrictive business regulations	73.77%
In-town competition	65.57%
Insufficient parking	63.93%
Shoplifting or theft	55.74%
Traffic congestion	47.54%
Out-of-town competition	37.70%
Street vending	37.70%
Vandalism	36.07%
Expensive rent	34.43%
Expensive employee wages or benefits	31.15%
Expensive or unavailable utilities	22.95%
Begging	21.31%
Expensive shipping or transportation	14.75%
Difficulty recruiting or retaining employees	9.84%
Extortion	9.84%
Insufficient financing	9.84%
Poor building condition	6.56%
Other	1.64%
Unskilled workers	1.64%
Conflict with owner or tenant	—

Source: Author's elaboration based on survey data.

yet the firms also put forward concerns about problems specific to business activities, such as business regulations, insufficient parking, and in-town competition. With respect to the nonresident poor, Table 2.12 summarizes the main features of their activities. There appears to be many informal vendors, who demonstrate stability in terms of the length of time in carrying out their particular activities and in doing so in fixed downtown locations.

As for the main challenges (either major or minor) of the nonresident poor, the data in Table 2.13 show that the most relevant one is theft, followed by pollution and traffic. Even if these are problems perceived by a majority of

TABLE 2.12 Characteristics of Street Activities

Nature of street activities	
Food	30.92%
Textiles	3.38%
Handicraft	3.86%
Water	0.97%
Service	2.42%
Other	58.45%
Percent of activities carried out in a formal way	
	56.52%
Duration of activity	
Under a year	5.80%
1–10 years	36.71%
11–20 years	27.54%
Over 20 years	29.95%
Percent of activities with fixed location	
	64.73%
Average permanence in current location (years)	
	16.5

Source: Author's elaboration based on survey data.

the people in this group, there are no relevant differences with respect to the group of the resident poor, revealing that the higher vulnerability of the nonresident poor does not seem to increase their exposure to the main problems in the downtown area.

TABLE 2.13 Challenges Experienced by the Nonresident Poor

Challenges	
Theft	60.39%
Pollution	49.28%
Traffic	45.89%
Street vending	43.00%
Vandalism	41.55%
Begging	39.13%
Conflict with other street vendors	34.30%
Extortion	27.05%
Others	4.83%

Source: Author's elaboration based on survey data.

Interestingly enough, 43 percent of the nonresident poor consider street vending a problem, revealing the existence of conflicts within this group. This is partly confirmed by the reply to Question H.10 of the survey in which respondents are asked how they perceive the existence of conflicts with other groups and institutions: 28 percent of the respondents perceive the existence of conflicts with other nonresidents, either very much or somewhat.⁵⁰ However, only 8 percent of the respondents perceive the existence of conflict with residents, and 4 percent with shopkeepers. This may indicate that even if residents—especially the nonpoor—consider street vending as one of the problems faced in downtown areas, the conflict is not especially obvious or significant. As expected, the nonresident poor (35 percent) perceive the conflict with the municipal authorities as more significant than the other groups and about one-quarter of them perceive a conflict with police, reflecting the fact that the main actions towards the different dimensions of poverty are mainly restricted to repressive interventions.

The interviews conducted with decision makers and opinion leaders in Quito reveal a viewpoint similar to that of the surveyed residents (especially the nonpoor) in terms of the problems faced downtown. Poverty is mainly regarded as a residential problem. The historic center offers cheap housing to the poor, but they generally live in seriously degraded buildings (especially *conventillos*) with poor hygienic conditions and often shared kitchens. While this is not a problem for a large majority of the residents interviewed, at the same time,

it is indicated as a major/minor challenge by 36 percent of the resident poor. The existence of poor occupants discourages new business and the investments of the owners to improve the conditions of the buildings; in fact, informal occupation is known to further damage housing (*tugurizacion*). In addition, the inflows of the poor have created a supply of inexpensive commodities and services (hostels, bars, taverns, *etcetera*), which further attracts other poor people. It is also understood that there are three main categories of poor. On one hand, there is a first category of beggars and those who perform some economic activities (mainly informal) in the center. Both may be come from the countryside and spend only part of the week in town. In addition, there is a second category of poor who may even own a plot of land and have a house outside the town. Finally, there is a third category of poor made up of those engaged in illegal activities (stealing, drug dealing, *etcetera*).

Impact on Welfare

The respondents' answers reveal a diffused perception of some of the typical problems that characterize the downtown environment, even if they do not seem to significantly affect the welfare of residents (slightly more than 8 percent expressed being dissatisfied or very dissatisfied with their current location) with more or less the same share being maintained

⁵⁰ Question H.10: Do you perceive the existence of conflicts with residents, shopkeepers, street vendors, police, municipal authorities, others?

in the two groups of poor and nonpoor. In terms of business, only a small minority reported being dissatisfied with the location of their business downtown (6.6 percent), while the situation is significantly different for the nonresident poor, since about 19 percent of them expressed being dissatisfied or very dissatisfied. It may be considered an indication of the greater vulnerability of these people and, consequently, of the possibility of greater suffering when facing the same problems as other socially and economically stronger groups.

As for plans to change residences, the data show that less than one-quarter of the residents surveyed in downtown Quito were planning to move from their home, a figure much larger than the share of residents expressing dissatisfaction with the current location of their home. Moreover, among those who were planning to move, only 28 percent reported being dissatisfied or very dissatisfied, a percentage significantly higher than the one for the overall group, but still a minority. However, a plan to move does not imply that respondents would abandon downtown. Controlling for the place where people would like to move, about half of

those who wanted to move preferred another location outside downtown, while the rest simply preferred to stay in the downtown area, moving to another location with better services. Moreover, it is probably the case that, notwithstanding the feeling of satisfaction with their residence, there are people who are adversely affected by other factors that induce them to plan a move from their current houses. It is interesting, therefore, to check whether the behavior of those planning to move varies across the two groups, since this may be an indication of a different ability to deal with the problematic living conditions in the downtown area, which may change according to different socioeconomic conditions (see Table 2.14).

From this point of view, the share of people that expressed the desire to change residence was almost the same for the two groups of poor and the nonpoor. Considering the ranking of the different problems listed in Question I.4 for the two groups of poor and the nonpoor people who wished to change their current location, it is possible to observe that the main problems are the same for all groups. However, the nonpoor respondents who were planning to move perceived these problems

TABLE 2.14 Respondents that Plan to Move from Current Location (*Home, Business, Street Activity*)

	Nonresident poor	Resident nonpoor	Resident poor	Firms
Plan to move from current location	15.94%	21.05%	23.17%	1.64%
Plan to move to another location within downtown with better services (% of those who plan to move)	78.79%	56.14%	45.83%	N/A
Plan to move to another location outside downtown (% of those who plan to move)	21.21%	43.86%	54.17%	N/A

Source: Author's elaboration based on survey data.

much more strongly than the poor.⁵¹ For the majority of poor who wanted to change residence, the cost of renting the house was not a concern. Therefore, this may be an indication that the relative economic vulnerability of the poor with respect to other residents is not relevant in the decision to change residence. At the same time, the negative externalities arising from the concentration of activities downtown and from the attraction of poor are significantly deteriorating the living conditions of nonpoor residents and are also the main determinants in the decision of the resident poor to change the location of their homes. However, as indicated above, even if people plan a change of their residence, it does not imply that they will leave downtown. Actually, the share of poor respondents who wished to move outside downtown was lower than the share of nonpoor residents. Controlling again for how this subgroup who want to move outside the downtown area perceives the various problems, it is possible to say that the same issues (theft, traffic, pollution, vandalism, street vending, and begging) appear to be relevant, with the noticeable difference being that the share of the nonresident poor perceiving these problems is larger than for the general sample of the resident poor. What current residents perceive as their major challenge for living in downtown is, above all, the negative effects of downtown development on their living conditions and quality of life, rather than economic factors.

In terms of the firms who were interviewed, only one respondent was planning to move out of the downtown area, which implies that, even if there may be problems in car-

rying out business in downtown, they are not so significant for the firms located there to induce them to move. As shown in Table 2.15, business remained the same over the two years prior to the survey for roughly half of the sample, yet for over one-quarter of them, it decreased.

TABLE 2.15 Economic Situations of Firms in the Downtown Area

Firms which experienced a decrease in business	27.87%
Firms which experienced an increase in business	26.23%
Firms from which business remained the same	45.90%
Firms planning expansion downtown	21.31%
Firms planning expansion outside downtown	8.20%
Firms planning a reduction downtown	1.64%
Firms planning a reduction outside downtown	3.28%
Firms with no plan for change	65.57%

Source: Author's elaboration based on survey data.

The firms that experienced a reduction in business in the two years prior to the survey had, on average, 9.18 employees, and thus were slightly larger than the firms that declared an increase in their activity (8.38 employees) and much larger than the group of the remaining firms that declared stable business activity (4.86 employees). Also, the firms that experienced reduction had been at their current location for more than 22 years, more or less the same permanence declared by the expanding firms, but longer than the third group (11.71 years). The large majority (75 percent) were restaurants.

⁵¹ Question I.4: Please rate the degree to which you are experiencing the following challenges for living downtown: conflict with building owner, expensive rent, expensive staple goods, pollution, traffic, poor building condition, theft, vandalism, extortion, begging, street vending, other.

Only 47 percent of them owned their space, compared to 75 percent of growing firms and 6 percent of other firms. Not surprisingly, perhaps, the same percentage considered the cost of renting as a major problem (compared to 19 percent of the growing firms and 35 percent of the remaining firms). Thus, it is possible to conclude that firms that are similar in terms of some structural aspects, apart from the ownership of the places where they carry out their activities, have different levels of performance.

It is interesting to observe how firms perceive the main reasons for the changes they have experienced. Both groups of firms indicated the same factors: an improvement or deterioration in the local/national economy and an improvement or deterioration in the downtown business environment, although to different degrees.⁵² Therefore, the changes of the external environment represent a shock. It is also worth noting that competition by street vendors was regarded as the third most important cause of the reduction in business by the firms experiencing this problem (35 percent).

In summary, overall, different firms perceive different problems and an opportunity for some may be a threat for others. However, only a minority of firms in the downtown area seems to be experiencing growth at the moment. The stagnation that businesses seem to experience downtown is also reflected by a large majority of firms in the sample that stated that they had no plans for further investments. A potential implication of these answers is that the respondents perceive their problems downtown as significant enough to negatively affect their expectations about future

improvements and opportunities for favorable investments. Finally, about 16 percent of the nonresident poor respondents were planning to move, which is a figure consistent with the percentage of this group expressing dissatisfaction with their current location. Those who planned to move outside downtown represent 20 percent of the group that planned to change the location of their street activities.

In conclusion, on the basis of the data from the survey, is it possible to say that people living and working in downtown Quito perceive some of the typical problems and conflicts related to the development of the downtown area. The impact of these problems appears to be greater for residents, especially nonpoor residents.

3. RIO DE JANEIRO

3.1 City Overview

3.1.1 Summary of the History and Population Dynamics

The city of Rio de Janeiro maintained a special administrative status between 1763 and 1960 when it was the capital of Brazil.

⁵² In the group of firms indicating a decline in business in the two years prior to the survey, 59 percent said that the change in local/national economy was a problem, while, for 56 percent of the firms experiencing an increase in their business, it was one of the reasons for their progress. The change in the downtown business environment was considered one of the causes of their decline by 47 percent of the declining firms, while it was rated as the most important reasons for their growth by 81 percent of other firms.

Later—when the capital moved to Brasília—the subsequent reduction of support from the federal government and the investment of resources for the industrial development of the states of São Paulo and Minas Gerais resulted in a period of continuous decline until the 1990s (Urani et al., 2006). However, in Rio, as well as in the rest of the country, poverty was reduced by 10 percent from 1984 to 1994 (World Bank, 1999). Moreover, during the last two decades of the twentieth century, the population of both the city and the state of Rio de Janeiro experienced a lower growth rate compared with earlier decades. In the end of the 1990's the city of Rio de Janeiro had a population of 5,857,904 (IBGE, 2000), and in 2005 the figure was estimated at over six million.⁵³ Table 3.1 highlights the dynamics of the population of both the city and state of Rio de Janeiro in the twentieth century.

Following significant growth of the city's population at the end of the nineteenth century, which averaged above 3.5 percent on an annual basis, the growth rate reached its peak between 1950 and 1960, and later declined to 0.67 percent between 1980 and 1991 (see Table 3.1). Furthermore, the city experienced a positive net immigration of almost

200,000 people in 1990 and slightly more than 201,000 people in 2000 (IBGE, 1991; 2000).

