

Rethinking Urban Migration

Policy Options for Cities in
Latin America and the Caribbean



Matías Busso
Paul E. Carrillo
Juan Pablo Chauvin

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Preface

To unlock economic opportunities and improve lives in Latin America and the Caribbean, we must build thriving, productive economies. Our region has lagged historically, with some of the slowest productivity growth in the world over the past seventy years. Vibrant economies need skilled, dynamic workforces.

On this front, we have a key asset: our populations are still young. Urban migration brings ambitious youth from less productive rural areas into environments where they have greater opportunities to develop their potential, gaining valuable skills and experience. With more productive years ahead of them, these workers can power economic growth through savings, investments, and consumption.

But this demographic dividend is dwindling as fertility and mortality rates decline in most Latin American and Caribbean countries. Our populations will age in the coming decades. Meanwhile, we face hurdles to developing human capital. Access to higher education and vocational training remains limited in most countries. Even where access to primary and secondary education has significantly expanded, school quality lags behind global standards, according to standardized tests and other measures.

Workers' productivity depends not just on human capital, but on location. Similar workers are more productive in some economies than others. Within countries, productivity varies widely, with cities outpacing rural areas as engines of growth and development. Cities foster competition by providing larger markets, and they cultivate collaboration and the exchange of ideas.

Migration is a complex phenomenon that has garnered considerable scrutiny from scholars and policymakers around the world. This is especially true when migration flows converge on urban centers, where they can become a wellspring of opportunities and a catalyst for fostering enduring economic development. Rethinking Urban Migration invites us to recognize and act upon this potential, providing concrete policy alternatives for policymakers in Latin America and the Caribbean. These recommendations are tailored particularly at the subnational level and are aimed at leveraging the opportunities and overcoming the challenges associated with the arrival of migrants in our cities.

Expanding the conversation about urban migration matters because, without deliberate and timely policy interventions, these opportunities may not be fully real-

ized. The sluggish pace of growth in Latin America and the Caribbean underscores that our urban productivity remains under its potential. We hope this report contributes to the conversion of our urban migration dividend into greater regional productivity and prosperity for all in the years to come.

Eric Parrado
Chief Economist

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Executive Summary

The economic progress of Latin American and Caribbean economies over the past seven decades has been underwhelming. In 1960, the region's gross domestic product (GDP) per capita stood at approximately 30 percent that of the United States; today, it hovers around 25 percent. This inability to catch up has largely been attributed to the region's sluggish growth in aggregate productivity. The many obstacles in the way of productivity growth range from deficiencies in human capital and underdeveloped credit markets to regulatory constraints that curtail competition and result in misallocation of resources among firms.

Often underemphasized as assets driving productivity growth are the region's urban centers. Today, 82 percent of the population—about 530 million people—resides in urban areas that account for less than 0.7 percent of the entire landmass; and even as many countries in Latin America and the Caribbean have reached or surpassed the urbanization levels of high-income countries, migrants have continued to arrive in their cities. Whether they come from rural areas, other cities, or abroad, these migrants fuel urban growth and the ongoing transformations of local economies. *Rethinking Urban Migration* delves into these transformations. It proposes a comprehensive view that takes in opportunities as well as challenges, opening the door to policy alternatives that cities in the region can consider to advance economic development and improve welfare in their communities, with broader implications for aggregate growth.

Latin American and Caribbean cities receive migrants from different places and circumstances. Of those living in urban areas, 70 percent moved there from locations within their countries' borders—that is, they are internal migrants. In recent years, however, intraregional migration patterns have undergone significant changes. From 2015 to 2020, the average number of international migrants—those moving across country borders but within the region—increased by more than 80 percent. Many migrants, both internal and international, are drawn by the economic opportunities emerging at their destinations, such as better education and career or business prospects. They tend to have higher-than-average experience and skills, which help equip them for the opportunities that arise. The arrival of these “economic migrants” is a sign of a city's success, tangible evidence that its economic performance is outpacing that of other cities and towns. Other migrants are motivated to leave their places of origin primarily

by events that create widespread economic hardship or insecurity, such as extreme weather events, like droughts, floods, wildfires, or hurricanes; armed conflict or crime-related violence; or severe economic crises. This group tends to have limited options as to where to migrate and, usually, more limited information about the economic prospects offered by different destinations. As a result, they often face more challenges in the cities in which they land, with many struggling to find affordable and adequate housing solutions and sometimes competing with locals for scarce, low-paying jobs.

Receiving a large number of migrants—especially migrants displaced from their places of origin—may present challenges to communities. The employment prospects and wages of the most vulnerable local workers, including those with low skills and those who work in the informal sector, can be adversely affected, worsening their already unstable economic situations. Increased housing demand can raise housing prices, making housing scarcer and less affordable. More individuals demanding public services, such as education, health care, and transportation, may overtax these services, affecting their quality and accessibility. Higher economic stress in the local economy may, ultimately, create negative sentiments among the resident population, weakening the local social capital. In the coming decades, as environmental hazards continue to escalate with climate change, displacement and migration are likely to increase, exacerbating these challenges.

Because the concerns associated with migration are salient to local populations, they have, justifiably, received much attention from local policymakers, as well as from academics and international institutions. Often obscured by the short-term needs migration produces are the important opportunities it brings—in particular, by nondisplaced economic migration—for receiving communities to boost their economic development. This “blind spot” can result in a failure to realize urban migration opportunities, as the policies needed to do so may not be fully deployed in a timely manner.

This report is an invitation to rethink urban migration, refocusing attention on the opportunities for local economies represented by the arrival of migrants and encouraging policymakers to capitalize on them. Presenting novel data analysis and a systematic review of the state of the art in academic research, it outlines these opportunities, the obstacles that may keep them from materializing, and the ways in which policymakers can make the most of them while also addressing the challenges associated with the arrival of migrants in cities. Most of our analysis emphasizes internal migration, which has received less attention than international migration in recent studies and policy debate but has historically represented the largest share of migrant inflows to cities and continues to be the most frequent type of immigration for most midsize and large cities in the region. We do, however, draw lessons from the literature on international migration and discuss, whenever relevant, the challenges and opportunities specific to international migrants.

We start by discussing in Chapter 1 the connection between urbanization and economic development and how migration fuels the urbanization process in Latin America and the Caribbean. Cities are conducive to productivity growth, which allows firms in cities to pay higher wages. The average urban wage premium in the region is close to 20 percent. Cities attract skilled workers and productive firms and create conditions for workers and firms to become more productive through agglomeration economies, human capital externalities, and larger markets for their goods and services. Urban growth, however, also brings the formation of informal neighborhoods with poor living conditions, increased congestion, and negative environmental externalities, such as air pollution. About 18 percent of the region's urban population resides in informal settlements. In addition to natural population increase, migration, especially internal migration, is a key driver of urban growth in Latin America and the Caribbean, and it is ubiquitous. Large cities attract a substantial share of migrants, but smaller and medium-sized cities also experience significant internal migration. The report is, thus, relevant for small and large local governments alike. The chapter discusses and summarizes the evidence on the so-called "push factors" that lead people to leave their hometowns in the region, paying special attention to the effects of climate change and weather-related shocks that are becoming increasingly common and will continue to do so. While these migration flows may also have substantial effects on the communities migrants leave behind, these communities, as well as the development policies that could be deployed to foster economic growth in them, are beyond the scope of this report.

The arrival of migrants gives rise to substantial opportunities in local labor markets. Chapter 2 covers this topic, discussing first how migrants fare at their destinations and their impact on the labor market outcomes of residents, before turning to how they generate opportunities and why these opportunities sometimes do not come to fruition. In Latin American and Caribbean urban areas, migrants tend to be more likely than residents to participate in the labor force (63.5 percent versus 56.9 percent), but those who participate remain more likely than residents to be unemployed (13.6 percent versus 12.2 percent). Migrant women fare significantly worse in their destination labor markets than male migrants. While the effect of migration on residents' labor market outcomes tends to be small or nil on average, and even positive for some groups of workers, it is often negative for more vulnerable workers, such as those with low skills and those who work in the informal sector.

Chapter 2 also discusses how migration, both internal and international, opens up avenues for growth and prosperity in the local labor market, increasing the size of both the population and labor force and, potentially, boosting productivity. Migrants, frequently younger and with fewer dependents than residents, rejuvenate the labor force, often bolstering savings and investment. They can provide services that complement the local labor force, stimulate labor demand, and contribute to entrepreneurship.

Moreover, migration can enhance a country's productivity by relocating human resources from low- to high-productivity locations. Several factors may, however, constrain these beneficial effects. The productivity benefits of agglomeration, for example, operate at relatively small distances, such that lack of access to the more agglomerated areas of cities, along with other barriers to labor force participation, can curtail the contributions of migrants to local economies. Their lack of strong local networks may also lead to suboptimal employment of migrants and to poor location choices on their part within the city. Skills downgrading may increase the competition faced by the more vulnerable groups of workers and result in underutilization of the productivity potential of migrant human capital.

In the same way migration can affect the labor market equilibrium, it can change the dynamics of the housing market. Considering the substantial portion of household consumption constituted by housing costs, the ability of the housing market to adapt is key to overall well-being. Chapter 3 explores these topics. Migrants participate in the same housing markets as residents, demanding housing at all quality tiers. Their housing demand can have positive effects on the economy by stimulating the local construction industry. Migrants have a higher propensity to rent and a lower rate of homeownership than residents, which is partially explained by their comparatively younger age profiles and lower income levels. They tend to occupy lower-quality housing units, which can increase demand in the informal housing sector and put pressure on rents and prices, making housing less affordable for locals. The extent to which this loss of affordability materializes depends on the adaptability of the local housing supply, which can vary significantly across cities. Those with more flexible housing supply see smaller rent and price increases and can adapt better to the arrival of migrants than those with more restrictive supply.

Public policy is crucial to the ability of local economies to grasp the opportunities and address the challenges that come with urban migration. Chapter 4 discusses policy options local policymakers can deploy to achieve these goals and the available evidence on their effectiveness. It identifies two key areas of policy focus to further urban development through migration.

The first is the promotion of migrants' contribution to local productivity growth, which involves four goals: facilitating migrants' contribution to urban agglomeration economies, harnessing the human capital of skilled migrants, taking advantage of their younger age profile, and mitigating negative impacts of migration on vulnerable groups. These can be advanced through specific policies. To promote the contribution of migrants to local productivity growth, policymakers can nurture effective agglomeration through transportation investments, zoning policies, and building height regulations; facilitate labor market participation and integration through migrant-inclusive public employment services, child care assistance policies, and the regularization of

international migrants; and broker essential information by expanding the scope of public employment services to include information on child care and housing and by conducting migrant information outreach. To help capitalize on both the human capital and age dividend of migrants, officials can promote skill-appropriate employment, the evaluation and certification of skills, and the establishment of apprenticeships and reverse apprenticeships, and they can encourage entrepreneurship by investigating and addressing the local constraints on migrant entrepreneurial activity. To mitigate any adverse impacts of urban migration, policymakers can alleviate financial and informational obstacles to human mobility in situations where labor demand is insufficient to absorb the migrant labor force. They can also combat discrimination through interventions that build empathy with migrants and address unfavorable stereotypes.

The second area in which policy can support urban development through migration is the alleviation of housing constraints, which entails improving local responsiveness to short-term housing demand surges and enhancing long-term housing availability through interventions that combine short-term and medium- to long-term approaches. In the short term, utilization of the existing housing stock can be stimulated by promoting the development of local rental housing markets and through the use of platform-based solutions for flexible housing. In the long term, officials can promote a more flexible housing supply by streamlining regulations on housing development, promoting affordable financing of formal housing, and planning land use, ideally before migration occurs, to improve access to the labor market and local services.

Which of these policy recommendations can have the largest impact depends on the context. Five broad principles should guide the design of specific local policies. First, policies should prioritize addressing short-term constraints and bridging the short-term and long-term challenges. Second, policies should be chosen and tailored according to the specific context, taking particular account of the amount and types of labor demanded by the local economy and whether or not the city has a flexible housing supply. Third, rather than singling out migrants, policies should seek to target broader segments of the population that include both the relevant migrant groups and residents, particularly those who are more vulnerable. (Indeed, many such policies may already be on the agendas of local policymakers as they address problems that affect the broader population, and this report highlights the greater impact they can have in cities that receive significant inflows of migrants.) Fourth, officials should actively engage the local private sector as partners in policy design and implementation. Finally, policymakers should work to strengthen local institutional capacity, which is vital to successful policy design and implementation.

Rethinking urban migration can have a far-reaching positive impact on the local economy as a whole. It can lead to policy actions that help communities realize the opportunities that arise with the arrival of migrants, preparing the ground for

long-lasting local economic development. When cities succeed in effectively integrating migrants, they can draw upon a young, skilled, and diverse labor force, which can be a catalyst for innovation and productivity that makes them more competitive and prosperous. This benefits not only the migrant population but also local residents, especially those in more vulnerable situations, contributing to the well-being of the broader community.

Mapping Urban Growth: Migration for Productivity

1

The rapid demographic shifts in Latin America and the Caribbean over the past 70 years have mainly trended toward urbanization, with more than 80 percent of the population now living in metropolitan areas. In this monumental transition, the region has narrowed its urbanization gap with developed countries, sometimes even outpacing them and creating a complex, dynamic tapestry of cities that differ vastly in size and character.

The first part of this chapter looks at the two sides of the coin of this urbanization process. The rising tide of urbanization can serve as a catalyst in the region for economic growth and innovation, enhancing productivity through agglomeration economies, access to larger markets, and the urban wage premium. Nevertheless, if poorly managed, urbanization can give rise to numerous challenges, from overcrowding and inadequate access to services to economic inequality and the rise of informal settlements. A carefully calibrated approach to urban planning, governance, and industrialization policies is essential to transform these challenges into sustainable growth opportunities. The physical form of cities—their density, sprawl, and internal structure—powerfully influences infrastructure costs, commuting times, and access to resources. While high urban densities can yield economic benefits, for example, unchecked growth can lead to congestion, environmental issues, and steep housing prices, among other challenges. Balancing these factors requires evidence-informed policymaking that encourages sustainable and inclusive development.

In addition to arguing that the urbanization process is important for development and discussing the aspects to which policymakers should pay attention in the face of it, the chapter focuses next on the causes of urban population growth while documenting both long-run and more recent trends in the Latin American and Caribbean region. Natural population increase, driven by decreased mortality rates, is the primary source of urban growth in many developing countries. The chapter then argues that, although migration plays a secondary role, its contribution to urbanization is also significant,

presenting challenges and opportunities, such as economic expansion and cultural interchange. Internal migration within national borders is also an important driver of population redistribution. Population movement patterns are diverse, including urban-to-urban and rural-to-urban migration, with factors like wage disparities, demographic diversity, and the availability of amenities influencing the decision to migrate. While the share of migrants attracted to large cities is substantial, smaller and medium-sized cities also experience significant internal migration. Understanding the characteristics and duration of stay for migrants is crucial for policymakers in managing this phenomenon and optimizing its impacts on urban planning, resource allocation, and labor market dynamics. Finally, international and, more specifically, intraregional migration also has a significant impact on city growth. In recent years, many countries in the region have experienced a surge in international migration, transforming them from emigration origin points to immigration destinations.

Migration can be driven by voluntary choices or by forced circumstances. In Latin America and the Caribbean, such “push factors” as conflict, violence, natural disasters, and environmental shocks contribute to internal displacement, resulting in the presence of many internally displaced persons, who often exhibit particular demographic characteristics—for example, higher representation of women, indigenous people, and individuals with less education. The last part of the chapter focuses on the two push factors that are most prevalent. First, conflict and violence have led to forced displacement within countries and across borders. These displaced individuals and households face numerous challenges, including economic insecurity, loss of assets, limited access to employment, and disrupted social networks. Second, migration is increasingly driven by climate change as people respond both to sudden climate events and slow-onset events, such as natural disasters, rising sea levels, and temperature variations. The climate-induced displacements observed in Latin America and the Caribbean are likely to continue and increase as the climate continues to change. The complex challenges they present require effective policy responses to address the consequences for population distribution, economic activities, and well-being. While policy interventions and better access to social services can somewhat mitigate both kinds of displacement, the long-lasting impacts on income generation and quality of life call for holistic solutions.

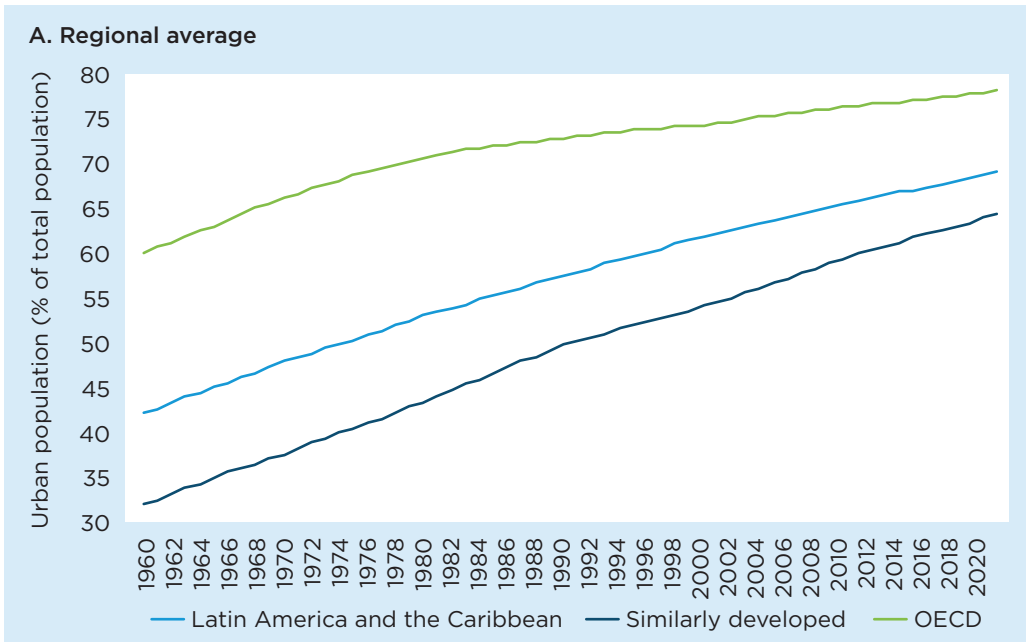
1.1. Charting the Urban Terrain of Latin America and the Caribbean

In the past six decades, Latin American and Caribbean countries have experienced a substantial demographic transition toward urbanization. In 1960, half of the region’s population was living in urban areas. By 1990 that proportion was 70 percent, and by 2000 it was 75 percent. Despite the already high levels of urbanization, urban growth has not stopped: today almost 82 percent of the population lives in cities. That is, nearly 530 million indi-

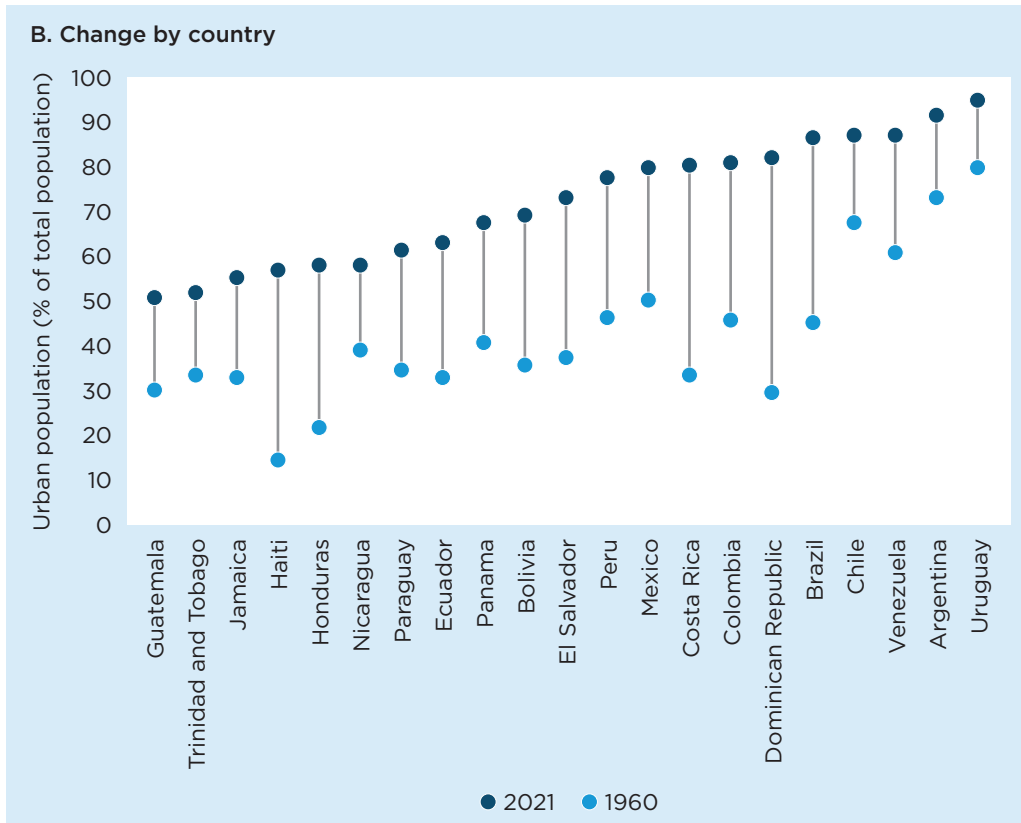
viduals inhabit less than 0.7 percent of the region’s landmass. As depicted in Figure 1.1, the proportion of the population residing in urban areas in the average country in the region has consistently increased since 1960, a phenomenon that is both region-wide and observable in countries at comparable levels of development. Notably, the region has, in large part, closed the urbanization gap with developed nations, maintaining a higher average level of urbanization than countries at similar developmental stages.

Cities, rather than being monolithic constructs, all possess unique characteristics and fulfill distinct roles within their national and regional contexts. The result is an urban landscape of considerable diversity and complexity, spanning a wide spectrum of size, structure, and form. At one end of this spectrum, we find the megacities—sprawling entities accommodating over five million residents. Bogota in Colombia, Buenos Aires in Argentina, Lima in Peru, Mexico City in Mexico, and Rio de Janeiro and São Paulo in Brazil, among others, serve as epicenters of economic vigor, social dynamism, and cultural diversity. These urban conglomerates are characterized by their high population densities, extensive built environments, and complex infrastructural networks, underscoring their function as primary nodes within national and global economic frameworks (Sassen 2018). As discussed in Box 1.1, the specific locations of these megacities originally were chosen because of some comparative advantage. The consequences of these choices for the shape of each national urban network are present to this day.

FIGURE 1.1 | Population Living in Urban Areas, 1960–2021



(continued on next page)



Source: Authors' calculations, based on World Development Indicators.

Notes: Latin American and Caribbean countries included in Panel A are Argentina, Belize, Brazil, Bolivia, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Trinidad and Tobago, Uruguay, and Venezuela. Similarly developed countries in other regions are Albania, Algeria, Bulgaria, Hungary, Indonesia, Malaysia, Morocco, the Philippines, Poland, Serbia, Thailand, Tunisia, and Turkey. OECD countries are Australia, Austria, Belgium, Canada, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Iceland, Ireland, Israel, Italy, Japan, the Republic of Korea, Latvia, Lithuania, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Slovakia, Slovenia, Spain, Sweden, Switzerland, the United Kingdom, and the United States.

Despite the high visibility of megacities, most urban areas in Latin America and the Caribbean are medium-sized or smaller. Less globally recognized, these cities constitute the structural foundation of the regional urban system and, as shown in panel A of Figure 1.2, comprise the vast majority of cities within the region, housing 47 percent of the population (see panel B). Spanning from rapidly expanding peri-urban zones to well-established provincial towns, they present an array of urban forms, each with its own set of opportunities and challenges. They play a crucial role in national economies, frequently functioning as regional hubs, bolstering local agricultural, manufacturing, or service-based economies, and providing residents with vital public services and amenities. Furthermore, they often exhibit a distinct sociocultural character, shaped by a confluence of historical trajectories, geographical contexts, and community practices.

Box 1.1 Geographical Advantages and Strategic Decisions: The Birth of Megacities

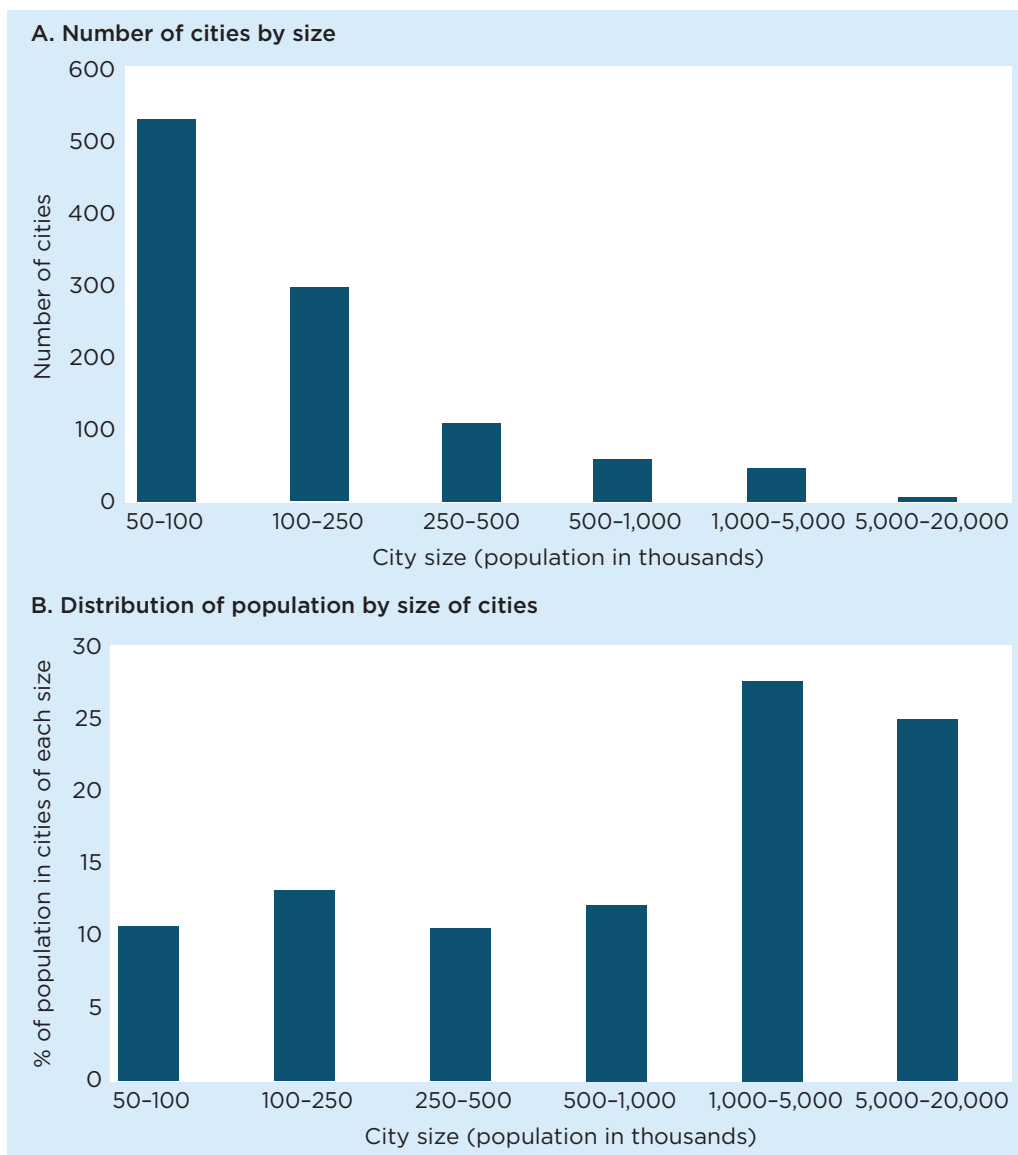
Cities have played a significant role in the economic development of Latin America and the Caribbean since precolonial times. Many sites were selected for their geographical advantages, leading to population concentration and economic activity (Maloney and Valencia Caicedo 2016). Many of today's bustling cities were once thriving pre-Hispanic settlements that capitalized on natural geographical features, such as bodies of water, fertile lands, and strategic locations for defense or trade. These settlements provided tribute and labor for new settlers following conquests. The Andean cities, for instance, were situated in flat areas abundant with water and arable land, which simplified agricultural activities, enhanced the transportation system, and facilitated trade and cooperation among different regions in the Incan Empire (Mumford 1961). Mexico City, renowned for its impressive urban structure and rich cultural heritage, was constructed on the remains of Tenochtitlan, the powerful center of the Aztec Empire. The city's strategic location offered military advantages and eased control and trade with other clans. Following the Spanish conquest, Mexico City became a crucial hub connecting the ports of Veracruz and Acapulco, located on opposite sides of the continent. According to Quintero and Roberts (2018), 43 percent of the region's variation in subnational precolonial population densities can be attributed to such natural advantages as coastal location or access to waterways and favorable terrain and climate.

In contrast, other cities emerged from Spanish and Portuguese colonial decisions, deliberately established in locations devoid of major preexisting settlements. These cities were meticulously planned, with the choice of location determined by strategic military or commercial purposes. The founders adhered to detailed royal instructions, considering factors that ranged from geographical advantages to potential for economic growth and military security (Klein and Millar 1995). A prime example of this meticulous city planning is Lima, founded in 1534. The site for Lima was carefully selected, considering its fertile lands, ample water supply, and the commercial and military advantages of its proximity to the ocean. Moreover, the mild climate and low altitude made the location suitable for breeding European livestock, an endeavor previously impossible in the Andean highlands. Lima has, however, been historically characterized as a city whose political framework was established before its economic structure was developed, leading some historians to describe it as a "planned capital" (Morse 1969). Similarly, Buenos Aires was strategically located at the entrance of the Rio de La Plata. Initially, it served as an important military stronghold for the Spanish crown due to its proximity to the southern limits of Portuguese territories. Over time, it became a crucial entry point into South America and a bustling port from which the Spanish shipped many resources extracted from their colonies. Last, Bogota was founded in an area that already housed a substantial population of indigenous people and had close access to natural resources. These factors, combined with the city's strategic location, made it an important regional center for cultural, economic, and political activity (Bushnell 1993).

1.2. The Urban Advantage for Productivity Growth

Cities play a pivotal role in development, widely recognized as key drivers of economic growth and innovation. This is partly attributable to the significant contribution of urbanization to productivity gains (Duranton and Puga 2004). The density of cities can stimulate specialization and competition, thereby fostering innovation and entre-

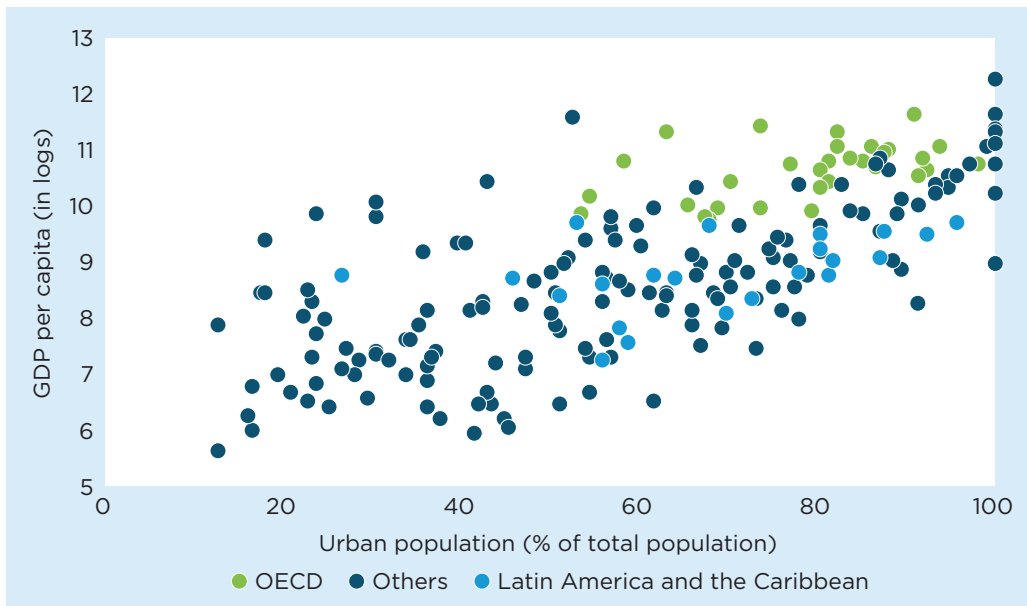
FIGURE 1.2 | Size Distribution of Cities in Latin America and the Caribbean



Source: Authors' calculations, based on the GHS Urban Centre Database 2015.

Notes: The sample comprises all GHS cities from the following countries: Argentina, the Bahamas, Barbados, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Peru, Suriname, Trinidad and Tobago, Uruguay, and Venezuela. Panel A shows the total number of cities in the region for each city size category. Panel B shows the percentage of the population residing in cities of each size relative to the total population living in cities in the region. City population is from 2015.

preneurship. Figure 1.3 depicts the cross-country correlation between the proportion of the population residing in urban areas and the countries' gross domestic product (GDP) per capita. Generally, more urbanized economies tend to have higher GDP per

FIGURE 1.3 | Urbanization Correlates Positively with GDP per Capita

Source: Authors' calculations, based on World Development Indicators data for 2019.

Notes: Latin American and Caribbean countries included in the figure are Argentina, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Trinidad and Tobago, Uruguay, and Venezuela. OECD countries are Australia, Austria, Belgium, Canada, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Iceland, Ireland, Israel, Italy, Japan, the Republic of Korea, Latvia, Lithuania, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Slovakia, Slovenia, Spain, Sweden, Switzerland, the United Kingdom, and the United States.

capita. While this relationship is not causal, the literature has proposed several plausible economic mechanisms explaining the correlation.

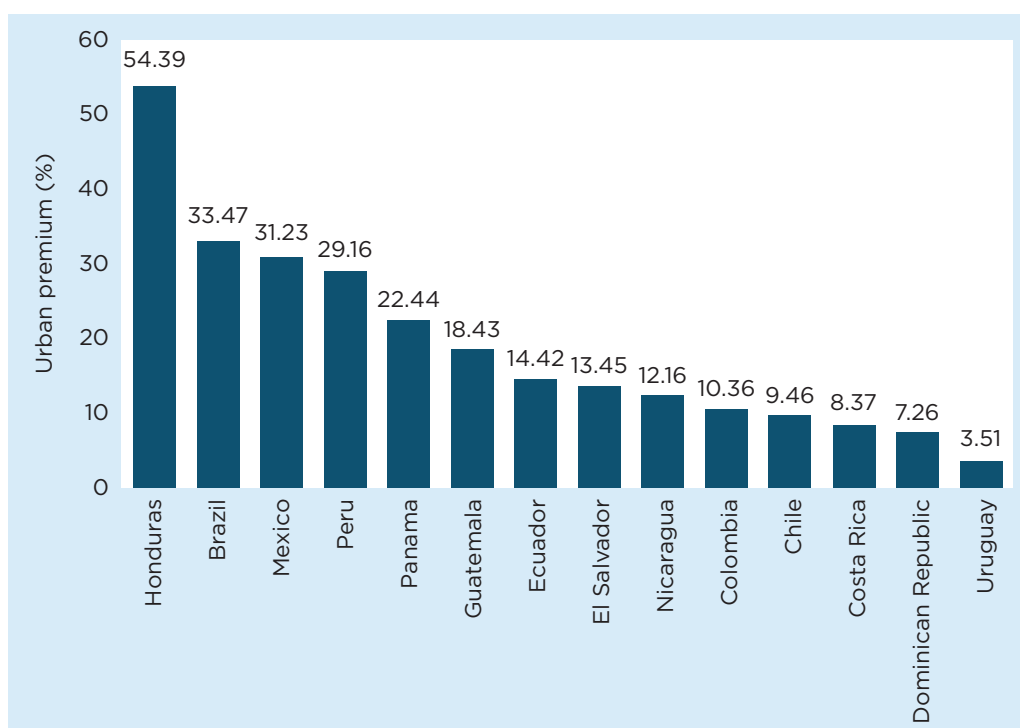
There are two reasons one city might exhibit higher productivity than another. The first is *sorting*, or selection. Cities with greater productivity tend to attract students, workers, entrepreneurs, managers, and firms with traits that inherently enhance their productivity; these individuals and firms would maintain their productivity levels irrespective of their city of residence. The second reason pertains to the city itself, which may have qualities that boost the productivity of its workers and firms through positive *externalities*, or spillovers. Urban economists have proposed three theories to explain these positive externalities:

- *Cities facilitate the operation of agglomeration economies*—that is, productivity gains that arise when firms and people locate near one another. Urban areas can attain higher productivity than rural ones because of the positive externalities or agglomeration economies engendered by their substantial populations and greater population densities. Furthermore, agglomeration economies can emerge in urban

areas through various mechanisms, such as better matches between workers and firms, the expansion of specialized suppliers, and geographical proximity that promotes the exchange of ideas (McCann and Acs 2011). Empirical evidence supporting the presence of agglomeration economies in Latin America is provided by, for example, Guevara-Rosero, Riou, and Autant-Bernard (2019), who examined the impact of rapid urbanization on agglomeration economies in Ecuadorian cantons.

- *Cities have the potential to generate greater human capital externalities.* The typically more skilled workforces that cities house enable them to attain higher productivity, in part through positive human capital externalities (that is, positive spillover effects that the skills, knowledge, and abilities of individuals have on the overall productivity and well-being of the rest of the society). An examination of the relationship between the spatial concentration of highly skilled workers and city productivity in Latin America by Vargas and Garrido (2021) revealed a significant and negative correlation between the productivity of cities and the segregation of highly skilled workers. This suggests that productivity can be enhanced by fostering integration and reducing the spatial segregation of such workers within cities.
- *Cities provide better market access.* Cities can also achieve higher productivity as a result of their better access to large consumer and supplier markets for goods and services, which stems from the city's internal market and its connections to other cities and regions. Moreover, greater market access allows firms to cover the fixed costs of establishing new facilities, leading to increased profits and productivity (Combes et al. 2008). Guevara-Rosero, Riou, and Autant-Bernard (2015) found that the rates of urbanization and population density were crucial for regional growth in Latin American countries, with regions of lower development experiencing more pronounced positive effects of urbanization on their economic growth than highly developed regions. This finding underscores the importance of market access for the comprehensive economic development of cities.