As for the state, the period of highest growth was between 1940 and 1970, with an average annual rate of 2.61 percent in the first decade, 3.53 percent in the second decade, and 3.13 percent in the third decade. By contrast, for the 1980–1991 and 1991–2000 periods, the average annual growth rate was between 1.15 percent and 1.32 percent, respectively.

3.1.2 Institutional Framework

Brazil is a federation made up of 26 states and one federal district (Brasília). Each state is divided into municipalities, which may in turn include other cities (*distritos*). The head of the municipal government is the mayor (*prefeito*), while the cities have no separate government. There are five (macro) regions in Brazil: north, northeast, central-west, southeast, and south. The municipality of Rio de Janeiro is the capital of the state of Rio de Janeiro in the southeast region.

⁵³ In 2000 the population of the metropolitan region of Rio de Janeiro was around 12 million.

TABLE 3.1 Resident Population of the State and Municipality of Rio de Janeiro, 1900–2000

	1900	1920	1940	1960	1970	1980	1991	2000
Municipality of Rio de Janeiro	811,443	1,157,873	1,764,141	3,281,908	4,251,918	5,090,790	5,480,778	5,857,904
State of Rio de Janeiro	1,737,478	2,717,244	3,611,998	6,610,748	8,994,802	11,291,520	12,807,706	14,391,262

Source: IBGE 1997; 2000

Brazil is a tripartite federation with three autonomous entities: the union, states, and municipalities. The Brazilian states have substantial autonomy over policymaking, public security, and taxation. The governor (*governador*) is the head of the state government and is elected by popular vote. The states play a primary role in the decision-making process concerning social services, such as education. The current institutional process is oriented towards a further decentralization in favor of the municipalities. The main municipal resources come from local taxes (especially on services) collected by the municipality that also has a limited autonomous power of fixing the rate, and, to a somewhat lesser extent, from intergovernmental transfers.⁵⁴

3.1.3 *Economy and Sociodemographics*

Although the economy of Brazil is among the top 10 in the world, 22 million Brazilian people live in conditions of extreme poverty and 53 million (about 28 percent of the national population) live in relative poverty. Although the state of Rio de Janeiro experienced a significant reduction of the percentage of poor (25 percent) from 1990 to 2000 (Pero, Quintaes, and Arpon, 2006), this process has somehow lost its momentum.⁵⁵ In 2002, the state of Rio de Janeiro was second in terms of its contribution (12.6 percent) to the national GDP, following São Paulo (32.6 percent); however, in per capita terms, Rio had a higher GDP than São Paulo (R\$11,459 versus R\$11,353) (Urani et al., 2006).⁵⁶

Due to the recent process of industrialization of the state, Rio is the second most industrialized state of the country, following Minas Gerais. The state of Rio is also the largest producer of petroleum and gas in Brazil; all production comes from offshore fields. Its main agricultural activities are the cultivation of sugarcane, in particular, and oranges. The fishing industry is also relevant, and the state of Rio has the largest naval industry in Brazil, as well as a good port system.

The share of the Metropolitan Region of Rio de Janeiro (MRRJ) to the state of Rio's GDP went from 79 percent in 1997 to 65 percent in 2001, while the city of Rio contributed 76 percent of the Metropolitan GDP in 2001, versus 77 percent in 1996 (Urani et al., 2006). In the MRRJ, 23.6 percent of the population is considered poor and 7.8 percent is considered indigent.⁵⁷ The unemployment rate in the metropolitan region decreased from 6.8 percent in 1980 to 4.4 percent in 1990. More recently, the unemployment rate has increased substantially: 12.5 percent in 2001 and 13.8 percent two years later.

⁵⁴ In the 1990–2000 period, the state of Rio de Janeiro suffered from stagnation in revenue, resulting from a reduced increase in the intergovernmental grants and also a reduction of the labor income tax revenue (Pero, Quintaes, and Arpon, 2006).

⁵⁵ In fact, between 1992 and 1997, there was a 21 percent reduction of the poor population in the state, which was followed by an increase of 26 percent between 1998 and 2003.

⁵⁶ The federal district has the highest GDP among the states (R\$16,353).

⁵⁷ The limits are evaluated according to the calorie needs. Therefore the limit of indigence is put at R\$81, which is half of the poverty threshold.

The municipality of Rio de Janeiro is divided into 33 administrative regions and 160 neighborhoods. The largest administrative regions are Campo Grande (population: 484,362), Jacarepaguá (population: 469,682) and Bangu (population: 420,503). The provision of basic services in these administrative regions is, on the whole, quite good. On average, water is supplied to 97.8 percent of the population, electricity to 99.96 percent, and garbage collection to 98.74 percent.

3.1.4 Downtown

In January 2001, a program of economic development (*Programa de Desenvolvimento Econômico*) of the microregions of the city of Rio de Janeiro was initiated. This program aims to support an endogenous development of the municipality through an identification of the specific problems of each neighborhood (*bairro*). For this goal, the municipal territory is divided into 12 regions. The Centro region in downtown Rio de Janeiro has an area of 3,285 hectares with a population of 268,280 inhabitants, based on the 2000 census.⁵⁸ Within this area, there are 14 neighborhoods (included in the administrative regions of Portuária, Centro, Rio Comprido, São Cristóvão, Paquetá, Santa Teresa) and several areas with the characteristics of central places in terms of dynamics, history, and buildings. The area investigated was selected with the goal of identifying an area where all the characteristics of central places were present.

The areas selected were portions of the following neighborhoods:

- **Centro**, which is the business core district and the historic center. This area, whose population has recently been reduced (38,000 residents, in 2002), has already benefited from some revitalization efforts, which have been carried out to benefit the development of tourism as well.
- **Gamboa, Saúde, and Cidade Nova**, which are areas that are poorer than the central downtown core and have lower levels of education (less than 8 percent of the population of Gamboa and Cidade Nova and less than 12 percent in Saude has a superior level of education, compared to a rate of 18 percent in Centro, which is equal to the municipality average).
- **Gloria** (with about 9,000 inhabitants), which is a neighborhood (outside the area indicated in the table above) just to the south of Centro.⁵⁹ It is also worth mentioning that the resident poor may decide to live in rather poor conditions in these central areas in order to easily reach various nearby zones where they work.

As can be seen from Table 3.2, the urban central area of Rio lost a significant share of residents in the last decade. Between 1996 and

⁵⁸ See also the Strategic Plan of Rio de Janeiro (*Plano Estratégico da Cidade do Rio de Janeiro, 2001–2002*).

⁵⁹ The area known as Lapa is located here, contiguous to the southeast border of Centro. Lapa is an attractive place from the point of view of this study because it is actively undergoing architectural revitalization. It is also the center of cultural activity in Rio de Janeiro and is characterized by a mix of poor and nonpoor people.

2000, the population reduction was particularly high in the neighborhoods of Centro (25 percent) and Cidade Nova (48 percent).⁶⁰ These figures are higher than the population loss of the whole region in the same period (35,415 people, or 13 percent of the population). This reduction is mainly due to the region's migration outflow rate of 10 percent between 1996 and 2000. In the same period, migration outflows were particularly relevant in Saude (20 percent), Santo Cristo (19 percent) and Cidade Nova (11 percent) (Prefeitura da Cidade do Rio de Janeiro, 2003). According to research conducted by the city of Rio in connection with the city's strategic plan (with a sample size of 112), 35 percent of those interviewed in the region reported that violence was the greatest problem in the region, followed by health concerns (16 percent) (Plan Estratégico de Cidade de Rio de Janeiro, 2001–2002). Among those who reported considering leaving the region, 25 percent cited violence as the principle motivation (8 percent cited transportation). Moreover, it should also be noted that in 2000, more than 76,000 residents were living in slums (*favelas*) (IBGE, 1991; 2000).⁶¹

Table 3.2 also shows that most of the neighborhoods have a per capita income below the municipality average. In addition, the comparison between the two censuses does not show a reduction of the gap with respect to the city average. Moreover, it should be noted that in some administrative regions (Centro and São Cristóvão), the share of income due to public transfers is above the average. Commerce and services are the main economic activities in the area, accounting for

87.8 percent of a total of 21,800 establishments in that area (Prefeitura da Cidade do Rio de Janeiro, 2003).

As for the provision of basic services, the neighborhoods in the area investigated have full coverage in terms of electricity provision and garbage collection. On the other hand, water supply is generally slightly below the municipal average (and substantially lower in Cidade Nova), with the exception of Gloria (IBGE, 2000).

Regarding land use, the neighborhood of Centro dominates the region in terms of total nonresidential buildings (commercial and government) with over 50,000 registered, followed by São Cristovão (8,000) and Estacio/Cidade Nova, with fewer than 5,000 each. In addition, Centro also has the highest levels of registered residential buildings.

3.1.5 Urban Development Policies

The interviews conducted during the survey reveal that there are many local policies tackling the different aspects of poverty. The following provides a brief overview of the main poverty-oriented programs taking place in downtown Rio de Janeiro. Unless otherwise indicated, programs are funded and administered by the city of Rio de Janeiro. Several of these pro-

⁶⁰ Other central areas that experienced a considerable reduction in population during the last decade are Santa Cristo (28 percent) and the neighborhood of Mangueira (29 percent).

⁶¹ In 1991, the number of residents living in *favelas* was about 85,000 (IBGE, 1991; 2000).

TABLE 3.2 Population and Per Capita Income of Central Urban Area Neighborhoods

Administrative regions and neighborhoods	1991			2000		
	Population	Per capita income ¹	Income from government transfer (percent)	Population	Per capita income	Income from government transfer (percent)
Portuária	44,085	236.54	15.08	39,973	283.60	15.94
Caju	17,636	187.79	10.75	17,679	236.59	13.05
Gamboa	11,507	269.06 ²	17.89 ²	10,409	320.57 ²	18.22 ²
Santo Cristo	12,340	269.06 ²	17.89 ²	9,618	320.57 ²	18.22 ²
Saúde	2,602	269.06 ²	17.89 ²	2,186	320.57 ²	18.22 ²
Centro	49,095	495.18	17.25	39,135	633.36	20.56
Centro	49,095	495.18	17.25	39,135	633.36	20.56
Rio Comprido	82,334	365.65	15.71	73,661	482.20	16.90
Catumbi	12,507	250.59	15.51	12,914	324.83	15.84
Cidade Nova	7,814	436.87	16.48	5,282	640.31	20.43
Estácio	20,950	328.58	16.23	20,632	413.05	16.25
Rio Comprido	41,073	433.54	16.24	34,883	590.26	17.50
São Cristóvão	80,360	276.56	14.74	70,945	363.41	19.03
Benfica	19,872	269.77	15.45	19,017	376.65	11.05
Mangueira	17,530	276.58	11.98	13,594	357.43	15.68
São Cristóvão	42,958	324.48	16.86	38,334	412.39	21.07
Paquetá	3,257	—	—	3,421	—	—
Paquetá	3,257	—	—	3,421	—	—
Santa Teresa	44,554	483.60	13.38	41,145	573.48	12.35
Santa Teresa	44,554	483.60	13.38	41,145	573.48	12.35
Total	303,695			268,280		
Rio de Janeiro	5,480,778	454.92	16.37	5,857,904	596.65	18.46

Source: IBGE, 1991; 2000

¹ Per capita income is calculated by dividing the total income of the household on a monthly basis by the number of members of the household. Income is evaluated in Brazilian reais of 2000.

² Values are provided for the group of neighborhoods Gamboa, Santo Cristo, and Saúde.

— Not available.

grams seek to address poverty issues indirectly through urban-upgrading investments.

- **Agentes de Liberdade:** a work-training program that offers three-month scholarships to the unemployed. In addition to training, the program also helps beneficiaries obtain proper documentation, such as identity cards. Following
- **Núcleos de Oportunidade Solidariam:** matches unemployed workers with jobs. Employers participating in this program are able to use the seal of the city government in order to promote the social responsibility of their businesses.

- **Mulheres em Ação:** trains and pays informal female leaders on the community level to act as observers of community activity and informants to the city government regarding situations in which families and/or individuals are in urgent need of social assistance.
- **Damas:** serves to advocate human rights for transvestite populations in downtown Rio de Janeiro.
- **Novas Alternativas:** developed in partnership with the federal government and administered by Caixa Economica Federal (federal savings bank). The objective of the program is to acquire degraded buildings (many of which have traditional architecture), to maintain the exterior of the building, and to create 5–10 small apartments in each building for low-income people.
- **Removal/Upgrading of Irregular Building Additions (cortiços):** seeks to make informal additions safe in addition to mediating rent arrangements between poor tenants and their landlords (deemed by interviewees to be successful).
- **City Government Support to Simplify Tax Payments for Small Businesses.**
- **Caixa Econômica Federal Credit Program:** makes small loans more easily available to small business owners in popular downtown markets.
- **Banco do Brasil Credit Program:** conducts a credit program similar to Caixa's credit program.
- **Rio Novo Antigo/ Corredor Cultural:** an urbanization program that has greatly facilitated the cultural and economic resurgence of Lapa. The program focuses on investing in street and building upgrading in areas frequented by local and international tourists at night.
- **Urban Control:** a security-oriented program of the *Guardia Municipal* that focuses on reducing conflicts between/among street vendors and others. The program also addresses the irregular use and occupation of public space downtown.
- **Transport:** discussions about this program to reinstall cable cars downtown are underway between the City of Rio de Janeiro and the National Development Bank (BNDS). It is unclear whether this would reduce transportation costs for those commuting downtown from the periphery.