Evidence of the greater productivity of cities relative to rural areas is provided by the higher wages urban firms can afford to pay their workers. To determine if a worker in an urban area earns more than an observationally equivalent worker residing in a rural area, we calculated urban productivity premiums based on a simple regression model. The dependent variable was the log of the monthly wage, and the independent variables included an urban indicator variable and a set of observable worker characteristics (age, age squared, number of years of schooling, and gender). Figure 1.4 plots the estimated coefficient on the urban indicator variable, or the urban premiums, by country. For all countries, the average wages of observationally similar individuals were higher in urban than rural areas. The average locality premium for the region

FIGURE 1.4 | Urban Premium for Full-Time Employed Wage Workers

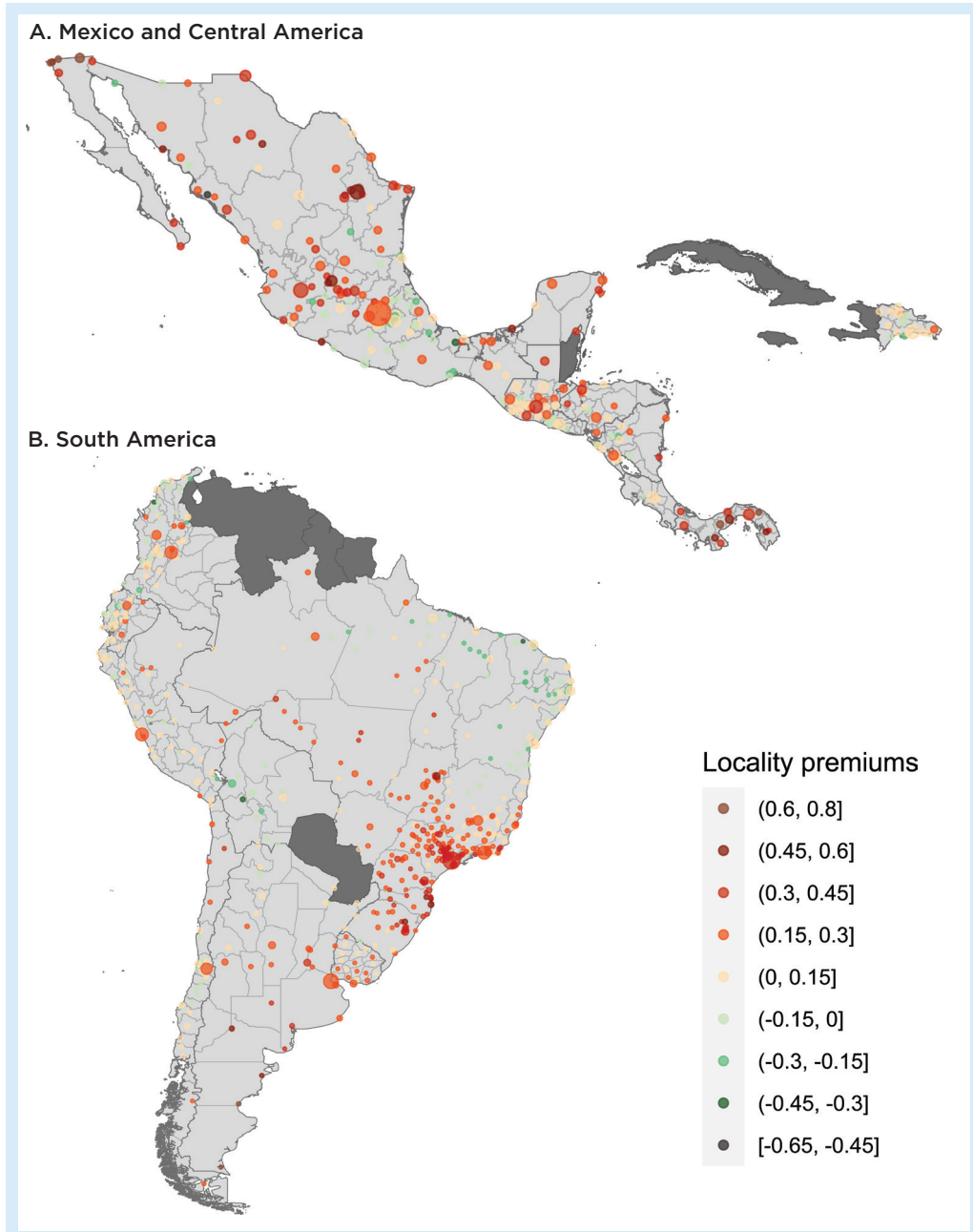
Source: Authors' calculations, based on household survey microdata for all countries except Brazil, for which we used the population census sample microdata of 2010. We also did not have years of schooling for Brazil; instead, we had the level of schooling, so we used this categorical variable as our control. Countries and years: BRA 2010; CHL 2015, 2017; COL 2018, 2019; CRI 2018, 2019; DOM 2018, 2019; ECU 2018, 2019; GTM 2006, 2011; MEX 2016, 2018; NIC 2009, 2014; PAN 2018, 2019; PER 2018, 2019; SLV 2018, 2019; URY 2018, 2019.

Notes: The sample comprised all employed full-time wage workers aged 14 to 65 years with positive income. The figure shows the results of a regression of log monthly wages on an urban dummy and a set of observable worker characteristics (age, age squared, number of years of schooling, and gender). These regressions also included survey-year fixed effects. Urban premium was calculated as $[\exp(\hat{\alpha})-1]$, where $\hat{\alpha}$ was the estimated coefficient on the urban dummy variable.

was 17.6 percent. The country with the highest premium was Honduras, at 54 percent; Uruguay had the lowest, at 4 percent.

Similar to a study by Quintero and Roberts (2018), we also estimated broader geographical variations in countries' city productivity premiums. We calculated wage regressions for each country, controlling for observable worker characteristics and including an indicator variable for each city in a country. The estimated coefficient on the indicator variable for a given city can be interpreted as an estimate of its city premium. Figure 1.5 presents the results. Larger cities, indicated by higher population and, thus, larger dots, tended to have higher city premiums. This is because, on average, individuals residing in large cities had wages approximately 26 percent higher than those living in rural areas when other factors were constant. In most countries, the city with the largest population had the highest premium. In some, however, the cities with the

FIGURE 1.5 | Location Premium for Employed Wage Workers in Latin American and Caribbean Countries



Source: Authors' calculations, based on household survey microdata for all countries except Brazil, for which the calculation was based on the population census sample microdata of 2010. We also did not have years of schooling for Brazil; instead, we had the level of schooling, so we used this categorical variable as our control. Countries and years: ARG 2018, 2019; BOL 2006, 2011; BRA 2010; CHL 2015, 2017; COL 2009, 2010; CRI 2008, 2009; DOM 2018, 2019; ECU 2017, 2019; GTM 2011; HND 2017, 2018; MEX 2012, 2014; NIC 2005, 2009; PAN 2013, 2014; PER 2018, 2019; SLV 2018, 2019; URY 2018, 2019.

(continued on next page)

Notes: The sample comprised all employed full-time wage workers aged 14 to 65 years with positive income. The map shows the results of a series of country-specific regressions of log hourly wages (monthly earnings divided by monthly hours worked) on a location dummy, which took the value 1 when a worker i lived in a GHSL city in the year t and 0 otherwise. These regressions also included survey-year fixed effects and controls for observable worker characteristics (age, age squared, number of years of schooling, gender). The omitted category was people who lived in rural areas or in urban areas not inside the GHSL city polygons. We used a separate point layer for Argentina, Guatemala, Panama, and Uruguay because we could not match household surveys with the GHSL dataset. Unlike other countries in our sample, the urban areas in these countries were defined, in the case of Argentina, by urban agglomerations, in Guatemala and Uruguay by departments, and in Panama by provinces. In these cases, the omitted category was the agglomeration/department/province with the lowest average wage: the city of La Banda in the province of Santiago del Estero for Argentina; Quiché for Guatemala; Colonia for Uruguay; and Ngöbe Buglé for Panama. The location premium was the estimated coefficient from the location dummy for each GHSL city, with each dot in the figure representing the centroid of that city (or agglomeration, department, or province in the cases of Argentina, Guatemala and Uruguay, and Panama, respectively). Also, the size of the dot is given by the GHSL city (or agglomeration or department or province) population.

highest premiums were not those with the largest populations but, rather, those with access to more natural resources or having some other comparative advantage, such as proximity to a crucial international border.

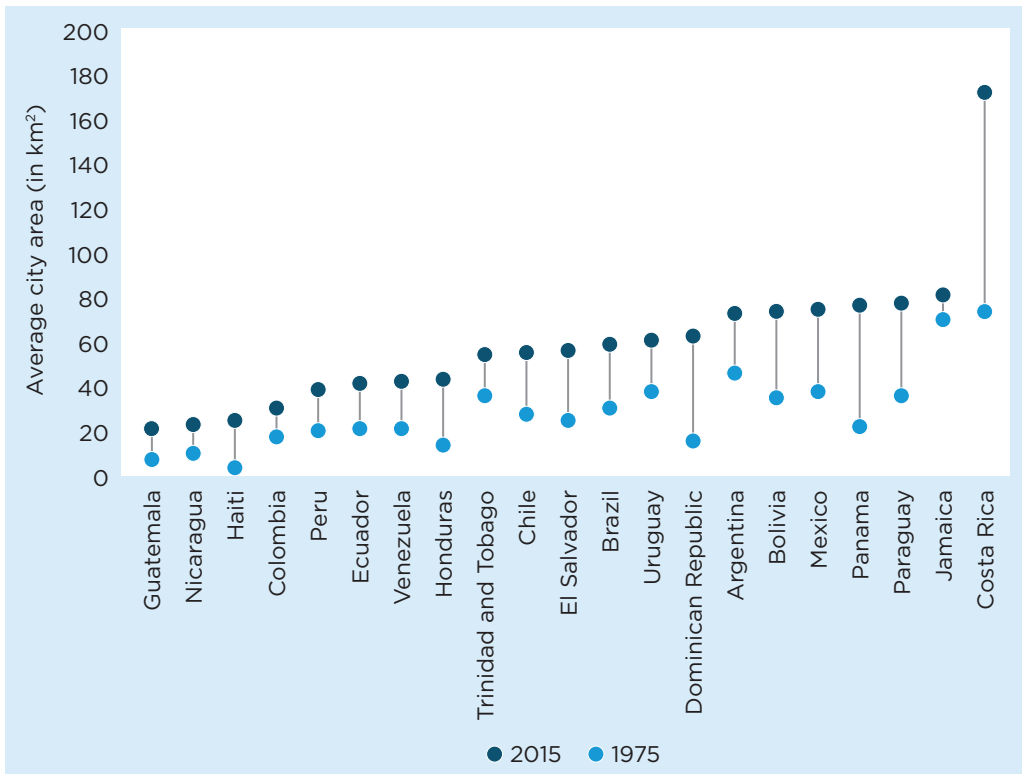
1.3. The Urban Paradox: Congested Development

How cities grow matters for development. Rapid urbanization, if not properly managed, can lead to numerous challenges, including overcrowding, inadequate access to services, economic inequality, and the emergence of informal settlements (referred to in much of the literature as “slum” areas). While urbanization can facilitate development, it does not guarantee it (Fay and Opal 2000; Jedwab and Vollrath 2015).

The shapes of cities, which can be characterized along various dimensions, are also important for well-being. Cities can be classified based on their physical form and development patterns. The concentric zone model, for instance, suggests that cities expand in concentric rings, each indicating a unique type of land use (Burgess 1925). In contrast, the sector model posits that cities evolve in sectors, often along transportation routes from the center (Hoyt 1939). The multiple nuclei model proposes that urban growth revolves around several specialized nodes or nuclei rather than a single core (Harris and Ullman 1945). Finally, the peripheral model encapsulates the idea of urban decentralization and the spread of cities into the surrounding periphery (Peiser 2001). These models are primarily based on North American cities in the early to mid-20th century. The Latin American city model, however, incorporates traditional elements with sectors and rings, representing the distinct urban growth patterns of the region’s cities (Griffin and Ford 1980). Harari (2020) has found that city shape affects household location choices across urban areas; compact cities attract more people and are therefore associated with faster population growth, even in the presence of a negative (compensating) real wage differential. According to classical models of urban economics (Rosen 1979; Roback 1982), this suggests compact cities offer a higher quality of life.

A city’s form can significantly influence such factors as trip lengths, accessibility, and infrastructure costs. Circular cities, for example, often have lower per capita costs for basic infrastructure and are more accessible than elongated ones. The city’s internal structure is determined by the layout of the road network and the degree of interconnectivity among its segments. Streets arranged in a grid pattern are associated with shorter commuting times and higher accessibility indicators. Finally, the spatial distribution of a city’s population and buildings can affect the efficiency of its infrastructure and public services. Cities that sprawl tend to have higher development costs per housing unit, longer commuting times, and more challenging interactions. According to Ferreyra and Roberts’s (2018) analysis of these dimensions, cities in Latin America and the Caribbean are generally round, with smooth urban perimeters, dense and gridded street networks, and densely built footprints. They have little open space, however, within city boundaries. Recent trends suggest that, over the past three decades, the region’s cities have expanded (see Figure 1.6), becoming less round and less connected. Despite this sprawl, they remain relatively dense, with an

FIGURE 1.6 | Average City Area (in km²) by Year in Latin America and the Caribbean



Source: Authors’ calculations, based on the GHS Urban Centre Database.

average of 90 inhabitants per hectare—a density that is 80 percent higher than in Europe and four times that of North America.

Part of this urban sprawl has resulted from the formation of informal settlements. Many urban areas have been expanding geographically at a pace that outstrips population growth, and much of this expansion has occurred through the emergence of such settlements. According to UN-Habitat data, 18 percent of the region’s urban population resided in informal settlements in 2020.¹ Although typically in peri-urban areas where land is cheaper and regulation is laxer, informal settlements can in some instances be found in central city areas, often occupying vacant or underused lands, such as along railway lines, under bridges, or on steep slopes unsuitable for formal construction.

Informal settlements are characterized by inadequate housing conditions, lack of access to essential services, and heightened vulnerability to environmental hazards. They can also be settings for resilience and innovation, however, with inhabitants often developing informal mechanisms to address these challenges. Recognition is growing of the need to ensure more inclusive and sustainable urban development in cities across the region by integrating these settlements into formal urban systems through upgrading and regularization programs.

When cities grow excessively, two types of negative externalities start to operate. First, they become congested. This restrictive force can impede city growth and adversely influence the quality of life for urban dwellers. Primarily manifesting as overcrowding in transportation systems, congestion can also affect housing, public services, and amenities, leading to a variety of consequences, such as longer travel times, diminished productivity, and environmental degradation. The economic and social costs of congestion are substantial, with direct costs including squandered fuel and lost productivity and indirect costs encompassing deleterious impacts on public health, reduced access to opportunities, and decreased attractiveness for businesses and skilled workers. By addressing congestion, cities can maintain a more balanced growth trajectory and support a better quality of life for their residents (Glaeser and Kahn 2010; Duranton and Puga 2019; Libertun de Duren and Guerrero Compeán 2016).

Traffic congestion is a significant problem in the region. Using data from Waze, a community-based traffic and navigation application, Calatayud et al. (2021) measured congestion in ten cities in Latin America and found that those where the longest additional travel times resulted from excess traffic had the largest populations. The metropolitan area of Bogota stood out as one of the world’s most congested cities, with an average travel time exceeding 24 minutes for every 10 kilometers. Lima ranked fourth, and nine other Latin American cities were among the top fifty most congested places globally. This traffic congestion correlated with the region’s substantial increase in private vehicle usage.

1 See UN-Habitat (2023).

The second type of negative externalities associated with excessive growth are environmental concerns. When cities become too large, they face significant environmental challenges, including increased air pollution from vehicle emissions and industrial activities; intensified urban heat island effects due to extensive built-up areas; heightened energy consumption; loss of green spaces and natural habitats; increased waste generation and disposal difficulties; and greater pressure on water resources. Motorized transportation also contributes to poor air quality. The Global Urban Ambient Air Pollution Database of the World Health Organization shows that most cities in the region report pollution levels well above those recommended by WHO. These issues can worsen public health outcomes, reduce biodiversity, and diminish the overall quality of life for urban residents while also exacerbating climate change and environmental degradation at local, regional, and global scales (Grimm et al. 2008; Seto et al. 2014).

Both types of negative externalities—congestion and environmental concerns—are mediated through public policies. Four vital examples will be discussed throughout this report. First, density can increase the demand for land and housing, resulting in skyrocketing housing prices. Land use regulations and zoning restrictions may either alleviate or exacerbate the situation by altering the housing supply. In fact, cities with the most pronounced discrepancy between prices and costs often impose the strictest limitations on real estate development, potentially obstructing growth of the housing supply (Glaeser and Gyourko 2003). Second, the provision of vital urban services and their spatial distribution within cities are also important for city residents' well-being. Only 81 percent of the urban population have access to safely managed water, and only 40 percent have access to sanitation (IDB 2021c). Crucially, access to these services is not evenly distributed across different income levels; the percentage of urban households experiencing limited access to public services ranges from 12 percent in the upper-income quintile to 43 percent in the lowest quintile (Bouillon 2012; IDB 2020a). Third, the increased proximity and interaction of individuals in densely populated places can expedite the spread of infectious diseases. Urban areas can act as hotspots for disease outbreaks, as demonstrated by the COVID-19 pandemic (Chauvin 2020). The congregation of people in urban settings can create conditions conducive to the transmission of respiratory infections, waterborne diseases, and vector-borne diseases, among others (Vlahov et al. 2007). Public health and urban infrastructure policies can help mitigate these risks. Finally, the overcrowding, poverty, and social disparities common in densely populated areas can lead to more crime and violence (Copes, Tewksbury, and Sandberg 2015).

1.4. Exploring Population Growth Drivers

In developing regions, including Latin America and the Caribbean, demographers have determined that the primary catalyst for urban growth is the natural increase in pop-

ulation, largely attributable to decreased mortality rates. Chen, Valente, and Zlotnik (1998) found that natural population increase was responsible for 60 percent of urban growth from the 1960s to the 1980s around the world, with migration and reclassification accounting for the remaining 40 percent. More recent work by Jiang and O’Neill (2018) also demonstrated that natural increase has been the principal factor in urban growth in countries such as India, Mexico, and the United States, contributing to 67–83 percent of the growth. Historical data scrutinized by Jedwab, Christiaensen, and Gindelsky (2017) indicate that natural population growth was a key driver of rapid urban growth in developing nations from 1960 to 2010. A study by Menashe-Oren and Bocquier (2021) found that natural growth was the primary contributor to urbanization in Latin America and the Caribbean between 1985 and 2015.

Reduced mortality differentials between rural and urban sectors in the early stages of urbanization can explain the substantial role of natural increase in the developing world. Moreover, city population growth can affect mortality rates. A study by Bilal et al. (2021) examined the correlation between mortality and city population size, utilizing vital registration and population data from 742 cities across ten Latin American countries and the United States. Their findings indicated that mortality rates were lower in more populated cities than in less populated ones only in the United States, whereas in Latin America, the relationship was flat. They also showed notable differences in life expectancy and causes of death across Latin American cities, underscoring modifiable factors that could enhance urban health in the region through effective urban policies.

Migration, while playing a secondary role in Latin America and the Caribbean, still significantly contributes to urban growth. While a swift influx of population primarily driven by migration can put a strain on resources, it can simultaneously present many opportunities with respect to economic expansion, cultural interchange, regional equilibrium, and overall development. The movement of people often leads to a vibrant mixture of cultures and ideas, fostering innovation and creativity in cities. This movement not only can benefit migrant families directly; it can also stimulate economic growth for the benefit of all by providing a dynamic workforce, contributing to the local economy, and increasing demand for goods, services, and housing. Measuring and understanding and managing internal migration allows policymakers to address the challenges it presents while harnessing its potential to drive urban progress and socioeconomic advancement. In Box 1.2, we describe our methodological approach to tackling some measurement challenges and other issues relevant to urban migration. A more comprehensive overview of the data and the approach can be found in Busso et al. (2023).

1.5. Internal Migration as the Heartbeat of Urban Expansion

The substantial role played by internal migration in the redistribution of populations is particularly evident during developmental stages as the sectoral composition of

Box 1.2 Overcoming Challenges in Measuring Urban Migration: A Methodological Approach

The measurement of migration to cities presents two primary challenges. The first lies in defining cities in a manner that is universally applicable across all countries within the region, while the second involves accurately identifying migrants within the data.

Defining Cities

Local statistical agencies typically prioritize political boundaries when defining cities. We call the territory within these boundaries municipalities. When examining labor or housing markets, however, our interest primarily leans toward economic factors. Multiple politically defined municipalities may form a single urban conglomerate, where individuals live in one municipality and work in another but are always in the same city. Moreover, the criteria for defining municipalities based on political boundaries are not uniformly applied across countries.

Another challenge in defining municipalities and urban areas is that, in some countries, municipalities are divided into municipal centers and rural areas. This means that very small municipalities with few inhabitants are categorized as urban areas. For this report, we overcame these problems by relying on a city definition that considers a complex interplay of social and economic dynamics and ensures consistency across all countries within the region. It is based on the Global Human Settlement Layer Urban Centre Database (GHS-UCDB) of the European Commission, a dataset describing urban centers in 2015 that provides information on their location, extent (surface, shape), and geographical, socioeconomic, and environmental attributes. It defines cities in terms of contiguous high population density (with at least 1,500 persons per square kilometer), dense built-up area (with a minimum of 50 percent covered per square kilometer), and a minimum population of 50,000 people, among other criteria. This dataset enabled us to study and compare all cities in the region consistently, without relying on each country's definition of its urban centers.

Defining City Migrants Using Population Censuses

To define migrants at the city level, we established a novel link between the GHS-UCDB and population censuses in the region by cross-referencing our city definition with census data. We considered information related to the municipality in which the individual resided five years prior to the census year and the location where the individual resided during the census year. Our interest extended, however, beyond whether an individual resided in different municipalities (which could potentially be part of the same urban area) during that time; we sought to determine if that individual still resided within the same city. To achieve this, we intersected the GHS-UCDB polygon shapefile with the third-level administrative-unit polygon shapefile, assigning each municipality to a city or to areas outside cities (if a given municipality did not fall within a city polygon). Using this information, we constructed an origin–destination dataset that included the origin municipality (residence five years prior to the census) and the city information related to this municipality (whether it intersected any city polygon or not, the city's name, its population, its area, and other relevant variables), with the same information for the destination municipality (residence at the time of the census).

This dataset enabled us to determine the migrant status of an individual. For any person living in city i in census year t , if the individual resided in the same municipality five years prior to the census, that individual was classified as a local resident. Similarly, if the individual lived in a different municipality but within the same city i , that individual was also considered a resident. If five years prior, however, the individual resided in a municipality and in a different city j or outside any city (in a rural area), that individual was categorized as an internal migrant. Last, an individual who resided in a different country five years before the census was identified as an international migrant.

(continued on next page)

This report primarily concerns destination cities; thus, our sample was restricted to individuals residing in a city at the time of the census, excluding those living outside cities. The report does not delve into the impact of (out)migration on communities of origin or rural locations. Where feasible, the sample of analysis was limited to individuals residing in the urban areas of a city.

In summary, to measure internal migration we needed four elements: a variable in the census that captured the municipality of residence five years prior to the census year; the municipality where the individual resided during the census year; shapefiles at the municipality level; and a linkage between the municipality codes in the shapefile data and the corresponding codes in the census data. The countries and years that satisfied these requirements were Brazil in 2010, Chile in 2002 and 2017, Costa Rica in 2011, Ecuador in 2010, Mexico in 2010 and 2020, Peru in 2017, and Uruguay in 2010. For Chile and Mexico, the two countries for which we had census data for two years, we opted to use 2017 and 2020 data, respectively, except for Chapter 2, in which we used 2010 data for Mexico. To provide a broader description of migration in Latin America, we complemented these data with household surveys, which have less strict data requirements.

Defining City Migrants Using Household Surveys

When using household surveys, it was not feasible to rely on our cities dataset, as we typically lacked information on the specific municipalities in which individuals resided five years prior to the survey and those where they resided at the time of the survey. In this scenario, to define internal migrants, household surveys often ask whether the individual lived in a different municipality five years before the survey and whether this municipality was within the same country (even if the municipality is not specified). We used this information to define an internal migrant as an individual who resided in a different municipality five years prior to the survey, while an international migrant was someone who resided in a different country five years before the survey. Under this definition, we observed more individuals classified as internal migrants than when we applied the definition using census data, as individuals are more likely to move between municipalities than between cities. Furthermore, as the focus of our analysis was destination cities, and since we lacked city information when using household surveys, our proxy for this was to retain only individuals residing in urban areas, rather than focusing on those in rural areas. We note, however, that household surveys likely underestimate the share of international migrants in the total population (Perdomo Rico 2022).

To be precise, throughout this report, any analyses conducted at a city level presented in figures or tables refer to GHS cities. Additionally, when discussing migrants, we employ different definitions depending on whether we used census or household survey data, as previously described. The notes accompanying each table or figure specify the type of data used and, consequently, the definition of migrants. Last, our use of the term “migrants” encompasses both internal and international migrants.

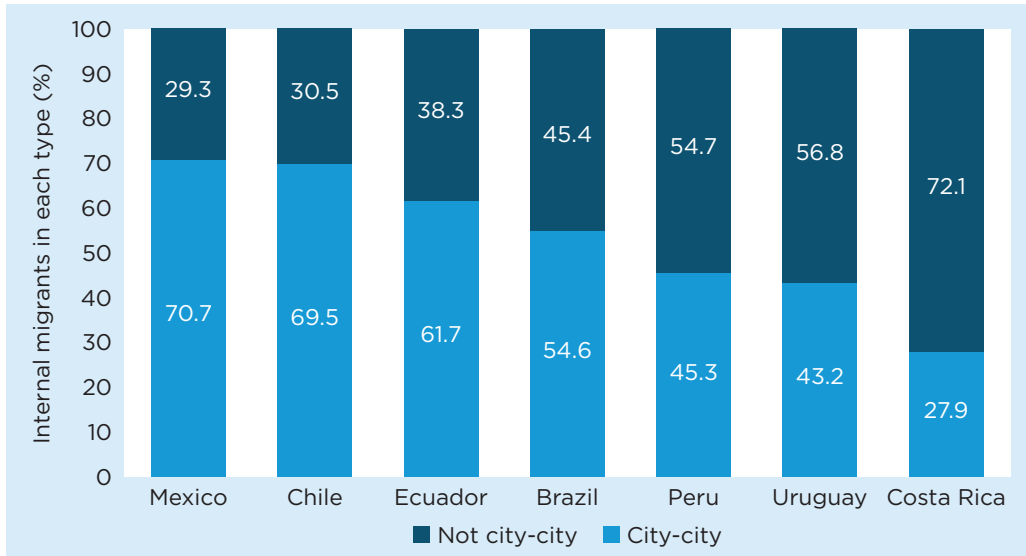
the economy and the geographical distribution of employment evolve (Kuznets 1966; Harris and Todaro 1970).

Early research on migration primarily emphasized what are known as “pull factors,” with wage disparities identified as a significant influence on migration decisions (Lewis 1954; Harris and Todaro 1970). This body of work initially proposed a straightforward model in which an individual’s decision to migrate is based on whether the anticipated wage differences between urban and rural areas outweigh the costs of migration. Building on this foundation, subsequent studies introduced enhancements that expanded the original

model. Factors such as demographic diversity can affect the likelihood of migration. Age, for example, which sets an individual's planning horizon (Plane 1993), and level of education (Greenwood 1997), which can influence employment opportunities, appear to be significant in migration decisions. Furthermore, Brueckner and Zenou (1999) and Brueckner and Kim (2001) formally integrated urban land into a model following the Harris-Todaro approach. They found that the cost of housing influences the real wage, which is a key factor in the decision to migrate. They also suggested that migration could increase the price of urban land, thereby raising the cost of living in the city and, potentially, discouraging further migration. Finally, people may be motivated to migrate by factors other than the prospect of higher income. These can include differences in amenities between locations, such as the comparative lack of public services in rural areas (Brueckner and Lall 2015; Lall, Lundberg, and Shalizi 2008), the presence of strong social networks in potential destinations (Giulietti, Wahba, and Zenou 2018), and the risk of losing informal insurance networks in individuals' places of origin (Munshi and Rosenzweig 2016).

Internal migration takes various forms, ranging from rural-to-rural migration, typically observed among migrants in low-income countries who are in search of improved agricultural conditions, to rural-to-urban migration, a prevalent occurrence during the urbanization phase of developing countries, in which individuals are drawn to cities by wage disparities and differences in quality of life (White and Lindstrom 2005). The patterns of internal migration have evolved over time and exhibit considerable heterogeneity across countries in the region. From the 1930s to the 1970s, the dominant pattern of migration within countries was rural to urban, often involving a two-step process: individuals moved from rural areas to small towns, and then from small towns to urban areas (Firebaugh 1979; Herrick and Hudson 1981). Nearly half of urban growth in the 1950s could be attributed to rural-to-urban migration, a proportion that fell to 38.4 percent between 1990 and 2000. This trend was not uniformly observed across all countries, however. While Argentina, Brazil, Chile, Mexico, and Peru reported a decline in this migration pattern, countries like Bolivia and Paraguay maintained a large proportion of outmigration from rural areas (Cerruti and Bertonecello 2003). Figure 1.7 shows, by origin locations, the distribution of internal migrants who arrived in cities throughout the region between 2010 and 2020. Current evidence suggests that factors driving rural-to-urban internal migration continue to be relevant today, even as the region has already achieved high levels of urbanization (Busso, Chauvin, and Herrera 2021).

Beginning in the 1970s, urban-to-urban migration emerged as the predominant form of internal migration (Rodríguez 2002; ECLAC 2000; Lattes, Rodríguez, and Villa 2004; Lattes 1995; da Cunha 2002). As a result, the nature of internal migration became more varied, marked by a diversity of migrant characteristics and a broad spectrum of origin locations and destinations. Rodríguez (2017) noted that out of 14.4 million migrants

FIGURE 1.7 | Internal Migration Composition

Source: Authors' calculations, based on the GHS Urban Centre Database and microdata from the population censuses described in Box 1.2.

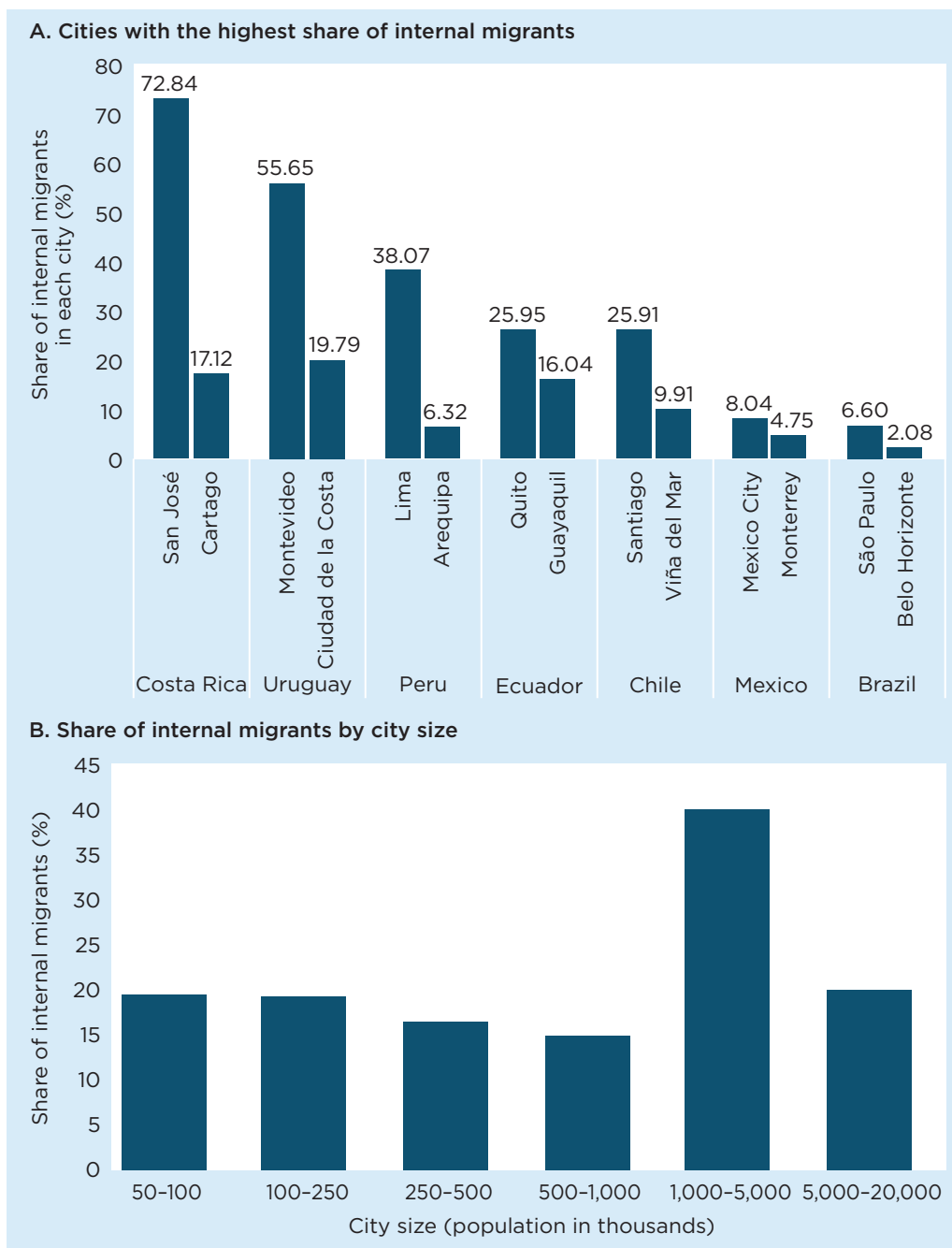
Notes: Here the denominator is the sum of all internal migrants per country. The numerator is the number of people who, five years ago, lived in a different GHS city in the country ("city-city") or who, five years ago, lived in a municipality outside the polygons of all the GHS cities ("not a city-city").

recorded in the 2010 census round conducted in ten countries in the region, 11.2 million (or 78 percent) were city immigrants, and 10.6 million (73.5 percent) were city emigrants. These data suggest that three out of every four migrants moved between cities, indicating urban-to-urban migration had become a much more common occurrence in Latin America.

Migration is a widespread phenomenon. Figure 1.8 explores internal migration patterns across cities of various sizes and specific urban centers in the region. As panel A shows, cities such as San Jose, Montevideo, and Lima are significant recipients of internal migrants. This influx presents both challenges and opportunities for these cities, underlining the necessity for strategies tailored to manage and take advantage of this demographic shift. Panel B shows that, while large cities are the primary destinations for internal migrants, the movement toward small and medium-sized cities is also substantial. This indicates internal migration is not limited to large metropolises but is a broad trend affecting cities of all sizes.

Figure 1.9 offers a more detailed visualization of net flows of internal migration in seven Latin American countries. The size of each dot represents the share of internal migrants received relative to the city population in the five years preceding the most recent census, while the arrow in each line indicates the direction of the net migration flow. While capital cities or the largest cities in a country are often perceived as hubs of attraction, other cities also play a significant role in internal migration patterns. As a share

FIGURE 1.8 | Share of Internal Migrants in Latin America

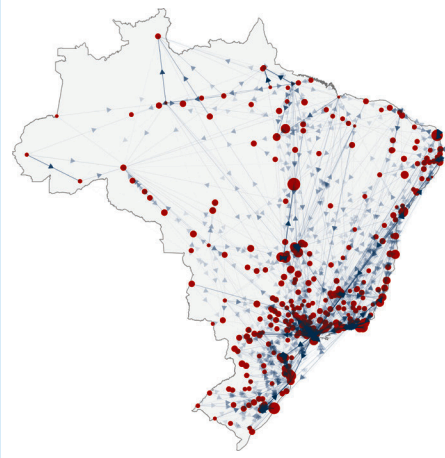


Source: Authors' calculations, based on the GHS Urban Centre Database and microdata from the population censuses described in Box 1.2.

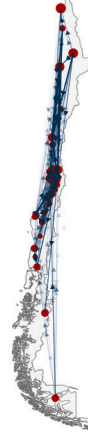
Notes: In panel A the denominator is the sum of all internal migrants per country, and the numerator is the sum of internal migrants living in each city. Panel A shows the two cities per country with the highest share of internal migrants as a percentage of total internal migrants. Panel B shows the simple average of the percentage of internal migrants residing in cities of each size relative to the total number of internal migrants in the country across the countries in panel A.