Besides the above-mentioned initiatives, one of the most important projects given the size and expected impact on the society and economics of the city is the IDB financed urban development project, Urban Improvement Rio de Janeiro II. The main goal of the project is to improve the living conditions of the residents of *favelas and cortiços* (illegal extensions of existing buildings).

The project represents the second stage of a program under execution since 1995, which aims to upgrade living conditions in Rio's slums and illegal subdivisions.⁶² The

⁶² Another project under preparation financed by the IDB is the Urban Renewal Rio de Janeiro's Historic Center. With an estimated budget of US\$486,000, this project

amount approved and already disbursed by the IDB is US\$180 million out of a total budget of US\$300 million.

The project is made up of four components. The first, with a budget of US\$211 million, is focused on infrastructural improvements, community development, and regulation of property rights (technical and legal assistance for the regularization of the property). The second, with a budget of US\$25.5 million, aims to assist children and adolescents living in *favelas*. The third, with a budget of US\$9 million, seeks to improve access to employment through support to human capital accumulation. Finally, the fourth component, with a budget of US\$4.5 million, has the goal of institutional strengthening and is specifically aimed at improving the ability to monitor and evaluate the program through the provision of information and technical assistance to personnel.

3.2 The Survey

3.2.1 Methodology⁶³

The first step in determining the study area was to define an outline of the Central Business District (CBD). The CBD was defined through an examination of the Rio de Janeiro Strategic City Plan, brief demographic and economic analysis, and discussions with local specialists. The CBD for Rio de Janeiro has the following general characteristics:

- It is the center of major commercial activities for the city (as well as the state)

and includes the headquarters of many of Brazil's largest businesses.

- It has a small (and shrinking) resident population.
- It is characterized by a considerable volume of street commerce (much of which is informal) and small businesses, which make the CBD the center of all such economic activity in Rio de Janeiro.
- It includes major transport hubs and areas with traditional architecture, some of which are undergoing revitalization for purposes of housing, with other areas receiving investments associated with nightlife and tourist activity.

In order to determine if respondents were “poor” or not, two brief screening questions were asked. First, respondents were asked where they lived. In cases in which respondents stated they lived in poor neighborhoods or slums, it was still difficult to know if the respondent was “poor.” Thus, a second question was necessary in which respondents

finances consulting services aimed at improving the municipality's ability to carry out strategic planning that targets the urban renewal of the historic center (giving special attention to the access of the vulnerable groups to public goods and services).

⁶³ The investigation of downtown poverty in Rio de Janeiro included a series of interviews organized by Dr. Claudia Fernanda Riedlinger de Magalhaes and Dr. Alfred Pacile. Interviews with the following local administrators and stakeholders were conducted with Andre Urani (director of the Instituto de Estudos de Trabalho e Sociedade); Antonio Correia (director of urbanism, Instituto Municipal de Urbanismo Pereira Passos, Municipality of Rio de Janeiro); and Fernando Cavallieri (director of information for management, Instituto Municipal de Urbanismo Pereira Passos, Municipality of Rio de Janeiro).

were asked to indicate their economic class as popular (i.e., poor), low, middle, and high. If respondents responded popular, the interview continued based on the assumption that the person was actually poor. However, in some cases these respondent's categories were changed after completing the interview to nonpoor, for example, if their families had a per capita family income above 500 Brazilian reais.

3.2.2 Household Economic Profile

Relevant differences among groups arise when the overall household economic conditions are examined. Apart from the above-mentioned differences in earnings, there are also differences in terms of overall household economic income. The opportunity to obtain

income from sources other than work is not equally spread across groups; as expected, the nonpoor is the group with the highest opportunities of obtaining income from sources other than work, while no major differences exist *within* the poor concerning additional sources of income. On average, from other sources of income, the resident poor obtain less than the nonresident poor and, of course, less than the nonpoor. Overall, total monthly consumption shows very relevant disparities across groups (see Table 3.3), and the greater deprivation suffered by the resident poor is evident. Differences in income are enhanced when the family size of each group is also taken into account (see Table 3.9).

The differences in income across groups—between poor and nonpoor as well as *within*

TABLE 3.3 Consumption

	Nonresident poor	Resident nonpoor	Resident poor
Allocation of total income			
Rent	8.87%	12.77%	28.43%
Food	27.48%	14.87%	39.96%
Transport	13.42%	3.84%	6.95%
Public utilities (energy, gas, water)	8.50%	6.41%	10.69%
Clothes	2.29%	2.52%	4.39%
Health care services	4.14%	5.82%	2.85%
Education	4.49%	6.44%	1.38%
Other	1.99%	3.67%	3.02%
Problems in satisfying food needs			
Never	76.40%	91.96%	66.53%
Seldom	19.10%	8.04%	22.03%
Often	1.69%	0.00%	6.36%
Always	2.25%	0.00%	4.24%

Source: Author's elaboration based on survey data.

the poor—are also expressed by the differences in the consumption pattern of the different groups: overall, as expected, the nonpoor own more commodities than the poor. Among the set of commodities included in the questionnaire (see Annex I, Question F.5), the greatest differences arise for commodities with more marked technological features, such as mobile phones and computers; for transportation means (which are owned only by the nonpoor); and to a lesser extent for other commodities not related to the satisfaction of basic needs, such as electric irons or sewing machines. Within the poor, residents tend to own fewer commodities than nonresidents. Differences between poor and nonpoor and within poor arise also as far as the satisfaction of food needs is concerned. For example, in the three months prior to the survey, the nonpoor did not have any problem in satisfying the food needs and the resident poor were the most disadvantaged. It emerges, therefore, that the resident poor exhibit a further source of deprivation as expressed by their lower capability of satisfying basic food needs. Moreover, such a capability is further worsened for the poor—both for the nonresident poor and the resident poor—when the head of the household is female. In addition, the composition of household expenditures shows some differences between poor and nonpoor and within the *poor*. When expenditure is related to the household total income (monthly earnings and other sources of income) it is worth noting that the nonresident poor allocate twice as many resources to transport than the resident poor; moreover, differences also hold in terms of ex-

penditures on health and education. By contrast, the resident poor allocate more income than the nonresident poor to public utilities (water, energy, and gas), food expenditures, and rent.

The differences in deprivation across groups also come through somehow in the respondents' differing perceptions about their economic condition, with, in fact, the resident poor having a more negative evaluation than the nonresident poor and the nonpoor. Such a perception is worsened for the members of resident poor households with a female head. It is interesting to point out that when the perceptions about the overall economic situation of the neighborhood is investigated, different attitudes emerge across groups, namely between residents and nonresidents. These differences in perception appear to result more from the location of each group, rather than by their economic status; overall, nonresidents seem to have a better evaluation than residents, and for residents, the nonpoor exhibit better evaluations than the resident poor. Also, in this case the perception is more negative for members of households with a female head.

Therefore, apart from the expected differences between poor and nonpoor, differences *within* the poor groups emerge, though to a limited extent and with some specific features for each group. Resident poor households seem to suffer a more vulnerable status than the nonresident poor because they have a lower total income, own fewer commodities, and are less able to satisfy nutritional needs, their deprivation situation being somehow rep-

resented by their perception of the evolution of their condition. On the other hand, a *spatial* dimension of downtown poverty is suffered by the nonresident poor, who spend more time to go to work and to access services; they also allocate a greater share of income to transportation.

3.3 Survey Results

Education and Health

The data of the questionnaire show that services such as education and health do not exhibit major problems in Rio and cannot be considered to be a cause of absolute deprivation, though disparities do exist across groups.

As far as compulsory education is concerned, most people between the ages of

five and 14 attend school, with percentages well above 90 percent. Nonetheless, differences exist among the groups, with the nonpoor having the highest participation and the resident poor the lowest (see Table 3.4). Much lower participation rates occur for those people between 15 and 24 with major differences among groups, namely between the poor and nonpoor, and with the resident poor still in the most disadvantaged group. For this age group, the main common reasons put forward by the nonresident poor and the resident poor for not attending school is that they have a job and, to a lesser extent, that they have a general lack of interest in completing their studies.

The government is the main provider of education. Private for-profit organizations are the second most important provider, namely for nonpoor residents. Other providers, (churches, nonprofit organizations, and community groups)

TABLE 3.4 School Participation and Provision

	Nonresident poor	Resident nonpoor	Resident poor
School participation (5–14)	94.85%	96.00%	91.40%
School participation (15–24)	49.34%	86.27%	37.90%
Education provider (5–24)			
Government	80.84%	45.59%	87.12%
Church	0.00%	0.00%	2.27%
Private for-profit organizations	17.37%	48.53%	9.09%
Private nonprofit organizations	1.20%	4.41%	0.00%
Problems in using education (15–24)			
No problem	56.29%	79.41%	46.97%
Lack of books and supplies	8.38%	0.00%	15.91%
Poor teaching	7.19%	0.00%	6.82%
Lack of teachers	25.15%	5.88%	37.12%
Facilities in bad condition	11.98%	0.00%	12.12%
Other problems	1.20%	5.88%	3.79%

Source: Author's elaboration based on survey data.

play a negligible role. Marked differences occur among groups, mainly related to one's financial status (poor or nonpoor), since the nonresident poor and the resident poor rely far more than the nonpoor on public schools. A possible explanation for this disparity—other things equal—may be that the nonresident poor and the resident poor are not able to afford the costs of private education.

Through an analysis of education levels, it is possible to note marked differences between the poor (nonresidents and residents) and nonpoor. Overall, the nonpoor enjoy a far better level of education than the poor and, within this latter group, residents have a slightly lower level of education than nonresidents. The quality of schools is unsatisfactory for both the nonresident poor and the resident poor with the lack of teachers, poor conditions of facilities, and the lack of books/supplies cited as major problems by these groups. Major differences, therefore, exist because of one's financial status and are notable *within* the poor groups, as residents experience more problems than nonresidents.

In summary, the poor achieve a lower level of education than the nonpoor and, *within* the poor, nonresidents are overall more educated than residents. The nonpoor experience fewer problems as far as the quality of the education services are concerned and the nonresident poor fare slightly better than the resident poor. Differences arise as far as accessibility to education facilities is concerned.

In terms of health, no major conditions of sickness or injury seem to occur; at the same time no relevant differences in the health status

characterize the three groups (see Table 3.5). The interviewees seemed to enjoy overall a satisfactory health status; however, caution is needed in drawing conclusions as the number of nonrespondents was very high.⁶⁴ As far as the causes of sickness or injury, a large share of respondents indicated that “other causes” that those listed in the questionnaire (malaria, diarrhea, ear, nose or throat, teeth, skin, eye, accident) were relevant and, therefore, no clear-cut picture emerges. However, some of them—accidents, malaria/fever and ear, nose or throat—seem to be relevant, though with different weight across groups.

When health status is measured in terms of the numbers of days of work missed due to illness or injury, there seems to be differences between poor and nonpoor: as expected the nonpoor seem to enjoy a better health status.⁶⁵ No marked differences exist *within* the poor, though the resident poor appear to have a slightly worse health status than the nonresident poor.

Most of those who were injured in the six months prior to the survey used health care services, with some differences between the poor and nonpoor (see Table 3.6). From the survey, the conclusion can be drawn that the nonpoor rely more on private providers while the nonresident poor and the resident poor use more public providers. However, *within*

⁶⁴ Nonresident poor and resident poor nonrespondents represent 64.96 percent and 56.01 percent, respectively.

⁶⁵ These might be representative not only of difference in health status, but also in employment among groups; see subsection on employment.