FIGURE 1.9 | Net Flows of Internal Migration

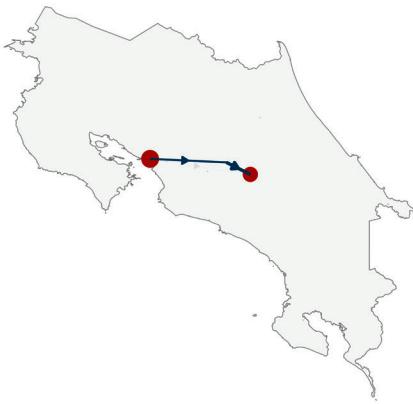
A. Brazil



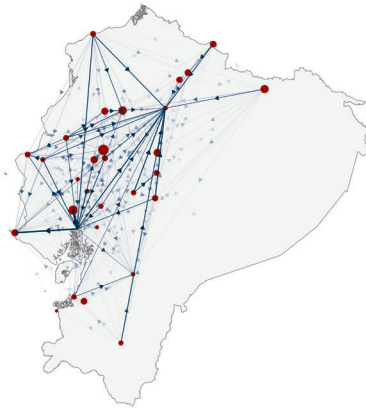
B. Chile



C. Costa Rica



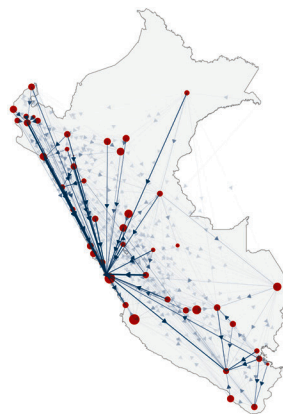
D. Ecuador



E. Mexico

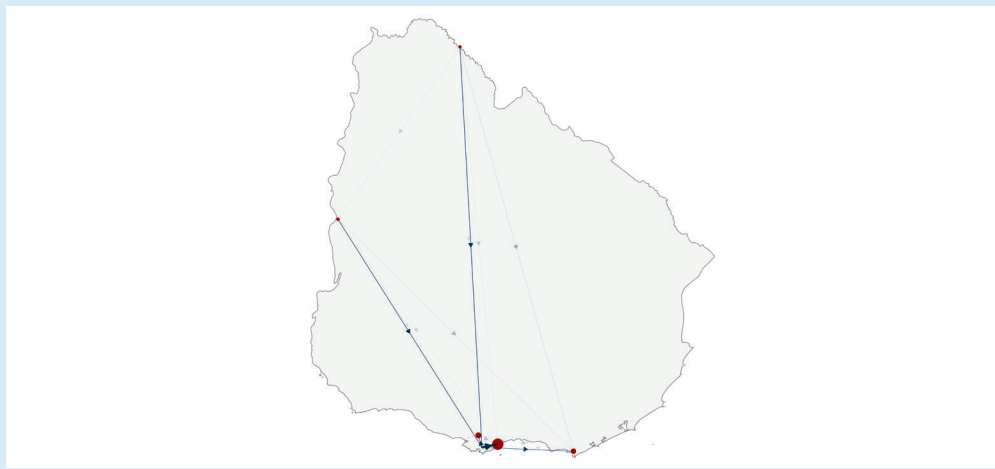


F. Peru



(continued on next page)

G. Uruguay



Source: Authors' calculations, based on the GHS Urban Centre Database and microdata from the population censuses described in Box 1.2.

Notes: These maps depict net internal migration flows, indicating the movement of migrants from city A to city B (subtracting migrants from city B to city A). If the number of migrants from city A to city B is higher than from city B to city A, an arrow points in that direction. If the number from city B to city A is higher, the arrow points in the opposite direction. The width of the line represents the magnitude of the net migration number, while the size of the dots represents the proportion of migrants in destination cities as a percentage of the 2015 city population. Only flows with a total of more than 30 people are included.

of the local population, the distribution of the migrant population appears relatively uniform across cities of different sizes. This may seem counterintuitive, as one might expect the distribution to be concentrated in the largest cities. The uniformity can be explained by the fact that while a larger city attracts a significant number of migrants, it also has a larger denominator (that is, a larger population). This means that even though larger cities receive more migrants in absolute terms, the relative impact on their population size is similar to that in smaller cities. One implication of this analysis is that it is essential for all local governments, irrespective of the size of their jurisdictions, to engage actively with this phenomenon, as it influences their planning and resource allocation.

Migration may change the demographic mixture of receiving cities. Large cities often attract younger individuals, leading to their departure from smaller cities and rural areas (Bernard 2017). At an average age of 30.4 years, migrants tend to be younger than residents, whose average age is 36.7 years, as shown in Table 1.1.² Migrants also tend to have more years of education than residents, averaging 12 years as compared to 10.6 years. About 72 percent of migrants have high school educations or more, more than the 59.7 percent observed among residents. The proportion of women in both groups is nearly identical, with 52.2 percent among migrants and 52.1 percent among residents.

² IDB, OECD, and UNDP (2023) report these and more details about the demographic characteristics of exclusively international migrants.

TABLE 1.1 | Demographic Characteristics of Migrants and Residents

	Latin America and the Caribbean							
	Latin America and the Caribbean	Argentina	Bolivia	Chile	Colombia	Peru	Paraguay	Uruguay
A. Urban population and migration breakdown								
Total population (in millions)	650.5	45.4	11.8	19.3	50.9	33.3	6.6	3.4
Urban population (% of total population)	81.1	92.1	69.8	87.7	81.4	78.3	62.2	95.4
% of international migrants living in urban areas	80.9	—	—	97.1	65	98	63.4	92
% of internal migrants living in urban areas	67.5	—	62.5	88.1	48.7	87.3	60.4	71
% of urban population who are international migrants	2.6	0.6	0.8	4.2	5.9	0.5	1.4	1.3
% of urban population who are internal migrants	6.2	1.4	3.2	10.4	9.7	5.7	7.3	5.5
B. Demographic characteristics of migrants and residents								
Average age								
Migrants	30.4	30.2	29.5	33.8	29.1	31.1	29.6	32.5
Residents	36.7	37.1	32	40.1	36.6	36.3	32.8	39.8
% women								
Migrants	52.2	54.4	51.3	52.2	51.1	51.4	51.6	50.9
Residents	52.1	51.9	51.5	54.8	52	51.6	51.2	52.2
% indigenous								
Migrants	6.5	—	22.1	6.7	1.8	19.2	—	2.4
Residents	6.2	—	17.3	10.1	1.1	18.3	—	1.4
Years of schooling (age 25+)								
Migrants	12	13.3	12.3	13.9	10.7	11.1	11.7	11.3
Residents	10.6	11.4	11.1	11.7	9.9	10	10.4	10
% high school or more (age 25+)								
Migrants	72.2	76	69	82.1	67.6	73.2	65.1	50.2
Residents	59.7	58	61.1	64.3	60	62.6	52.3	34.7
% of households with a single, unmarried head								
Migrants	28.3	45.2	32.4	28.1	17.6	20.5	34.1	15.2
Residents	14.3	16.5	14.5	23.2	13	7.6	19.2	7.3
Average number of household members								
Migrants	2.8	2.3	2.7	2.7	3.1	3.2	2.8	2.6
Residents	3.2	3.1	3.4	3	3.2	3.6	3.9	2.8
Number of children below age 15								
Migrants	1.4	1.4	1.4	1.4	1.4	1.4	1.3	1.4
Residents	1.4	1.5	1.6	1.3	1.3	1.4	1.5	1.4

Source: Total population and urban population are based on World Development Indicators data for 2020, except those for Bolivia and Uruguay, which are from 2019. The percentage of international migrants living in urban areas is based on data from the IDB Migration Unit; the years covered were 2019 for Uruguay, 2020 for Chile, and 2021 for Colombia, Peru, and Paraguay (IDB, OECD, and UNDP 2023). All other indicators are authors' calculations, based on household survey data from 2020, except those for Bolivia and Uruguay, which are from 2019.

Notes: Migrants in panel B include both internal and international migrants.

Migrants are more likely to be single household heads, at 28.3 percent, compared to 14.3 percent among residents, and their households are slightly smaller on average, with 2.8 versus 3.2 members. Both groups, however, have the same average number of children—1.4—under 15 years of age. Chapter 2 comes back to this topic and looks at the implications of these demographic differences for the labor market and the local economy.

The duration of stay for internal migrants in their destination cities is influenced by a variety of factors, including economic opportunities, social networks, and government policies. While many reside in urban areas for extended periods, others move there temporarily for seasonal work, and some engage in circular or repeat migration. Studies on internal migration in Brazil by Baeninger (2012) and in Mexico by Massey, Durand, and Pren (2016) found that improved employment opportunities and access to services contributed to longer stays in urban areas. Interpreting the duration of stay can be complex, however, because migration patterns are intricate and data collection is limited. Census data, for instance, may only capture a person's place of residence at a single point in time, potentially overlooking temporary or circular migration. Internal migration patterns found by Ibáñez and Moya (2010) in Colombia suggest that, while displaced individuals often migrate to urban areas in search of safety and employment opportunities, the length of their stays is heavily influenced by other factors, such as local economic conditions, the potential for a return to safer home regions, and the presence of social networks and support systems in their destination cities.

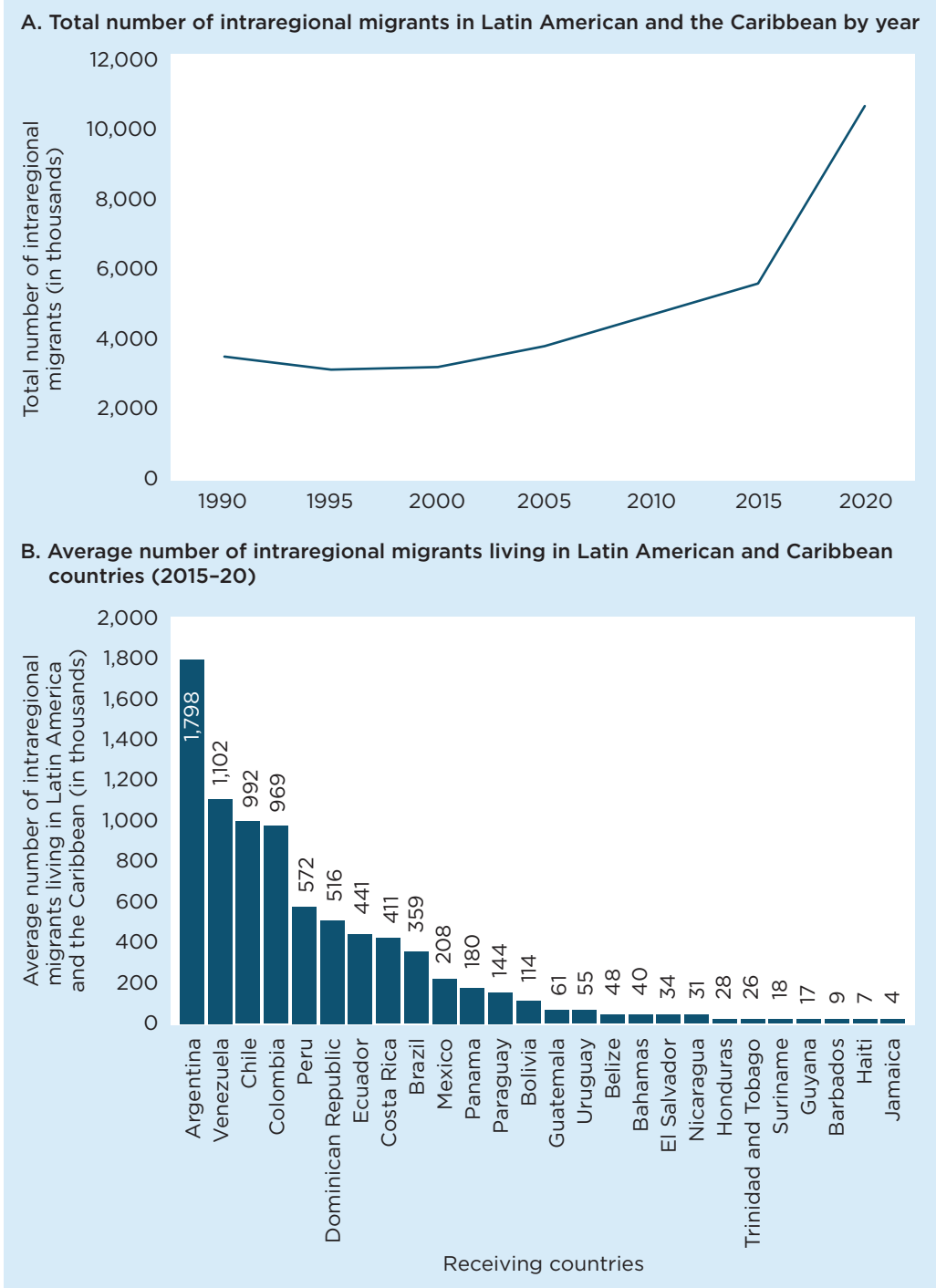
1.6. Migrants Crossing Borders

City growth can also be affected by individuals or families who change their usual place of residence from their countries of origin to foreign destinations. A variety of factors can drive this cross-border movement, including quality of life, economic or social opportunities, education, tourism, family reunification, or escape from situations of war, political instability, or economic hardship.

Understanding international migration requires navigating the complexity of its measurement, which largely depends on the administrative records of different countries. For this section, we utilized data curated by the Inter-American Development Bank Migration Unit. These records typically encompass visas, permits, and, in some cases, registers of foreigners, offering a comprehensive overview of authorized immigration. This approach was inherently limited, however, as irregular immigrants who do not use legal entry channels remain uncaptured in these statistics. By excluding specific categories such as tourists, business visitors, and diplomats from immigration statistics, we could consider all other individuals crossing borders as potential immigrants (even when some might not be).

The focus of this section is a phenomenon known as intraregional migration. Panel A of Figure 1.10 shows the evolution of the total number of international migrants between

FIGURE 1.10 | Intraregional Migration in Latin America and the Caribbean



Source: Author’s calculations, based on UNDESA (2020).

Note: This dataset measures the total number of migrants by destination country in 1990, 1995, 2000, 2005, 2010, 2015, and 2020. We kept only Latin American and Caribbean countries for both origin and receiving countries.

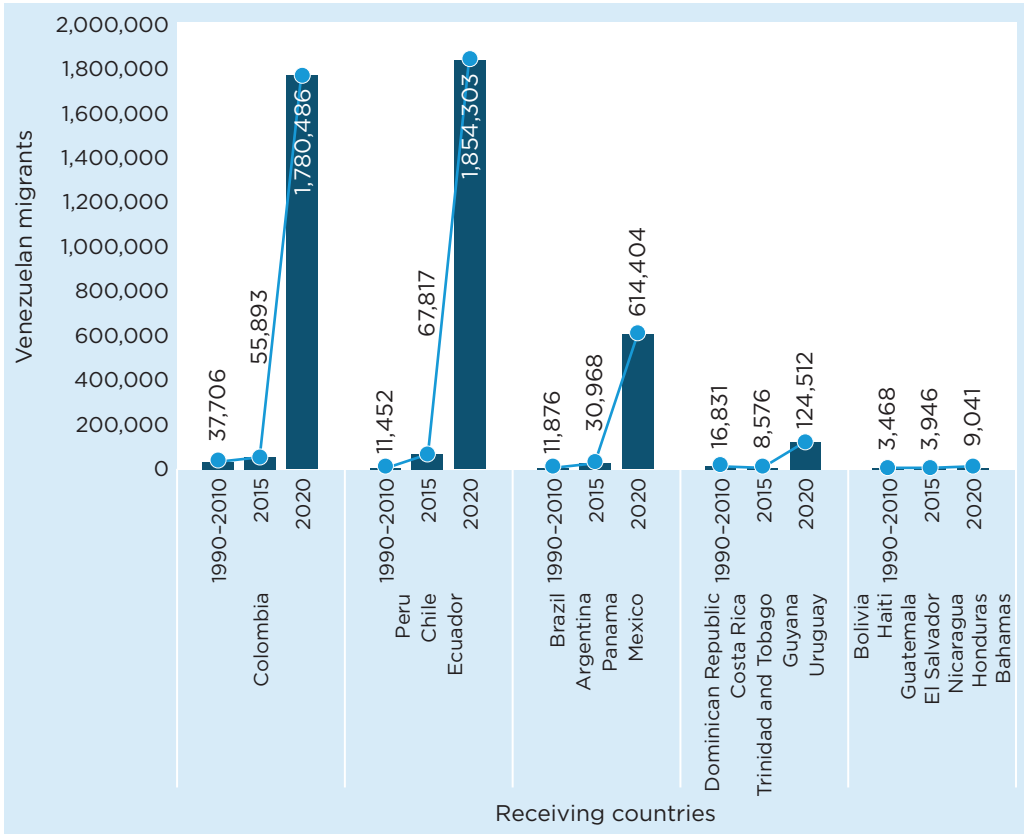
countries within the Latin American and Caribbean region. In recent years, intraregional migration patterns have undergone significant changes. From 2015 to 2020, the average number of international migrants increased by over 80 percent, from 5.7 million to 10.7 million. This surge was primarily driven by the economic crisis in Venezuela and the aftermath of the 2010 earthquake in Haiti. The increase transformed Latin American and Caribbean countries from traditionally being countries of emigration to becoming host nations with substantial immigrant populations, affecting migration systems and policies. As of the end of 2019, the crisis in Venezuela had led to a total of 3.8 million Venezuelan refugees and migrants in Latin America and the Caribbean (increasing to 7.7 million by the end of 2023) (R4V 2019, 2020). By 2019, however, only 2.2 million residency permits³ had been issued by countries in the region (IDB and OECD 2021). This reflects not only the enormous scale of displacement, but also the substantial number of Venezuelans lacking a definite residential status within their countries of residence. It is important to note, however, that Venezuela is the country with the second highest total average number of intraregional migrants living in its territory—a legacy of past migration flows—as shown in panel B. Other countries with high levels of intraregional migrants include Argentina (which has the highest average number), Chile, and Colombia.

Figure 1.11 presents the numbers of Venezuelan migrants in five groups of countries in the region for the years 1990–2010, 2015, and 2020. All groups showed a consistent upward trend in migration flows from Venezuela, with 2020 marking a particularly significant year of increased migration across the region. The first group, consisting solely of Colombia, emerged as one of the primary destinations for Venezuelan migrants. The second group, comprising Peru, Chile, and Ecuador, also saw a substantial number of Venezuelan migrants. The third, fourth, and fifth groups received fewer migrants. In addition to Venezuelans, a significant number of Haitians in Chile and Brazil, as well as Nicaraguans in Costa Rica, were granted residency permits. Regarding individual countries, those such as Colombia and Peru witnessed a notable increase in their shares of intraregional migrants, while others, including Argentina and Mexico, saw a decline. Moreover, the number of immigrants from outside the region decreased, underscoring the growing significance of regional mobility programs.

Before the migration episode from Venezuela, most migrants to cities in the region were internal rather than international. Figure 1.12 displays the composition of migrants arriving in cities. In most countries, they made up between 5 and 12 percent of the population, with internal migrants constituting the majority of these cities' newcomers (averaging 5.8 percent). While international migrants significantly contributed to city population growth

3 The count of issued permits could be complicated by duplicated entries for certain migrants, given that individuals might acquire multiple permits within a single country due to extensions of their stays or across multiple countries as they proceed on their journeys (IDB and OECD 2021).

FIGURE 1.11 | Total Venezuelan Migrants Living in Latin American and Caribbean Countries by Year



Source: Authors' calculations, based on UNDESA (2020).

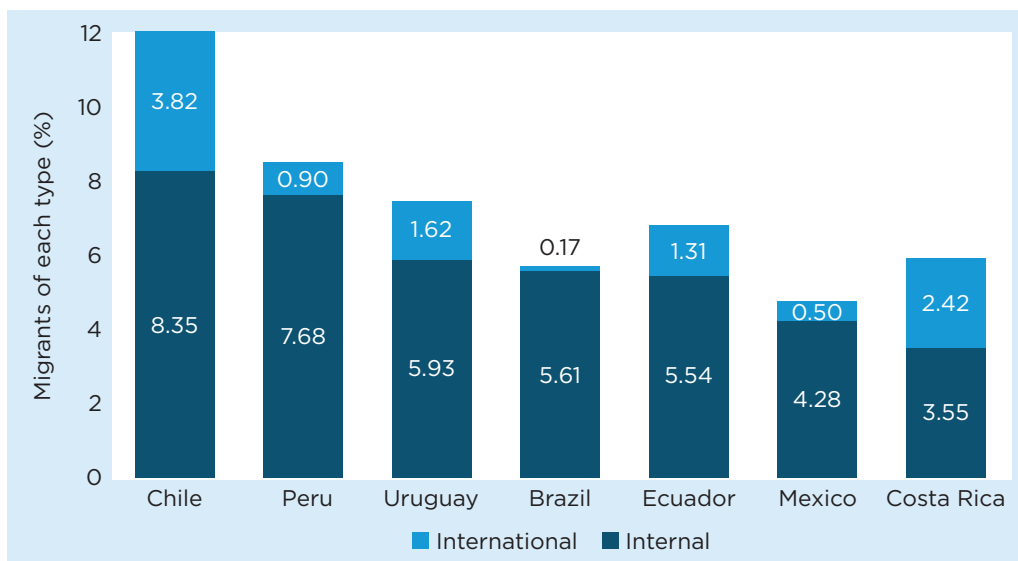
Note: For 1990-2010, we took the average of the total Venezuelan migrants from 1990, 2000, 2005, and 2010.

in Chile and Costa Rica, their impact was more limited in other locations. For the rest of this report, unless noted otherwise, we pooled together internal and international migrants. We note that in normal times, except in cases of large shocks, most migrants are internal.⁴

1.7. Forced to Move: Conflict and Natural Disasters as Drivers of Migration

Individuals migrate for a multitude of reasons. Many are drawn to cities by improved opportunities and a higher perceived quality of life. In Mexico, one of the few countries with data on the reasons for migration, census data show that three out of four people

⁴ Unfortunately, we lacked information to compute these statistics for the period after the largest Venezuelan migration flow took place. Information from the Inter-American Development Bank's Migration Unit suggests that approximately 80% of Venezuelan migrants are located in cities.

FIGURE 1.12 | Migration Composition: Internal and International Migration


Source: Authors' calculations, based on the GHS Urban Centre Database and microdata from the population censuses described in Box 1.2.

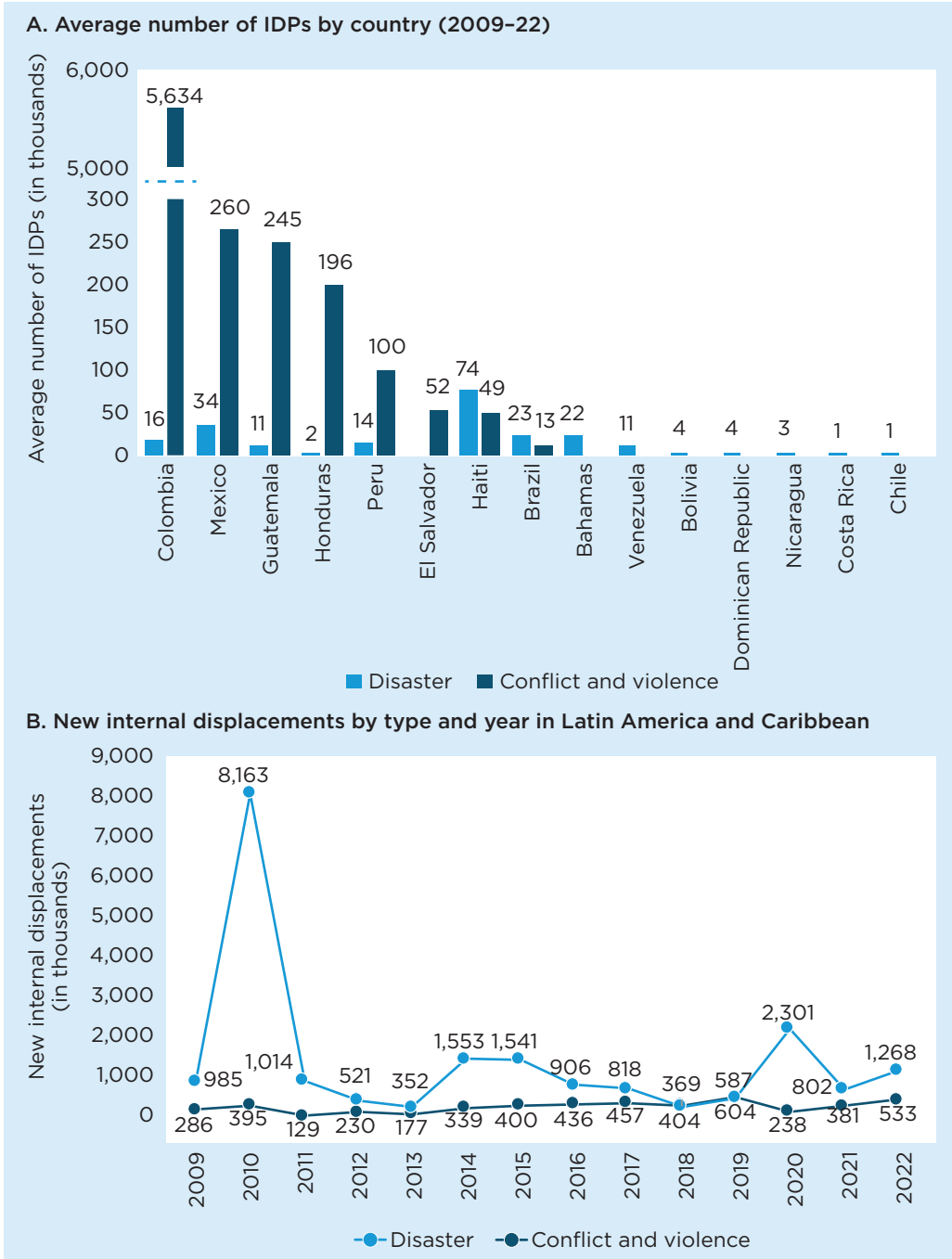
Notes: Here the denominator is the sum of all residents, internal migrants, and international migrants living in a GHS city by the time of the census.

who migrate internally do so primarily due to family- and work-related factors. The choice to migrate is not always driven by so-called pull factors, however; often, individuals are compelled to leave their homes. Various “push factors” explored in the literature include displacements related to crime, violence, or conflict (see, for example, Henderson, Storeygard, and Deichmann 2017; and Calderón-Mejía and Ibáñez 2016) and weather-related shocks or other natural disasters (for example, Busso and Chauvin 2023).

Data from the Internal Displacement Monitoring Centre (2023) show that at the end of 2022 there were over 70 million internally displaced persons (IDPs) worldwide and 6.1 million in Latin America and the Caribbean.⁵ Panel A of Figure 1.13 presents the distribution of IDPs by country and the reasons for displacement between 2009 and 2022. Violence, particularly associated with armed conflict and criminal activities, was the predominant driver of displacement during this period. Numerous natural disasters, including wildfires, volcanic eruptions, and, especially, floods, seismic events, and storms, also led to significant displacement. In Haiti in 2010, for instance, an earthquake resulted in around 1.5 million displacements. It is important to note that the number of displaced migrants observed in the region is not necessarily a recent phenomenon but, rather, a

⁵ It is worth noting that discrepancies may occur in the counting of IDPs. Official statistics from Colombia's Registro único de víctimas (RUV) (Unidad para la Atención y Reparación Integral a las Víctimas 2023), for instance, indicate that, as of the end of June 2023, there were 8.5 million.

FIGURE 1.13 | Migrants Internally Displaced by Conflict and Natural Disasters



Source: Authors' calculations, based on Internal Displacement Monitoring Centre 2023.

Notes: Panel A shows the average number of IDPs as a result of conflict and violence or natural disasters between 2009 and 2022 for each country. IDPs are understood as the total number of people living in a situation of displacement as of the end of the reporting year. Panel B shows the estimated number of forced movements of people, as a result of conflict and violence or natural disasters, within the borders over a given period of time (reporting year). It may include individuals who have been displaced more than once.

consequence of longstanding displacements over the years. Panel B depicts new internal displacements annually over the same period, categorized by conflict and violence or disasters and measured in thousands. Apart from the significant displacements resulting from the earthquake in Haiti, the overall displacement figures remained relatively constant over the thirteen years. Moreover, this figure reveals a predominant occurrence in recent years of displacements attributed to disasters rather than conflict and violence. We next examine more closely the latter two push factors behind internal migration.

1.8. Migration Echoes of Past Conflicts

Conflict and violence can have various impacts on migration. Direct threats to personal safety, including crime, armed conflict, or violence, are often the initial and most compelling catalysts prompting forced displacement. Individuals or families who perceive imminent danger are more likely to escape, frequently abandoning their homes, livelihoods, and community networks (Moore and Shellman 2004). Furthermore, conflict and violence frequently disrupt local economies, triggering job loss and heightening economic insecurity that can provide further incentive for people to migrate in search of more stable and safer opportunities (Raleigh 2011). Sustained conflict typically leads to the deterioration of essential infrastructure and services, such as water supply, health care, and education. The resulting deprivation may compel individuals or families to relocate in pursuit of better living conditions (Engel and Ibáñez 2007).

The Latin American and Caribbean region has witnessed several episodes of violence and crime leading to forced displacement and migration. A pattern of forced displacement in Colombia has largely been attributable to prolonged conflicts. Predominantly affecting rural areas, the conflicts have engendered substantial migration to urban centers within the country (Ibáñez and Vélez 2008). In Mexico, displacement has been driven by drug-related violence. Areas with high levels of cartel activity, including Guerrero, Michoacán, and Sinaloa, have been particularly affected, prompting families to seek safety elsewhere (Basu and Pearlman 2017; Nieto, Gausson, and Correa-Cabrera 2023). The Northern Triangle of Central America, comprising El Salvador, Guatemala, and Honduras, has seen similar episodes of forced displacement in the wake of violence (Clemens 2021). In El Salvador and Honduras, the high levels of violence, particularly concentrated in urban areas and leading to both internal and international migration, have been largely associated with gang activities. Similar displacement patterns in Guatemala have been produced by ongoing violence, especially against indigenous communities, coupled with a legacy of civil war. The relationship between violence and migration intensifies at higher levels of violence. Moreover, as networks of migrants take form, the violence seems to trigger waves of migration that accumulate over time: even when the violence subsides, migration can continue to increase.

The decision to escape from crime and violence by moving to another location is typically made at the household level. In most instances, all household members migrate together, which partially explains why most internally displaced migrants perceive their displacement as a permanent decision and why very few return (Ibáñez, Moya, and Velásquez 2022). Many households are forced to depart hastily, often unable to sell their assets, which are either confiscated by armed groups or left behind. As a result, families are unable to derive economic benefit from their productive assets, as they have limited capital to invest in productive activities in destination communities (Ibáñez and Moya 2010). In Latin America and the Caribbean, many forced displacements have occurred not en masse but, rather, with one or a few households ending up in informal settlements on the outskirts of urban areas (Ibáñez, Moya, and Velásquez 2022). This contrasts with countries in other regions of the world, where large-scale displacement results in the relocation of forced migrants to refugee camps and across international borders (Ibáñez and Moya 2010).

Displaced populations often experience diminished consumption and labor income, substantial losses of assets, challenging living conditions in destination areas, and a disruption of risk-sharing mechanisms, all of which increase their vulnerability to chronic poverty (Ibáñez and Moya 2010). For many displaced individuals, especially women, integration into the labor market is slow and working conditions unfavorable. Employment opportunities are scarce for many, especially since their agricultural skills are not in demand in urban areas (Ibáñez and Moya 2010). In Colombia, for example, more than 88 percent of employed individuals lack the protection of labor contracts. Furthermore, discrimination against the displaced population often impedes their participation in the labor market (Ibáñez and Moya 2007).

Public policy plays a crucial role in addressing the issues summarized above. Preventing violence and restoring a sense of safety are vital to reducing involuntary displacements (Ibáñez and Vélez 2008). Strategies must extend beyond these security aspects, however. Engel and Ibáñez (2007) proposed the establishment of a decentralized support network near areas experiencing forced displacement to alleviate the overwhelming burden on existing receptor cities. They also suggested that many potential migrants hold overly optimistic expectations regarding the conditions they will encounter upon arrival there and emphasize the importance of disseminating such information.

At the same time, the development and implementation of targeted policies for victims of internal conflict are clearly needed. These include the protection and recovery of assets, the fine-tuning of income generation programs, and the promotion of access to financial markets (Ibáñez and Moya 2007). The establishment of a robust legal framework that safeguards land and other assets abandoned as a result of forced displacement is essential. Financial support for wages during the initial months of

employment in private firms can help displaced individuals find jobs in firms that properly utilize their skills (Ibáñez and Moya 2010). Strategies to protect productive activities unaffected by war and facilitate access to labor markets can be vital to helping households cope with conflict-related shocks and promoting swift recovery once the conflict subsides (Fernández, Ibáñez, and Peña 2011).

Some countries in the region have already designed policies to improve the lives of IDPs. Ibáñez, Moya, and Velásquez (2022) reviewed four of the main legal provisions enacted in Colombia to address the needs of IDPs and safeguard their rights. The most recent legislation officially acknowledges IDPs as victims of the Colombian conflict, covers policies designed specifically to address their needs, and offers mechanisms to compensate them for their losses. Mexico is currently in the process of passing a law through Congress implementing measures to prevent internal forced displacement, establishing a comprehensive framework for assisting individuals in such situations, providing comprehensive reparations, and delineating the distribution of responsibilities among various governmental bodies. Other countries in the region with similar IDP laws include El Salvador, Honduras, and Peru (UNHCR 2023).

1.9. Climate Change: The Impending Accelerator of Internal Migration

Climate change is increasingly affecting individual decision-making concerning residential choices. Climate events can be divided into two categories based on their characteristics. Sudden climate events, which include hurricanes, tornadoes, and floods, can cause immediate and severe damage, including loss of life, destruction of infrastructure, and harm to crops and livestock, while slow-onset events, such as droughts, rising sea levels, and desertification, typically evolve over time. The impacts of slow-onset events may not become noticeable until they exceed a critical threshold.

Between 2020 and 2022, as reported by the United Nations Office for Disaster Risk Reduction, Latin America and the Caribbean experienced 175 disasters, with 88 percent attributed to meteorological, climatological, and hydrological factors. These hazards were responsible for 40 percent of disaster-related fatalities and 71 percent of economic losses. Instances of climate events that induced displacements include Hurricane Mitch in 1998, which led to an estimated 100,000 to 150,000 individuals leaving their homes (Alexeev, Polyakov, and Bekryaev 2010), and the 2019 wildfires that ravaged 7 million hectares in Bolivia. Moreover, from 1996 to 2010, over 3 million people in the semiarid area of Brazil departed their hometowns in response to climate shocks (Corbi, Ferraz, and Narita 2021). These sudden events were not isolated incidents, as the region is projected to continue experiencing weather-related shocks that will trigger sudden and sometimes significant migration flows across the region.

In addition to catastrophic weather-related disasters, slow-onset events such as rising temperatures and sea levels warrant attention. A striking example is found in the Andes, where glaciers have been shrinking. Since 1990, the loss has exceeded 30 percent of their area, with some in Peru having shrunk by more than half (Mark et al. 2017). The consequent retreat of these glaciers and the associated reduction in their ice mass has heightened the risk of water scarcity for both Andean populations and their ecosystems. Furthermore, regional sea levels have been rising at an accelerated pace compared to the global average, particularly along the South Atlantic coast of South America and the subtropical North Atlantic and Gulf of Mexico. The resulting threat to the population residing in coastal areas includes freshwater aquifer contamination, shoreline erosion, inundation of low-lying areas, and amplified storm surge risks.

Over the long term, the slow-onset variations in sea level and temperature can affect the distribution of populations across Latin America and the Caribbean, with the literature collectively suggesting that climatic factors influence migration decisions. Table 1.2 provides a summary of some relevant examples from the region, encompassing both disasters and slow-onset events.

TABLE 1.2 | Studies in Latin America and Caribbean on the Effects of Climate Change on Migration

Study	Country	Scope	Year	Event	Migration effect	Comment
Spencer and Urquhart (2018)	Central America and the Caribbean	International	1989–2005	Hurricane	+6%	
Baez et al. (2017)	Central America and the Caribbean	Internal	1982–2010	High temperature	+0.35 % points	Positive and statistically significant effect on the migration of women to provincial capitals
Thiede, Gray, and Mueller (2016)	South America	Internal	1970–2011	High temperature	+3.4%	For every additional month that temperatures were more than two standard deviations above the long-term average
Busso and Chauvin (2023)	Brazil	Internal	1991–2010	Drought	+2.5 % points	
Ibáñez et al. (2023)	Colombia	Internal	2010–2011 and 2015–2016	Rainfall and drought, respectively	+15.4 % points and +20.5 % points, respectively	Per standard deviation in the rainfall and drought shock

(continued on next page)

Robalino et al. (2015)	Costa Rica	Internal	1995–2000	hydro-meteorological emergency	+0.08–0.11%	With one standard deviation unit increase of a hydrometeorological emergency
Gray and Bilsborrow (2013)	Ecuador	International	2001–2008	Mean annual rainfall	–60%	Per standard deviation of rainfall deviation
Ibáñez et al. (2022)	El Salvador	International	2009–2018	High temperature	+14.50%	Per standard deviation in the temperature shock
Khamis and Li (2020)	Mexico	Internal	1995–2010	Disaster frequency	+1.70%	Disaster frequency is based on precipitation and the authors' proxy for climate
Ruiz (2017)	Mexico	Internal	2000–2010	Drought	+0.44%	With an additional month of all drought episodes
Nawrotzki et al. (2015)	Mexico	International	1986–1999	High temperature	+23%	With one standard deviation unit increase in a high-temperature period
Saldaña-Zorrilla and Sandberg (2009)	Mexico	Internal	1990–2000	Disaster frequency	+1%	With a 10% increase in disaster frequency
Nawrotzki et al. (2013)	Mexico	International	2000	Drought	+35.5%	With a 10% increase in dryness
Hunter, Murray, and Riosmena (2013)	Mexico	International	1987–2005	Drought	+40%/–97%	Effect of current-year drought among historical region households/ non-historical region households

Note: Migration effect is based on one-unit increases (e.g., in temperature, drought, precipitation) in the frequency of natural disasters.

Climate-induced disasters can instigate migration through multiple pathways, serving as environmental stressors (Koubi et al. 2016; Wolpert 1966). Direct effects include property destruction and infrastructure damage, while indirect impacts can affect primary sources of income, thereby diminishing individuals' overall well-being. Studies have indicated that even a minor increase in the frequency of such sudden shocks can lead to a surge in migration rates, increasing migration by 5–13 percent in some areas (Hunter and Nawrotzki 2016). Prolonged rainfall can also have consequences, with each additional month of such episodes resulting in an average increase in migration flow of 0.36–0.39 percent (Hunter and Nawrotzki 2016).