TABLE 3.5 Health Status

	Nonresident poor	Resident nonpoor	Resident poor
Respondents who were sick or injured in the six months prior to the survey	10.54%	14.09%	12.11%
Number of weeks out of work due to sickness or injury			
None	35.29%	41.46%	37.04%
One week or less	38.24%	36.59%	22.22%
Between one and two weeks	2.94%	7.32%	8.64%
More than two weeks	13.24%	7.32%	17.28%
Kind of sickness or injury suffered			
Fever/malaria	4.41%	19.51%	12.35%
Diarrhea	2.94%	12.20%	3.70%
Accident	20.59%	14.63%	18.52%
Dental	1.47%	4.88%	6.17%
Skin condition	1.47%	2.44%	4.94%
Eye	7.35%	0.00%	11.11%
Ear, nose or throat	16.18%	29.27%	16.05%
Other	51.47%	41.46%	39.51%

Source: Author's elaboration based on survey data.

the poor, marked differences exist in the mix public/private care used: nonresidents use more private/nonprofit clinics and hospitals and private doctors and dentists, while residents use more public clinics and hospitals and community health centers.⁶⁶

The respondents appear to have problems in using health care providers, although to a different extent across groups, with the nonresident poor and the resident poor experiencing more problems than the nonpoor. The most relevant complaint refers to the time spent waiting and to the availability of drugs; however, all the others listed in the questionnaire (the expensive cost, the lack of trained professionals, unsuccessful treatment, and poor quality of facilities) were cited by the respondents. Moreover, overall the nonresi-

dent poor and the resident poor females seem to experience more problems than males in terms of the cost, the availability of drugs, and the time spent waiting. Therefore, differences occur between poor and nonpoor and within poor, with the resident poor experiencing more problems than the other groups.

For those who did not use health care providers in the six months prior to the survey, the main reason appears to be that they did not need their services. The other reasons listed in the questionnaire (expensiveness, distance) are negligible, therefore, showing that overall accessibility to health care services is not perceived as a problem.

⁶⁶ Percentages have been calculated taking into account only those who were sick or injured in the six months prior to the survey.

TABLE 3.6 Health Care Provision for Sickness and Injury

	Nonresident poor	Resident nonpoor	Resident poor
Where respondents sought health care services			
Private/nonprofit clinic/hospital	26.47%	41.16%	11.11%
Public clinic/ hospital	51.47%	36.59%	70.37%
Community health center	25.00%	9.76%	39.51%
Private doctor/dentist	11.76%	31.71%	3.70%
Pharmacy/chemist	41.18%	53.66%	43.21%
Traditional healer	4.41%	2.44%	2.47%
Other	2.94%	7.32%	0.00%
None	2.94%	7.32%	1.23%
Reasons for not receiving treatment			
No need	50.00%	33.33%	0.00%
Too expensive	0.00%	33.33%	0.00%
Other	0.00%	33.33%	100.00%
Problems while waiting/receiving attention			
No problem	25.76%	52.63%	30.00%
Facilities were not clean	10.61%	13.16%	16.25%
Long waiting time	54.55%	34.21%	50.00%
No trained professionals	18.18%	10.53%	18.75%
Too expensive	15.15%	18.42%	3.75%
No drugs available	34.85%	15.79%	40.00%
Treatment unsuccessful	12.12%	7.89%	12.50%
Other	3.03%	2.63%	0.00%

Source: Author's elaboration based on survey data.

In summary, differences exist between nonpoor and poor both in terms of health status and the ways health care needs are satisfied. The nonpoor seem to enjoy a better health status, to rely more on private providers, and to experience fewer health problems than the nonresident poor and the resident poor. Within the poor, the public/private mix differs; the resident poor have a worse health status and mainly rely on community help as well as public providers, and experience more problems using health care providers. Differences arise also as far as

accessibility to health care facilities is concerned.

Transport

One relevant aspect of the *spatial* dimension of downtown poverty refers to the accessibility to different services and facilities. Nonresidents, in fact, spend more time than residents to reach essential services such as schools, health care providers, transportation services, and their workplaces. Moreover, facilities such as food markets are less accessible for them.

TABLE 3.7 Transportation

	Nonresident poor	Resident nonpoor	Resident poor
Means of transportation used to reach school			
Walking	56.29%	38.24%	59.09%
School bus	3.59%	5.88%	6.06%
Public bus	40.12%	41.18%	23.03%
Train	1.20%	5.88%	0.76%
Another privately supplied mean of transportation	0.00%	11.76%	0.76%
Another personal mean of transportation	0.00%	0.00%	2.27%
Means of transportation used to reach health care provider			
Walking	28.79%	28.95%	52.50%
Public bus	65.15%	47.37%	55.00%
Another privately supplied mean of transportation	7.58%	15.79%	1.25%
Another personal mean of transportation	6.06%	13.16%	2.50%
Train	1.52%	7.89%	2.50%
Bicycle	1.52%	0.00%	0.00%
Means of transportation used to reach work			
Walking	4.35%	45.05%	62.05%
Public bus	70.11%	24.18%	33.85%
Train	20.65%	8.79%	2.56%
Another privately supplied mean of transportation	11.41%	1.10%	1.03%
Bicycle	0.54%	1.10%	1.54%
Another personal mean of transportation	4.35%	19.78%	1.03%

Source: Author's elaboration based on survey data.

The *spatial* dimension also affects the ways to access services and the workplace (see Table 3.7). Public buses are the most frequently used means of transport, mainly by the nonresident poor, with relevant economic effects on their budgets. The nonpoor and the resident poor mainly walk. The nonresident poor walk a great deal as well, notwithstanding the distance. They walk to school and to reach health care providers, a possible reason being the economic burden of public transport use. The nonpoor is the group that uses private and personal means of transportation the most.

Employment

The survey shows that the participation in the labor market of the population ages 15 to 65 in the six months prior to the survey seems very low (see Table 3.8), and does not exhibit differences among groups; however, it should be considered that due to the very high number of nonrespondents, this data is not completely reliable.⁶⁷ Moreover, it is worth noting that the phenomenon of child labor occurs only for the nonresident poor, and, although the per-

⁶⁷ Nonrespondents are above 50 percent for all groups.

TABLE 3.8 Occupation

	Nonresident poor	Resident nonpoor	Resident poor
Participation in the labor market in the six months prior to the survey	37.10%	38.24%	39.63%
Continuity of occupation in the six months prior to the survey	81.52%	90.11%	78.46%
Number of hours worked per week			
Less than 10 hours	0.54%	1.10%	1.03%
10–20 hours	2.72%	5.49%	3.08%
20–30 hours	7.61%	16.48%	8.72%
More than 30 hours	78.80%	75.82%	80.51%
Average monthly earnings (R\$)	1,330	2,550	835
Type of work			
Housewife	1.09%	0.00%	2.05%
Retiree	0.00%	2.20%	1.03%
Self-employed formally	7.07%	19.78%	4.62%
Self-employed informally	40.76%	21.98%	46.15%
Employed formally	37.50%	50.55%	29.23%
Employed informally	7.61%	2.20%	14.87%

Source: Author's elaboration based on survey data.

centage of children between the ages of 5 and 14 who work is not high, a condition of deprivation for the nonresident poor nonetheless occurs.⁶⁸ Relevant gender differences exist as well, with males exhibiting a much higher participation in the workforce than females.

For those who do not work, the reasons differ across groups: in fact, being a student is the most relevant explanation especially for the nonpoor; no work available and household/family duties are the most relevant common reasons for the resident poor and, to a lesser extent, for the nonresident poor. Gender differences are common to all groups: household/family duties are a motivation only for females, while the lack of a job is more relevant for males than for females.

Most of those who work did so continuously in the six months prior to the survey, with the resident poor experiencing a worse condition than other groups. Moreover, no major differences exist across groups as far as the number of hours of work is concerned, although the resident poor seem to work slightly more than the nonresident poor and the nonpoor.

Those who did not work continuously offered different reasons, the most important, for the resident poor and to a lesser extent for the nonresident poor, was the lack of a job, followed by illness. Being a student was the

⁶⁸ Of the nonresident poor group, 2.33 percent of the children between ages 5 and 14 had a job.

most relevant motivation for the nonpoor. In general, work seems to be an issue mainly for the poor, and *within* the poor groups, for residents in the sense that a relevant percentage of them would work if a job was available. A higher percentage also declared that the job they had was not continuous.

A further dimension to be analyzed refers to the specific features of the jobs of the members of the different groups, such as the kinds of employers and economic sectors they work for. Though caution should be used in evaluating the figures, because of the high percentages of nonrespondents (which vary across groups) there are some differences between the poor and nonpoor. No major differences occur *within* the poor. Nonresidents and residents are mainly self-employed in the informal sector, with the resident poor exhibiting a more vulnerable status depending on informality; on the other hand, the nonpoor exhibit an opposite profile, holding mainly formal jobs. Interestingly, only minor shares of the nonresident poor and the resident poor appear to work for family businesses; on the contrary, most of them are employed in the private sector. The nonpoor work mostly for the government, while this type of employment is negligible for the resident poor and the nonresident poor. Also in this case, the above caveat for the high number of nonrespondents holds true. Therefore, there are no differences related to the *spatial* dimension of poverty, but mainly to one's economic status (poor or nonpoor).

From the questionnaire, it is not possible to obtain a clear picture of the economic activ-

ities carried out by the interviewees since high percentages of the nonresident poor and the resident poor indicate “other activities” than those listed in the questionnaire. Commercial activities are the main activity for the nonresident poor and the resident poor, followed by construction, entertainment, and transport. Commercial activities are carried out also by the nonpoor, who are also involved in administration and education and entertainment.

Housing

Another important dimension of poverty in Rio relates to housing, for instance, living in informal settlements with inadequate access to basic services of dwellings (see Table 3.9). Informal arrangements do not appear widespread, although differences exist across groups. Ownership is more widespread for the nonresident poor than for the nonpoor and the resident poor, as these last two groups are renters. Therefore, as far as housing is concerned, the spatial dimension of poverty seems to be relevant, a tentative conclusion being that certain features of the downtown area make ownership unaffordable.

Location problems linked to features of downtown Rio seem to be confirmed when the size of dwelling—as measured by the number of rooms—is taken into account. Though differences across groups are small, it is worth noting that they hold between nonresidents and residents. However, the extent of such a small difference is also limited by the fact that dwellings are used for purposes other than living by nonresidents more than by the other

TABLE 3.9 Housing

	Nonresident poor	Resident nonpoor	Resident poor
Legal status of dwellings			
Ownership	62.92%	37.50%	24.15%
Rent	26.97%	56.25%	56.78%
Informal arrangements	9.55%	4.46%	8.90%
Other	0.56%	1.79%	8.90%
Size and occupancy			
Number of rooms	2.01	1.84	1.507
Number of beds	3.53	2.79	2.750
Family size			
Average number of members	3.66	2.62	2.95
Other uses			
Purposes other than living	11.24%	10.71%	10.17%

Source: Author's elaboration based on survey data.

two groups. Moreover, the density—as measured by the number of beds—is greater for nonresidents than for residents, reflecting the larger nonresidents' average household size.

Overall, the living conditions of dwellings seem satisfactory because of the availability of basic services. On average, for the nonresident poor and the nonpoor, over 90 percent of dwellings use electricity, gas for cooking, piped drinking water and sewages; the dwellings of the resident poor exhibit similar features, but to a lesser extent.⁶⁹

Problems of Downtown Poverty

The data on the existence and nature of the problems experienced by people living in downtown Rio are highlighted in Table 3.10. Pollution, begging, theft, traffic, vandalism, the cost of staple goods, and poor conditions of buildings are the problems that a majority of people perceive as challenges, either major

or minor, in living in downtown Rio. There are systematic differences connected with the different socioeconomic status of the residents, with a more diffused perception of the problems among the nonpoor. Quite surprisingly, the cost of staple goods is considered a problem by the majority of this group.

Sixty downtown businesses were surveyed for this report. The main characteristics of the firms in the sample are represented in Table 3.11. Considering their answers to the question about how strongly they are experiencing different challenges in doing business downtown (see Table 3.12), a significant majority of firms (almost three-quarters) indicate begging as the most relevant problem, immediately followed by insufficient parking and in-town competition.

⁶⁹ The nonpoor and the resident poor also use electricity to cook, though to a limited extent, probably because of specific problems in the provision to dwellings.

TABLE 3.10 Challenges Experienced by Residents

Challenges	Resident nonpoor	Resident poor
Conflict with building owner	14.55%	15.68%
Conflict with other residents	29.09%	25.85%
Expensive rent	41.82%	42.37%
High cost of staple goods	55.45%	58.90%
Pollution	83.64%	72.88%
Traffic	73.64%	65.68%
Poor building condition	60.00%	54.66%
Theft	75.45%	70.34%
Vandalism	69.09%	57.20%
Extortion	30.00%	30.08%
Begging	82.73%	71.61%
Street vending	41.82%	28.39%
Other	9.09%	4.24%

Source: Author's elaboration based on survey data.