Slow-onset events can also influence individuals' decisions to relocate, albeit more gradually. While people may develop adjustment strategies over time, such events often act as push factors. Ruiz (2017), for example, found that an additional month of drought was associated with an increase of 0.67 percent in the average migration flow. Similarly,

an additional month of all drought episodes correlated with an increase of 0.44 percent in outmigration. In Mexico, the duration or magnitude of droughts has led to an increase in internal migration, with an additional month resulting in a 0.44–0.87 percent rise (de Brauw, Mueller, and Lee 2014). Busso and Chauvin (2023) found that a one-point increase in their measure of dryness was associated with an average increase of 2.5 percentage points in cities' rates of immigration from rural municipalities. Temperature changes, which can lead to decreased crop yields or production, can also diminish economic profits for farmers and other workers, eventually prompting migration in search of better opportunities. Feng, Oppenheimer, and Schlenker (2015) found that, in the United States, a 1 percent change in yields had led to a corresponding 0.3–0.4 percentage-point change in the net migration rate. Similarly, Viswanathan, and Kumar (2015) found that a 1 percent decline in crop yields had resulted in an average 1–2 percent increase in outmigration across Indian states. Nawrotzki et al. (2015) found that an increase of one standard deviation in the duration of warm spells boosted the odds of a first move by 23 percent.

1.10. Urban Migration: The Road Ahead

The World Bank (2018) has predicted a peak of 3.9 million climate migrants in Latin America and the Caribbean by 2050. This figure represents approximately 1 percent of the region's population. The share of climate migrants within the total internal migrant population is also expected to increase, rising from 6.3–8.9 percent in 2020 to an estimated 8.5–12.6 percent by 2050. The report further pinpoints potential hotspots for climate-driven migration, including low-lying coastal areas along the Gulf of Mexico and the Pacific coast of Guatemala. Cities such as Monterrey and Guadalajara in Mexico are likely to see climate-driven migration. As a result, regions reliant on rainfed agriculture may experience population declines, while pastoral and rangeland areas may see population increases. Feng and Oppenheimer (2012) project an emigration rate of 2–10 percent of Mexico's rural population moving to the United States. Although some scenarios predict less severe impacts—Jessoe, Manning, and Taylor (2016), for example, have estimated a 0.05–0.25 percent emigration rate of the Mexican rural population to the United States by 2075—it is widely agreed that countries in Latin America and the Caribbean, particularly Brazil and Central American countries, will face losses in both population and economic welfare.

Migration induced by climate change is a complex phenomenon, interwoven with various economic and policy factors. Grasping these interconnections is crucial to the development and execution of effective climate change mitigation strategies. Desmet and Rossi-Hansberg (2021) have introduced a spatial economic model that highlights migration as a key adaptive response to climate changes. This dynamic model forecasts population movements based on factors such as the intensity of regional climate

changes and local socioeconomic conditions. Moreover, it sheds light on how populations might strategically move from regions more severely affected (around the equator) to those less affected (in the north and south). Desmet et al. (2021) have proposed that climate changes can affect both agricultural and nonagricultural sectors, leading to changes in productivity, living conditions, real income, and the variety of tradable goods. These shifts could alter the global trade network and the distribution of the population, suggesting that climate-induced migration could represent not just a straightforward spatial population shift but also a complex rearrangement of economic activities.

Nevertheless, while migration can, from the point of view of destination cities, present challenges for local governments, it also opens up avenues for growth and prosperity. Hence, understanding the response of local labor markets to the influx of migrants matters when formulating effective policies. We turn to these issues in the following chapters.

Migration and Urban Labor Markets

2

When migrants arrive in a city, they join the human resources available in the local labor market, reshaping the labor force in two major respects: its size and its composition.

In terms of size, migration accelerates the growth rate of the labor force as well as that of the overall population. The presence of more workers—to the extent they are adequately employed—leads to higher levels of production and, perhaps more important, can generate greater worker productivity. Having more employed workers also generates more local demand for goods and services. This can, in turn, create labor demand in the private sector, but it also puts financial stress on the providers of public services, such as education and health care. And if jobs are scarce, employment may not grow as much as the population, and resident workers may experience slower wage growth as a result of competition.

In terms of shaping the composition of the local labor force, migration brings individuals who tend to be younger than residents and more likely to be in their prime productive years. But the often less experienced younger workers may take some time to reach their productive potential. Thus, while migration can be a source of important opportunities to boost local productivity and economic development, it may also bring important challenges. Furthermore, the potential benefits and costs may be unequally distributed across different types of workers.

This chapter begins by exploring the nature of these opportunities and challenges. It discusses how migrants actually perform in the labor market at their destinations and how they affect the outcomes of non-migrant local workers. It then turns to specific features of local economies that can curb the labor market benefits of migration and/or exacerbate its challenges in Latin American and Caribbean cities. Throughout, the aim is to uncover opportunities for policymakers to seize the benefits and attenuate the costs.

2.1. How Migration Creates Opportunities in Local Labor Markets

In the long run, migration fosters productivity and growth in local labor markets. The available evidence highlights several significant sources of opportunity it creates, including productivity gains that come from the increased agglomeration of workers. Also important is the potential for migrants to enhance the skill levels of local economies and complement the existing workforce, rejuvenate the local labor force, and stimulate growth in demand for local goods and services. Migrants may contribute as well to a rise in entrepreneurship, spurring innovation and economic growth. At the national level, migration promotes a more efficient distribution of workers across different regions, which enhances aggregate productivity and helps reduce spatial inequalities.

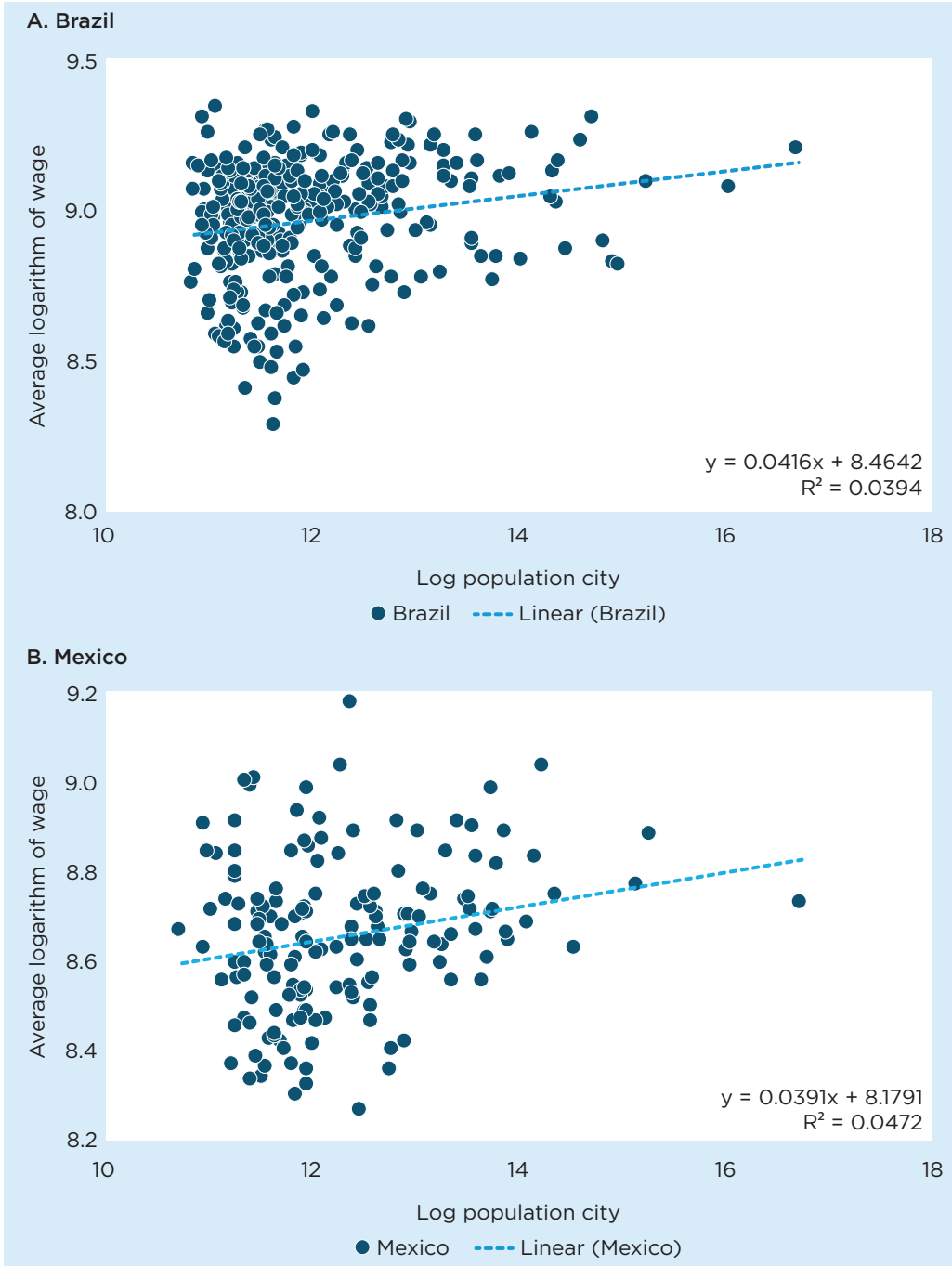
Agglomeration Economies

Migration augments the size of the local labor force, which, in turn, enhances the productivity of workers and firms—a phenomenon commonly referred to as “agglomeration economies.” This concept has been well-documented by extensive empirical research.

In studies across the world, and using a variety of productivity measures, researchers have found that workers and firms tend to be more productive in more populated places. Some of the studies (for example, De la Roca and Puga 2017) have focused on workers’ wages, noting that, for firms in a given location to be able to pay a higher wage to workers of similar characteristics than firms in other locations, the workers need to produce more. Others (such as Combes et al. 2010 and Di Giacinto et al. 2014) have directly measured how much value firms are able to extract from their inputs (known as total factor productivity, or TFP) in different locations. Regardless of the measure, the findings tend to be similar: doubling a city’s population increases local productivity by between 2 and 10 percent. Multiple studies convincingly show that this relationship is causal. In other words, a city’s becoming more populated *makes* workers and firms more productive (see Combes and Gobillon 2015 for a review of the evidence).

As Figure 2.1 shows, in the two most populated Latin American countries, individual wages are also strongly associated with city size. The figure depicts the correlation between city population and average wages (adjusted by the education and experience of workers) across 330 cities in Brazil (panel A) and 161 cities in Mexico (panel B) in 2010. The overall relationship is positive, although weaker among the smallest cities, which can have pronouncedly different wage levels. The corresponding regression estimate shows that, in both cases, doubling the cities’ population is associated with a 4 percent increase in the average wages.

Multiple studies have also found evidence supporting a causal relationship between city size and nominal wages in Latin America and the Caribbean. The estimated effects

FIGURE 2.1 | Wages and Population across Urban Areas in Brazil and Mexico

Source: Authors' calculations, based on microdata from the population censuses described in Box 1.2.

Notes: The figure shows the relationship between the city population and the average city wage (both expressed in logarithms) in Brazil and Mexico. Each point represents an urban area of at least 300,000 people, of which there are 330 in Brazil (panel A) and 161 in Mexico (panel B). The line summarizes the relationship between the two variables and is estimated with linear regression.

tend to be of similar size to those in other middle-income and high-income countries. The impact of doubling the city population (100 percent increase) has been calculated at around 5 percent in Brazil (Chauvin et al. 2017; Silva and Azzoni 2022), Colombia (Duranton 2016), and Peru (Bernedo Del Carpio and Patrick 2021; De la Roca, Parkhomenko, and Velásquez-Cabrera 2023) and in a sample of 121 urban areas from Argentina, Brazil, Chile, Colombia, and Mexico (Gómez-Lobo et al. 2022). In addition, the impact of doubling population *density* has been estimated at 7 percent in Ecuador (Matano, Obaco, and Royuela 2020) and 5 percent in a sample of subnational areas in 16 Latin American and Caribbean countries (Quintero and Roberts 2022).

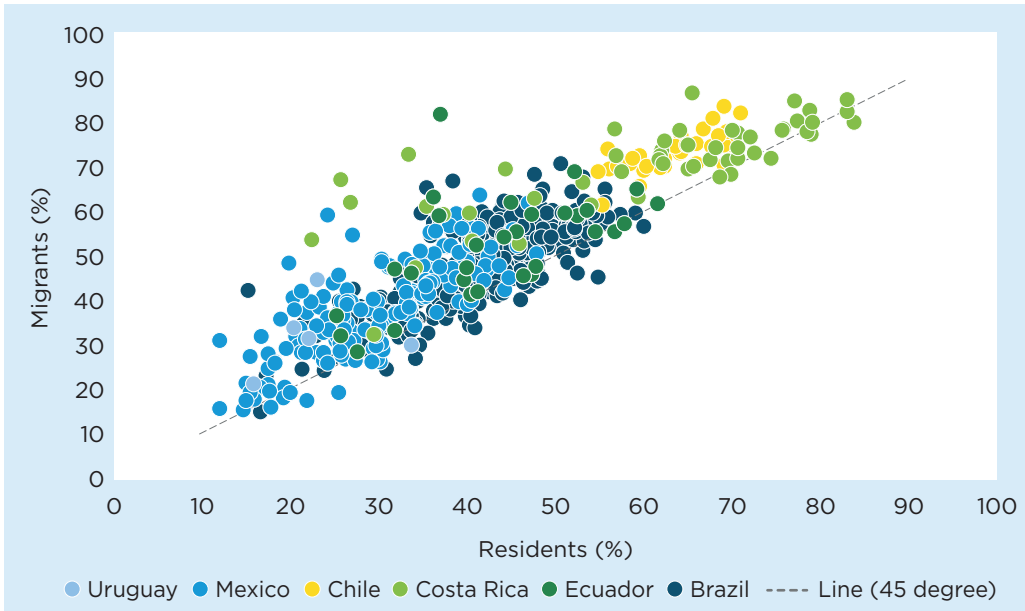
Raising the Skill Level and Complementing the Local Labor Force

In addition to creating agglomeration economies, urban migration in Latin America represents an opportunity for local economies, as it often brings human capital that is complementary to that of local workers. Furthermore, in most cities in the region, migration raises the average skills of the local labor force, thereby boosting productivity and contributing to long-term growth.

Figure 2.2 uses census data from 2010 to compare schooling—based on the share of workers who have at least a high school diploma—by migratory status (migrants versus residents) separately for 613 cities, including 330 in Brazil, 33 in Chile, 3 in Costa Rica, 30 in Ecuador, 161 in Mexico, 50 in Peru, and 6 in Uruguay. Each marker in the graph represents a city. In cities located on the 45-degree line, migrants' and residents' schooling levels are similar. In cities above the line, migrants have a higher share of high school graduates than residents. The graph makes clear that, in the vast majority of these cities, incorporating migrants into the local labor force implies raising the average schooling of workers. This effect is not driven by international migrants, since the results are largely the same if we use data from internal migrants only. Recent waves of international migration (coming, in particular, from Venezuela) may make this difference even more pronounced, since many of these migrants have been significantly more educated than the locals (Olivieri et al. 2022).

This matters because the impact of migration on receiving local labor markets depends on the types of workers migrants and residents are. Since workers of the same type are likely to compete for similar jobs, migration can negatively affect the wages of residents whose demographics, schooling, and work experience are similar to those of migrants (Dustmann, Schönberg, and Stuhler 2016). Migration can, however, have positive implications for resident workers who have different characteristics. When the human capital profiles of migrants and residents differ, the labor of the two groups can complement one another, making both more productive. Recent research has shown, for example, that return migration from the United States to Mexican cities has a short-

FIGURE 2.2 | High School Graduates in Latin American and Caribbean Cities by Migratory Status



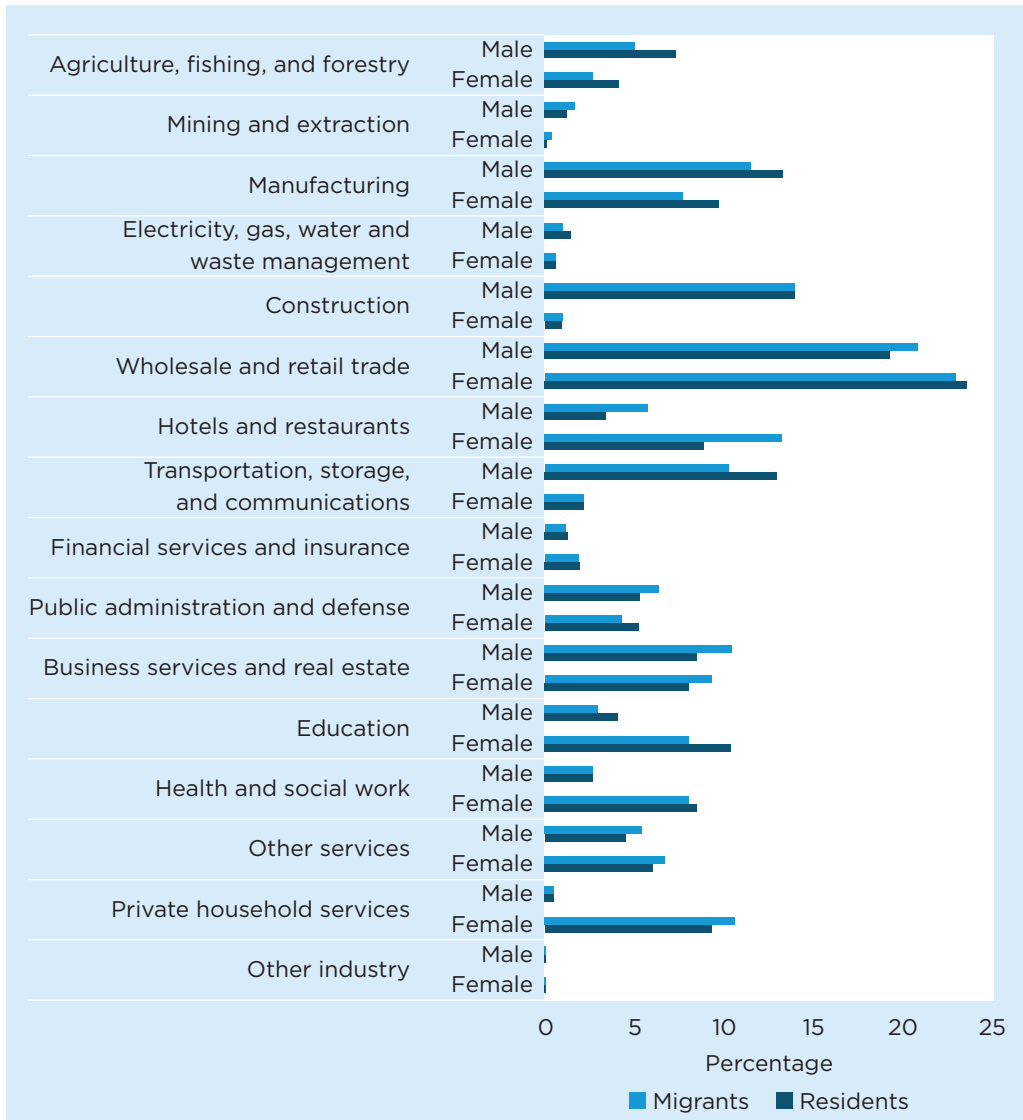
Source: Authors' calculations, based on microdata from the population censuses described in Box 1.2.

Notes: This figure shows the share of high-skilled individuals (those with at least high school education) in the working-age population among residents and migrants in seven Latin American countries. Each point represents an urban area of at least 300,000 people, of which there are 330 in Brazil, 33 in Chile, 3 in Costa Rica, 30 in Ecuador, 161 in Mexico, 50 in Peru, and 6 in Uruguay. The 45-degree line shows the points at which the shares of high-skilled individuals would be the same for migrants as they are for residents.

run positive effect on the wages of the resident Mexican workers who are in different occupations than the returnee migrants and a long-run positive effect on overall employment in the local industries that hire the returnees (Diodato, Hausmann, and Neffke 2023). Studies also showed that the availability of international immigrants lowered the costs of child care and increased the labor force participation of high-earning local women across cities in the United States (Cortés and Tessada 2011) and of women with young children in Hong Kong (Cortés and Pan 2013). Hiller and Rodríguez Chartruc (2023) found that Haitian immigration increased the labor force participation of highly educated women with dependents in the Dominican Republic.

Existing evidence suggests these types of complementarities may, at least in part, already be materializing in urban areas in Latin America and the Caribbean. Figure 2.3 uses household survey data from six countries to break down the workforce of urban migrants and residents by industry of employment. While migrant labor is present across all sectors in the urban economies of these countries, migrants are disproportionately more likely to be employed in some industries than others. The specific industries they sort into vary from country to country, but, in most cases, they are more likely than

FIGURE 2.3 | Industry of Employment in Latin American and Caribbean Urban Areas by Migratory Status and Gender



Source: Authors' calculations, based on household survey data from Chile (2017); Argentina, Bolivia, and Uruguay (2019); and Colombia and Peru (2020).

Notes: The share of workers employed in each industry is calculated by gender and by migrant status for working-age individuals living in urban areas at the time of the survey. Industry classifications have been recoded from the original national survey classifications to make them comparable. The figure shows the weighted average of the percentages for the countries in our sample, where the weight is the country's population.

residents to work in hotels and restaurants, business services, and retail. In addition, migrant females are more likely to work in domestic services.

Furthermore, adding skilled workers to the local economy is likely to benefit not only local workers with complementary skills but the overall productivity of the local

labor force. Multiple studies have shown that, when a city expands its share of highly educated workers, other workers increase their productivity even if they do not extend their own schooling, an effect usually referred to as “human capital spillovers” (Chauvin et al. 2017; Falck, Fritsch, and Heblich 2011; Moretti 2004). Moreover, local human capital levels are a strong predictor of subsequent growth in local economies. More educated cities and regions, in both rich and poor countries, tend to grow faster than less educated ones (Chauvin et al. 2017; Gennaioli et al. 2014).

Rejuvenation of the Labor Force

Another source of opportunities for local economies lies in the younger age profile of migrants relative to that of the local population. This results in a larger share of the workforce being able to engage in production and remunerated work.

Migrants tend to be younger than the average population, and they tend to have fewer dependents. Table 2.1 shows the “age dependency ratio”—the population younger than 16 or older than 64, expressed as a share of the working-age population, aged 16 to 64. We calculated the age dependency ratio among the resident and migrant urban populations in seven Latin American countries, using household survey data from 2019 and 2020. In all of these countries, the ratio was substantively larger for residents than for migrants, although it is important to note that the actual gap in the economic burden of dependents is likely to be narrower than these figures suggest, since many migrants leave dependents behind and send remittances back home. On average, we found that every hundred working-age urban residents in these countries supported forty-two dependents, while every hundred urban migrants supported twenty-six dependents in their

TABLE 2.1 | Age Dependency Ratio by Migratory Status

	Residents	Migrants
Seven-country average	0.42	0.26
Argentina	0.44	0.16
Bolivia	0.41	0.31
Chile	0.43	0.28
Colombia	0.39	0.31
Peru	0.43	0.32
Paraguay	0.38	0.24
Uruguay	0.44	0.28

Source: Authors’ calculations, based on household survey data from 2020 for all countries except Bolivia and Uruguay, with data from 2019.

Notes: Age dependency ratio is defined as the sum of the population aged 0 to 15 years and the population aged 65 years or older, divided by the population aged 16 to 64 years. The calculation considers only individuals who reported living in urban areas. The seven-country average is a weighted average, where the weight is the country’s population.

destination cities. The gap between residents and migrants ranged from eleven dependents per one hundred people in Bolivia to twenty-eight per one hundred in Argentina.

Urban migration, then, rejuvenates the populations and labor forces of the receiving cities. This creates a “demographic dividend”: there are more workers of prime working age, and many of these have fewer people to support economically in their destination cities, which means more local resources are available to spend on goods and services, to save, or to invest.

Stimulating Local Labor Demand

Another benefit of migration is that it expands overall local demand for goods and services, promoting job creation. Migrants are consumers; they purchase or rent housing, buy food, clothing, and furniture from local stores, and consume transportation, entertainment, and professional services. This can help accelerate local job creation. Using data from the U.S. censuses from 1980 through 2000, for example, Hong and McLaren (2015) estimated that each immigrant creates, on average, 1.2 local jobs, mostly through the consumption of local services. Most of these jobs go to residents.

Evidence from the United States also suggests migration could have positive effects on the labor market through the housing market. Howard (2020) found that internal migration in the United States reduces unemployment in destination cities over several years, an effect largely driven by two mechanisms. First, migration raises housing demand, leading to expansions in local building activity and increases in construction jobs. Second, in the long run, housing price increases lead to faster growth of non-tradable employment (including retail and personal services). It is important to note, however, that housing and financial markets in Latin America and the Caribbean are less developed than in the United States, which may constrain the extent to which housing price increases can be turned into disposable income and, ultimately, stimulate labor demand.

Entrepreneurship

Migration can enhance local economies by fostering entrepreneurial activity. Substantial evidence has shown that international migration has this effect in high-income countries, with studies conducted in Australia, Canada, the United Kingdom, and the United States consistently finding international migrants more likely to own businesses than locals (Fairlie and Lofstrom 2015). Immigration has been an important source of entrepreneurship in Latin America, as well. Maloney and Zambrano (2022) used historical data—mostly from the late 19th and early 20th centuries—to show that immigrants’ share of business owners was systematically larger than their share in the population in Argentina, Brazil, Chile, Colombia, and Mexico.

TABLE 2.2 | Likelihood of Workers Being Employers by Migratory Status and Education

	Residents		Migrants	
	Less than high school	High school or higher	Less than high school	High school or higher
Seven-country average	4.0%	4.1%	3.0%	3.2%
	(0.083%)	(0.059%)	(0.326%)	(0.210%)
Argentina	2.2%	3.5%	1.2%	2.4%
	(0.114%)	(0.102%)	(0.687%)	(0.511%)
Bolivia	14.3%	10.3%	15.8%	8.8%
	(0.497%)	(0.340%)	(2.704%)	(1.449%)
Chile	5.4%	3.8%	6.0%	3.2%
	(0.203%)	(0.097%)	(0.696%)	(0.204%)
Colombia	3.6%	3.2%	1.4%	2.7%
	(0.177%)	(0.108%)	(0.285%)	(0.247%)
Peru	2.5%	3.5%	2.5%	3.0%
	(0.164%)	(0.126%)	(0.811%)	(0.434%)
Paraguay	5.4%	6.7%	1.1%	3.6%
	(0.539%)	(0.511%)	(0.908%)	(1.249%)
Uruguay	2.7%	4.8%	1.5%	2.6%
	(0.108%)	(0.172%)	(0.337%)	(0.395%)

Source: Authors' calculations, based on household survey data from 2020 for all countries except Bolivia and Uruguay, with data from 2019.

Notes: The calculation of the share of workers who were employers considered only individuals who were employed and reported living in urban areas. The seven-country average is a weighted average, where the weight is the country's population. Standard deviations of the estimates are shown in parentheses.

In recent years, however, the situation appears to have changed. Table 2.2 compares the share of employers among migrants (including domestic and international) with that among residents, using data from household surveys conducted in 2019 and 2020. Across the seven countries analyzed, urban migrants—both with high and low levels of schooling—were about 25 percent less likely to be employers than urban residents. The largest gap in this sample was among low-schooling workers in Paraguay, where 5.4 percent of resident workers were employers, compared to only 1.1 percent among migrant workers. Only in three countries, and only among low-schooling workers, was this broad pattern different: in Bolivia and Peru, where there was no statistically significant difference in the likelihood of being employers among low-schooling migrants and low-schooling residents, and in Chile, where low-schooling migrants were actually more likely to be employers than low-schooling residents.

Recent research suggests that, in the case of international migrants, this entrepreneurship gap is related to legal barriers to participation in local labor markets. Bahar, Cowgill, and Guzman (2023) found that the 2018 amnesty for undocumented Venezuelan migrants increased the rate of entrepreneurship among migrants from 0.3 to 0.8 percent three to four years after the work visas were issued, bringing it slightly above the average national rate of 0.7 percent. Internal migrants who do not face this kind of legal constraint, however, also appear to have lower entrepreneurship. Imbert and Ulyssea (2023) found, for example, that even though rural migration led to faster entrance of formal firms in Brazilian cities, these new firms were not created by the migrants themselves.

Aggregate Productivity and Cross-City Inequalities

In addition to the opportunities migration can open for receiving local economies, it can be beneficial for the economy of a country as a whole. When people make the decision to migrate based on the opportunities available at their current locations versus those at their destinations, they typically move from places where wages and employment are stagnant to places where wages and/or employment are growing. In this way, migration relocates workers from places where they are being less productive to places where they become more productive, and the overall productivity of the country increases. Bryan and Morten (2019) estimated that, in Indonesia, reducing migration barriers to levels similar to those in the United States would increase average national productivity by 7.1 percent.

Furthermore, as migrants relocate across a country, wage growth can pick up at their origin locations. This is because labor becomes scarcer there as some workers leave, and those remaining face less competition for jobs (Chauvin et al. 2017; Moretti 2011; Glaeser and Gottlieb 2009). Through this mechanism, migration acts as a force promoting greater equality across cities in the same country.

2.2. Challenges

While migration creates substantial opportunities in destination labor markets, it can bring challenges that disproportionately affect the most vulnerable segments of the local population.

Labor Market Competition with Residents and Within-City Inequality

An important challenge posed by surges in urban migration is the exacerbation of inequality within cities. Indeed, among the main concerns of policymakers in cities receiving

migrant inflows is that the newcomers may “take away” job opportunities from locals and ultimately hurt the local economy. These concerns are understandable. After all, migrant inflows represent an increase in the number of people available to work, and the number of jobs available may not grow at the same rate, at least in the short run.

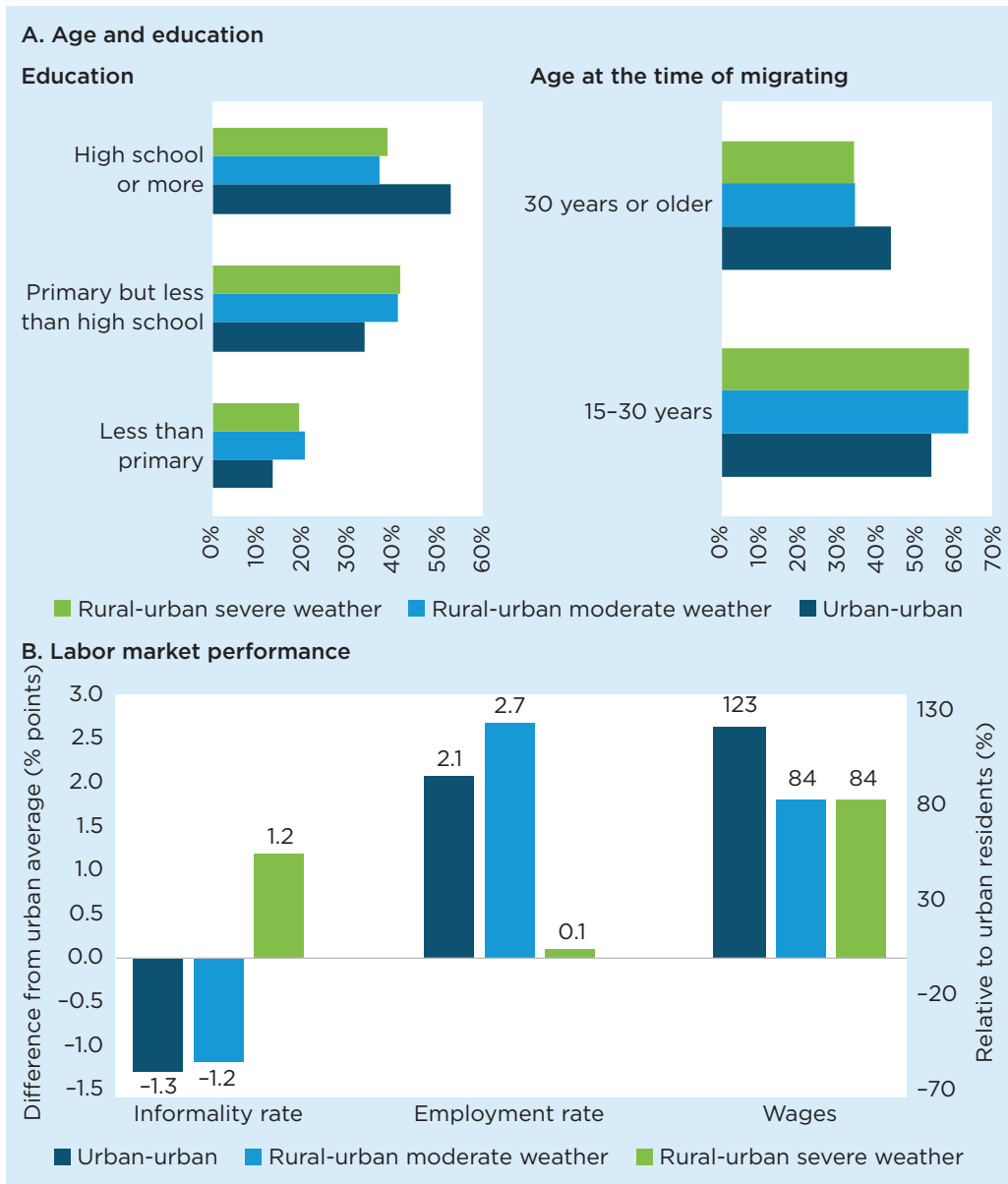
As discussed more extensively in section 2.3, the evidence suggests that even if the effects of migration on wages and employment are marginal on average, they can be detrimental for specific groups of workers, especially those with fewer skills. This may curtail the living standard of the most vulnerable resident population, exacerbating poverty and inequality. Low-skilled locals are more likely to see reduced wages if migrants are also less skilled or if they are more skilled but willing to take jobs with lower qualifications. Moreover, socioeconomically vulnerable residents may be excluded from other positive effects of migration. The decrease in prices, for instance, of certain goods and services—such as construction and domestic services—whose providers disproportionately employ migrant labor is more likely to benefit families that demand those types of goods and services, who tend to have higher incomes (Cortes 2008). At the same time, highly skilled residents are more likely to receive the productivity benefits of complementarity workers. The positive effects of Haitian immigration on the labor force participation of highly skilled women in the Dominican Republic, for example, as documented by Hiller and Rodríguez Chatruc (2022), was accompanied by negative effects on wages and employment among local women with low levels of schooling.

Likely Surges in Displaced Migration

Another key challenge confronting cities that receive migration flows is the potential increase in displaced migration, caused by such factors as internal conflicts or the escalating frequency and severity of extreme weather events, such as floods, droughts, or extreme temperatures. Even though migrants to Latin American cities in recent decades have been, on average, more skilled than the residents, an acceleration of displaced migration may reverse this trend, detracting from the potential contribution of migrants to local labor productivity.

The constraints on the timing of their moves and their destinations differentiate displaced migrants from regular economic migrants, often leading them to settle in areas with limited demand for their skills. Additionally, compared to historical migrants, they may have fewer qualifications, which can hinder their prospects for success in urban labor markets. In line with this observation, Calderón-Mejía and Ibáñez (2016) found that violence-displaced migrants in Colombia had, on average, less education than urban residents. Using data from Busso and Chauvin (2023), Figure 2.4 provides evidence showing this for weather-displaced migrants in Brazil. The figure compares the demographic profiles and labor market outcomes of urban migrants according to

FIGURE 2.4 | Labor Market Performance of Migrants from Different Origins in Brazil



Source: Authors’ calculations, based on data from Busso and Chauvin 2023.

Notes: Urban areas include all municipalities belonging to urban commuting zones (“arranjos populacionais”), as defined by the Brazilian Institute of Geography and Statistics (IBGE). Urban-urban migrants are those coming to urban areas from other urban areas. Rural-urban migrants from moderate-weather origins are defined as those coming from rural municipalities where dryness—as measured by the Standardised Precipitation Evapotranspiration Index (SPEI)—was less than one standard deviation away from the historical average in the three years prior to migration. Rural-urban migrants from severe-weather origins come from municipalities with dryness more than one standard deviation away from the historical average in the three years prior to migration. Human capital variables (panel A) reflect migrants’ characteristics at the time of migration. Calculation of premigration educational attainment is based on a sample restricted to individuals aged 18 or older at the time of migration (as individuals are expected to have finished high school in Brazil at this age). All labor market variables (panel B) are computed for working-age individuals as of the 2010 census. Workers are considered informal if they do not have a signed working card or are self-employed.

their places of origin: cities, rural areas with moderate weather in the years preceding migration, and rural areas with severe weather in the same period.

While rural migrants were significantly younger and less educated than urban-urban migrants in general (Figure 2.4, panel A), those who came from severe-weather origins were just marginally younger and had levels of formal education similar to other rural migrants. Figure 2.4, panel B, indicates that rural-urban migrants had similar wages in 2010, whether they came from moderate- or severe-weather rural municipalities, and both groups earned significantly less at their destinations than urban-urban migrants.¹ Those coming from extreme-weather rural municipalities, however, were notably less likely to be employed and more likely to work in the informal sector. This suggests that, beyond formal schooling, weather-displaced rural migrants have some human capital characteristics, such as poor quality of education or fewer social networks, that affect their urban employability. If migration becomes more likely to lower than to increase the overall human capital levels of destination urban economies in Latin America and the Caribbean, it may hurt future growth prospects for those cities.

2.3. Migrants in the Destination Labor Markets

Labor Market Outcomes of Urban Migrants

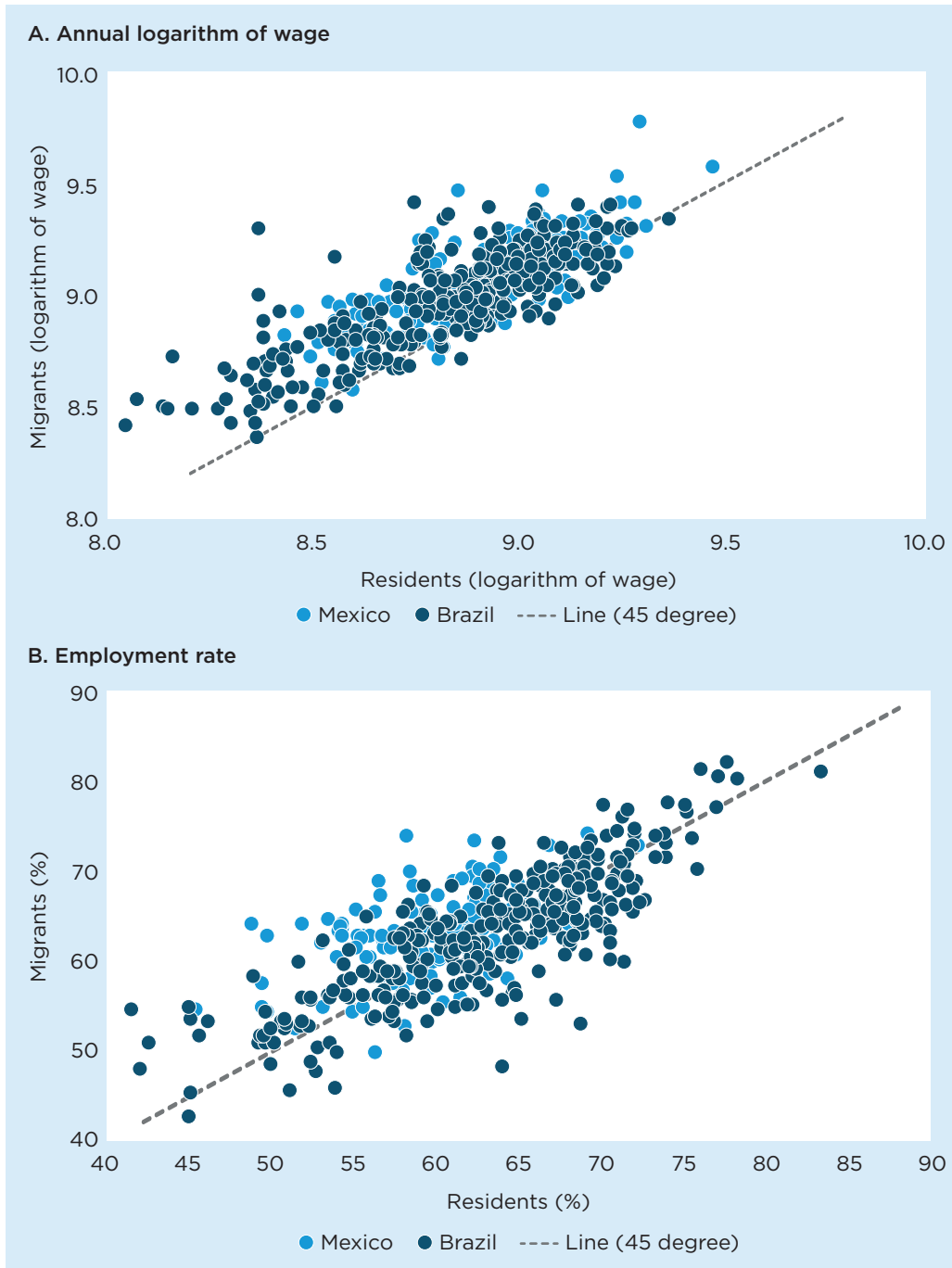
Figure 2.5 compares the outcomes of migrants to those of residents in 491 cities in Brazil and Mexico, using census data from 2010.² The figure shows that, as expected, migrants' labor market outcomes are closely tied to the opportunities available in their destination labor markets. In labor markets where residents have higher wages and employment rates, so do migrants.

In most of the cities included in Figure 2.5, migrants who found employment tended to be more likely to work in the formal sector and to earn higher wages than employed residents. This was likely related to the higher levels of human capital migrants brought with them, on average. In addition, working-age migrants were more likely to participate in the labor force. That said, migrants and residents tended to have similar employment rates (that is, similar shares of the working-age population were employed), suggesting that a larger share of migrants than residents sought but were unable to find employment in the local labor market. As discussed in section 2.5, a possible explanation for this is migrants' lack of local networks, which makes it harder for them to find adequate

1 In contrast, Mueller and Osgood (2009), using Brazilian survey data from the 1990s, found that short-term precipitation shocks in rural areas could reduce economic opportunities in the rural economies from which migrants originate, making them more likely to accept lower wages after migrating to the city.

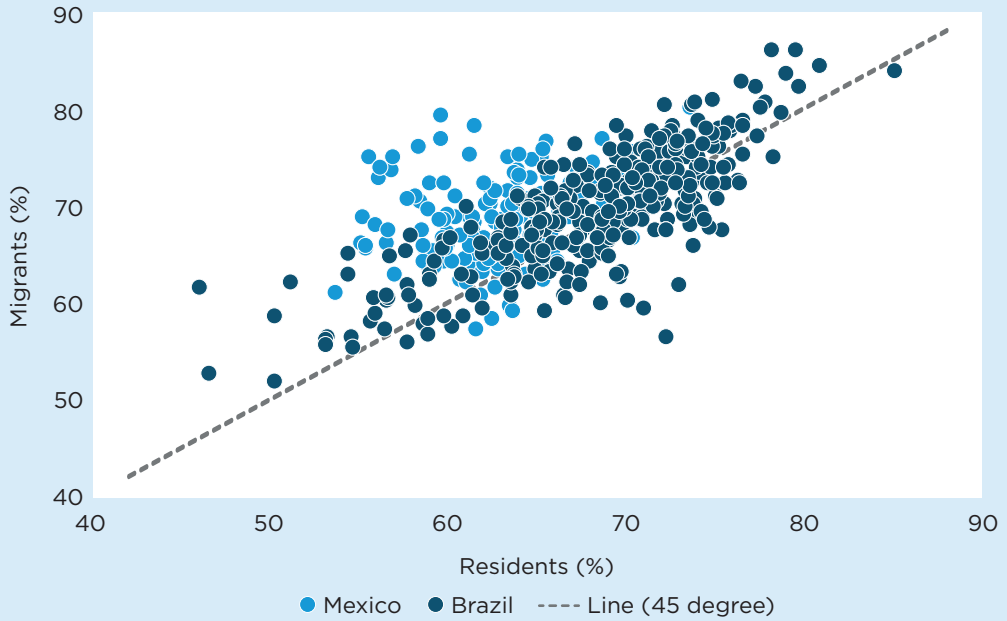
2 At the time of publication, 2010 was the most recent census year available for Brazil, and we used the same year for both countries to facilitate comparisons. Analysis of the data made available by Mexico from the 2020 census yielded very similar results to those reported in Figure 2.5 for 2010.

FIGURE 2.5 | Labor Market Outcomes in Brazilian and Mexican Cities by Migratory Status

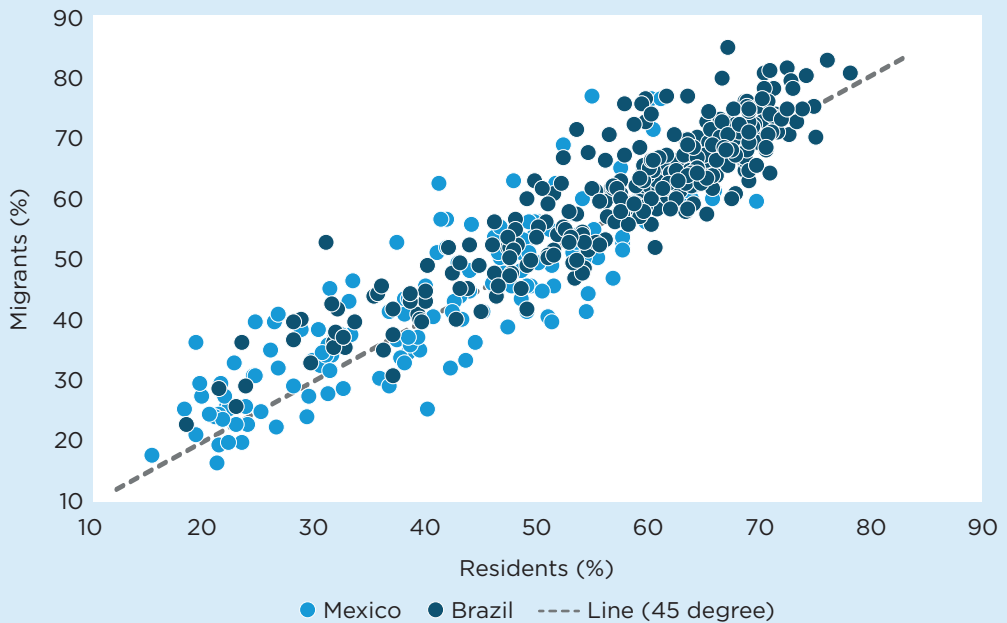


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C. Labor force participation rate



D. Formality



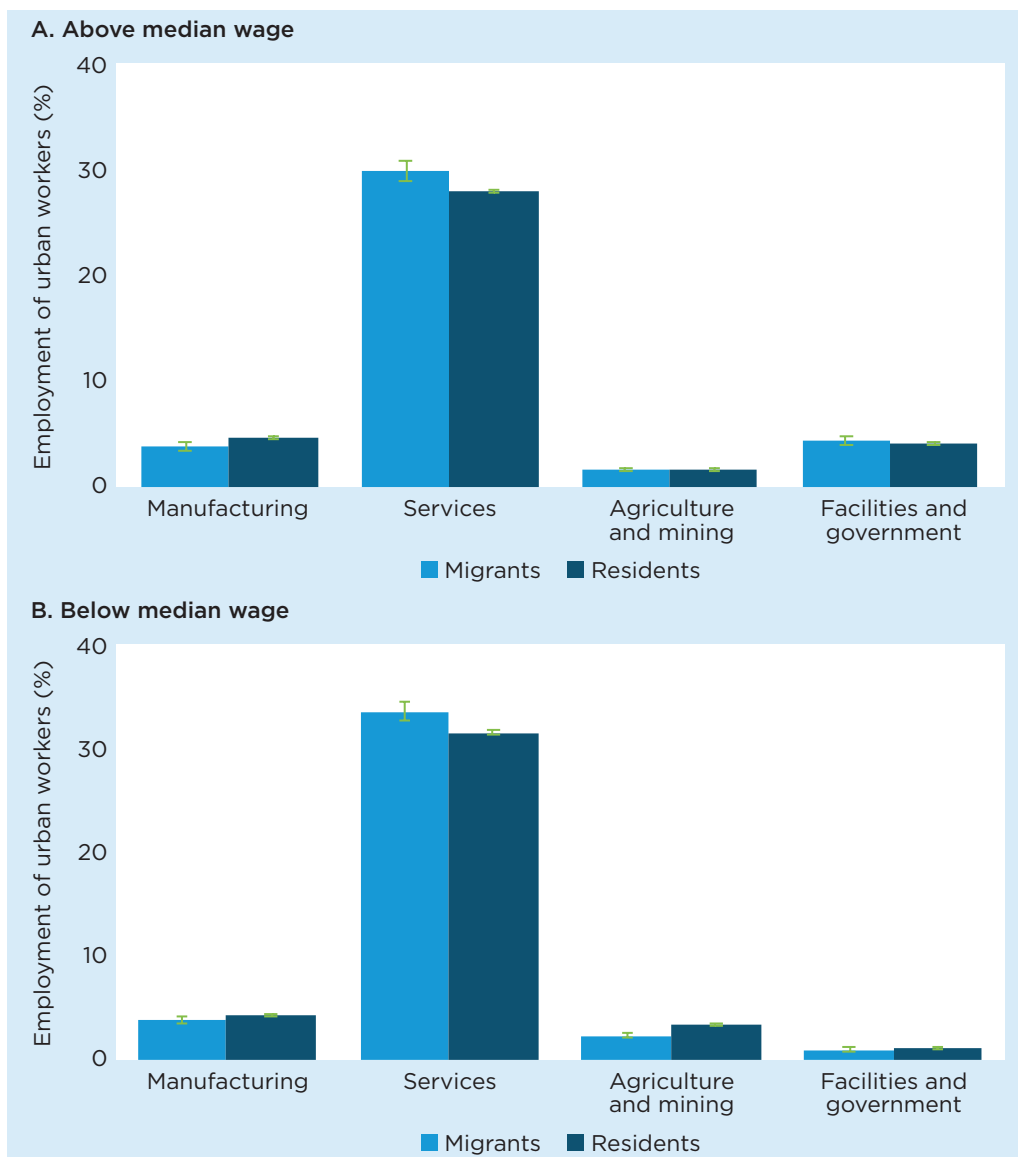
Source: Authors' calculations, based on microdata from the population censuses described in Box 1.2.

Notes: Each point in the figure represents an urban area of at least 300,000 people, of which there are 330 in Brazil and 161 in Mexico. The 45-degree line shows the points at which the value for migrants would be the same as it is for residents.

jobs even if they have all the necessary qualifications and are as or more productive than better-connected job seekers.

Figure 2.6 breaks down the distribution of employment of urban migrants and residents during the period 2017–20, using household survey data from six countries

FIGURE 2.6 | Employment of Urban Workers by Occupation and Migratory Status



Source: Authors' calculations, based on household survey data from Chile (2017); Argentina, Bolivia, and Uruguay (2019); and Colombia and Peru (2020).

Notes: The share of workers employed in each industry was calculated by gender and by migrant status for working-age individuals living in urban areas at the time of the survey. Aggregate figures are weighted averages across the countries included in the sample, where the weight is the country's population. Industry classifications have been recoded from the original national survey classifications to make them comparable.

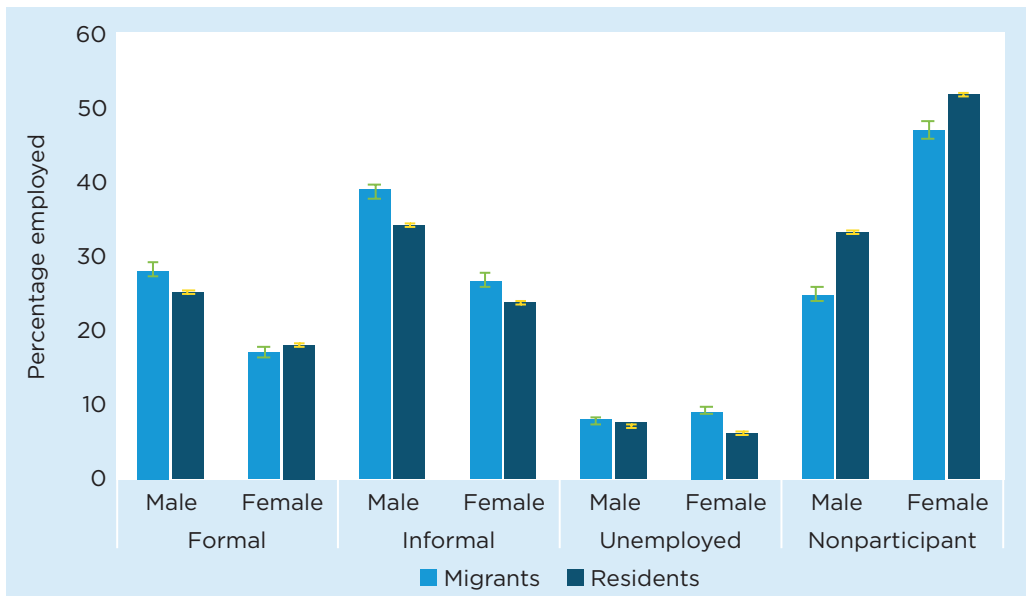
in Latin America. Most urban workers in these countries held jobs in the service sector, and migrants were more likely than residents to do so, with most in below-median-wage occupations. Meanwhile, residents were more likely than migrants to work in manufacturing in above-median-wage occupations.

Gender Differences

Although male migrants tend to do well in their destination labor markets—particularly those who manage to secure employment—this is less true for females. Figure 2.7 breaks down urban labor market outcomes by gender and migratory status, using household survey data from nine countries in Latin America.

While urban migrants in these countries are, on average, more likely to participate in the local labor force than residents, this difference is less pronounced among women. Male migrants are eight percentage points more likely to look for jobs than male residents, while migrant females are only five percentage points more likely than female residents to do so. Among those participating in the labor market, migrant males tend to be more successful than migrant females at securing jobs, with the unemployment rate among migrants statistically equal to that of residents among males and

FIGURE 2.7 | Employment Status in Latin American and Caribbean Urban Areas by Gender and Migratory Status



Source: Authors' calculations, based on household survey data from 2020 for Argentina, Chile, Colombia, Paraguay, and Peru and 2019 for Bolivia and Uruguay.

Notes: The figure shows the average labor force participation rate among working-age individuals living in urban areas in nine countries in Latin America and the Caribbean. The figure shows the weighted average of the percentages for the countries in our sample, where the weight is the country's population.

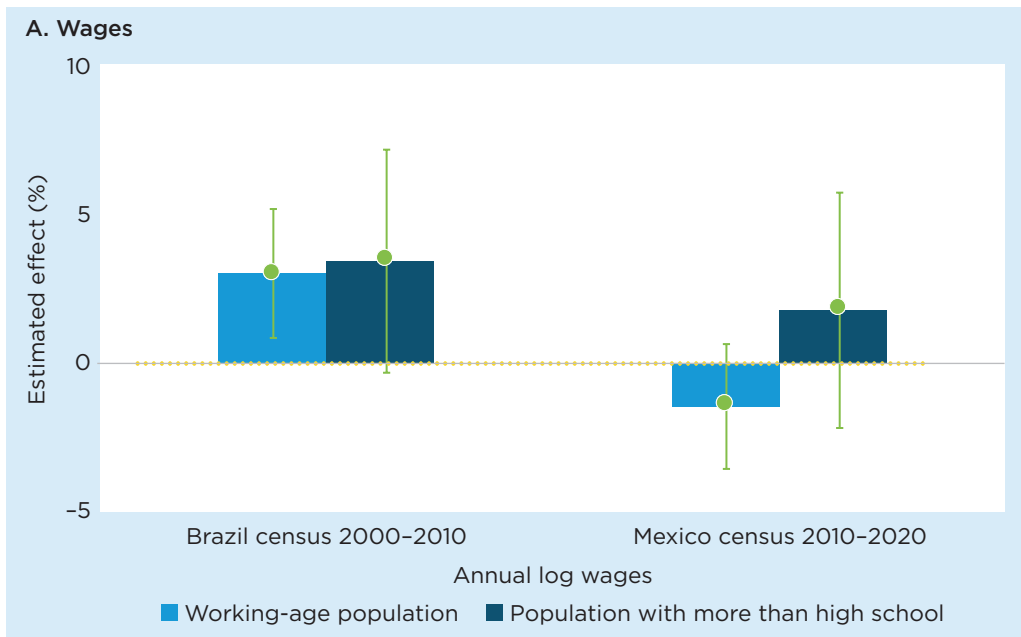
almost three percentage points higher among females. And among migrants who do find employment, males are more likely than females to be formally employed. On average, male migrant workers are three percentage points *more* likely to be formally employed than male residents, whereas female migrants are one percentage point *less* likely than female residents.

These patterns may be at least partially explained by the division of household work according to traditional gender roles, and the fact that migrant households have less access than residents to informal networks of support, such as extended families and friends who live nearby. In a study of international migrants in the United States, Ribar (2013) used time-use surveys to show that immigrant women devoted more time to household activities than native-born women. Household responsibilities limited the times and locations at which female migrants were available to work, reducing their employability and their likelihood of finding formal jobs, which were often far from their homes.

2.4. Impacts on the Labor Market Outcomes of Residents

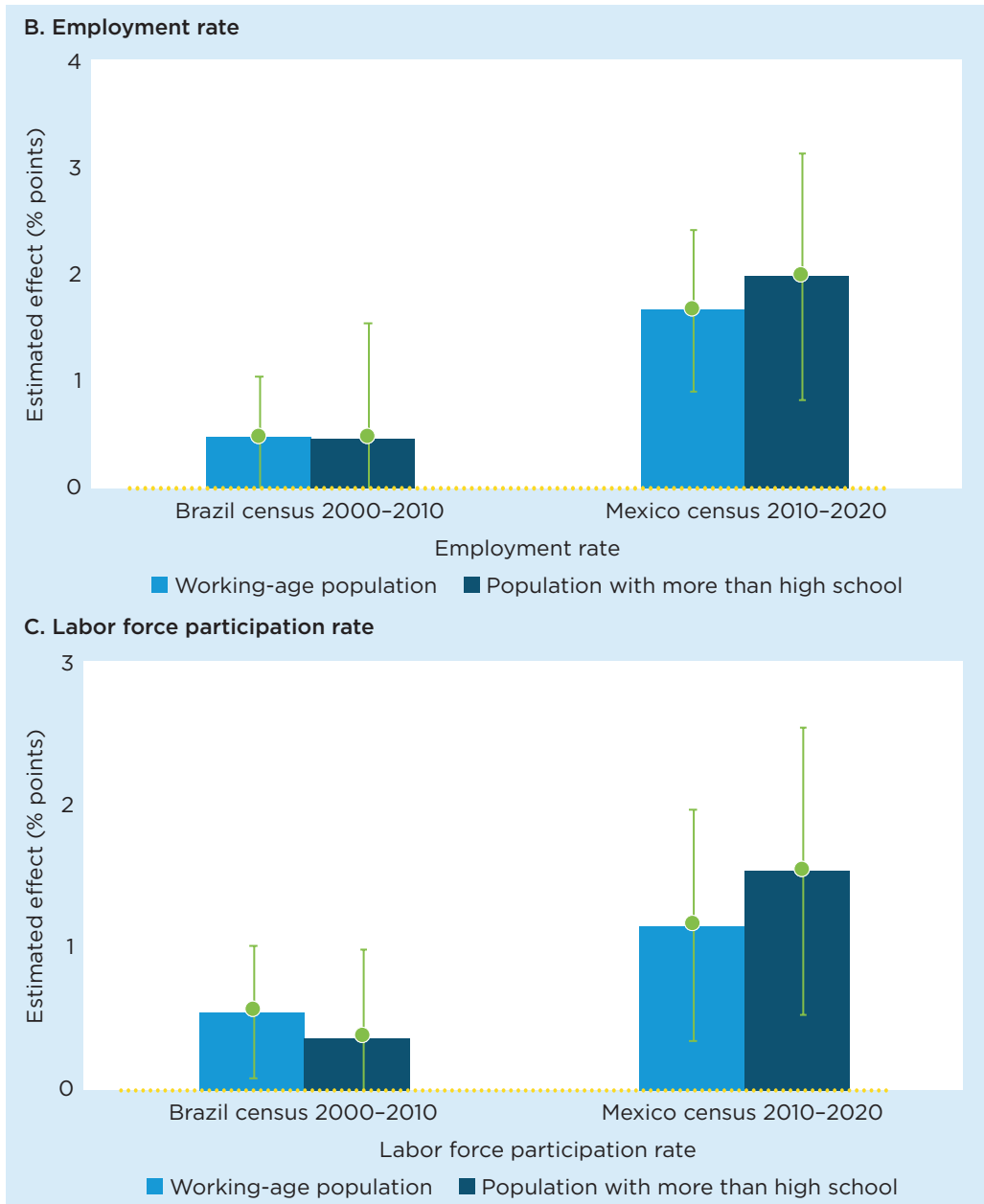
While concerns about negative effects of migration on the labor market outcomes of residents are understandable, empirical evidence suggests they are, on average, relatively small in Latin American cities. This is supported by the findings presented in Figure 2.8,

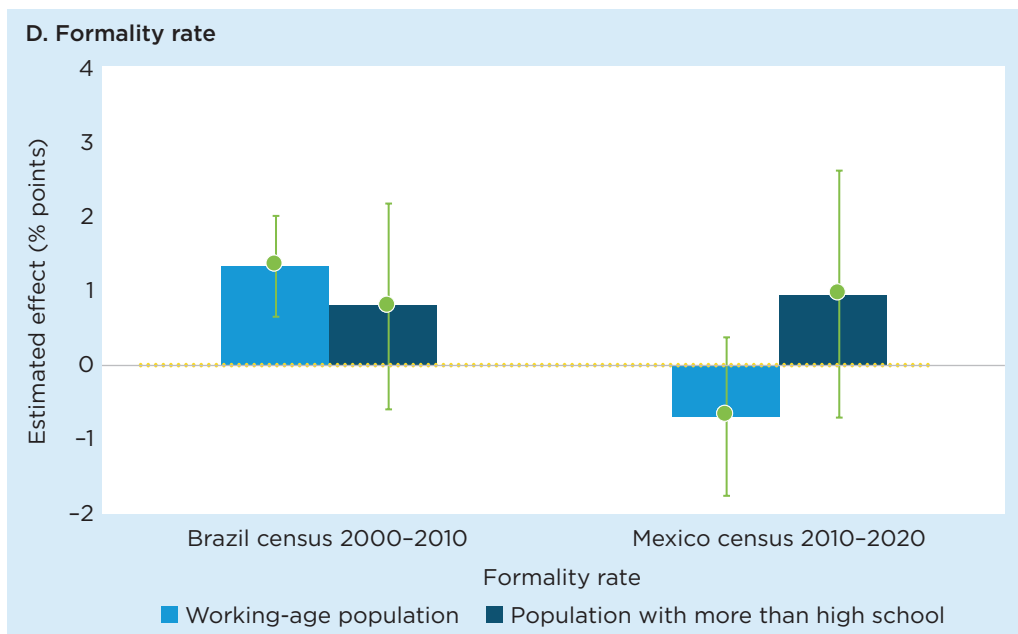
FIGURE 2.8 | Labor Market Outcomes of City Residents in Brazil and Mexico by Exposure to Immigration



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which compares the labor market outcomes of residents in cities with large migrant inflows (above median) to those in cities with smaller inflows (below median) over ten-year periods in Brazil (2000 to 2010) and Mexico (2010 to 2020). The analysis shown included both national and international migrants and was conducted separately for all working-age individuals and for those with at least a high school diploma.





Source: Authors' calculations, based on microdata from the two population censuses indicated in the figure.

Notes: The analysis used census data from 2000 and 2010 in Brazil and from 2010 and 2020 in Mexico to estimate the differences in labor market outcomes between cities that experienced significant inflows of migrants (above the median) and those with lower inflows (below the median) during the corresponding decade. The height of the bar denotes the estimated effects, and the vertical lines denote confidence intervals. The estimates are generated using a method called "propensity score matching." The process begins by employing logistic regression to predict the likelihood of a city's having a high inflow of migrants during the subsequent decade, based on data from the starting year of the decade. This includes variables such as the logarithm of the city population, the logarithm of the average wage, the employment rate, and the labor force participation rate. This analysis yields a score indicating the likelihood that a city will have high levels of migration given its characteristics in the base year. Finally, estimates of the effect of migration on residents' labor market outcomes are obtained by comparing these outcomes in cities that had similar scores but ended up receiving different levels of migration. Wage growth is measured as the difference in the logarithm of residents' wages between the last and first years of the decade. This means the estimated effect is measured in terms of percentage changes. The other three outcomes are measured as the difference in rates between the end year and the starting year and are expressed in terms of percentage point differences between high- and low-migration cities.

An important issue to consider in making comparisons like those in Figure 2.8 is that migration can itself be affected by local economic conditions, as migrants often move to cities that already have higher wages and more employment opportunities. This means that part of the observed migration is actually a result of good labor market outcomes rather than a cause of them. To address this concern, the analysis relied on a statistical technique called "propensity score matching," detailed in the notes below Figure 2.8. The idea was first to identify the cities more likely to receive high levels of migration over the next decade, based on their characteristics before the migration occurred, including population size, average wages, employment rate, and labor force participation rate. The analysis then compared the labor market outcomes of residents in those cities that were similar under these initial conditions but received different levels of migration.

Starting with wage growth, the findings indicated minor differences between cities with above-median and below-median migration inflows. In Brazil from 2000 to 2010, wage growth was 2.9 percent higher in cities with large migrant inflows and 3.4 percent higher for workers with high school diplomas, as shown in panel A of Figure 2.8. This difference was statistically significant but relatively small. In contrast, in Mexico from 2010 to 2020, wage growth was not statistically different in cities with larger migrant inflows than those with smaller migrant inflows.

With regard to employment outcomes, the effects of migration were generally positive, if relatively small. No significant differences were observed in growth of employment rates between cities with more or less migration in Brazil, whereas in Mexico, residents in high-immigration cities experienced higher employment rates (growth of 1.7 percentage points, on average, and 1.9 percentage points among the high school educated) relative to low-migration cities (Figure 2.8, panel B).

Concerning labor force participation (panel C), residents in Brazilian cities with high immigration saw a 0.5 percentage points' faster growth, and no statistically significant differences among high school-educated workers. In Mexico, high-immigration cities had a slightly higher growth in participation, equivalent to a 1.2 percentage point gain for the average worker and 1.5 percentage points for workers with high school education.

Finally, as for changes in labor formality rates (Figure 2.8, panel D), the analysis found no statistically significant effects for Mexico and small but significant effects in Brazil, with a rise of 1.3 percentage points, on average.

The results of this analysis are broadly consistent with the existing academic literature, which, by and large, has found that the impact of migration on the outcomes of residents of receiving economies tends to be small or zero on average. That effect can be significant among specific sectors of the economy and types of workers, however, benefiting some groups and negatively affecting others. We turn now to examining this evidence in more detail.

International Migration

The vast majority of academic studies of migration and its impacts on destination communities have focused on international migrants. Much of this work has looked at the United States and other high-income countries and has, for the most part, reached a consensus: in practice, the effects of migration on local residents' employment are either zero or very small, and so are the average effects on wages for periods of ten years or more (Blau and Mackie 2017). A recent meta-analysis of studies of the impacts of forcefully displaced migrants on host communities in multiple countries (Verme and Schuettler 2021) also found no statistically significant effect on employment and wages in most cases. Migration can have different impacts on the outcomes of different groups

of people, however. Some researchers have found negative effects of varying sizes on specific groups, such as prior immigrants and workers without high school diplomas, particularly in the short run. Others have found positive labor market effects on other subgroups and on the general population, particularly when immigrants have high schooling levels (Blau and Mackie 2017).

In Latin America, the large wave of Venezuelan migration that started in 2000 has received significant attention from researchers. A few recent studies have explored the effects of this mass migration in the communities of destination. Most have focused on Colombia, the country that has received the largest share of Venezuelan migrants in the region, and the majority found negative effects on the wages of natives, particularly in the informal sector. The estimated effects on residents' employment were either zero or negative but small.

Studies that found negative effects of Venezuelan migration on the wages of native Colombians differed significantly on the size of those effects. Caruso, Gomez Canon, and Mueller (2021) estimated that an increase of 1 percentage point in the migrant share was associated with a 7.6 percent decrease in wages across Colombian *departamentos*, with the effects concentrated in the urban informal sector, particularly in low-skill jobs. Delgado Prieto (2022), also comparing across *departamentos*, estimated a negative effect on wages of 1.9 percent and no effect on employment in the informal sector, where minimum wage regulations are not binding. Delgado Prieto also found no effect on wages but a negative effect on employment in the formal sector, where labor law regulations bind. Peñaloza-Pacheco (2022) found an even smaller effect on wages: a rise of 1 percentage point in the immigration rate was associated with a drop of 0.4 percent in native wages and 0.1 percentage points in employment among low-skilled workers. Bonilla-Mejia et al. (2020) found a similar effect in a comparison of municipalities. Lebow (2021) has argued that the differences in these estimates are explained largely by how different studies measure the migration flow—in particular, by the time window within which migration is counted. Using the total yearly migration rate between 2014 and 2019 in 79 Colombian metropolitan areas, he estimated that an increase of 1 percent in migrant share leads to a 0.59 percent decrease in the hourly wages of residents, with little to no effect on their employment.

The estimated effects of Venezuelan migration on the labor market outcomes of Colombian residents have been even smaller in studies that have looked at the effects of allowing migrants to work legally in the local labor markets rather than those of the arrival of migrants per se. Bahar, Ibáñez, and Rozo (2021) studied the labor market effects of the 2018 amnesty of undocumented Venezuelan migrants in Colombia (known as the Permiso Especial de Permanencia, or PEP), looking at differences across *departamentos* with different levels of exposure to the program. They found a very small, negative effect on the formal employment rate of Colombian natives but no effect on their

wages, hours worked, or labor force participation. Furthermore, Urbina et al. (2023) found that individuals who benefited from the PEP program exhibited greater resilience during the COVID-19 pandemic than undocumented migrants. Improved housing conditions, for instance, enabled them to adhere to nonpharmaceutical interventions, such as stay-at-home mandates, and their better access to health care services resulted in higher rates of virus detection and vaccination.

Studies that have looked at the effects of Venezuelan migrants in other destination countries have also found diverging effects across different groups of workers—negative among low-skill, informal workers and positive for the more educated workers and/or local economies as a whole. In a study of the effects of Venezuelan migration across Ecuadorian *cantones*, Olivieri et al. (2022) found that, while the *cantones*' employment and participation did not appear to be affected in the aggregate, local young and low-educated workers in high-inflow *cantones* experienced higher informality rates and lower earnings. In a study of Venezuelan migration across Peruvian *provincias*, Morales and Pierola (2020) found a negative effect on the monthly earnings of workers with secondary education in the informal sector but positive effects on the probability of employment and a negative effect on informality among those with higher education. Groeger, León-Ciliotta, and Stillman (2022), also studying Peruvian *provincias*, found that higher inflows of Venezuelan migrants led, on average, to *higher* employment rates, income, and expenditures among Peruvian natives.

Lessons from the studies of Venezuelan migration are very much in line with those of international migration in other countries in Latin America and the Caribbean. Cardozo Silva, Díaz Pavez, and Martínez-Zarzoso (2023) found that recent waves of migration to Costa Rica from neighboring countries had a negative effect on the wages of prior immigrants but none on the wages of natives. Also in Costa Rica, Gindling (2009) and Blyde (2020) found no wage effects of Nicaraguan immigration on the average worker.

Internal Migration

While the majority of existing studies about the labor market impact of migration on host communities consider international migrants, as discussed in Chapter 1, most migrants actually originate from other locations in the same country. The effects of internal migration could, in principle, be very different, because newcomers typically face no legal limitations on work and fewer language and cultural barriers than international migrants.

Research on internal migration in Latin America has largely focused on cases in which individuals are driven away from their communities of origin by violence or extreme weather events. Two studies, for example, examined the labor market effects of displaced migration in the context of internal armed conflict in Colombia. In an ana-

lysis of the effects on urban labor market outcomes of inflows of refugees escaping rural armed violence, Calderón-Mejía and Ibáñez (2016) found a substantial negative impact on the hourly wages of unskilled and informal workers. Morales (2018) found negative short-run effects of such migrants on residents' wages in both large cities and small rural destination municipalities.

In Brazil, three recent studies looked at the labor market effects of weather-induced migration, specifically considering unusual precipitation levels as a “push” force in the flow of migrants.³ Corbi, Ferraz, and Narita (2021) examined the effects of (predicted) emigration from the semiarid region of the country on the labor market outcomes of residents in destination municipalities, including urban and rural. They found the impacts differed by sector of the economy, with migration associated with higher employment and lower wages in the informal sector and lower employment in the formal sector, with no significant effects on wages but a negative effect on non-wage benefits. Busso and Chauvin (2023) focused on urban areas and examined the long-run (two-decade) effect of rural migration on the labor market outcomes of residents. They found a negative effect on average wages (adjusted for individual human capital characteristics) and a positive effect on the aggregate employment of locals. Imbert and Ulyssea (2023) studied the effects of rural migration on destination labor markets over the same time period and found a surprising negative effect on informality rates, driven by the formalization of existing informal firms.

It is important to recall, however, that the lion's share of internal migration in Latin America and the Caribbean does not originate in rural areas, nor can it be characterized as displaced migration. In fact, most migrants in the region move from smaller to larger cities, in pursuit of economic opportunities that are not available in their home places. Evidence on the effects of this kind of migration on the residents of their destination labor markets is still lacking.

Short versus Long Run

Various studies of the labor market impacts of migration among residents of communities in Latin America have found them more likely to be short-run than long-run effects.

This is the case with the abovementioned studies of Venezuelan migration effects on the labor market outcomes of residents of destination countries. Studies like that of Caruso, Gomez Canon, and Mueller (2021), who focused on very recent migrants (in this case, those who arrived over the prior year), have

³ Albert, Bustos, and Ponticelli (2021), in addition to precipitation levels, used variation in soil dryness as a source of exogenous variation, but they focused on the overall spatial reallocation of capital and labor across Brazil, without explicitly measuring the effects on resident labor market outcomes. In related work, Ibáñez, Moya, and Velásquez (2022) showed that extreme temperatures hurt agricultural production in El Salvador, leading agricultural workers to migrate internationally or move to the nonagricultural sector.

found larger negative wage effects than those that have considered longer time spans—for example, the prior five years, as studied by Lebow (2021). Similar patterns have appeared in studies of internal migration—for example, the negative effect of displaced rural migrants on urban residents' wages found by Morales (2018) in Colombia dissipated in the long run as a result of subsequent migration out of receiving communities.

These findings suggest that some of the challenges migration can generate in destination cities may be self-correcting. Migrants, after all, participate in the same local labor markets as residents do, and they are similarly affected by the fate of the local economy. They are a source of demand for local goods and services, stimulating job creation (Howard 2020). If wage and employment growth stagnate, individuals are likely to leave for locations where economic opportunities are still expanding. Moreover, migrants are more likely than long-term residents to move in response to changing economic conditions (Cadena and Kovak 2016).

Differential Impacts by Gender

Many empirical studies have found that the effects of migration on the labor market outcomes of residents differ substantially by gender. Most researchers who have looked at the outcomes of informal workers and those with less education have found negative effects that are stronger among females. This has been the case with Caruso, Gomez Canon, and Mueller (2021), Bonilla-Mejia et al. (2020), and Morales (2018), all of whom have studied Venezuelan immigration to Colombia. An exception is Peñaloza-Pacheco (2022), who found small negative wage effects of Venezuelan migration that were stronger for men than for women.

The labor market outcomes of female residents are not always negatively affected by migration, however. In fact, studies that have considered the outcomes of highly educated female residents have consistently found positive effects of migration for this group. In Costa Rica, Gindling (2009) and Blyde (2020) found that Nicaraguan immigration had divergent earnings effects among female residents with and without primary education—positive for the former and negative for the latter. Hiller and Rodríguez Chatruc (2023) obtained similar findings in a study of female Haitian migration to the Dominican Republic, finding positive effects on the labor force participation of highly educated local women and negative effects for those with less education.