TABLE 3.11 Characteristics of Business Activities

Nature of business	
Restaurant	21.67%
Retail	46.67%
Service	10.00%
Handicrafts	3.33%
Other	16.67%
Average number of employees	5.71
Average size of the store (sq. meters)	87.60
Years in business	
Under a year	6.67%
1–5 years	31.67%
6–10 years	27.67%
11–20 years	10.00%
Over 20 years	23.33%
Ownership of the store	
Owners	21.67%
Tenants	66.67%
Tenants, interested in purchasing	10.00%
Average permanence in current location (years)	10.71

Source: Author's elaboration based on survey data.

TABLE 3.12 Challenges Experienced by Downtown Businesses

Challenges	
Begging	73.33%
Insufficient parking	71.67%
In-town competition	63.33%
Expensive rent	55.00%
Traffic congestion	55.00%
Expensive employee wages or benefits	51.67%
Restrictive business regulations	51.67%
Shoplifting or theft	48.33%
Expensive or unavailable utilities	45.00%
Expensive shipping or transportation	45.00%
Vandalism	43.33%
Street vending	43.33%
Difficulty recruiting or retaining employees	36.67%
Poor building condition	35.00%
Insufficient financing	31.67%
Unskilled workers	23.33%
Out-of-town competition	16.67%
Extortion	15.00%
Conflict with owner or tenant	10.00%
Other	8.33%

Source: Author's elaboration based on survey data.

There is some convergence between residents and firms in terms of indicating certain problems, such as begging and traffic, yet firms report more problems specific to business activities, such as insufficient parking, in-town competition, restrictive regulations for business, and expensive employee wages and benefits. These perceptions signify that downtown working conditions are characterized by a wide variety of problems, which are not only limited to the potentially negative effects of downtown development and poverty. As for the nonresident poor, the characteristics of their street activities are summarized in Table 3.13.

There is a great deal of informal activity of a short-term nature in downtown Rio. As for the main challenges (either major or minor) faced by the nonresident poor, the data in Table 3.14 show that the most relevant is

TABLE 3.13 Characteristics of Nonresident Poor Street Activities

Nature of street activities	
Food	17.79%
Textiles	6.75%
Handicrafts	6.75%
Water	0.61%
Service	11.66%
Other	54.60%
Percent of activities carried out in a formal way	
	41.72%
Duration of activity	
Under a year	21.47%
1–5 years	41.72%
6–10 years	12.88%
11–20 years	11.66%
Over 20 years	9.82%
Percent of activities with fixed location	
	59.55%
Average permanence in current location (years)	
	4.9

Source: Author's elaboration based on survey data.

TABLE 3.14 Challenges Experienced by the Nonresident Poor

Challenges	
Traffic	71.17%
Theft	64.42%
Pollution	63.19%
Begging	61.35%
Vandalism	49.69%
Extortion	25.77%
Street vending	23.31%
Conflict with other street vendors	17.18%
Others	5.52%

Source: Author's elaboration based on survey data.

traffic, followed by theft, pollution, begging, and vandalism.

Therefore, there is a quite wide convergence with the problems indicated by residents. Only 22 percent of the respondents perceived the existence of conflicts with the municipal authorities and 13 percent complained of conflicts with police, minorities, and others. The data are consistent with the fact that street vending is not regarded as one of the main problems by both residents and firms, which confirms that the nature of the problems faced by people in downtown is not strictly related to the conditions of development and poverty in that area.

Impact on Welfare

The problems that characterize downtown Rio affect the welfare of residents to a significant extent: 28 percent of people in the area reported that they were dissatisfied with their current residence and 5 percent declared being very dissatisfied. The proportion of dissatisfac-

tion was greater for the poor (about 31 percent) than for the nonpoor (about 22 percent). About 22 percent of firms reported being dissatisfied with the location of their businesses downtown, more or less the same percentage as the nonresident poor. It is quite interesting to note that the vulnerability conditions of the resident poor are significantly stronger than the ones of the nonresident poor. This fact seems to be reflected in the dissatisfaction with simply being downtown, which is higher for the resident poor than for the nonresident poor.

The severity of the problems faced by the resident poor is also reflected in the answers to the question concerning moving plans. About 38 percent of the respondents who were living in downtown Rio expressed a desire to change residences. This is probably related to the overall level of dissatisfaction in downtown living: 56 percent of those who planned to move reported being dissatisfied or very unsatisfied. The percentage of people who reported that they wanted to change residence varies across the two groups of poor and the nonpoor, and is higher for the former (see Table 3.15).

For the poor who declared a desire to change residences, the cost of renting a house

represented a concern for about 42 percent of them, while 63 percent of the resident poor reported the cost of staple goods as a bigger problem. Therefore, it may be possible that the relative economic vulnerability of the poor with respect to other residents plays a role in plans to change residences. As was the case for the entire sample of the residents, the nonpoor who wanted to move perceived the problems of living downtown much more strongly than the poor: 86 percent of them regarded traffic as a challenge, either major or minor; 83 percent, begging; 83 percent, pollution, 74 percent, poor conditions of buildings; and 74 percent, theft. It appears that the negative externalities arising from the concentration of activities downtown and from the attraction of poor are negatively impacting the living conditions of nonpoor residents. However, not all respondents who planned to move necessarily wanted to abandon downtown (only half preferred another location outside of the downtown area). Interestingly, the percentage of the resident poor who wanted to move outside downtown was lower than that of the nonpoor. However, the perception of the problems of traffic and of the poor conditions of the buildings was more common among the nonpoor who planned to

TABLE 3.15 Respondents that Plan to Move from Current Location (*Home, Business, Street Activity*)

	Nonresident poor	Resident nonpoor	Resident poor	Firms
Plan to move from current location	32.52%	31.82%	41.10%	1.67%
Plan to move to another location downtown with better services (% of those who plan to move)	N/A	49.48%	40.00%	N/A
Plan to move to another location outside downtown (% of those who plan to move)	66.04%	49.48%	60.00%	N/A

Source: Author's elaboration based on survey data.

move outside downtown than among the entire group of nonpoor. Moreover, there are signs of some form of marginalization of certain areas within downtown, which suffer from a lack of investment in the restoration of buildings, affecting both groups of residents.

Based on the answers provided by firms, only one respondent expressed a plan to move out of downtown. This implies that even if there may be problems in carrying out business in downtown, they are not significant enough for the firms located there to induce them to abandon their current locations. Table 3.16 shows the data related to recent economic changes in business and the plans for future investments.

For one-quarter of the firms surveyed, business had decreased in the two years prior to the survey, while one-third had experienced an increase. The firms that had experienced a reduction in business in the two prior years were—on average—smaller than the ones that reported an increase in business (4.8 employees, on average, versus 7.4) and older (they had been at their current location for an average of 18.33 years versus 6.85 years for growing firms), while the proportion of owners was exactly the same in the two groups. It therefore appears that firms that had experienced some economic problems were less dynamic due to their age and size, a perception confirmed by how the different firms perceived the main reasons for the recent economic changes in their businesses. There are some differences in the evaluation of the different factors suggested in Question J.9 between those who experienced a reduc-

TABLE 3.16 Economic Situations of Firms in the Downtown Area

Firms which experienced a decrease in business	25.00%
Firms which experienced an increase in business	33.33%
Firms for which business remained the same	38.33%
Firms planning expansion downtown	28.33%
Firms planning expansion outside downtown	6.67%
Firms planning scaling down in the downtown area	1.67%
Firms planning scaling down outside the downtown area	5.00%
Firms with no plan for change	55.00%

Source: Author's elaboration based on survey data.

tion in business and others.⁷⁰ For the former, the main cause for the change is attributed to the decline in local/national economy (53 percent), immediately followed by the decline in the downtown business environment (33 percent). For those firms who reported increases in their businesses in the two years prior to the survey, the most important factors for their positive change are related to their capacity of improving their management (40 percent), the improvement in local/national economy (30 percent), and the improvement in customer service (25 percent). Therefore, it can be concluded that some changes are considered an opportunity for some firms and a threat by others, such as the ones related to the local and national economy. However, it does not appear that the downtown business environment is regarded as one of the main causes for the economic change in business in the previous two years. As for the firms' plans for future investments, almost one-third

⁷⁰ Question J.9: For what reason has your business increased in the last two years?

reported plans to expand products and services.

Finally, about one-third of the nonresident poor declared plans to move, which is a figure higher than the share of this group who reported dissatisfaction with their current location. Also, 38 percent of the group planning to change the location of their street activities wanted to move outside the downtown area.

In summary, on the basis of the data from the survey, it is possible to say that people living in downtown Rio suffer from the negative externalities arising from the concentration of activities in this part of the city, as well as from the lack of investment in the restoration of the buildings. Downtown businesses do not seem particularly affected by problems specific to the area, apart from the ones related to its congestion. Moreover, poverty does not appear to play a role in creating problems for the development of the area, but the poor, especially the resident poor, experience significant negative effects from downtown congestion.

4. VALPARAISO

4.1 City Overview

4.1.1 *Summary of the History and Population Dynamics*

The city of Valparaiso is located in a deep bay on the Pacific, 100 kilometers north of Santiago, the capital of Chile. Aspects such as its

bay—an ideal place for the development of a harbor—, a rather narrow coastal plain, and a shield of hills characterize the morphology of the city.

Valparaiso had a reasonable increase in population during the years of prosperity in the second half of the nineteenth century, due to the exports of wheat, especially to California, and growing commerce. In this period, the town experienced continuous growth of the port activities and a building expansion. The population grew by 35 percent between 1865 and 1875, and by 55 percent from 1885 to 1907. The 1890s were years of economic growth for the whole country, especially boosted by the sustained exports of saltpeter.⁷¹ Following the Great Depression of 1929, a period of restrictive trade policy and import substitution began. The ratio of national exports plus imports to GDP dropped sharply from about 65 percent to less than 20 percent in this period. The deterioration in trade, which remained stagnant until the beginning of 1970s, and the lack of new investments to transform the productive sector caused a progressive decline of the economy of Valparaiso. In addition, between 1974 and 2003, during which time the national economy underwent severe crises (especially in 1975 and between 1982 and 1984), vast transformations, and sustained growth (starting from 1985), Valparaiso was unable to reach a con-

⁷¹ Following the War in the Pacific, which ended in 1881, the contribution of the mining sector to national GDP went from 12 percent to 30 percent in 1920 (CPRDV, 2005).

dition comparable to that of the beginning of the century.

The economic stagnation also had an impact on the population size of Valparaíso. The yearly rate of population growth was on average less than 1 percent between 1930 and 1970. Moreover, the rates of net migration from the city were generally higher than 15 percent, starting from 1960, with the exception of the decade between 1982 and 1992, when it was 13.4 percent (CPRDV, 2005).⁷² From 1992 to 2002 the population decreased at a rate of 2.3 percent.

As Valparaíso reduced its sphere of influence, other cities in the same area expanded vigorously, in particular Viña del Mar (see Table 4.1). Viña del Mar developed rapidly after the earthquake of 1906 and established itself as a principal tourist resort.

It should also be highlighted that since 1970, both Valparaíso and Viña del Mar have registered a share of elderly population substantially higher than averages in other cities in the metropolitan region and country as a whole. The reasons are probably different for the two cities, as the first loses people in their

active age and the second gains people during their retirement age.

4.1.2 Institutional Framework

Chile is divided into 13 regions, including the Metropolitan Region of Santiago. The Aconcagua Region of Valparaíso includes the metropolitan area, or province, of Valparaíso. According to the 2002 census, the region has a population of 1,539,852. More than 90 percent of the region's population lives in urban areas.

The main institutional levels of policy-making are national and municipal. However, the system appears rather centralized, in contrast with the countries and cities discussed in the previous case studies. In general, policies are mainly decided at the national level, although there are some exceptions. The regions do not constitute a political level clearly distinct from that of the national government.

⁷² More importantly for the development of the town, data starting from 1997 show that a large majority of the migrants belong to productive classes, such as technicians, artisans, and factory workers.

TABLE 4.1 Urban Population in the Metropolitan Area of Valparaíso, 1885–2002

Municipality	1885	1907	1930	1952	1970	1992	2002
Valparaíso	104,952	162,447	193,205	218,829	252,708	281,707	275,141
Viña del Mar	4,859	26,262	49,488	85,281	188,385	303,589	286,931
Quilpé	0	4,114	6,282	16,332	54,555	102,233	126,893
Villa Alemana	0	0	4,393	9,027	34,164	70,663	94,802
Concón	0	0	0	0	0	0	31,558
Valparaíso Metropolitan Area	109,811	192,823	253,368	329,469	529,182	758,192	860,950

Source: Various censuses; CPRDV, 2005.