2.5. Capitalizing on Opportunities and Addressing Challenges

The evidence discussed in section 2.3. suggests that, in Latin American and Caribbean cities, many of the opportunities migration can open for local labor markets

have not materialized or been fully capitalized on. Migrants who secure employment at their destinations do tend to obtain better outcomes than residents, likely due to their often higher levels of human capital. However, while migrants are more likely to participate in the labor force than residents, their similar employment levels indicate that a significant share of migrant job seekers remain unemployed. This gap is more pronounced among female migrants, who are also more likely to work in the informal sector than residents. Moreover, migrants often work in occupations that are below their skill levels, hampering their productivity. This section explores likely explanations based on existing research.

A good place to start is with the reasons workers and firms tend to be more productive in more populated cities. Large cities, to begin with, are larger marketplaces. They give sellers access to more suppliers and potential customers and allow them to serve buyers of a greater variety of products without having to incur extra transportation costs. Agglomeration also allows for greater specialization. A construction worker, for example, is more likely to specialize in a particular task, such as tiling, if the market is large enough to ensure regular employment. More specialized workers are typically more productive than others in their areas of expertise.

Large cities are also more likely to have “thick” labor markets. In a small city, a firm that loses a worker has more difficulties replacing him or her than one located in a large city. By the same token, workers who lose their jobs in small cities have fewer options to be reemployed than those in larger agglomerations. Duranton and Puga (2004) have pointed out that, in addition to the advantages workers draw from “sharing” the market in large cities, they can benefit from “matching” and “learning” advantages. Agglomeration makes it easier for firms to find the types of workers they need and for workers to find the types of firms in which they would be most productive. Cities also promote interaction among larger numbers of people and, thus, a greater exchange of ideas and learning, which generates economies of scale in the production of knowledge and facilitates its diffusion. Cities that provide better conditions for the mechanisms described above to operate are more likely to benefit from the productivity gains produced by migration-driven agglomeration.

Access to Agglomeration

Although agglomeration economies can potentially benefit local economies—including both migrants and residents—these effects are not automatic; public policy can play a role in fostering them.

Migration-driven population growth does not necessarily generate agglomeration economies and increase workers’ productivity. This is because, even if migrants live in the same city as the kinds of workers, firms, customers, or facilities they need

for the productivity benefits of agglomeration to materialize, they may not have proximity to them. Unlike the United States and other high-income countries, where distance of residence from the city center is frequently associated with higher income levels and car-based commuting, the opposite is true in much of Latin America. Low-income populations, including many migrants, tend to reside farther away from where high-paying jobs are located (Cavalcanti, Mata, and Santos 2019; Brueckner, Mation, and Nadalin 2019), and their connectivity to job centers is deficient. Indeed, it takes longer to travel short distances in urban areas in Latin America than in advanced economies, with the average daily commute taking longer than 90 minutes in many cities in the region (Cavallo, Powell, and Serebrisky 2020).

According to multiple studies, agglomeration economies are frequently stronger where distances are very short (Rosenthal and Strange 2020). In a study of the advertising industry in New York, for example, Arzaghi and Henderson (2008) found strong productivity advantages of being located close to other advertising firms, but these advantages tended to begin dissipating at a distance of 750 meters. Rosenthal and Strange (2003) estimated that the effect of the size of local employment in a given industry on the number of employees of new firms in that industry in the United States was much stronger within one mile and dropped by almost half at five miles. Ahlfeldt et al. (2015) produced structural estimates of the strength of agglomeration economies within Berlin based on the changes induced by the construction and fall of the Berlin Wall and concluded that strong productivity effects of proximity exist that dissipate very rapidly, reaching zero at ten minutes of travel time. In Latin America, a recent study by Almeida, Neto, and Rocha (2023) showed strong effects in Brazil of own-industry employment on firm creation and new-firm employment within one kilometer that dissipated with distance and disappeared after five kilometers.

Distance to the most agglomerated areas of the city may also play a role in the persistence of labor informality. Informal workers can draw major advantages from agglomeration—in fact, studies in Latin America have frequently found larger productivity effects of agglomeration in the informal than the formal sector (Duranton 2016; Bernedo Del Carpio and Patrick 2021; Quintero and Roberts 2022; Gómez-Lobo, González, and Calatayud 2022).⁴ While the drivers for this difference are still understudied, it is likely related to access to customers. Much of the informal sector consists of non-tradable services, which need to be produced and consumed in the same place. At higher agglomerations, informal workers have access to more potential buyers.

4 One exception is a study by Matano, Obaco, and Royuela (2020), who found stronger agglomeration effects in the *formal* sector in Ecuador.

Local Networks

A key constraint on migrants' ability to contribute actively to local economies is the strength of their local social networks. Even though migrants tend to have connections at their destination cities, these connections are often migrants themselves, and their ties to the local economy tend to be weaker than those of long-term residents. Limited support networks can affect migrants' job opportunities, housing choices, and access to informal insurance and can exacerbate gender differences in labor market access.

While people born and raised in the city typically have wide networks of family, friends, and long-term acquaintances, migrants, at least for some time after migration, tend to have fewer and weaker local connections. This matters for the process of job searching, in which information about where the best job opportunities are and recommendations to employers typically play important roles (Beaman and Magruder 2012; Abel, Burger, and Piraino 2020). In addition, migrants who don't know anybody working in high-productivity industries in their new locations are at a disadvantage in finding employment there. Indeed, they frequently end up working in the same occupations and industries as migrants of the same origin who arrived earlier, largely because the connections between them are their main points of access to local labor markets (Patel and Vella 2013).

Local connections can also make a difference in migrants' choices of where to live and their housing conditions. Büchel et al. (2020), for example, used anonymized cell phone data from Switzerland to show people are more likely to move to (and to stay in) locations near where their social connections live. Long-term residents tend also to be more knowledgeable of where the better residential areas are located and which are better to avoid. Lacking such information, migrants are more at risk of locating in less desirable areas. Furthermore, weaker local networks make less available to younger migrants the option of living with their families if good housing is scarce and unaffordable.

Networks are also important as informal insurance for people facing hardship. Evidence suggests the lack of informal insurance networks may be slowing down internal migration in other parts of the world, most saliently in India. At their places of origin, prospective migrants rely on family and friends to help them endure health or economic hardships, for instance. This kind of support is not available at their potential destinations (Munshi and Rosenzweig 2016). Furthermore, migrants—particularly international migrants—are frequently not eligible for existing social protection programs, because many of these programs require minimum periods of work or residence and regular migratory status (IDB 2021b).

Finally, weak local ties can exacerbate gender differences among migrants in access to local labor markets. As discussed earlier, traditional gender roles assign more

responsibility to women than men for the care of children, the elderly, the sick, and people with special needs, as well as for cleaning, cooking, and other housekeeping duties. Women in developing countries typically rely on their extended families and the larger community for support in these tasks (Talamas 2023). For migrant families, though, large parts of these networks stay behind in their places of origin. This is likely to be a fundamental issue in terms of unlocking the opportunities migration offers to Latin American cities because men and women in the region migrate at similar rates (Lall, Selod, and Shalizi 2006). This implies that half of urban migrants may be exposed to harsher gender-based constraints on contributing actively to the local labor markets.

Migrants' Participation in the Local Labor Force

Even when migrants contribute to local population growth, some may not participate in the local labor force—or at least in the most productive segments of the local labor markets—which reduces their potential to contribute to productivity-enhancing agglomeration of economic activity.

Many international migrants who lack the documents required for formal jobs may face legal barriers to participating in the local labor markets. The amnesty granted by PEP in Colombia, for example, benefited half a million Venezuelan migrants, who were undocumented either because they overstayed the 180 days' legally allowed stay or they used irregular crossing points to enter the country (Bahar, Ibáñez, and Rozo 2021). Limiting the formal employment of migrants not only limits their potential contribution to local productivity; it can affect local public finances due to lost tax revenue, as well as the migrants' ability to participate in collective efforts to respond to crises, such as the COVID-19 pandemic (Urbina et al. 2023).

Labor force participation tends to differ between male and female migrants, even more than between male and female residents. Table 2.3 compares labor force participation by gender between migrants and residents. In eight of the nine countries in the table for which data were available, the gender gap in labor force participation in 2020 and earlier was consistently larger among urban migrants than urban residents. The difference was especially pronounced in Bolivia, where the labor force participation rate was 19 percentage points higher for resident men than for resident women but almost 32 percentage points higher for migrant men than for migrant women. Similarly, in Peru, the gender gap was 18 percentage points for residents but 27 percentage points for migrants. Even in countries like Argentina and Chile, where the gap was fairly comparable for residents and migrants, it was still around 2 percentage points larger for migrants. The exception in this group of countries was Uruguay, where the participation gender gaps were smaller than in the rest of the countries for both residents

TABLE 2.3 | Labor Force Participation in Latin American and Caribbean Urban Areas by Migratory Status and Gender

	Residents			Migrants		
	Males	Females	Gap	Males	Females	Gap
Argentina	63.91	45.45	18.45*	69.01	49.40	19.61*
Bolivia	73.88	55.03	18.85*	82.94	51.95	30.98*
Chile	62.07	44.63	17.44*	77.91	60.82	17.08*
Colombia	72.04	52.11	19.92*	83.12	60.24	22.88*
Ecuador	74.91	50.19	24.72*	80.41	47.09	33.32*
Guatemala	76.64	41.60	35.05*	78.67	37.75	40.92*
Peru	68.30	50.17	18.13*	76.10	48.76	27.34*
Paraguay	80.69	61.00	19.69*	87.03	60.60	26.43*
Uruguay	69.40	55.37	14.03*	79.82	67.01	12.81*

Source: Authors' calculations, based on household surveys from circa 2020 for all countries except Ecuador (2015) and Guatemala (2006).

Notes: Average labor force participation rate for each subpopulation is calculated for working-age individuals living in urban areas in each country. The asterisk indicates that the gap between males and females is statistically significant at the 5 percent level.

and migrants, and slightly larger for residents. This likely reflects the interaction of the barriers to participating in the labor market, such as lack of networks or geographical distance to job centers, with traditional gender roles in the household division of labor. Migrant families with children who lack the support of extended family and/or live farther away from affordable child care providers or schools may be more likely to decide that one of the parents—typically the woman—should stay home to take care of children and perform other household work, instead of seeking paid employment in the local labor market.

The ability of migrants to become active participants in their destination labor markets may be further limited by the xenophobia and discrimination to which they are often subjected. According to recent data from the IDB Laboratory of Citizen Perception and Migration—which comprise information from multiple sources, including social media conversations, international surveys, and press articles—public concern about migration has grown in recent years, along with the xenophobic content of the public dialogue. Anti-migrant online speech tends to be concentrated in capital cities, which are prime destinations of recent international migration waves (IDB 2023).

Two concerns frequently raised to justify these sentiments are that migrants may take jobs away from locals, and that they may drive increases in crime. These views are not supported by evidence, however, which highlights the role of information and communication in addressing them. As discussed in section 2.4, the actual effects of migration on residents' labor market outcomes tend to range from small to zero. Regarding

crime, Ajzenman, Dominguez, and Undurraga (2022) showed that in Chile, the rapid increase of the foreign-born population between 2010 and 2017 increased crime-related concerns and investments in crime-protection technologies among locals, but, in practice, it had no effect on the actual incidence of crime.

As will be discussed in Chapter 3, evidence produced by a recent field experiment involving Venezuelan migrants in the Colombian rental housing market has suggested that reduced access to good quality housing is also partly explained by discrimination against migrants (Zanoni and Díaz 2023). Some migrants—such as those who have been forcefully displaced from their places of origin or have low levels of schooling—tend to occupy precarious housing, with limited access to basic services (Busso and Chauvin 2023; Alves 2021). Resulting vulnerability to illness or higher household demands may reduce their labor force participation. It may also make the city insufficiently attractive for them to stay, and they may decide to migrate again, back to their homes or to other destinations, exiting the local labor force altogether.

Migrants' Skill Downgrading

The tendency of new migrants to “downgrade” their occupations—to settle for jobs that demand fewer qualifications and less experience than they possess (Dustmann, Schönberg, and Stuhler 2016; Blyde, Busso, and Ibáñez 2020)—can limit the positive impact of migration on local economic growth and intensify the labor market vulnerability of low-skilled residents.

Household survey data from 2019 and 2020 indicate that educated migrants are more likely than similarly educated residents to be employed in low-wage occupations. Table 2.4 shows the percentage of paid workers with high school or higher education whose remuneration was in the bottom quartile of the wage distribution, calculated separately for residents and migrants. Across the countries for which the data were available, migrant workers were, on average, four percentage points more likely to be employed in low-wage occupations than residents with similar education. The difference was most pronounced in Colombia, where 32 percent of educated migrants were employed in low-wage occupations, as opposed to 18 percent of similarly educated residents. The difference was also large in Bolivia and Uruguay. One exception was Peru, where educated migrants were less likely to work in low-wage jobs than residents. The difference was not statistically significant in Chile or Paraguay.

Skill downgrading affects the ability of local economies to take advantage of the opportunities generated by migration in two major ways. First, it exacerbates the negative impact migration may have on the wages of low-skilled residents, since the latter have to compete in the labor market not only with migrants with similarly low levels of schooling but also with more educated migrant workers. Second, it reduces the posi-

TABLE 2.4 | Educated Low-Wage Workers in Latin American and Caribbean Urban Areas by Migratory Status

	Residents	Migrants	Gap
Six-country average	14.1	18.3	-4.2*
Bolivia	21.0	28.7	-7.7*
Chile	21.3	22.4	-1.1
Colombia	17.7	31.8	-14.1*
Peru	20.4	17.3	3.1*
Paraguay	17.7	14.4	3.3
Uruguay	13.6	19.9	-6.3*

Source: Authors' calculations, based on household survey data from 2020 for all countries except Bolivia and Uruguay, with data from 2019.

Notes: "Educated" is defined as having high school education or higher. "Low-wage" is defined as being in the bottom quartile of the national wage distribution, as calculated among working-age wage workers living in urban areas. The asterisk indicates that the gap between residents and migrants is statistically significant at the 5 percent level. The six-country average is a weighted average, where the weight is the country's population.

tive effects migration can have on productivity by increasing the human capital of the labor force. Highly productive workers employed in low-productivity occupations are underutilized, which limits their potential income, along with the additional consumption, savings, and investment they could contribute to the local economy.

The issues discussed above are likely to self-correct, at least partially, in the long run. Indeed, an important driver of migration for young workers is the desire to pursue educational opportunities for themselves and for their children, which are typically better in destination cities. Eventually, migrants and their descendants who become better educated can gain access to higher-productivity occupations, and those who accept occupations below the qualifications they hold upon arrival may, in time, switch to jobs that better match their skills (Dustmann, Schönberg, and Stuhler 2016). Moreover, migration-driven city growth can itself become a magnet for future skilled migrants. Indeed, evidence suggests that highly skilled migrants in the United States tend to be attracted to greater agglomerations (Kerr et al. 2017), and that prior waves of migration may contribute amenities to destination cities (for example, a greater variety of regional foods and a more diverse cultural scene), which, in turn, may help attract highly educated workers to them (De la Roca, Parkhomenko, and Velásquez-Cabrera 2023).

Local Job Creation

Many of the challenges brought about by migration—particularly those that generate negative effects on the labor market outcomes of low-skilled residents—derive from a structural problem faced by many local economies: the inability to create new jobs

fast enough. This is, arguably, the ultimate challenge for local economic development, and discussing it in depth goes beyond the scope of this report.

There are, however, a few observations that may be useful for policymakers. First, economic migrants tend not to go to places where economic opportunities are limited. Indeed, the inflow of voluntary migrants is frequently an indicator of local economic success—of the fact that cities offer them better economic opportunities than their places of origin (Glaeser 2012). This may not, however, be the case for displaced migrants. Individuals fleeing natural disasters or violence are likely to have a limited set of destination options, and many may be constrained to moving to places that lack booming local economies. These destinations may further struggle in the face of additional job seekers. The effects are likely to be short-lived, however, to the extent that displaced migrants are able to move again, this time to places that offer them better economic prospects.

Second, although in high-income countries migration can help remedy slow job creation by stimulating local labor demand (Howard 2020), this is currently not the case for urban migrants in Latin America. More research is needed to understand why, in most of Latin America and the Caribbean, migrants are less likely than residents to be employers, and how public policy might help reverse this trend. Unlocking migrant entrepreneurship may be a key to enabling cities in the region to capitalize on the promise of migration.

2.6. Conclusions

The arrival of migrants is a source of opportunities for local labor markets. Migration increases the size of both the population and the labor force, which can boost the productivity of local workers and firms. Migrants tend to be younger and have fewer dependents than residents, and their arrival rejuvenates the labor force, bolstering the potential for savings and investment. Evidence from various countries has suggested migrant workers can provide services that complement the local labor force, stimulate local labor demand, and contribute to entrepreneurship. Migration also increases the productivity of the country as a whole by helping transfer human resources from low- to high-productivity locations. Migration can, however, present challenges to the destination labor markets, including negative wage and employment impacts for some groups of workers, which are driven by the increased competition for jobs and can exacerbate local wage inequality. Moreover, the expected increase in frequency of extreme weather events brought about by climate change may induce more migrants with fewer skills and less education to migrate to cities in Latin America and the Caribbean, lowering the average skill levels of the local labor force. These challenges tend to be strongest in the short run, whereas opportunities tend to be capitalized on in the long run.

Empirical studies have suggested that many of the opportunities migration opens for local labor markets have not materialized or been fully taken advantage of in Latin American and Caribbean cities. While migrants tend to earn higher wages and are more likely than residents to have formal employment if they secure jobs, many of them are unable to find jobs in the first place. Moreover, highly skilled migrants are more likely than their resident counterparts to be employed in jobs below their qualifications. And female migrants do significantly worse in their destination labor markets than male migrants. While the effect of migration on residents' labor market outcomes tends to be small or zero, on average, and even positive for some groups of workers, it is more often negative for more vulnerable workers, such as those with low skills and those who work in the informal sector.

Existing research has provided valuable evidence on what may be constraining the potentially beneficial effects of migration on destination cities in Latin America and the Caribbean. We know, for example, that the productivity benefits of agglomeration operate at relatively small distances, such that lack of access to the more agglomerated areas of the cities and other barriers to labor force participation can curtail the contributions of migrants to the local economy. The lack of strong local networks may also lead to suboptimal employment of migrants and to poor location choices within the city. And skill downgrading may both increase the competition faced by the more vulnerable groups of workers and underutilize the productivity potential of migrant human capital. Chapter 4 of this report discusses how public policies can apply these insights to help unleash the benefits of migration to the urban economies that receive migrants.

Migration and Housing Markets

3

Migration is a fundamental aspect of contemporary society in Latin America and the Caribbean, characterized by the movement of millions of individuals across cities and countries annually. While the motivations driving migration are diverse, the pursuit of enhanced economic opportunities and improved living standards often emerges as a primary factor, with substantial effects on housing supply, demand, and prices. This chapter will explore the intricate interplay of migration and housing markets, reviewing pertinent literature on the subject and highlighting key empirical findings derived from standardized surveys and population censuses conducted within the region. In addition to emphasizing the impact of migration on housing markets, the chapter will examine policy implications and identify areas for future research in this important and complicated domain.

Migration can affect housing markets in recipient communities in a variety of positive ways. The resulting increase in population can lead to an increase in demand for housing, which can drive up housing prices and stimulate new construction, which in turn can create new jobs and generate economic growth in the local economy. Moreover, as this chapter will show, migrants often are more likely to rent than own homes. This amplifies the demand for rental housing and augments rental prices, thus providing additional income for property owners and creating incentives for new investment opportunities in the real estate market. The differing preferences and needs migrants may have for housing as compared to local residents can lead to a diversification of the housing market and contribute to urban regeneration and the revitalization of certain parts of an urban area.

Unfortunately, migration can also have some negative effects on the housing market. Several studies have found that the higher housing prices and rents that may result from the increased demand generated by inflows of migrants can make it more difficult for local residents to afford places to live.¹ This effect is especially strong in

1 Numerous academic papers have studied the impact of migration on home prices and rents. While most of the literature has focused on international migration—for example, studies by Saiz (2003, 2007) and Saiz and

densely populated urban areas, where housing is often scarce and expensive to begin with, and can lead to a situation in which local residents are priced out of the market. In some areas, particularly in cities where the housing supply is limited, migration can produce overcrowding—a problem most often faced by migrants because of their typically limited economic resources and difficulties in finding affordable housing. The resulting cramped and uncomfortable living conditions can be harmful to the health and well-being of migrant households and impose negative externalities on others, as well.

To rent or purchase a housing unit in the formal market, individuals often need to hold formal employment and have a somewhat long credit history, which is particularly challenging for migrants. Moreover, if migrants cannot secure housing units in the formal market, they may push up the demand for informal housing. Informal neighborhoods, which are home not only to resident families but also to migrants, exhibit distinctive features that include the absence of property rights, the construction of housing units without adherence to zoning regulations or building codes, substandard living conditions, and a lack of such basic amenities as clean water and sanitation. Finally, migrants may also compete for social housing, which can limit its availability for local residents.

The overall impact of migration on the housing market is complex and can vary greatly depending on the specific circumstances of each urban area, such as the level of housing demand, the availability of housing supply, the interaction of the two, and the existing public policies with respect to housing. In the sections below, we delve into each of these elements to provide a comprehensive examination of the many obstacles encountered by urban areas as a result of migration. The analysis presented here considers both internal migrants (that is, cross-city and rural-urban domestic migrants) and international migrants, but we note that most of the findings remain the same if we consider each of these groups separately.

3.1. Housing Demand: A Comparative Analysis of Migrant and Resident Households

Housing demand encompasses a multifaceted interplay of factors, ranging from individual and household characteristics to global and local economic conditions. Among these

Wachter (2011) in the United States; Akbari and Aydede (2012) in Canada; Moallemi and Melser (2020) and Moallemi et al. (2021) in Australia; Sá (2015) in the United Kingdom; Selim Hacıhasanoglu and Yilmaz (2023) in Turkey, and Gonzalez and Ortega (2013) in Spain—some studies have also assessed the impact of domestic migration; these include Wang, Hui, and Jiu-Xia Sun (2017); Depetris-Chauvin and Santos (2018); Howard and Liebersohn (2021); Erol and Unal (2022); and Sharpe (2019). A related literature has studied the effects of gentrification in the United States; see Rosenthal and Ross (2015) for an overview.

determinants, income, alongside home prices, is of particular importance.² Generally, as income rises, the demand for housing tends to increase as well. Higher-income households exhibit greater capacity to afford housing and often seek larger and higher-quality homes. Such demographic factors as household size, age, and composition also contribute to variations in housing demand, with larger households typically requiring more living space and older ones often preferring smaller homes with lower maintenance requirements. Location is a key factor, as households place value on proximity to employment, amenities, and their social networks. Households with children, for instance, often prioritize proximity to high-quality educational institutions, while young professionals want to be near employment centers and urban amenities. Finally, the availability and accessibility of credit play a role in shaping housing demand. Easy access to credit tends to encourage households to invest in the housing market and purchase homes. Overall, the determinants of housing demand vary across individuals, households, and housing markets, and understanding them is essential for policymakers, housing developers, and market participants if they are to meet the housing needs of diverse populations effectively.

Previous chapters have underscored the substantial distinctions between migrant and resident households. Migrants are generally younger and more educated and earn lower incomes than residents. In this section, we describe housing demand patterns based on our analysis of such differences. Initially, we focused the analysis on housing tenure choices and quantitatively assessed the disparity in homeownership rates between migrants and residents. Next, we evaluated the migrant-resident housing consumption gap by comparing the size and quality attributes of housing units occupied by the respective groups. If migrants demonstrate a propensity for lower-quality housing units, demand in the informal housing sector might increase (UN-Habitat 2003, 2004). Last, we estimated the price and income elasticity of housing demand for each group. In the associated tables and figures—in this section and the rest of the chapter—census data serve as the primary source for computing statistics at the city level. As discussed in Box 1.2 and Busso et al. (2023), we used supplementary survey data to complement the censuses, providing comparable information at specific points in time. Because of sample limitations, however, we aggregated the survey data at the country level.

Disparities in Homeownership

Homeownership has several direct and indirect benefits. From a financial perspective, it is often viewed as a key element of wealth accumulation and financial stability. Studies have shown that homeownership can result in higher net worth, greater equity accumulation, and lower poverty rates for households (see Sodini et al. 2016, for example).

2 A classic paper that reviews the relevant theory and estimation in the economics of housing demand is by Mayo (1981).

Furthermore, owning a home can provide a form of forced savings, as mortgage payments contribute to equity accumulation. It has also been associated with increased social stability and community involvement, and a greater sense of belonging, generating a variety of positive externalities. Homeowners, for instance, are more likely to stay in their neighborhoods and engage in activities that strengthen social ties, such as volunteering and voting. A wide array of personal benefits are associated with homeownership, as well. Owning a home can provide a sense of security and control over one's living environment, and homeowners often have more flexibility to make long-term investments in their properties. Finally, homeownership has been linked to improved mental and physical health outcomes.

How likely are households that migrate to urban areas to become homeowners, extract these private benefits, and generate positive spillovers? Numerous studies have consistently demonstrated a substantial negative correlation between international migration status and homeownership, revealing that international migrants are significantly less likely to own homes than local residents. Borjas (2002), for instance, discovered that homeownership rates among U.S. native households in the year 2000 were approximately 20 percentage points higher than those among immigrants. Although the impact of immigration status on the likelihood of homeownership is, thus, substantial in the United States, it diminishes over time as immigrants assimilate into their new surroundings. Factors such as the youthfulness of immigrants and their concentration in areas with high value-to-rent ratios also contribute significantly to their lower homeownership rates (Coulson 1999; Painter, Gabriel, and Myers 2001; Coulson and Dalton 2010; DeSilva and Elmelech 2012). Similar findings have been reported in other countries, including Finland (Kauppinen and Vilkama 2016), France (Gobillon and Solignac 2020), Germany (Constant, Roberts, and Zimmermann 2009), the Netherlands (Zorlu, Mulder, and Van Gaalen 2014), and Spain (Colom Andrés and Molés Machí 2017).³

Based on an analysis of our compiled household surveys, Table 3.1 presents estimations of homeownership rates for both migrant and resident households in Latin America. It is worth noting that our analysis deviated from previous literature by adopting a broader scope that encompassed both domestic and international migrants, rather than focusing solely on international migration. Despite these methodological distinctions, our findings corroborated those of prior studies. Homeownership rates of resident households were relatively high, ranging from 58 percent in Colombia to 90 percent in Peru.⁴

3 It is worth noting that we are unaware of any study that has estimated homeownership rates by specific migration status categories within Latin American countries. While Gandelman (2009) computed homeownership rates in 17 such countries, he did not differentiate between migrant and resident households.

4 In many countries, homeownership rates were substantially higher than in the United States (where the rate is about 65 percent) and similar to those reported by Gandelman (2009). Also note that ownership status is self-reported and may include ownership of informal (untitled) housing.

TABLE 3.1 | Tenure of Housing Units by Migratory Status, c. 2015

Country	Homeownership rates (%)		Homeownership absolute gap (% points)	Homeownership relative gap (proportion)
	Migrant	Resident		
	[A]	[B]	[B]-[A]	[B]/[A]
Bolivia	55.6	80.5	24.9	1.449
Chile	40.1	82.3	42.2	2.052
Colombia	23.0	57.9	34.9	2.520
Ecuador	36.5	77.0	40.5	2.111
Guatemala	55.8	80.4	24.6	1.443
Paraguay	53.0	87.0	34.0	1.640
Peru	56.4	90.3	33.9	1.601
Uruguay	49.5	81.8	32.3	1.653

Source: Authors' calculations, based on household survey data from 2015 for all countries except Guatemala (2014) and Paraguay (2016).

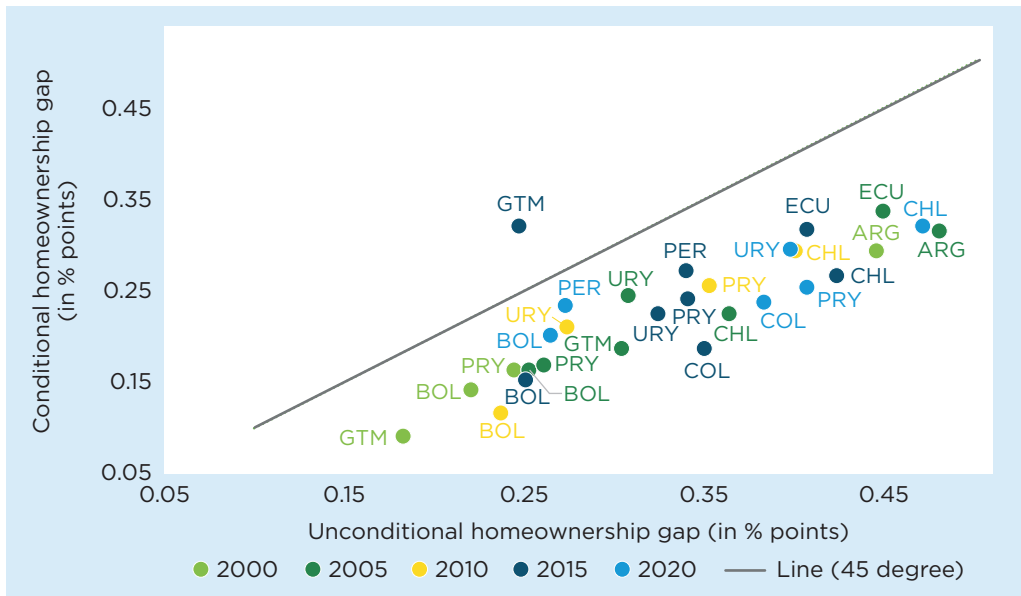
Notes: "Homeownership" is defined as the household owning the housing unit where it resides. Homeownership rates for each subpopulation are calculated using the household as the unit of observation, and consider only individuals living in urban areas. The migratory status is that of the head of the household. Results were similar when estimated only for international migrants, with the one exception of Guatemala, where we found no homeownership gap between international migrants and residents.

They were notably lower among migrant households and particularly low in Colombia, where a mere 23 percent owned their homes. This disparity between migrants and residents, which we refer to as the homeownership migrant gap (HOMG), was consistently substantial on average, although it varied considerably among countries. Some, such as Chile, Colombia, and Ecuador, exhibited larger absolute gaps, exceeding 35 percentage points, while the gaps in countries like Bolivia and Guatemala were smaller.⁵

To shed light on the factors underlying the homeownership gap, we next analyzed the relationship between homeownership and demographic characteristics, such as age and income. As demonstrated in a previous chapter, migrants generally have younger age profiles and lower income levels than residents, which may have contributed to the homeownership gap we observed. To control for these demographic differences, we estimated the gap based on a subset of migrants and residents with similar observable characteristics, including income, age, and marital status of the household head. By controlling for these factors, we could provide a more precise examination of the effect of migration status on homeownership rates, facilitating a deeper understanding of the mechanisms underpinning the homeownership gap. We executed the analysis using a simple linear econometric model, estimating a conditional HOMG for each

⁵ A hypothesis to be explored in future research is that countries that are not net recipients of international migrants may have lower HOMGs, as local migrants are less likely to face legal barriers to ownership than international migrants.

FIGURE 3.1 | Homeownership Gap by Migratory Status



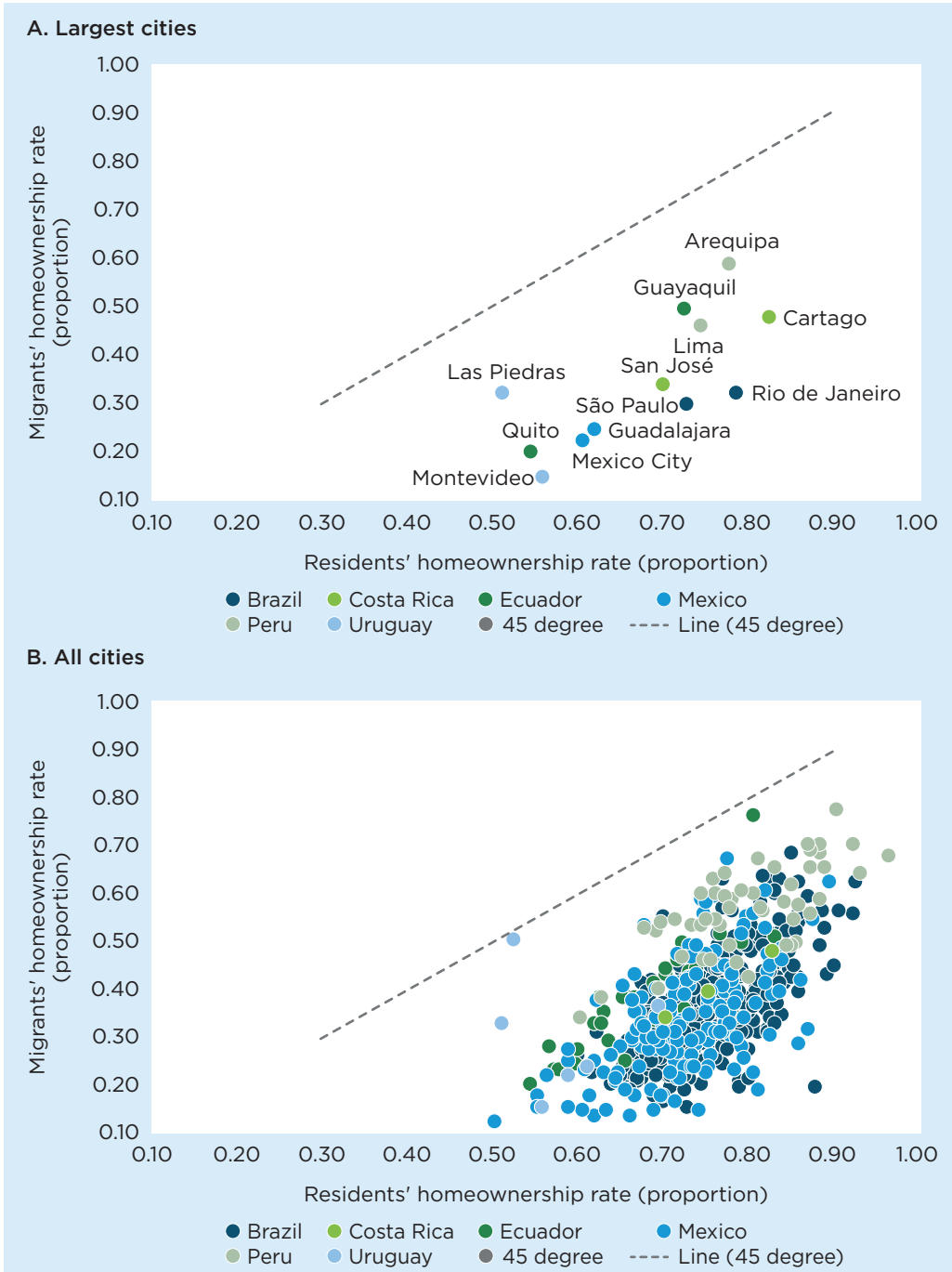
Source: Authors' calculations, based on household survey data, circa the year indicated in the figure.
Notes: This figure shows conditional and unconditional homeownership rates in Latin American countries by migrant status. The countries included are Argentina (ARG), Bolivia (BOL), Brazil (BRA), Chile (CHL), Colombia (COL), Ecuador (ECU), Guatemala (GTM), Nicaragua (NIC), Peru (PER), Paraguay (PRY), and Uruguay (URY). Unconditional gaps simply reflect the difference in homeownership rates between residents and migrants. To compute conditional rates, in each country we estimate a linear probability model where the outcome variable equals one if the household owns the housing unit where it resides, and zero otherwise. Explanatory variables include the household's income, the head of the household's age, gender, marital status, and education and an indicator for migrant status. The coefficient on migrant status is the conditional homeownership gap. Results were similar when estimated only for international migrants.

country. This conditional gap represented the disparity that would persist if migrants and residents possessed identical observable characteristics.

Results are summarized in Figure 3.1. The x-axis of the figure displays the unconditional HOMG over time, while the y-axis shows estimates of the conditional gap. In 2005, for example, the difference between homeownership rates of residents and migrants in Ecuador was close to 0.45 percentage points. When we made this comparison among individuals of similar age, income, and education, it dropped to about 0.32 percentage points. Some patterns appearing in this figure merit further discussion. Across all countries and cohorts, for instance, the HOMG consistently exhibits a positive value, although it varies among the countries significantly. Argentina consistently has a larger gap, while Bolivia exhibits a smaller one. Moreover, upon accounting for differences in demographic characteristics, the gap consistently diminishes (with the conditional gap generally falling below the 45-degree line). Education, age, income, and marital status account for approximately one-third of the observed gap.

We further examined the potential variation in homeownership rates by city. This analysis, as depicted in Figure 3.2, presented compelling evidence of significant dispar-

FIGURE 3.2 | Homeownership Rates in Latin American and Caribbean Cities by Migratory Status



ities in homeownership rates among cities. It is noteworthy that housing tenure rates among local residents consistently exceeded those of migrants, regardless of whether we considered only the largest cities in each country (shown in panel A of the figure) or all urban centers (shown in panel B).

Up to this point, we have demonstrated that the homeownership rate among migrants is lower than among residents, even after accounting for specific demographic characteristics such as income, education, age, and marital status. Furthermore, this gap varies significantly across countries and cities. What factors contribute to the difficulty or ease with which migrants are able to attain homeownership in different cities? Considering the multitude of positive external effects associated with homeownership, this question is a crucial one for researchers and policymakers.

Migrants Consume Fewer Housing Services than Residents

Evidence derived from the economics literature strongly suggests that a “housing deficit”—the insufficient consumption of housing services—can give rise to negative externalities.⁶ Households that do not have access to adequate housing services may be compelled to reside in overcrowded or substandard living conditions, which can lead in turn to various social issues, including health concerns, crime, and social unrest. Inadequate consumption of housing services can also contribute to a decline in property values, to the detriment of the neighborhood and the wider community.