4.1.3 *Economics and Sociodemographics*

At the regional level, the growth rate of the Aconcagua Region between 1975 and 2001 was 2.2 percent, much below the national rate (3.2 percent) and the rate in the nearby metropolitan region (3.3 percent) (CPRDV, 2005).

The economic decline of the city of Valparaiso is evident not only from its population dynamics mentioned in subsection 4.1.1. According to CPRDV (2005), a socioeconomic comparison of Valparaiso and other municipalities of the Gran Valparaiso Region (in particular Viña del Mar), the metropolitan region and the rest of the country show an improvement of some economic indicators, yet Valparaiso still lags behind the above-mentioned territorial entities.

In addition, the unemployment rate of Valparaiso is higher than that registered in the area or the country. In 1992, the rate was 10.7 percent in Valparaiso, 9.1 percent in Viña del Mar, 9.9 percent in Gran Valparaiso, 8.7 percent in the metropolitan region, and 8.4 percent in the country. After 10 years, the situation was worse for all of these areas: the unemployment rate went up to 15.2 percent in Valparaiso, 13.9 in Viña del Mar, 14.5 in Gran Valparaiso, 12.4 in the metropolitan region, and 13.5 in the country (CPRDV, 2005).

The coverage of utilities (drinkable water, electricity, and sewage) nonetheless is very good: water is supplied to more than 99 percent of the residents and electricity to more than 98 percent.

Regarding education, the education level in the municipality is high. The literacy rate is around 99 percent, and about 66 percent of the population older than five years of age have an education level above the basic level (*nivel de instrucción básico*), similar to the situation of the province (INE, 2003). The share of the economically active population (above 15 years old) is almost 50 percent, with students making up more than one-quarter of the inactive population. This percentage is similar to the province average.

4.1.4 *Downtown Valparaiso*

The colonial city of Valparaiso is an important example of the urban and architectural development that took place in the nineteenth century in Latin America. The presence of an important port allows for many different influences (German, English, French, and North American) that have created a unique architectural style in Valparaiso. The city has three main sectors: the seaside, the *cerros* on the hill, and the *plan*, a flat zone whose most interesting area is *El Almendral*. This area of important historic value is characterized by a very compact and homogeneous urban texture and pleasant public spaces.

The historic center of Valparaiso hosts several economic and social functions, such as harbor activities, industrial plants, financial and trade offices, shops, restaurants, hotels residential buildings, administrative offices of the municipality and the region, other public buildings and spaces, schools, hospitals, and a university complex.

In 1994, the Valparaíso Local Authority defined an “Urban Renewal Area” with preferential housing subsidies and higher priority to invest in public space renewal with public funds. In 2004, a central sector of this historical area was designated a World Heritage site by UNESCO and is therefore subject to special protection plans.

4.1.5 Urban Development Policies

In recent years, Valparaíso has benefited from special governmental funding aimed at revitalizing and eventually repopulating the central part of the city that has been suffering a process of obsolescence and decay. The *Ley de Concesiones de Infraestructura Pública* of 1992 introduced a system of public procurement which encourages the involvement of the private sector not only in terms of project implementation, but also in its financing and management stages.

In 2000, Chile’s Ministry of Housing and Urbanism implemented in Valparaíso a national program of urban rehabilitation called “Vive tu historia,” which has provided subsidies for the urban heritage and housing rehabilitation in the historic center. The total investment was 246 million Chilean pesos, a share of which (about 32.6 million) was provided by the municipality. The program has also generated direct investments of 783 million pesos, with an estimated revaluation of the estate value of more than 5 billion pesos (Gobierno de Chile. Ministerio de Vivienda y Urbanismo).⁷³

In 2005, the IDB approved a loan for the urban rehabilitation and development of Val-

paraíso, *Programa de Recuperación y Desarrollo Urbano de Valparaíso* (CH-L1004). The goal of this project is to contribute to the rehabilitation and valorization of the urban heritage of Valparaíso, supporting the development of social and economic activities, especially those aimed at low-income groups.

The project, now in the implementation phase, aims to support new investments by the private sector, including the removal of obstacles hindering the creation of new private economic activities in the city’s vocational sectors. The total budget is US\$73 million, which includes US\$48 million in country counterpart funding. The executing agency is the Subsecretary of Regional Development. The program has the following four components:

- Institutional strengthening of the executive branch of the regional government and the municipality (*Intendencia*) to ensure that all bureaus operating at various government levels have the capacity required for development planning, financial management, public resource management, and project evaluation (budget: US\$4.5 million).
- Economic and sociocultural development to stimulate private and public investments for the modernization of the firms, the supply of services to tourism, and the strengthening of the university (budget: US\$6.93 million).

⁷³ At the national level, from 2002 to 2005, the program has involved about 65 municipalities with an investment of more than 21 billion Chilean pesos (Gobierno de Chile. Ministerio de Vivienda y Urbanismo).

- Urban renewal and conservation of historic and cultural heritage, to preserve the cultural heritage of Valparaiso as well as stimulate new social, economic, and cultural activities. The revitalization of the center would focus, in particular, on the restoration of public areas and buildings in order to stimulate private investment (budget: US\$51.8 million).
- Communication and participation to disseminate information about the program and encourage community participation in the decision making, implementation, and evaluation process (budget: US\$1.9 million).

4.2 The Survey

4.2.1 Methodology⁷⁴

For purposes of the survey, the Urban Renewal Area was considered the central area of the city, but the sample selection was concentrated in the UNESCO World Heritage sector. To select areas with a significant share of “poor” inhabitants, a definition was used considering two variables: lacking (defined by the housing conditions, access to infrastructure and sanitation) and vulnerability (defined through the combination of a group of social variables, such as household constitution, education level of head of household and spouse, and number of household members). These two variables make up a four-cell entry box and define four situations: critical poor, inertial poor, recent poor, and nonpoor.⁷⁵

	VULNERABLE	NOT VULNERABLE
Lacking	Critical poor	Recent poor
Not lacking	Inertial poor	Nonpoor

For the study, areas with a majority considered “critical poor,” for the resident poor sample, and areas with a majority considered nonpoor, for the nonpoor resident sample, were selected.

Valparaiso has a periphery with a poor population. Nevertheless, because of its special geography—a flat area at sea level and a relatively flat area at the top of a ring of hills with a very steep area between these two flat areas—the poor also tend to locate in the residual spaces, such as ravines or steep slopes between the two plains, which in some cases, are very close to the city center. To identify areas with a concentration of poor and nonpoor, census data and the variables indicated above were used. The following areas were identified and selected:

⁷⁴ Juan de Dios Ortuzar S. and Margarita Greene, Asesorias Profesionales e Inversiones Ltda., under the supervision of Margarita Greene, carried out the interviews, which had the objective of investigating downtown poverty in Valparaiso. Additional interviews with the following local administrators and stakeholders were organized and conducted by Margarita Greene: Todd Temkins, president of the Valparaiso Foundation; Alfonso Salinas, head of the VALPO MIO program (financed by the IDB, with the objective of supporting economic development with special attention to social and patrimonial aspects, with particular attention to four issues: transportation, education, commercial activities, and public safety); and Margarita Gaete of the municipality’s Directorate for the Development of Valparaiso

⁷⁵ The inertial poor are defined as those with upward mobility who are above the poverty line, or those have enough income to buy minimum goods and services, but do not have all their basic needs met.

- **Poor Area 1:** Subida Carampangue, Ladera Cerro Arrayán, calles Palomar, Ortizar. This area includes approximately 71 households, 72 percent of which can be classified as critical poor.
- **Poor Area 2:** Quebrada Cajilla, Ladera Cerro Perdices, calles Cajilla, Ruben Darío, Sucre. This area includes approximately 115 households, 60 percent of which can be classified as critical poor.
- **Poor Area 3:** Jose Tomas Ramos, Ramon Angel Jara. This area includes approximately 62 households, 68 percent of which can be classified as critical poor.
- **Nonpoor Area 1:** Cerros Alegre y Concepción, calles Lautaro Rosas, San Enrique, Sta Isabel, Templeman, Alnte Jorge Montt. This area is the most traditional residential area, where richer families live fairly isolated from the poor by being on the top of the first hill. The area includes approximately 210 households, of which 55 percent can be classified as nonpoor.
- **Nonpoor Area 2:** Edificio Banco de Solidaridad Estudiantil, calle Esmeralda (near poor areas 1 and 3). This is a six-story building inhabited by what can be characterized as the traditional middle class. Approximately 100 percent of the 54 households can be classified as nonpoor.
- **Mixed Nonpoor and Poor Area:** Población Marquez. This is a group of five buildings of apartments between 5 and 6 stories high built in 1948. It is the

first social housing intervention in Valparaíso. At the time, the government was already aware of the loss of population in the central areas and was therefore promoting the repopulation of downtown areas. The building is considered a good example of Modern Movement architecture and today houses poor and nonpoor—both owners and tenants—in a very central area, close to their workplaces (traditional port workers). These buildings house approximately 161 households, of which 45 percent can be classified as critical poor and 55 percent as nonpoor.

Two filters were used to identify the poor and the nonpoor. The first filter was used prior to entering the house, and the second as an internal check during the interview. The filter to enter the house considers the type of house and building materials. The second filter was applied using questions about the possession of basic commodities and the level of education. In this way, the poor and nonpoor are categorized in five groups (one for the poor and four for the nonpoor).

Altogether, 360 residents were interviewed for the survey, including 120 nonpoor and 240 poor. In addition, 180 nonresident poor and 60 firms were interviewed. The nonresident poor and commercial enterprises were selected from a database of businesses and organizations provided by geographer Luis Alvarez. An initial business address in the World Heritage Area was selected; then a list of 29 microbusinesses was selected, together

with a list of 16 small commercial activities that host modest enterprises, subemployment, and marginal support. The list also includes community organizations related to the nonresident poor population.

4.2.2 Household Economic Profile

Relevant differences among groups arise when the households' overall economic conditions are examined. Apart from the above-mentioned differences in earnings, there are also differences in terms of the overall economic revenues of households. These differences occur between poor and nonpoor and also *within* poor. In fact, as expected, the nonpoor represent the group with more opportunities to obtain income from sources other than work; while the resident poor have additional

sources of income to a greater extent than the nonresident poor. For all groups, the households with a female head have more opportunities for additional income than households with a male head. On average, from the other sources of income, the nonresident poor earn less than the resident poor, and of course, less than the nonpoor. Gender differences arise in the sense that the nonresident poor and the resident poor households with a male head have more additional income than households with female head.

Overall, total monthly consumption varies across income groups (see Table 4.2), with the greater deprivation suffered by the nonresident poor being emphasized.

The differences in income across groups—*between* the poor and nonpoor as well as *within* the poor—are also expressed by the dif-

TABLE 4.2 Consumption

	Nonresident poor	Resident nonpoor	Resident poor
Allocation of total income			
Rent	10.34%	14.24%	20.18%
Food	40.90%	26.69%	34.91%
Transport	14.31%	7.07%	7.37%
Public utilities (energy, gas, water)	14.14%	9.91%	13.63%
Clothes	2.08%	3.27%	2.70%
Health care services	2.27%	3.06%	1.44%
Education	1.45%	5.52%	1.76%
Other	1.24%	1.93%	2.54%
Problems in satisfying food needs			
Never	20.00%	75.83%	41.25%
Seldom	36.11%	17.50%	35.00%
Often	37.22%	5.83%	19.17%
Always	6.11%	0.00%	4.17%

Source: Author's elaboration based on survey data.

ferences in the consumption patterns of the various groups: overall, as expected, the non-poor own more commodities than the poor. Among the set of commodities included in the questionnaire (electric irons, televisions, radios, sewing machines, gas/electric stoves, bicycles, motorcycles, cars or trucks, carts, mobile phones, video players, DVD players, personal computers), the greatest differences arise for the commodities with more marked technological features, such as mobile phones and computers, and those used for transportation (cars and trucks), which are owned only by the nonpoor, and to a lesser extent for other commodities not related to the satisfaction of basic needs such as electric irons or sewing machines. *Within* the poor, nonresidents tend to own fewer commodities than the resident poor, though differences are not marked.

The satisfaction of food needs dramatically differs between the poor and nonpoor and *within* the poor: in the three months prior to the survey, as expected, the nonpoor had significantly fewer problems than the poor and, *within* the poor, nonresidents experienced more severe problems than residents. It emerges, therefore, that the nonresident poor exhibit a further source of deprivation, as expressed by their lower capability of satisfying food needs. On the other hand, such a capability is further worsened for poor, both for nonresidents and residents, when the head of the household is female.