The consumption of housing services by migrants is influenced by several factors, including their income levels, legal status, housing preferences, and the availability of affordable housing in the destination area. The question is, do migrants in Latin American cities consume fewer housing services than residents? To answer it, we employed harmonized surveys and censuses to compare the characteristics of housing units between the two groups. This analytical approach enabled us to reveal significant disparities in the region. Even though migrants tend to be only a fraction of the total population of informal neighborhoods, studies within the academic literature have indicated a marked correlation between migration and the growth of informal housing, particularly in African cities (see, for example, UN-Habitat 2004). And consumption of informal housing can exacerbate the negative externalities associated with underconsumption of housing. While the precise identification of informal settlements was beyond the scope of

6 The term “housing deficit” is often imbued with a degree of ambiguity resulting in a lack of conceptual precision. In academic studies, the term is typically used to describe two interrelated concepts. One is the quantitative deficit, which serves to quantify the numerical shortfall in housing units; the other is the qualitative deficit, which provides an estimation of the number of households residing in dwellings that fail to meet standard criteria (for further insights, refer to Bah, Issa, and Geh 2018; Bouillon 2012; and World Bank 2020a). This report focuses on the latter point.

TABLE 3.2 | Characteristics of Housing Units by Migratory Status, c. 2015

Country	Average number of rooms		Average number of bedrooms		Households with an exclusive kitchen room (%)	
	Migrant	Resident	Migrant	Resident	Migrant	Resident
Argentina	2.316	2.937	1.488	1.861	92.0	94.4
Bolivia	2.058	2.694	1.282	1.824	62.0	81.0
Chile	3.661	3.971	2.465	2.849	—	—
Colombia	2.940	3.423	1.735	2.050	84.6	91.0
Ecuador	2.925	3.222	1.937	2.161	—	—
Guatemala	2.389	2.585	1.948	2.085	58.9	72.1
Paraguay	2.832	3.527	1.820	2.323	80.2	88.9
Peru	2.924	3.526	1.888	2.262	—	—
Uruguay	3.100	3.461	1.797	1.994	96.4	96.6

Source: Authors' calculations, based on household survey data from 2015 for all countries except Guatemala (2014) and Paraguay (2016).

Notes: Results were similar when estimated for only international migrants, except in Colombia, Ecuador, and Peru, where, at this time, they had housing units with more rooms and bedrooms than those occupied by residents.

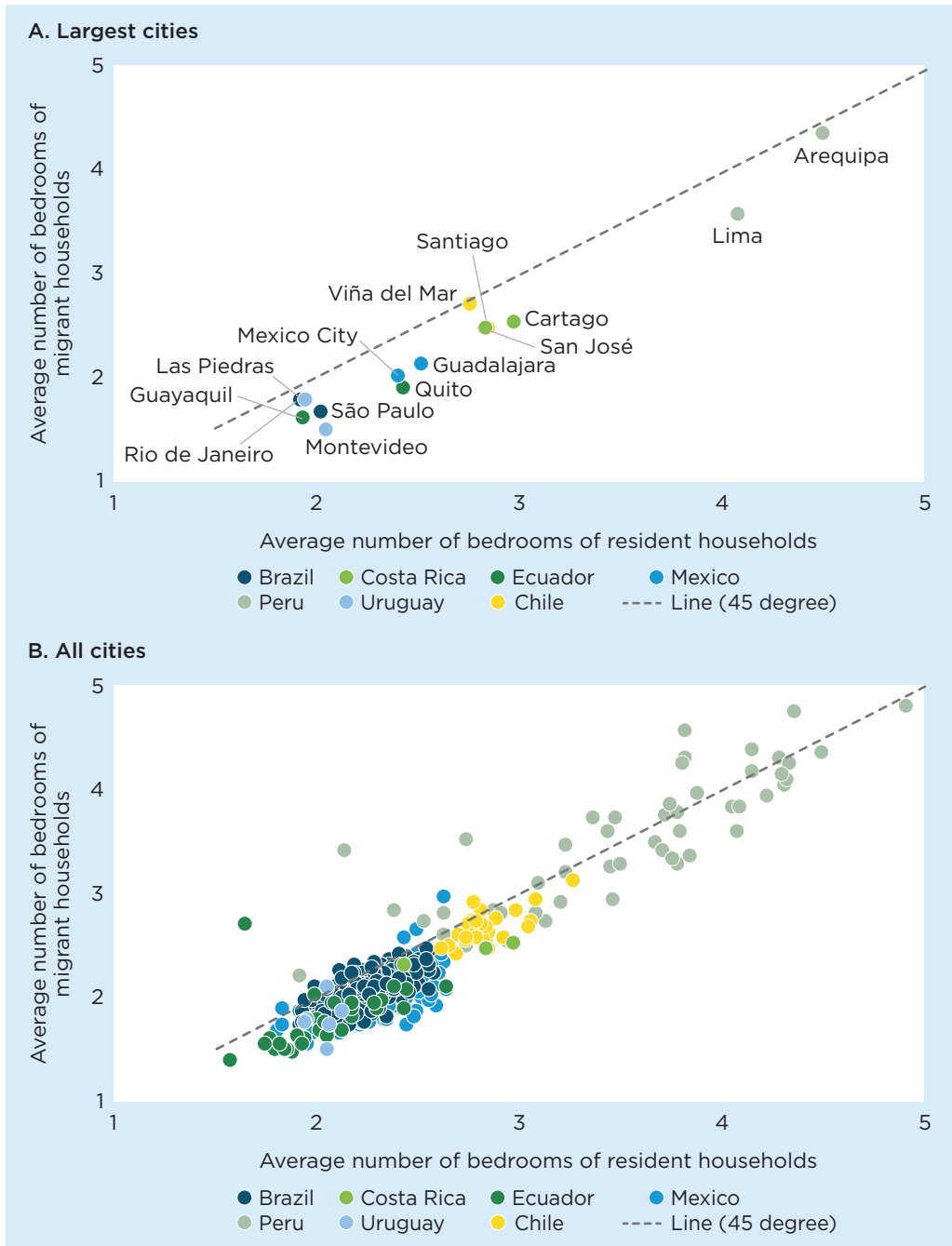
our study, we centered our focus for this section on three key measures of housing consumption: interior space (living area), overcrowding, and access to public services.

Table 3.2 provides compelling evidence that migrants in Latin America tend to consume less interior space than residents, as indicated by the number of rooms and bedrooms in their respective housing units. On average, the migrant households in our sample resided in units with 2.8 rooms, including 1.8 bedrooms. In contrast, resident households had, on average, 17 percent more rooms and 18 percent more bedrooms. Furthermore, while most households in Latin America have a separate and exclusive room for cooking, the migrants in our sample had them less often than the residents—a difference of approximately 10 percentage points.

These discrepancies in housing consumption patterns were consistent across most of the cities in our sample, as depicted in Figure 3.3, in which all data points fall below the 45-degree line.

Migrant households also had less interior space than permanent resident households, as measured by the number of rooms and bedrooms. To assess if migrant households were more crowded, we computed a simple “overcrowding index” by dividing the number of individuals residing in a household by the number of bedrooms in the housing unit. To assess the “overcrowding gap” between the two groups, we used two different approaches. The first involved a straightforward calculation of the unconditional difference in the index of overcrowding between migrants and residents. For the second, we computed conditional differences, considering the demographic characteristics (such as age and income) that would prevail if both resident and migrant households

FIGURE 3.3 | Number of Bedrooms in Latin American and Caribbean Cities by Migratory Status



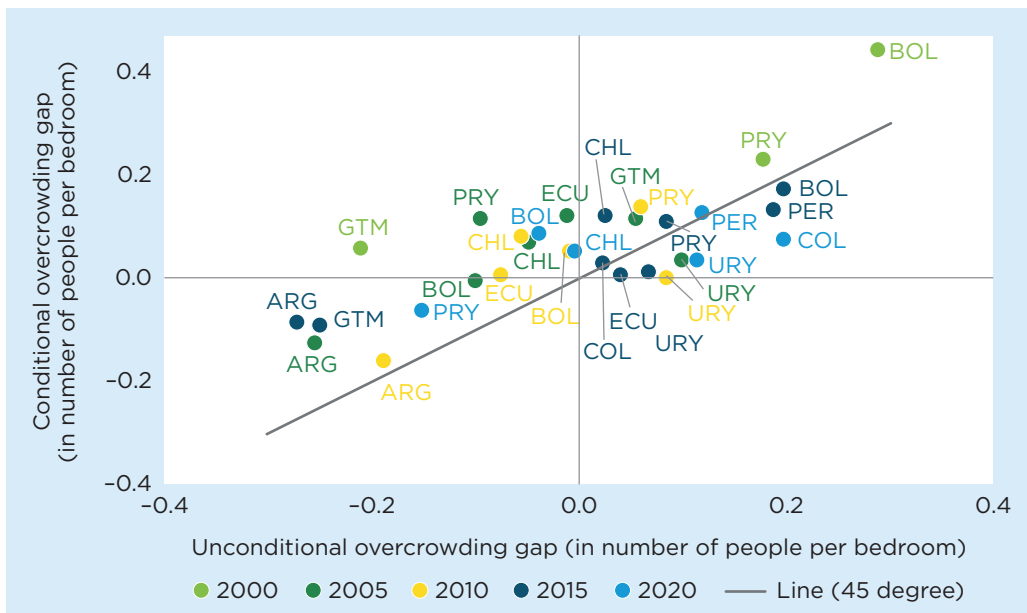
Source: Authors' calculations, based on the GHS Centre Database 2015 and microdata from the population censuses described in Box 1.2.

Notes: The figure shows the average number of bedrooms of migrant and resident households by city. Results were similar when estimated for only international migrants.

shared the same attributes. The results are presented in Figure 3.4, in which the x-axis represents the unconditional overcrowding gap.

Unlike the gap observed between migrant and resident households' number of bedrooms, the unconditional overcrowding gap did not consistently exhibit positive values. In approximately half the countries in our sample during 2005 and 2010, the number of people per bedroom in migrant households was significantly lower than in resident households. In Ecuador around 2015, for instance, the average number of migrants per bedroom was approximately 0.07 lower than of residents, with resident households housing, on average, 1.97 people per bedroom that year. The conditional gap, however, tended to be positive in most cases. In other words, when we compared resident and migrant households that were the same in terms of income, age, number of children, and other relevant factors, we found that migrants tended to reside in housing units that were slightly more crowded (by approximately 5 percent) than residents' housing units.

FIGURE 3.4 | Overcrowding Gap by Migratory Status



Source: Authors' calculations, based on household survey data, circa the year indicated in the figure.

Notes: This figure shows the conditional and unconditional differences between the number of people per bedroom of migrant and resident households in Latin American countries using household survey data from between 2000 and 2020. The countries included are Argentina (ARG), Bolivia (BOL), Brazil (BRA), Chile (CHL), Colombia (COL), Ecuador (ECU), Guatemala (GTM), Nicaragua (NIC), Peru (PER), Paraguay (PRY), and Uruguay (URY). Unconditional gaps simply reflect the difference in occupancy rate (total number of household members divided by the number of bedrooms in the unit) between resident and migrant households. To compute conditional rates, in each country and year we estimate a linear regression model where the outcome variable is the number of people per bedroom. Explanatory variables include the household's income, the head of household's age, gender, marital status, and education and an indicator for migrant status. The coefficient on migrant status is the conditional occupancy gap. Results were similar when estimated only for international migrants.

A vital aspect of housing consumption is access to water and sewage services. The presence of adequate water and sewage infrastructure not only fulfills the basic human need for clean water and sanitation; it also contributes to public health, environmental sustainability, and economic development. The descriptive statistics presented in Table 3.3 reveal that, although overall access to these essential public amenities was relatively high in Latin American cities around 2015, migrants in some countries were less likely to have access to them than in others. In Bolivia, for instance, where 88 percent of resident households were connected to the public water network, only 83 percent of migrant households were. Conversely, in other countries, the observed differences were smaller, or, in some cases—Argentina, for example—the migrant households had better access.

Figure 3.5 provides a graphical representation of the disparities we found in water and sewage services access between migrant and resident households for various Latin American cities, which differed substantially in this regard. In several, including San Jose, Guayaquil, Arequipa, and Lima, migrants were less likely to have access to these essential services. It is important to note, however, that in a few cities, such as Guadalajara and Montevideo, the opposite was true, with migrants having higher (to some extent) rates of access than residents.

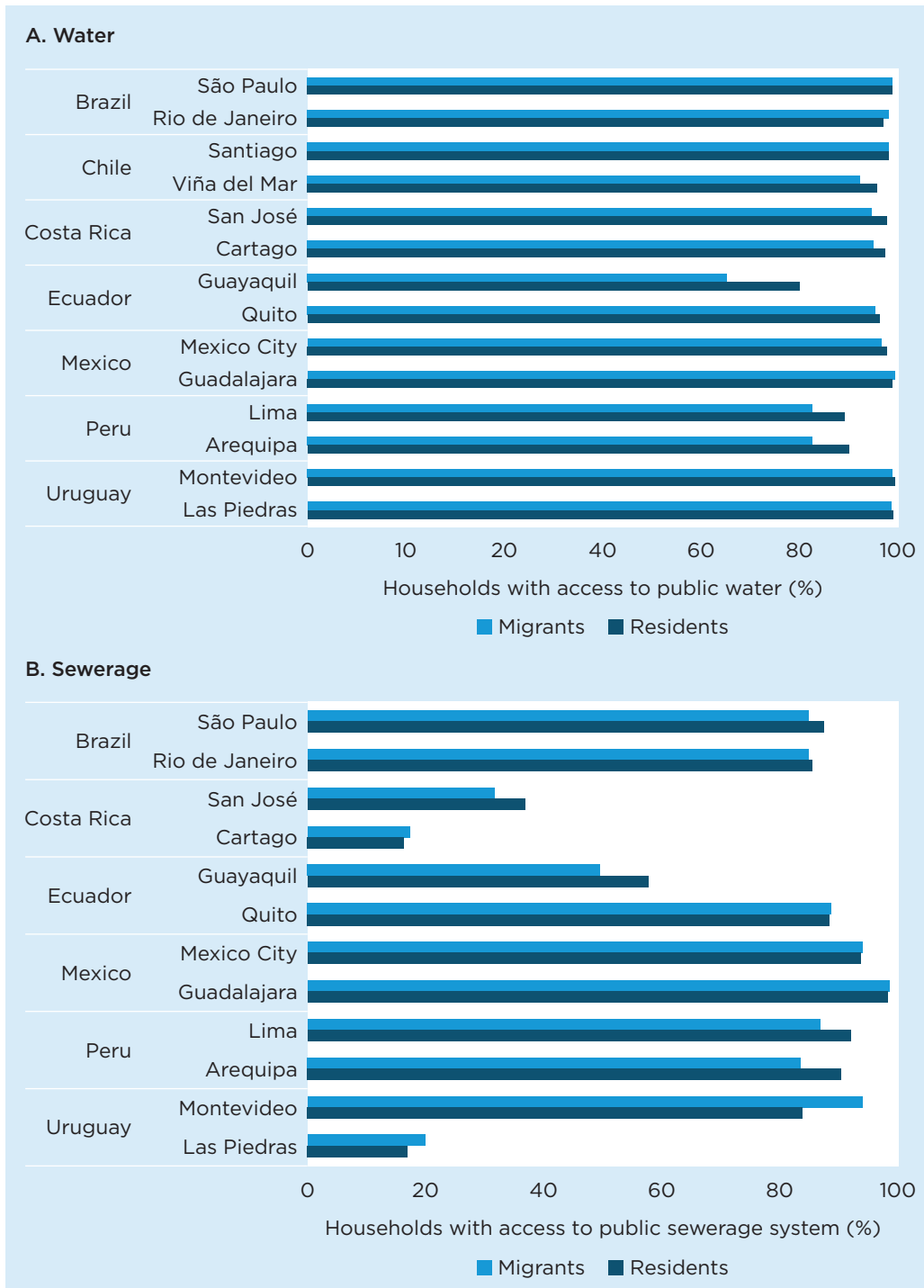
In sum, we found that migrants demanded less interior space, had limited access to public water and sewage networks in numerous cities, and, after control-

TABLE 3.3 | Housing Services in Latin American and Caribbean Countries by Migratory Status, c. 2015

Country	Number of observations		Households connected to public water network (%)		Households with access to water in unit (%)		Households with access to sewerage (%)	
	Migrant	Resident	Migrant	Resident	Migrant	Resident	Migrant	Resident
Argentina	916	36,701	0.968	0.901	0.971	0.968	—	—
Bolivia	582	7,353	0.829	0.881	0.527	0.579	0.873	0.896
Chile	7,117	57,799	0.998	0.997	0.996	0.996	—	—
Colombia	6,283	25,298	0.987	0.984	—	—	0.990	0.989
Ecuador	912	17,605	0.947	0.960	0.881	0.911	0.996	0.992
Guatemala	324	10,142	0.025	0.019	—	—	0.778	0.642
Paraguay	662	4,920	0.909	0.867	0.604	0.632	0.699	0.717
Peru	1,132	18,456	0.896	0.904	0.795	0.852	—	—
Uruguay	2,512	35,553	0.993	0.993	0.992	0.990	—	—

Source: Authors' calculations, based on household survey data from 2015 for all countries except Guatemala (2014) and Paraguay (2016).

Notes: Results were similar in most countries when estimated only for international migrants. Access to public water and to water in unit was greater for international migrants than for residents in Bolivia, Ecuador, Peru, and Uruguay; and access to sewerage was greater for international migrants than for residents in Bolivia and Colombia at this time.

FIGURE 3.5 | Public Water and Sewerage Access in Latin American and Caribbean Cities by Migratory Status

Source: Calculations based on the GHS Centre Database 2015 and microdata from the population censuses described in Box 1.2.

ling for demographic characteristics, generally lived in more crowded conditions than their local counterparts. These findings were consistent with studies that have established a positive relationship between migration flows and the growth of informal neighborhoods, since areas that lack access to basic public services are generally defined as such.⁷

Finally, many papers have suggested that those who live in informal neighborhoods tend to prioritize the quality of location over that of housing. In other words, despite the potential drawbacks in terms of housing quality and access to basic services in such areas, informal neighborhood dwellers opt to reside in them because they are close to the city center (see, for example, Celhay and Undurraga 2022; Bird, Montebruno, and Regan 2017; Galiani et al. 2017). This strategic choice enables them to harness the benefits of agglomeration economies inherent in central urban areas and enhance their productivity and employment prospects (Glaeser 2012). If migrants are more inclined to settle in informal neighborhoods, it follows that they are also more likely to reside in proximity to employment hubs, even if this means compromising on their utilization of housing services. Regrettably, a lack of relevant data constrains a direct examination of this hypothesis.⁸

Influence of Rental Prices and Household Income on Housing Demand

The preceding sections have established a notable disparity in homeownership rates between migrants and residents, as well as a lower demand for housing services among migrants. In this section, the focus shifts to assessing the influence of prices and income on the housing demand of migrant and resident households. Given the limitations imposed by data availability, the analysis centers primarily on the rental market.⁹

To examine the influence of rental prices and household income on housing consumption, we estimated the price elasticity and income elasticity of demand for housing. The price elasticity of demand measures the percentage change in the quantity of housing (that is, the number of housing units) demanded in response to a percentage change in housing prices. A low price elasticity (absolute value between 0 and 1) indicates relatively inelastic demand, implying that changes in prices have a limited effect on the quantity of housing demanded. Conversely, the income elasticity of demand quantifies the percentage change in the quantity of housing demanded in response to

7 UN-Habitat (2004) characterized as informal settlements those that meet one or both of the following criteria: (1) at least half of the residents lack property rights or are engaged in informal rental arrangements with someone who does not possess a land title and/or (2) at least half of the residents lack access to a minimum of one of the following three fundamental services: electricity, potable water, and/or improved sanitation.

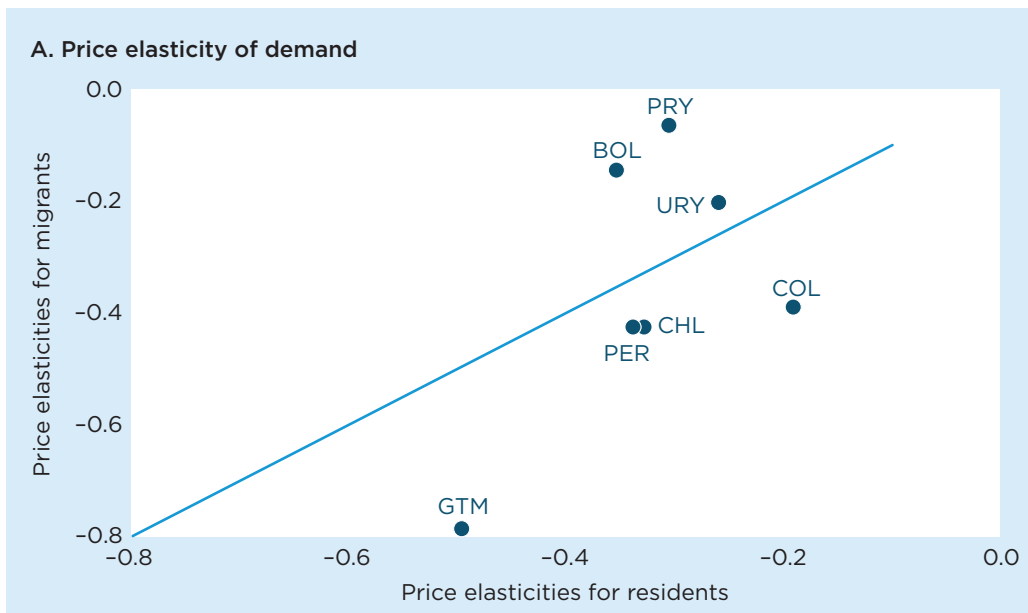
8 Specifically, information is lacking with regard to the exact locations of households.

9 While rental prices are found in many surveys in the region, reliable information about home price transactions is not available.

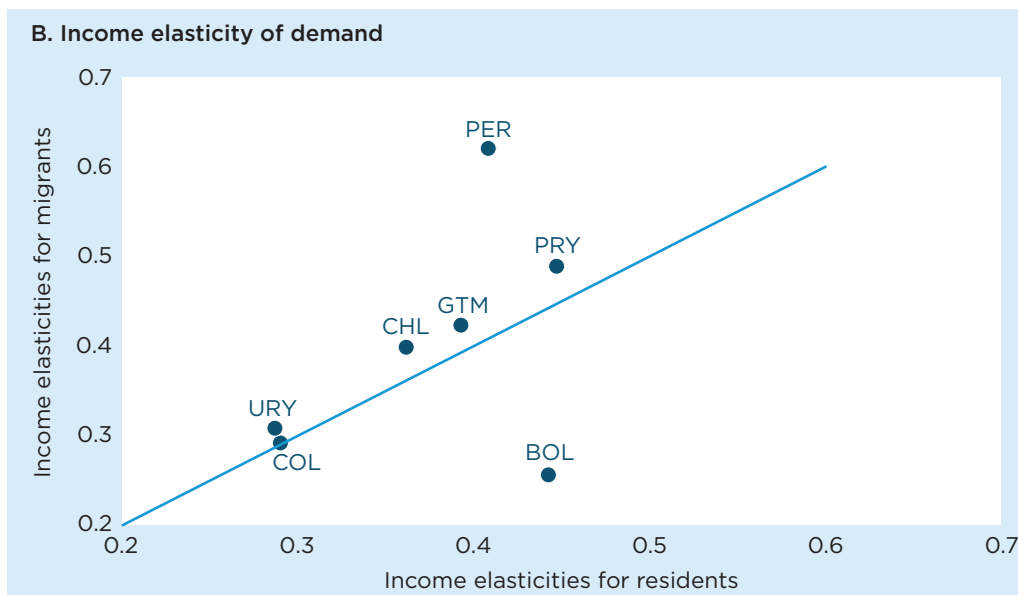
a percentage change in household income. A positive income elasticity signifies housing as a normal good, indicating that as income increases, the demand for housing also rises. Understanding the income and price elasticity of housing demand is extremely important to policymakers and researchers, as it provides insights into the sensitivity of housing demand to income fluctuations and price variations. This knowledge enables the formulation of effective policies, particularly in markets where migration shocks increase demand.

To estimate the income and price elasticities of housing demand, we used well-established econometric methodologies (see, for example, Malpezzi and Mayo 1987). Our estimation approach utilized household-level data encompassing information on total rental payments, household income, local rental prices, and household demographic characteristics, such as household size. The results, shown in Figure 3.6, merit careful examination and discussion. Specifically, our estimated price elasticities for residents fell within the range of -0.2 to -0.5 . These resemble estimates previously reported in the literature (see, for example, Malpezzi and Mayo 1987, Table 1). The estimated price elasticities for migrants covered a wider spectrum, spanning from -0.1 in Paraguay to -0.8 in Guatemala. It is important, however, to note that the elasticities for migrants were subject to imprecise estimation, characterized by wide confidence intervals. This imprecision was primarily due to smaller sample sizes. When we aggregated the survey data from all countries included in the study (from around 2015) and used the same

FIGURE 3.6 | Price and Income Elasticity of Rental Housing Demand in Latin America, c. 2015



(continued on next page)



Source: Authors' calculations, based on household survey data from 2015 for all countries except Guatemala (2014) and Paraguay (2016).

Notes: We employ linear regression models to estimate the price and income elasticity of housing demand, specifically for rental housing, among migrants and residents within each country. The countries included are Argentina (ARG), Bolivia (BOL), Brazil (BRA), Chile (CHL), Colombia (COL), Ecuador (ECU), Guatemala (GTM), Nicaragua (NIC), Peru (PER), Paraguay (PRY), and Uruguay (URY). Our estimations involve specifying an equation where the natural logarithm of the monthly gross rent serves as the dependent variable. The covariates considered consist of the logarithm of household income, the logarithm of the median rental price in the respective municipality, household size, and household size squared. The coefficients of the initial two variables are visually depicted in the figures above. Results were similar when estimated only for international migrants, with a higher income elasticity of demand for international migrants than for migrants in general.

consistent parsimonious specification used in Figure 3.6, the analysis revealed an estimated price elasticity of approximately -0.37 . This implied that a 10 percent decrease in home prices, achieved, for instance, through a housing subsidy, would lead to an increase of approximately 4 percent in the quantity of housing demanded. Importantly, when we compared the price elasticities of housing demand between migrants and residents within this pooled specification, the disparities were minimal.

Panel A of Figure 3.6 presents estimates of the income elasticity of demand for housing. Consistent with findings from the academic literature, the figure shows income elasticities consistently falling below 1, generally ranging from 0.25 to 0.5. With the exceptions of Bolivia and Peru, the disparities we found in income elasticities between migrants and residents were relatively minor. When we considered the pooled specification across countries, we found the average income elasticity for residents to be approximately 0.38, while the value for migrants was slightly higher, approaching 0.4. Consequently, a 10 percent increase in income corresponded to an approximate 4 percent increase in the demand for housing.

The evidence presented above indicates that housing demand in the rental market in the region, representing the relationship between the housing services households are willing to pay for in relation to price and income, is comparable between migrants and local residents. We can expect the effect of fluctuations in prices and income shocks on the demand for housing to be relatively similar for both groups. The elasticity estimates serve as important inputs for policymakers to conduct counterfactual analysis and simulate how migration (as well as other) shocks affect market outcomes. Section 3.3 elaborates further on these ideas.

3.2. Housing Supply: Providing Adequate Shelter Can Be Challenging

Housing supply, within the context of this analysis, refers to the quantity of “housing services” accessible for purchase or rental in a specific market or geographical area at a given price. As we discussed in section 3.1, while we may think of the concept of “housing services” as pertaining mainly to the total interior space of the housing, it encompasses additional components, such as its overall quality and the availability of public services. Understanding the determinants of housing supply is essential, and one significant factor is the presence of developable land (Saiz 2010; Harari 2020). In areas where land is abundant and readily accessible, the construction of new housing units tends to be easier and more affordable. In densely populated regions or those where land availability is limited, however, the costs associated with developing new housing units can be considerably higher. Another key determinant of housing supply is the cost of construction (Glaeser and Gyourko 2018). The expenses involved in constructing new housing units are influenced by material costs, labor expenses, regulatory requirements, and other factors. In areas where these costs are high, developers may be less inclined to build new housing units, thereby leading to a scarcity of available housing supply. Government policies also exert a significant influence on housing supply (Hilber and Vermeulen 2016; Ihlanfeldt 2007; Mayer and Somerville 2000). Zoning laws and building codes, for instance, can affect the accessibility of land and construction costs. Additionally, policies related to taxation, subsidies, and incentives can shape developers’ decisions to build new housing. By comprehending the interplay between these determinants and the housing supply, policymakers can effectively address challenges and promote an adequate and sustainable housing market.

In Latin America, and in many other parts of the developing world, housing is supplied in both formal and informal markets. Formal housing markets generally refer to the legal, regulated markets for housing. They are typically characterized by clear property rights, legal protection for tenants and property owners, or, in some settings, by the access to formal financing and mortgage systems. Housing units in formal markets are

usually built by licensed developers, with construction subject to building codes and zoning regulations. Formal markets are generally considered more stable and secure than informal ones, with higher-quality housing units and better access to public services, such as water, sanitation, and electricity. In contrast, informal housing markets are characterized by a lack of property rights, and housing units are often built without regard to zoning regulations or building codes. Informal markets typically have high levels of poverty, limited access to public services, and inadequate living conditions. Informal housing raises several concerns, particularly with regard to inadequate urban infrastructure. Understanding the interconnections of formal and informal markets is important when designing policies to adequately accommodate an influx of migrants in an urban area.¹⁰

The rest of this section analyzes two related topics. First, we discuss the tradeoff between the supply of formal and informal housing markets in the region. Then, we assess the differences in the potential responsiveness of housing supply—that is, the price elasticity of housing supply—across Latin American cities.

The Supply of Formal versus Informal Housing

The expansion of the informal housing supply can offer affordable housing options to low-income households, both migrant and resident, whose particular financial constraints—or sometimes their legal status—may impede their access to formal housing. It is important to acknowledge, however, that the proliferation of informal housing markets also brings significant costs and challenges. Especially costly is the absence of basic urban infrastructure, such as adequate water and sanitation facilities, which can give rise to public health concerns, including the spread of diseases. Moreover, informal neighborhoods are frequently characterized by substandard living conditions, including overcrowding and insufficient housing structures (Libertun de Duren 2021). Furthermore, the absence of property rights in these markets has detrimental implications for various economic outcomes. Research has shown the transformative potential of providing property rights to individuals residing in informal neighborhoods, demonstrating that the provision of property rights can significantly enhance residents' perception of their well-being (Tella, Galiani, and Schargrodsky 2007), improve employment outcomes (Field 2005), and encourage increased investment in housing (Galiani and Schargrodsky 2010). Additionally, a comprehensive review of the literature conducted by Marx, Stoker, and Suri (2013) concluded that living in informal neighborhoods can perpetuate cycles of poverty, acting as a poverty trap.¹¹

¹⁰ Residents of informal housing, for example, may seek to purchase formal housing units as they become more financially stable, while developers in the formal market may seek to purchase land in informal settlement areas for future development.

¹¹ Among other studies that have analyzed the negative effects of informal neighborhoods are those by Furszyfer Del Rio and Sovacool (2023), Brotherhood et al. (2022), Turok, Budlender, and Justin Visagie (2018), and Lanjouw and Levy (2002).

The supply of informal housing can also have lasting consequences and restrict the efficient utilization of land. Based on a theoretical analysis of urban squatting, for instance, a hypothesis put forth by Brueckner and Selod (2009) and Brueckner (2013) suggested that informal housing exerts pressure on the formal housing market by reducing the land area available for formal residents, leading to an increase in land prices in the formal sector. Brueckner, Mation, and Nadalin (2019) tested and confirmed these theoretical predictions in Brazilian cities. In another influential study, Henderson, Regan, and Venables (2021) estimated large welfare losses arising from institutional frictions that hinder land use transformation in Nairobi, Kenya. Among their main observations was that the informal use of land can be persistent. Redeveloping informal settlements is costly, and associated frictions can limit the development of formal buildings in desirable locations. The growth or improvement of informal settlements may accentuate inefficiencies in the land market. Two other studies made a similar point by examining the potential inhibiting effects of neighborhood upgrading programs on the timely formalization of informal settlements.¹² One, conducted by Harari and Wong (2021) in Jakarta, Indonesia, posited that improvement initiatives of informal settlements might actually impede the long-run redevelopment of those areas. Another, by Michaels et al. (2021), argued that, compared to untreated neighboring areas, improved informal neighborhoods in Dar es Salaam, Tanzania, either showed no significant improvement or became even worse after a period of two to three decades. Finally, Libertun de Duren et al. (2022) found the condition of the infrastructure in upgraded favelas in Rio de Janeiro no better after a decade than that in the favelas that were not upgraded.

In sum, in addition to the widely recognized externalities stemming from the underconsumption of housing, informal settlements generate persistent distortions in the land market that result in an overall reduction in economic welfare.

How Quickly Does Housing Supply Adjust to Prices?

The price elasticity of housing supply refers to the extent to which the quantity of the housing supplied changes in response to variations in the price of housing. Where elasticity is high, the housing supply is highly responsive to changes in demand. Consequently, rents and prices are likely to adjust only slightly in response to a demand shock. On the other hand, where housing supply is relatively inflexible, even a minor shift in demand can generate significant increases in rents and prices. Extensive research reported in the academic literature has provided compelling evidence that the extent to which demand fluctuations translate into increased house prices largely depends on the responsiveness of the housing supply (Mayer and Somerville 2000; Malpezzi and

12 Neighborhood upgrading programs are widely popular across the developing world (UN-Habitat 2004).

Box 3.1 Are Migrants More Likely to Be Pushed Out of the Formal Market by Discrimination?

Discrimination in the housing market remains a significant barrier for some migrants seeking adequate housing, limiting their opportunities for economic integration and upward mobility. Zaroni and Diaz (2023), for example, have shown that Venezuelan migrants in Colombia often encounter discriminatory practices when they search for rental housing. They may, as a result, be denied rental housing or encounter higher rents, limited housing options, or unfavorable lease terms based on their national origin, ethnicity, or immigrant status. In general, discrimination in the rental market can lead to increased housing costs, housing instability, and limited access to desirable neighborhoods.

Discrimination can also hinder migrants' access to homeownership. They may confront obstacles in securing mortgage loans, face higher interest rates, or be subject to discriminatory lending practices, which can limit their ability to accumulate wealth through homeownership and contribute to long-term economic stability. More broadly, discrimination may perpetuate residential segregation, leading to social exclusion and limited access to essential services and opportunities.

Addressing discriminatory practices, promoting inclusive housing policies, and fostering collaboration among stakeholders can foster the growth of fair, vibrant, diverse, and inclusive urban communities.

Maclennan 2001; Glaeser, Gyourko, and Saks 2006; Gyourko 2009). In section 3.3, we will delve into further details regarding these points. It is evident at this stage, however, that the slope of supply, which is directly linked to the elasticity of housing supply, serves as the primary parameter for evaluating whether future increases in demand, such as those resulting from migration, will predominantly result in higher rents and prices or, alternatively, stimulate a significant upswing in housing construction.

How much does the price elasticity of supply vary across locations? The price elasticity of supply for housing depends on several factors, including the availability of developable land, the cost of construction, and building regulations, and these are likely to vary widely across urban areas. In fact, studies have found vast variation in housing supply elasticities across metropolitan areas in Brazil (Guedes, Iachan, and Sant'Anna 2023), Switzerland (Ehrlich, Schöni, and Büchler 2018), the United Kingdom (Hilber and Vermeulen 2016), and the United States (Saiz 2010; Gorbach and Keys 2020). Caldera and Johansson (2013) have also shown that this elasticity varies widely across Organisation for Economic Co-operation and Development (OECD) countries. Moreover, Baum-Snow and Han (2022) recently provided convincing evidence that large differences in the price elasticity of housing supply can occur even within metropolitan areas. In addition, the effective supply of housing could be mediated by other factors like, for instance, discrimination, as was discussed in Box 3.1.

Although we are not aware of any academic study that estimates housing supply elasticities in Latin American cities other than Brazil (Guedes, Iachan, and Sant'Anna 2023; Alves 2021), one can reasonably assume that a broad range of elasticities exists.

The variability in geographical characteristics and land availability across Latin American cities is significant, and this alone is indicative of the likelihood of such a diverse range. The following subsections will elaborate in detail on this hypothesis, with separate discussions for the formal and informal housing markets.