The composition of the household expenditure in relation to total income (monthly earnings plus additional sources

of income) shows some differences between the poor and nonpoor and *within* the poor. It is worth noting that the nonresident poor allocate twice as many resources to transport than the resident poor and that differences, to a lesser extent, also hold true regarding the expenditure for utilities (water, energy, gas). Notwithstanding the above-mentioned problems in satisfying food needs, the nonresident poor allocate a greater share of their income to food. On the other hand, the resident poor allocate twice as many resources to rent than the nonresident poor and the nonpoor allocate more resources to education and health compared with the poor. Notwithstanding the above differences in deprivation across groups, it is interesting to point out that overall, all groups have fairly positive perceptions about the evolution of their economic condition in the previous year, with no major differences across groups. Such a perception is worsened for the members of the nonresident poor and the resident poor household with a female head. Different attitudes across groups emerge when the overall economic situation of the neighborhood is taken into account, though to a limited extent. Regarding perceptions of neighborhoods, the differences between groups do not seem to depend on location, but rather on economic status, with the nonpoor exhibiting less negative evaluations than the poor and *within* this group, the resident poor having a less optimistic perception than the nonresident poor.

In summary, expected marked differences emerge between the poor and nonpoor;

in addition, differences arise *within* the poor, although to a limited extent. Nonresidents appear to have a more vulnerable status than the resident poor and are less educated. Additionally, they mainly work as self-employed in the informal sector and spend more time to go to work and to access services. Nonresident poor households appear to suffer a more deprived status than the resident poor because they enjoy lower total income, own fewer commodities, and are less able to satisfy food needs, while at the same time they allocate a greater share of income to transport.

4.2.3 Survey Results

Education and Health

The data of the questionnaire show that services such as education and health do not

exhibit major problems and cannot be considered to be a cause of absolute deprivation, although disparities exist across groups. As far as compulsory education is concerned, most of the children between the ages of 5 and 14 attend school, with percentages well above 90 percent for all groups. The nonresident poor show the highest participation at school and the resident poor the lowest (see Table 4.3). Much lower participation rates occur for those between 15 and 24 with differences between the poor and nonpoor; the nonpoor group has the lowest participation rate. For this age group, the most common reason for not attending school offered by almost all nonpoor respondents, and by most of the nonresident poor and the resident poor, is age or the fact that education has been completed. For the nonresident poor and the resident poor, reasons included the

TABLE 4.3 School Participation and Provision

	Nonresident poor	Resident nonpoor	Resident poor
School participation (5–14)	96.91%	95.24%	92.68%
School participation (15–24)	46.00%	25.33%	44.76%
Education provider (5–24)			
Government	97.86%	77.97	94.41%
Church	0.00%	0.00%	2.48%
Private for-profit organizations	0.71%	16.95%	0.62%
Private nonprofit organizations	0.71%	1.69%	1.24%
Problems in using education (15–24)			
No problem	81.43%	91.53%	80.12%
Lack of books and supplies	15.00%	1.69%	9.94%
Poor teaching	2.14%	6.78%	4.97%
Lack of teachers	1.43%	5.08%	4.35%
Facilities in bad condition	0.71%	1.69%	8.70%

Source: Author's elaboration based on survey data.

expensive cost, a lack of interest, and job interference.

When the *level of education* is analyzed, marked differences occur between the poor (nonresidents and residents) and nonpoor. Overall, the nonpoor population achieves a far better level of education than the poor, and no major differences arise within this latter group.

The government is the main provider of education, and the nonresident poor and the resident poor rely on public education more than the nonpoor. Private, for-profit organizations are the second most important provider, but only have a relevant role for the nonpoor. For all groups, the church plays almost no role. For a very large share of those who attend school, going to school does not involve many

challenges, although the nonpoor exhibit fewer problems than the poor and gender differences exist in the sense that nonresident poor and resident poor females experience more problems than males. However, the major problem for the nonresident poor and the resident poor seems to be the lack of books and supplies. The lack of and overall poor quality of teachers are mainly problems for the nonpoor and the resident poor.

As far as health status is concerned, no major conditions of sickness or injury seem to occur. At the same time, no relevant differences in health status characterize the three groups (see Table 4.4).

Regarding the causes of sickness or injury, the answers to the questionnaire do not allow for a clear picture, since significant num-

TABLE 4.4 Health Status

	Nonresident poor	Resident nonpoor	Resident poor
Respondents who were sick or injured in the six months prior to the survey	28.05%	24.94%	25.10%
Number of weeks out of work due to sickness or injury			
None	30.95%	34.95%	17.84%
One or less	18.45%	5.83%	7.03%
Between one and two weeks	9.52%	0.97%	2.16%
More than two weeks	14.29%	4.85%	3.78%
Kind of sickness or injury suffered			
Fever/malaria	19.64%	11.65%	10.27%
Diarrhea	1.79%	0.97%	0.54%
Accident	8.93%	6.80%	4.86%
Dental	4.76%	2.91%	4.86%
Skin condition	1.79%	0.97%	0.54%
Eye	5.95%	4.85%	2.70%
Ear, nose, or throat	20.24%	31.07%	34.59%
Other	44.64%	48.54%	44.86%

Source: Author's elaboration based on survey data.

bers of respondents indicated “other causes” apart from those listed in the questionnaire (malaria, diarrhea, ear, nose or throat, teeth, skin, eye, accident). However, some of the causes—ear, nose or throat, malaria/fever, accidents—seem to be relevant, although with different weights across groups.

When health status is measured in terms of the numbers of days of work missed due to illness or injury, there seems to be differences between poor and nonpoor; as expected, the nonpoor seem to experience fewer health problems than the nonresident poor. However, caution should be used in drawing any conclusions because of the different numbers of nonrespondents for each group.⁷⁶ Moreover, it is worth noting that the

number of days of work missed can be representative not only of differences in health status, but also of differences in employment status among groups.

All the nonpoor people who were injured or sick in the six months prior to the survey used health care services (see Table 4.5), and only small percentages of the nonresident poor and, to a lesser extent, of the resident poor did not use such services. Most respondents who did not use health care in the six months prior to the survey explained that they did not need it. Overall, the respon-

⁷⁶ Nonrespondents range from 26.79 percent (the nonresident poor) up to 69.19 percent (the resident poor).

TABLE 4.5 Health Care Provision for Sickness and Injury

	Nonresident poor	Resident nonpoor	Resident poor
Where respondents sought health care services			
Private/nonprofit clinic/hospital	5.95%	20.39%	2.70%
Public clinic/hospital	82.14%	76.70%	91.35%
Private doctor/dentist	0.60%	2.91%	4.86%
Pharmacy/chemist	13.10%	9.71%	3.24%
None	8.93%	0.00%	2.16%
Reasons for not receiving treatment			
No need	86.67%	0.00%	75.00%
Other	20.00%	0.00%	25.00%
Problems while waiting/receiving attention			
No problem	66.01%	86.41%	77.35%
Facilities were not clean	1.96%	0.97%	1.10%
Long waiting time	26.80%	12.62%	16.02%
No trained professionals	3.27%	0.00%	2.21%
Too expensive	3.92%	0.00%	0.00%
No drugs available	5.88%	0.97%	3.31%
Treatment unsuccessful	1.31%	0.00%	1.66%

Source: Author's elaboration based on survey data.

dents in the three groups reported very few problems in accessing health care services.

On the whole, the use of public clinics and hospitals is the most widespread for all groups, with a more relevant role for the nonresident poor and the resident poor than for the nonpoor. This latter group also relies on private providers. Moreover, a marked difference refers to the use of the pharmacy, which is more relevant for the nonresident poor and, to a lesser extent, for the nonpoor and the resident poor. Gender differences arise at individual as well as household levels for the poor; in fact, members of the nonresident poor and the resident poor households with a female head tend to use private providers less than members of the nonresident and resident poor households with a male head.

The respondents appear to have some problems in using health care services, although to a different extent across groups, with the nonresident and resident poor experiencing more problems than the nonpoor. The most relevant complaint was excessive waiting times, the availability of drugs, and expensive costs. The other problems listed in the questionnaire (dirty facilities, lack of trained professionals, unsuccessful treatment, poor quality of facilities) seem to be negligible for most of the respondents, but still more relevant for the nonresident poor than for the resident poor and the nonpoor.

In summary, differences exist between nonpoor and poor both in terms of health status and how health care needs are satisfied. The nonpoor seem to enjoy a better health

status and to rely more on private providers. *Within* the poor, nonresidents appear to have a worse health status, mainly rely on public providers, and experience more problems in using health care services.

Transport

Nonresidents seem to have less accessibility to different facilities, reflecting the *spatial* dimension of downtown poverty; in fact, this group spends more time than residents to reach food markets, public transportation, primary schools, secondary schools, hospitals, pharmacies and doctors, with health facilities—both hospitals and doctors—being less accessible than education facilities. Distances, however, seem not to be dramatic since, on average, almost half of the nonresident poor spend between 15 and 30 minutes (similar shares of residents, and the resident poor spend less than 15 minutes), and only very minor percentages spend between 45 minutes and 1 hour to reach these destinations.

The *spatial* dimension also affects how people access services and employment (see Table 4.6). Public buses are the most used means of transport, mainly by the nonresident poor, with relevant economic effects on their budgets. Despite the distance, the nonpoor and the resident and nonresident poor mainly walk to school, to health care providers, and to work, a possible reason being the economic burden of using public transport. Private and personal means of transportation are mainly accessible only to the nonpoor.

TABLE 4.6 Transportation

	Nonresident poor	Resident nonpoor	Resident poor
Means of transportation used to reach school			
Walking	56.29%	38.24%	59.09%
School bus	3.59%	5.88%	6.06%
Public bus	40.12%	41.18%	23.03%
Another privately supplied mean of transportation	0.00%	11.76%	0.76%
Another personal mean of transportation	0.00%	0.00%	2.27%
Means of transportation used to reach health care provider			
Walking	28.79%	28.95%	52.50%
Public bus	65.15%	47.37%	55.00%
Another privately supplied mean of transportation	7.58%	15.79%	1.25%
Another personal mean of transportation	6.06%	13.16%	2.50%
Means of transportation used to reach work			
Walking	4.35%	45.05%	62.05%
Public bus	70.11%	24.18%	33.85%
Train	20.65%	8.79%	2.56%
Another privately supplied mean of transportation	11.41%	1.10%	1.03%
Bicycle	0.54%	1.10%	1.54%
Another personal means of transportation	4.35%	19.78%	1.03%

Source: Author's elaboration based on survey data.

Employment

The participation in the labor market of the population ages 15 to 65 is not very high and exhibits a difference mainly between the poor and nonpoor (see Table 4.7), with the nonresident poor showing the highest participation rate. Relevant gender differences exist for all groups, with males exhibiting a much higher participation rate. Some differences also occur at the household level; participation in the workforce is higher for members of the nonresident and resident poor households with a female head of household.

However, the percentage of those without jobs in the six months prior to the survey

was quite high. The reasons for not working offered by the respondents differ across groups: in fact, being a student was the most relevant explanation especially for the nonpoor while household/family duties was the second most important reason for all groups.

Of those who did work in the six months prior to the survey, the nonresident poor declared the worst conditions and females in this group had less continuous work than males. Overall, reasons for not working continuously differed among groups: the nonresident poor claimed illness was the main reason, while the nonpoor and resident poor indicated the lack of jobs as the main cause.

TABLE 4.7 Occupation

	Nonresident poor	Resident nonpoor	Resident poor
Participation in the labor market in the six months prior to the survey	64.45%	58.69%	54.04%
Continuity of occupation in the six months prior to the survey	71.17%	85.47%	84.29%
Number of hours worked per week			
Less than 10 hours	4.63%	7.82%	5.36%
10–20 hours	10.32%	6.15%	11.49%
20–30 hours	14.23%	10.61%	16.86%
More than 30 hours	69.40%	71.51%	65.90%
Average monthly earnings (Chilean Pesos)	165	505	216.5
Type of work			
Housewife	0.36%	0.00%	0.00%
Self-employed formally	7.47%	22.91%	22.22%
Self-employed informally	76.16%	6.70%	29.50%
Employee formally	9.25%	63.69%	47.13%
Employee informally	5.34%	3.91%	1.15%

Source: Author's elaboration based on survey data.

Among those who did work, no major differences were declared in terms of the number of hours worked; however, monthly earnings were not consistent. As expected, the nonpoor earned more than the poor, and *within* this group, nonresidents earned less than the residents. Gender differences were apparent in the sense that females earned less than males. In general, lack of work seems to be an issue mainly for the nonresident poor. A relevant percentage would work if a job were available.

A further dimension to be analyzed refers to the specific features of the jobs carried out by members of the different groups. Nonresidents are mainly self-employed in the informal sector. The resident poor are mainly formal employees, but are also self-employed—both for-

mally and informally—, while the nonpoor work almost exclusively in the formal sector. Therefore, differences are mainly related to location, with nonresidents exhibiting a more vulnerable status depending on informality.

Consistent with these labor features, the nonresident poor mainly work for family businesses and only to a moderate extent are employed in the private sector; the opposite pattern holds for the nonpoor and the resident poor. Commercial activities are the most widespread across all the groups, but with different weights: for the nonresident poor this is the main activity, yet for the resident poor other services and construction are also relevant. Furthermore, the nonpoor are also involved in other services and administration.

Housing

Another important dimension of poverty relates to housing, such as living in informal settlements with inadequate access to basic services. Major differences exist across groups: informal arrangements seem to play a relevant role mainly for the nonresident poor and, on a smaller scale, for the resident poor. On the other hand, the ownership of the dwelling is more relevant for the nonresident poor than for the resident poor. The nonpoor groups tend to exhibit similarities to the resident poor; a tentative conclusion is that the features of downtown are such that home ownership is not affordable. Gender differences also occur, but vary across groups: for the nonresident poor households with a female head, ownership is less common than when the head is a male. The size of dwelling, as measured by the number of rooms, differ across groups, namely between the poor and nonpoor (see Table 4.8).

The living conditions of dwellings seem satisfactory because of the availability of basic services. On average, for the nonpoor and the resident poor, over 90 percent of dwellings use electricity, gas for cooking, piped drinking water, and have sewage service; nonresident poor dwellings exhibit similar features, but to a lesser extent concerning sewage services and piped drinking water.

Problems of Downtown Poverty

The answers provided by the residents included in the Valparaiso sample (see Table 4.9) reveal that perceptions of the typical problems of living downtown are either not very diffused or not uniformly diffused.

Except for theft, which is considered either a major or minor challenge by 62.5 percent of the sampled residents, the other problems are regarded as challenges by a minority of residents, but with greater differ-

TABLE 4.8 Housing

	Nonresident poor	Resident nonpoor	Resident poor
Legal status of dwellings			
Ownership	47.78%	45.00%	32.08%
Rent	31.11%	50.00%	57.50%
Informal arrangements	20.56%	5.00%	10.42%
Size and occupancy			
Number of rooms	3.53	5.49	3.846
Number of beds	2.88	3.92	2.942
Family size			
Average number of members	3.40	3.47	3.07
Other uses			
Purposes other than living	4.44%	10.00%	2.92%

Source: Author's elaboration based on survey data.

TABLE 4.9 Challenges Experienced by Residents

Challenges	Resident nonpoor	Resident poor
Theft	65.83%	60.83%
Begging	49.17%	40.42%
Pollution	43.33%	33.33%
Vandalism	41.67%	40.83%
Traffic	40.00%	34.17%
Street-vending	28.33%	29.58%
Poor building condition	27.50%	36.25%
High cost of staple goods	23.33%	36.25%
Conflict with other residents	16.67%	13.75%
Expensive rent	15.00%	23.33%
Extortion	12.50%	11.67%
Conflict with building owner	8.33%	8.75%
Other	6.67%	4.17%

Source: Author's elaboration based on survey data.

ences among groups. The perception of the challenges posed by begging and pollution is more diffused among the nonpoor, while the problems arising from the poor conditions of buildings and the cost of staple goods downtown are more relevant for the resident poor. Therefore, on the whole, residents experience problems that are generally connected with the diffusion of poverty, such as theft, but there seems to be a significant difference in the nature of problems perceived by the two groups: the nonpoor are more sensitive to the effects of the concentration of activity and of the attraction of poor to downtown, while the poor are more affected by the inability to deal with the deterioration of buildings and with the cost of living downtown.

In terms of downtown businesses, 60 firms were surveyed. Their characteristics are summarized in Table 4.10.

TABLE 4.10 Characteristics of Business Activities

Nature of business	
Restaurant	18.33%
Retail	46.67%
Service	6.67%
Handicraft	18.33%
Other	10.00%
Average number of employees	3.78
Average size of the store (sq. meters)	125.02
Years in business	
Under a year	8.33%
1–5 years	28.33%
6–10 years	21.67%
11–20 years	11.67%
Over 20 years	30.00%
Ownership of the store	
Owners	10.00%
Tenants	86.67%
Tenants, interested in purchasing	3.33%
Average permanence in current location (years)	12.55

Source: Author's elaboration based on survey data.

These firms surveyed, in general, were quite small and had been located in the downtown area for a long time. Almost all of them rented their business spaces. For a significant majority of firms (almost three-quarters), the most relevant problems reported were shoplifting and theft and in-town competition, immediately followed by expensive rent (see Table 4.11). Generally speaking, the perception of these problems is diffused more among the firms than residents, which can be interpreted as an indication of the fact that firms are more affected by these problems than residents. The data also indicate a convergence

TABLE 4.11 Challenges Experienced by Downtown Businesses

Challenges	
In-town competition	70.00%
Shoplifting or theft	70.00%
Expensive rent	66.67%
Out-of-town competition	56.67%
Street vending	53.33%
Begging	46.67%
Insufficient parking	41.67%
Vandalism	41.67%
Insufficient financing	40.00%
Traffic congestion	40.00%
Expensive shipping or transportation	36.67%
Restrictive business regulations	36.67%
Expensive employee wages or benefits	33.33%
Poor building condition	33.33%
Expensive or unavailable utilities	25.00%
Unskilled workers	25.00%
Extortion	18.33%
Difficulty recruiting or retaining employees	11.67%
Conflict with owner or tenant	5.00%
Other	3.33%

Source: Author's elaboration based on survey data.

in the perception of problems between residents and firms regarding crime. Some convergence is also shown between the answers of firms and nonpoor residents as far as begging is concerned.

As for the nonresident poor, the convergence on the problems of crime is even wider. The characteristics of street activities carried out by the group of the nonresident poor are reported in Table 4.12. The activity of this group is mostly developed informally and is relatively stable in terms of time and location. As demonstrated in Table 4.13, of the main challenges (either major or minor) faced by the nonresident poor, the most relevant one is theft, followed by pollution, traffic, vandalism, and begging.

Interestingly enough, 31 percent of the nonresident poor considered street vending itself as a problem, revealing the existence of

TABLE 4.12 Characteristics of Street Activities

Nature of street activities	
Food	47.78%
Textiles	12.22%
Handicrafts	6.67%
Water	0.00%
Service	1.11%
Other	32.22%
Percent of activities carried out in a formal way	26.67%
Length of time in activity	
Under a year	5.56%
1–5 years	26.67%
6–10 years	28.33%
11–20 years	19.44%
Over 20 years	20.00%
Percent of activities with fixed location	55.56%
Average permanence in current location (years)	10.4

Source: Author's elaboration based on survey data.

TABLE 4.13 Challenged Experienced by the Nonresident Poor

Challenges	
Theft	63.89%
Pollution	42.78%
Traffic	42.22%
Vandalism	40.56%
Begging	37.22%
Street vending	30.56%
Conflict with other street vendors	27.78%
Extortion	16.11%
Others	1.11%

Source: Author's elaboration based on survey data.

some conflicts within this group. Also, 28 percent of the nonresident poor respondents said that conflicts with other street vendors were a challenge. More than a half of firms surveyed said they regarded street vendors as a problem (Table 4.11). The nonresident poor also complained of conflicts with police (50 percent) and with the municipal authorities (34.4 percent).

Impact on Welfare

There is a wide perception of the problems characterizing the downtown environment, but they do not seem to significantly affect the welfare of residents. Only 14 percent expressed being dissatisfied with their current location, of which a little less than 5 percent responded that they were very dissatisfied, with a slightly higher proportion for the poor with respect to the nonpoor (16 percent versus 11 percent). Only a small minority of firms reported being dissatisfied with the location of their businesses downtown (6.7 percent). The

situation is different for the nonresident poor, as about 19 percent of them declared being dissatisfied or very dissatisfied. It may be considered as an implication of the greater vulnerability of these people and, consequently, of the possibility of greater suffering when facing the same problems as other—socially and economically—“stronger” groups.

About one-quarter of the residents in downtown Valparaiso said that they would like to move from their current residence, a figure that contrasts with the percentage of residents who expressed dissatisfaction with the current location of their homes. Among those that were planning to move, about 41 percent reported being dissatisfied or very dissatisfied, a percentage much higher than the one for the overall group. The share of people that wished to change residences slightly varies across the two groups of poor and nonpoor (see Table 4.14).

It is worth noting that for the nonpoor who wanted to move, the perception of the problem arising from the poor conditions of the buildings is much greater than for the group of nonpoor residents (56 percent versus 27.5 percent). A similar situation occurs for the resident poor wishing to move: the perception of some problems is significantly more diffused than for all groups of the resident poor. This is true for the poor conditions of buildings (57 percent versus 36 percent), the cost of staple goods (53 percent versus 36 percent), and the cost of renting a house (45 percent versus 23 percent).

The last two problems also mark a difference between the poor and the nonpoor that

TABLE 4.14 Respondents that Plan to Move from Current Location (*Home, Business, Street Activity*)

	Nonresident poor	Resident nonpoor	Resident poor	Firms
Plan to move from current location	25.00%	28.33%	22.50%	1.67%
Plan to move to another location downtown with better services (% of those who plan to move)	82.22%	35.19%	64.71%	N/A
Plan to move to another location outside downtown (% of those who plan to move)	15.56%	64.81%	35.29%	N/A

Source: Author's elaboration based on survey data.

stated they wanted to move. This may be an indication of the relative economic vulnerability of the poor with respect to the other residents, as well as an indication that the programs aimed at the revitalization of downtown, while increasing the value of housing, may have a very negative impact on the living conditions of some residents. However, not all respondents who planned to move declared that they would necessarily abandon downtown. The share of poor people who wanted to move outside downtown was much greater than the share of the nonpoor, which again, may be an indication of their increased economic vulnerability.

With regards to the nonresident poor group, about 25 percent of the respondents declared that they were planning to move, which is a figure consistent with the share of this group indicating dissatisfaction with their current location. Of this group, 15 percent declared that they were planning to move outside of the downtown area altogether.

In terms of the firms that were surveyed, only one of the businesses declared that it planned to move out of downtown. The implication is that, even if there are problems in carrying out business downtown, they are not

significant enough for the firms located there to want to move from their current location. Furthermore, despite problems that may have occurred in recent years, none are so dramatic to induce the abandonment of the current location in downtown of the surveyed firms, nor strong enough to have determined a negative variation in the size of their business. As shown in Table 4.15, a significant number of firms have actually experienced an increase in business.

TABLE 4.15 Economic Situations of Firms in the Downtown Area

Firms which experienced a decrease in business	13.33%
Firms which experienced an increase in business	43.33%
Firms for which business remained the same	43.33%
Firms planning expansion downtown	26.67%
Firms planning expansion outside downtown	10.00%
Firms planning scaling down in downtown	1.67%
Firms with no plan for change	61.67%

Source: Author's elaboration based on survey data.

The firms that experienced a reduction in business in the two years prior to the survey were, on average, a little smaller than the others (3.6 employees, on average, compared to 4.5 of the firms that reported an increased

business) and had been at their current locations for an average of 23 years versus 10.73 years for the growing firms. It therefore seems that the firms that reported suffering some economic problems were the less dynamic ones due to their ages and sizes. This observation is consistent with the firms' perceptions of the recent economic changes in their businesses. There is, actually, a substantial difference in the evaluation between those who had experienced a reduction in business and the others. In the case of the former, the main cause for the change was attributed to the decline in the downtown business environment and in local/national economy (50 percent), followed by competition by street vendors (12.5 percent). While in the case of those firms with a reported increase in their businesses in the two years prior to the survey, the most important factors for their positive change were related to improved customer service (73 percent), management (23 percent), and marketing efforts (23 percent). Therefore, one can conclude that some of the problems that arise from downtown poverty and from the general environment in the downtown area are more diffused among the firms that are less dynamic. Overall,

however, the existence of the problems related to the downtown business environment do not appear to generate serious economic difficulties for downtown businesses, as is shown by the relatively limited number of those who declared a reduction in their business. In addition, one-third of the firms stated that they were planning some investments in the future, either downtown or outside of the downtown area.

In conclusion, on the basis of the survey data, it is possible to say that people who live and work in downtown Valparaíso perceive some of the typical problems and conflicts related to the development of this part of a city, mainly those related to crime. In terms of problems with negative consequences for all who live and work downtown, nonpoor residents suffer more from the deterioration of the buildings in which they live, while the resident poor tend to be negatively affected by the economic costs of downtown living. In addition, firms also suffer from having to rent the space where their business is carried out and from the negative externality of poverty. However, these problems do not seem to significantly affect the development of business.

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