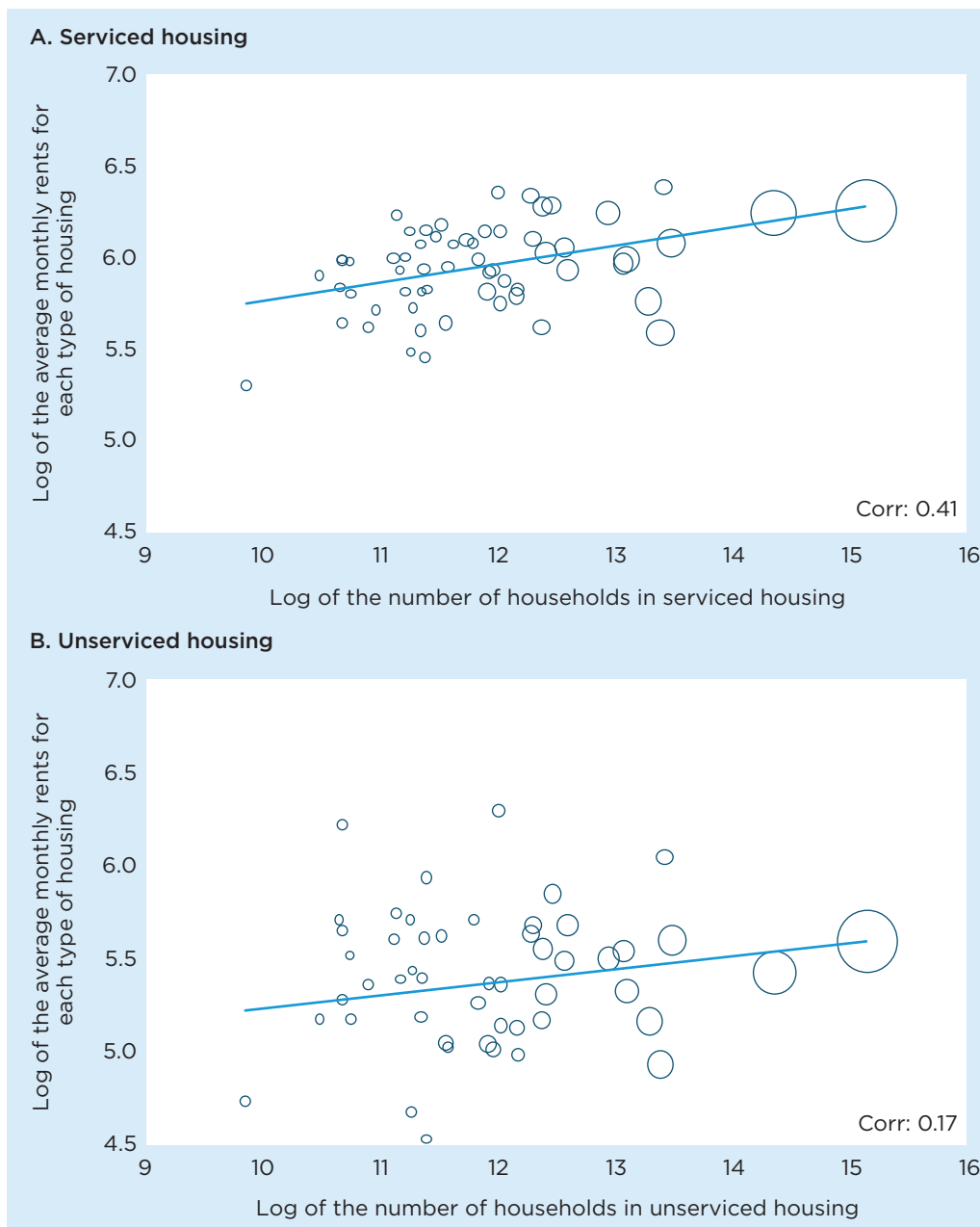
Elasticity of Housing Supply in the Formal and Informal Markets

Informal housing involves the unauthorized use of both public and private land for residential purposes. The utilization of land in an informal manner is a critical factor in the creation of housing. As informal settlements develop without adhering to any land use regulations, they may, plausibly, promote growth and thereby contribute to an increase in the housing supply elasticity. Moreover, if informal neighborhoods are more widespread in cities with more stringent geographical restrictions, their presence may blur the influence of land availability. For these reasons, the presence of informality should affect the responsiveness of housing supply to a demand shock. Alves (2021) has shown this to be the case, providing credible evidence that the supply elasticity of housing in formal markets is substantially lower than in informal markets. Alves found that when housing demand in Brazil's cities increased by 10 percent, rents in the formal market went up by 3.7 percent, while rents in the informal market increased by only 0.7 percent. This relationship is evident in Figure 3.7, where rents are plotted as a function of the number of households in formal and informal markets in Brazil and Mexico. The graph provides a clear and concise visual representation of two fundamental and intuitive observations. First, a positive demand shock caused by migration is likely to result in a notable increase in the cost of housing services, specifically in the formal market. Second, a migration shock may also stimulate a rise in the production of informal housing, particularly in areas where the demand for it is elevated.

In a related study, Guedes, Iachan, and Sant'Anna (2023) employed a combination of census and satellite data to estimate the (inverse) housing supply elasticity, combining both formal and informal sectors for over 90 metropolitan areas throughout Brazil. The authors showed that the level of informality and geographical constraints directly affected the housing supply in these cities. Figure 3.8, for instance, which is based on this study, shows the strong positive correlation between informal housing and land unavailability. Areas with less available land (where the housing supply is less elastic) also feature more informal housing (where it is more elastic). Hence, the ubiquitousness of informal housing may contribute to an increase in housing supply elasticity, partially mitigating the limitations imposed by geographical constraints.

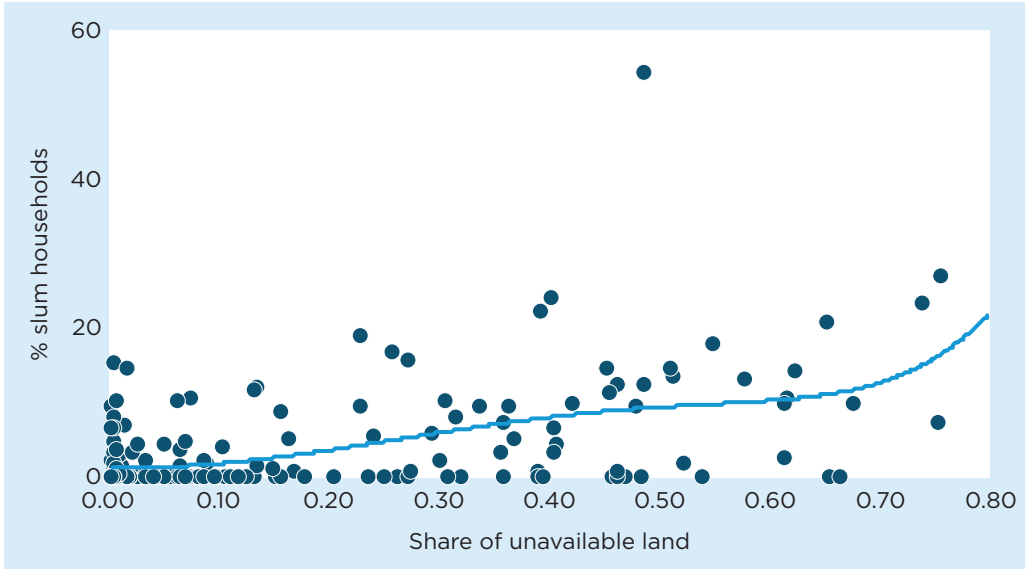
Figure 3.9, also based on Guedes, Iachan, and Sant'Anna (2023), displays the estimated (inverse) housing supply elasticity for 90 or so Brazilian metropolitan areas. It clearly shows substantial variation in the estimated elasticities across urban areas.

FIGURE 3.7 | Rents and Population in Formal and Informal Housing Markets in Brazil



Source: Authors' calculations, based on the GHS Centre Database 2015 and microdata from the population censuses described in Box 1.2.

Notes: Panel A plots the log of the average monthly rents for serviced housing against the log of the number of households in serviced housing. Panel B plots the same relationship for unserviced housing. Following Alves (2021), unserviced housing lacks both basic water (does not have a connection inside the house to the local water network) and sanitation services (having connection to neither the local sewer system nor a septic tank). Our sample comprises all people living in urban areas and in a GHS city with more than 300,000 inhabitants by the time of the census. Each dot corresponds to one city. In this graph we used sample weights.

FIGURE 3.8 | Unserved Housing and Land Unavailability

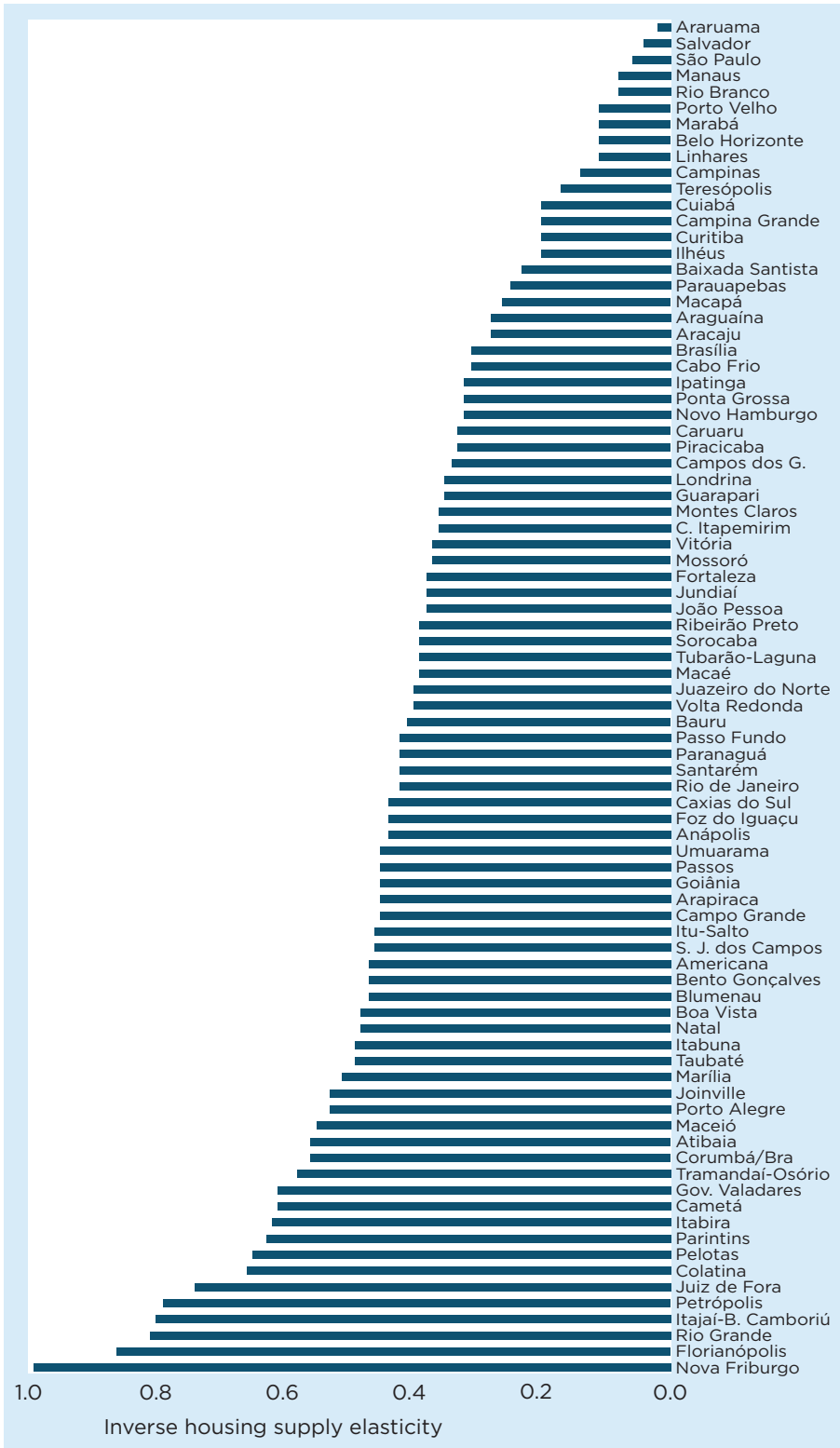
Source: Authors' calculations, based on Guedes et al. 2023.

Note: The authors define share of unavailable land as the fraction of map pixels within a 10 km radius around the city center that are either covered by water or are too steep (whenever a map pixel features an inclination above 30%). Each dot is an arranjo in Brazil.

Elasticity of Supply in the Formal Market: The “Building Height Gap”

Indirect evidence of widely varying regulatory constraints and housing supply elasticities across Latin American cities was provided by two recent and related studies, Jedwab, Barr, and Brueckner (2022) and Jedwab and Barr (2022). Using a set of more supply-elastic countries as a benchmark, Jedwab, Barr, and Brueckner (2022) sought to investigate whether the number of tall buildings in a country is lower than would be expected based on that country's characteristics. To this end, they employed a dataset that enumerated all the tall buildings (exceeding 80 meters in height) across the world, along with their corresponding years of construction and heights. Applying econometric techniques (specifically, panel regression models), they established a correlation between a measure of the tall building stock per capita in the identified benchmark countries and two key variables that, according to the standard urban model, should determine floor-to-area ratios and population density: income and agricultural land rent. For countries outside the benchmark group, the authors plugged values for these variables into the estimated equation to predict the tall building stock per capita if the country's supply elasticity matched that of the benchmark group. The difference between the predicted value and the actual tall building stock in the country represented the building height gap (BHG).

FIGURE 3.9 | Inverse Housing Supply Elasticities in Brazil



Source: Authors' calculations, based on Guedes, Iachan, and Sant'Anna 2023, Table D.1.
 Notes: The sample consists of all arranjos with more than 100,000 residents in the 2010 National Population Census. We removed seven arranjos from this figure based on negative point estimates for their inverse supply elasticities.

Figure 3.10 presents estimates of the BHG for all the Latin American cities in the sample used by Jedwab, Barr, and Brueckner (2022). As the figure shows, most exhibited positive height gaps, suggesting that, in most of the region, the buildings were too short relative to those in countries with laxer regulations. But in a few cases—Panama City, for example—the buildings were higher than expected. Although the BHG may incorporate factors beyond discrepancies in building regulations and topographical restrictions, it still offers compelling evidence that supply elasticities (in the formal market) may vary significantly across urban regions.

3.3. Market Forces at Play

Demand and Supply

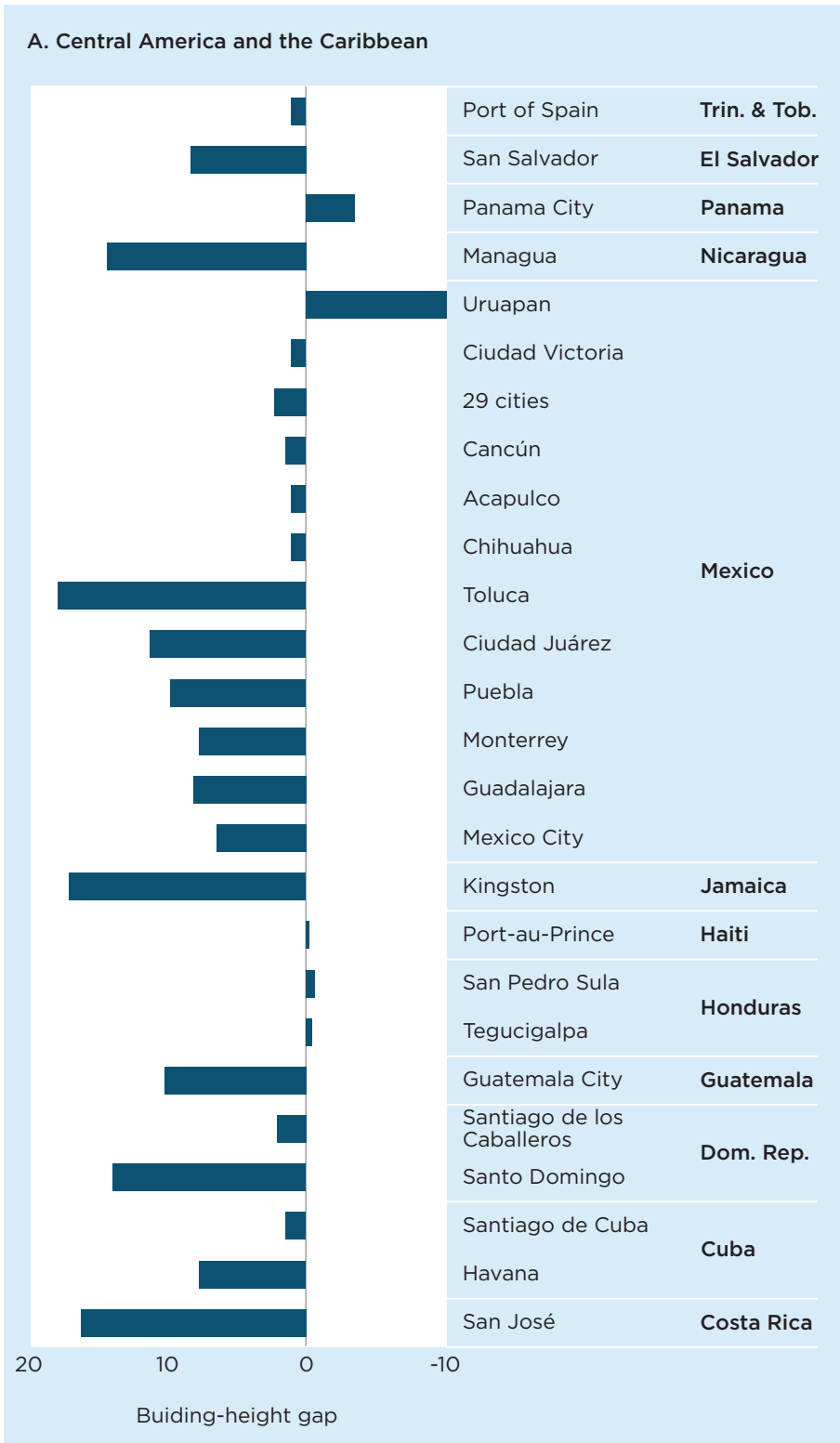
A positive shift in housing demand, such as an influx of migrants, will increase the demand for housing services, which will in turn put upward pressure on housing prices. The magnitude of the price increase will, however, depend on the elasticity of housing supply. If it is low, that means the quantity of housing supplied will not be able to increase much in response to the increase in demand. Therefore, the prices of housing services will rise more in a market where the housing supply elasticity is low than in one where it is high. These points are illustrated by Figure 3.11. Imagine two urban areas with the same level of housing, equilibrium prices, and identical housing demand. But the slope of supply in one area is much lower (more elastic) than in the other (less elastic). If housing demand shifts because of a positive migration shock, the horizontal displacement in demand will lead to a larger increase in prices in the area with an inelastic supply.

If we assume a housing demand and supply that are linear—with a price elasticity of demand (α) and an income elasticity of demand (β)—a simple “back-of-the-envelope” calculation can predict the effect of a migration shock on home prices. The predicted change in prices (in percentage terms) is equal to

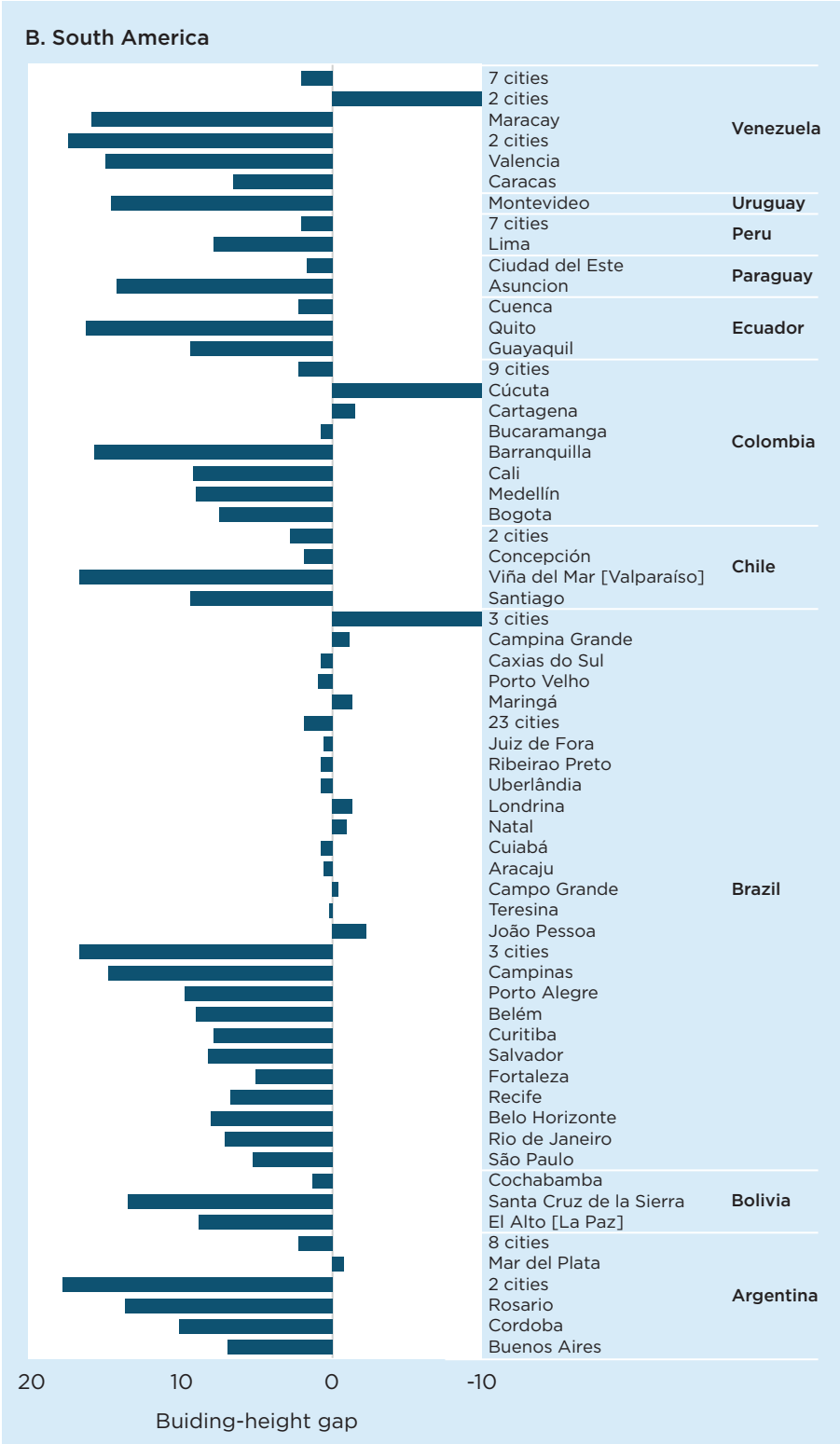
$$\Delta P\% = \frac{\Delta Q\%}{|\alpha| + \beta}$$

where $\Delta Q\%$ is the percentage change in population due to the migration shock. Consider a typical city in our sample, for example, with 500,000 housing units and an average yearly rent of US\$10,000. If the price elasticity of demand is -0.4 (consistent with the estimates in section 3.1), and the price elasticity of supply is 2, an influx of 20,000 migrant households will increase home prices by 1.7 percent. On the other hand, if the price elasticity of supply is only 0.1, prices will rise by 8 percent. This simple com-

FIGURE 3.10 | Building Height Gap in Latin America and the Caribbean

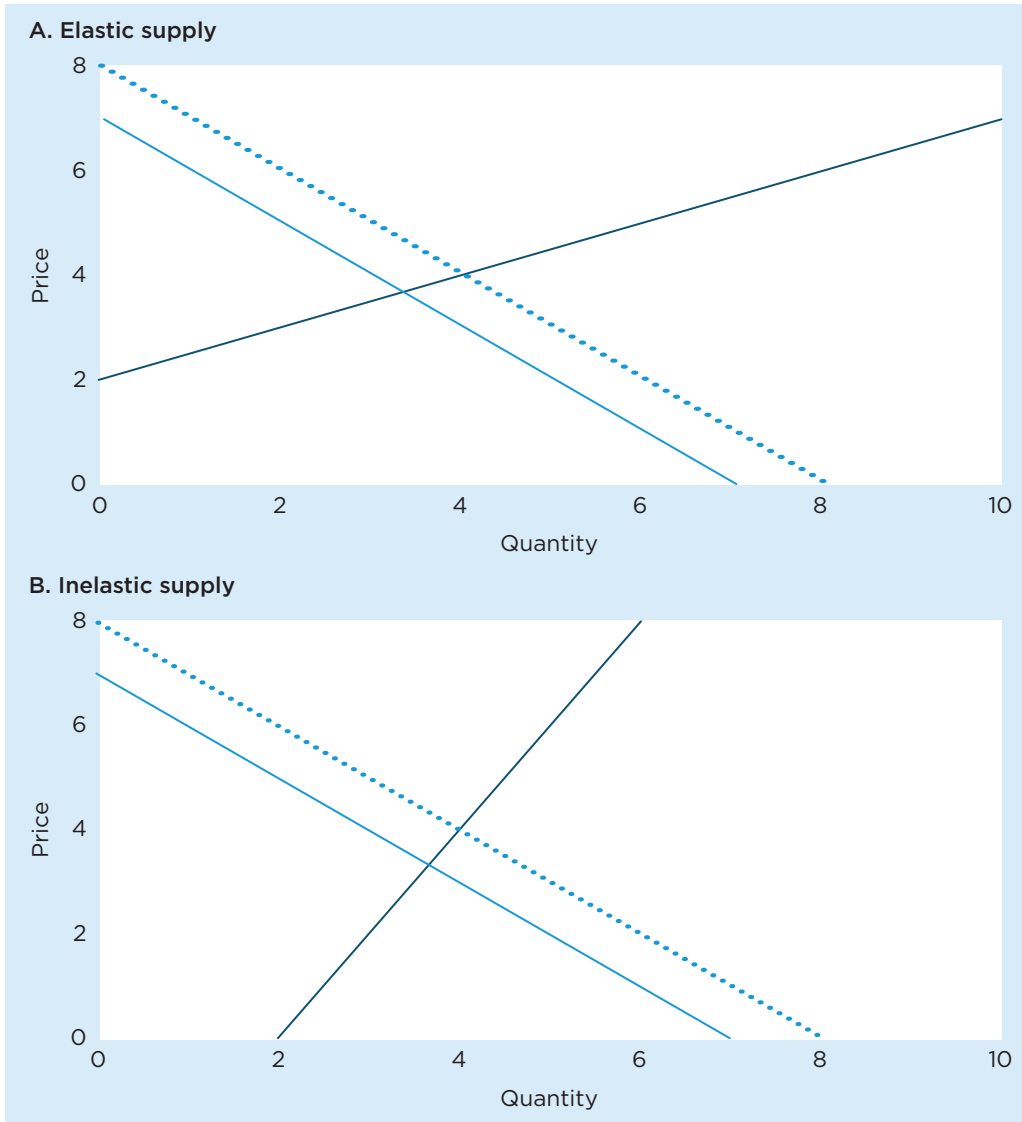


(continued on next page)



Source: Authors' calculations, based on Jedwab, Barr, and Brueckner 2022 and the GHS Urban Centre Database 2015.
Notes: These figures plot a city-level analysis of building height gaps for Central America and the Caribbean, and South America, respectively. Our sample comprised all Latin American and Caribbean GHS cities with more than 300,000 inhabitants. Each bar corresponds to one GHS city or to more than one if they have the same gap (in these cases, it indicates the number of cities with that specific gap). Bars are ordered by country and city population. For the gaps we used the authors' variable that takes upper-middle- and high-income countries (UMH countries) as the benchmark group.

FIGURE 3.11 | Effects of a Demand Shift on Housing Market Outcomes



Source: Authors' elaboration.

Notes: The graphs use hypothetical numbers to illustrate how the effects of housing demand shifts depend on the elasticity of housing supply. In this case, “Quantity” on the x-axis represents the number of housing units and “Price” on the y-axis represents housing prices or rents. The light blue lines represent housing demand, while the dark blue line represents housing supply. The dashed light blue line represents the new housing demand after a positive migration shock causes a shift in housing demand. The two panels differ in that the slope of the supply curve in panel A is much lower (more elastic) than in panel B (less elastic).

parative static analysis could help policymakers assess the potential impact of migration on the local housing market.¹³

¹³ This is because $\Delta P\% = (100 \times 20/500\%) / (|-0.4| + 2) = 1.7\%$ and $\Delta P\% = (100 \times 20/500\%) / (|-0.4| + 0.1) = 8\%$.

Conducting the above simple demand and supply analyses necessitates careful consideration of several factors. First, since the precise values of the elasticities are unknown, it is valuable to explore different scenarios using a range of plausible values. This approach enables a more comprehensive assessment of the potential impacts. Second, it is crucial to differentiate between short-run and long-run scenarios. Housing supply elasticities can exhibit significant disparities between these temporal horizons. In the short run, housing supply often demonstrates limited elasticity because of the time required for developers to react and construct new housing units. In the long run, however, it tends to exhibit higher elasticities as it adapts to changing conditions. Finally, the role of the informal sector should be taken into account. As discussed previously, the informal and formal housing markets are interconnected through various channels. The elasticities employed in these simple supply and demand models should capture the dynamics of both markets, as put forth by Guedes, Iachan, and Sant'Anna (2023).

The analysis in section 3.2 of housing supply elasticities across different cities has revealed substantial variations. These disparities indicate that the effects on prices in response to a demand shock differ significantly among cities. Consequently, there is, evidently, no universal policy that can effectively address all housing issues associated with migration. Instead, the unique characteristics of each city must be taken into consideration. Recognizing the diversity among cities is paramount in formulating appropriate policies. The complexity of housing markets, coupled with the diverse needs and conditions of each city, necessitates a careful and tailored approach. A one-size-fits-all solution is insufficient and may fail to address the specific challenges encountered by individual cities.

Long-Run Equilibrium

In a long-run equilibrium, labor markets, housing markets, and migration patterns are jointly determined. In a region with no restrictions on mobility, prices (housing and wages) necessarily adjust to ensure every type of household is indifferent across locations. If rental prices in a high-wage city decrease due to a local subsidy, for example, individuals from other cities will migrate into it to take advantage of the opportunity to receive a higher net-of-housing-costs wage and improve their living conditions. Migration pushes rent prices up in the receiving city until “locational equilibrium” is reached again.¹⁴ For these reasons, rapid economic growth in urban areas frequently results in significant relocations of households from rural regions and other cities. In receiving cities that feature both formal and informal housing, migration can profoundly affect markets in both types of areas, with further consequential effects on the location decisions of households.

14 For a seminal study in this area, see Roback (1982).

How are formal and informal housing markets affected by migration in the long run? And how do changes in local housing markets affect subsequent migration decisions? To answer these questions, Alves (2021) estimated and solved for the equilibrium of a system-of-cities model in Brazil. The model featured two types of households (low- and high-income) and two types of houses (formal and informal). Importantly, he allowed these two housing sectors to react differently when faced with a demand shock.¹⁵ Model simulations suggested that when real wages in a city increase, so does the population of low-income households. Since low-income households are more likely to demand informal housing as they encounter higher rents for formal housing, economic growth in cities leads to informal neighborhood growth. But the model also showed that when urban economic growth becomes strong enough to raise households' incomes nationwide, the national share of urban households in informal housing decreases. Alves (2021) also showed that if amenities in informal neighborhoods improve, a higher share of low-income households will migrate to high-wage cities, thus increasing the national average of low-income wages.

The model above formalizes some of the key challenges and opportunities associated with migration. In short, although migration can boost overall income, it can also significantly shift the demand for housing, especially informal housing. As the formal housing market has a lower supply elasticity than the informal market, it becomes less affordable; low-income migrants are then more likely to demand informal housing, resulting in the growth of informal neighborhoods. These challenges are amplified in cities with inflexible supply. In the next chapter, we will examine policies seeking to tackle them.

3.4. Conclusions

Migration poses challenges to the housing market, particularly in densely populated urban areas. Consistent with other studies in the academic literature, this chapter has shown that migrants in various Latin American and Caribbean urban areas are less likely than residents to own homes. They also demand less interior space than local residents and tend to live in more crowded housing. Furthermore, migrants often find it difficult to get access to public water and sewage networks, further exacerbating their poor housing conditions. Although data limitations prevent us from directly showing this result, our findings align with studies highlighting a positive association between migration flows and the expansion of informal housing, and they underscore the need for policies and interventions to better accommodate migrant populations.

¹⁵ The elasticity of rents with respect to housing demand shocks was estimated to be 0.37 for formal housing and 0.07 for informal housing.

The provision of housing services in urban areas is influenced by topographical conditions, construction costs, government regulations, and other factors that vary across cities, leading to differences in the responsiveness of housing supply to changes in demand, especially ones driven by migration. In Latin America, housing is supplied through both formal and informal markets. The informal housing market tends to react more quickly to sudden increases in demand, providing short-term relief for housing needs. It is important to note, however, that informal markets are associated with a range of negative outcomes and externalities. They often feature substandard living conditions and can hinder the efficient use of land, thereby posing long-term challenges to sustainable urban development. It is essential for policymakers to address the issues related to informal housing and promote the development of formal housing markets that can effectively meet the housing demands of growing populations.

The impact of migration on housing prices also varies significantly across cities, highlighting the need for tailored policies that acknowledge the unique characteristics of each urban area. It is evident that a universal policy cannot effectively address all the housing challenges associated with migration because of the diverse nature of housing markets and the specific conditions and needs of each city. By adopting a tailored approach that considers the unique characteristics and needs of each urban area, policymakers can develop strategies that address both housing affordability and housing supply, ultimately contributing to sustainable and inclusive housing markets across cities.

Policy Options for Urban Prosperity through Migration

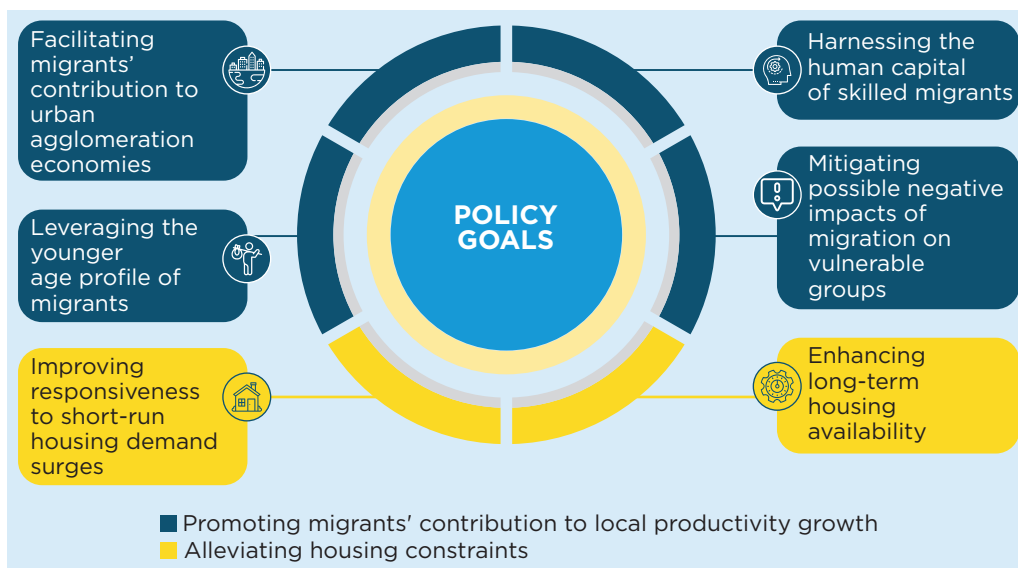
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Previous chapters of this report discussed how migration may be a source of opportunities for the economic development of destination cities. The fact that opportunities may exist, however, does not ensure they will materialize. Indeed, the evidence suggests many cities in Latin America and the Caribbean that are net receivers of migrants have not yet fully capitalized on this potential. Depending on the context, migration can also have some negative impacts in the short and medium terms as the urban labor and housing markets adjust to the growing population. This chapter discusses how policymakers, primarily those at the local level, can take advantage of the opportunities created by migration and mitigate its possible costs to foster economic development and improve the quality of life in their communities.

The discussion proceeds in three parts. First, we consider *what*, according to the existing evidence, policymakers should be trying to achieve. We define policy goals geared toward unlocking specific opportunities or alleviating specific constraints described in this report. These goals are for the benefit of everyone, both residents and migrants. Second, we explore *how* policymakers can design effective policies that are both evidence-based and responsive to particular needs. This approach is reflected in a set of policy design principles meant to help practitioners bridge the gap between the context in which the academic evidence was generated and the unique circumstances of those communities. Last, we turn to a discussion of *specific policies*. In addition to outlining their contents, we consider how they can help make the most of opportunities or tackle challenges arising from migration, as well as present the existing evidence of their effectiveness or lack thereof.

4.1. Policy Goals

We have explored various ways in which migrants can enhance the productivity of cities, as well as the barriers that hinder utilization of these opportunities by host urban

FIGURE 4.1 | Policy Goals to Foster Urban Development through Migration

Source: Authors' elaboration.

economies. Two key areas of policy focus emerge from this analysis, each associated with the set of goals summarized in Figure 4.1: first, policies should promote migrants' contribution to local productivity growth, and, second, in tandem, they should seek to alleviate housing constraints.

Promoting Migrants' Contribution to Local Productivity Growth

To maximize migrants' contribution to local productivity growth, policies must focus on four main goals. First, public policy should *help migrants actively contribute to agglomeration economies*. As discussed in Chapter 2, migrants may not actively engage with the local economy in the cities in which they reside due to such factors as limited transportation, low labor force participation—particularly among women—or, in the case of some international migrants, legal barriers. Without effective agglomeration, the productivity benefits associated with the density of economic activity in urban settings may not be fully realized.

Second, policies should be designed to *help allocate the human capital of skilled migrants to the most productive tasks*. As highlighted in Chapters 1 and 2, Latin American and Caribbean cities often receive migrants (with the possible exception of rural-urban migrants) who are more highly educated than local residents (Busso and Chauvin 2023). This latent “skills premium” is not always fully utilized, however, as migrants may not be employed in occupations that make the most of their skills. Policies can help firms

actively utilize the skills of migrants, creating an environment that allows them to contribute their expertise, knowledge, and qualifications in a way that benefits both them and the receiving communities and organizations. Policies can also provide opportunities for migrants to acquire new skills, which may be done inexpensively when those new skills complement existing ones.

Third, policies should *help take advantage of the younger age profile of migrants*. Chapter 2 showed that the youthfulness of migrants relative to the host population presents both a demographic advantage and an opportunity for increased workforce productivity, income generation, savings, and investment. This opportunity may go untapped, however, if these young migrants are unable to find employment or acquire the skills demanded by the local economy. Policies can contribute to equipping them with the skills demanded by the local labor market and ensuring their active participation in the local economy through consumption and investment.

Finally, an important policy goal is to *help mitigate possible negative impacts of migration on vulnerable groups*. While the overall labor market effects of migration on urban residents' outcomes are typically small or even positive for certain groups, it is important to recognize that negative impacts may affect specific segments of the population, such as younger and less skilled workers. Policies can contribute to remedying or minimizing the possible negative effects of migration on the labor market outcomes of the most vulnerable residents.

Alleviating Housing Constraints

A second significant area of policy focus is housing constraints. Chapter 3 explained how a lack of suitable housing for migrants can pose a major barrier to maximizing the benefits of migration, especially in places where many cities have housing shortages. Failing to adapt to increased housing demand from either natural population growth or growth as a result of migration can exacerbate housing challenges for urban populations. The policy goals in this area can be divided into short-term and long-term objectives.

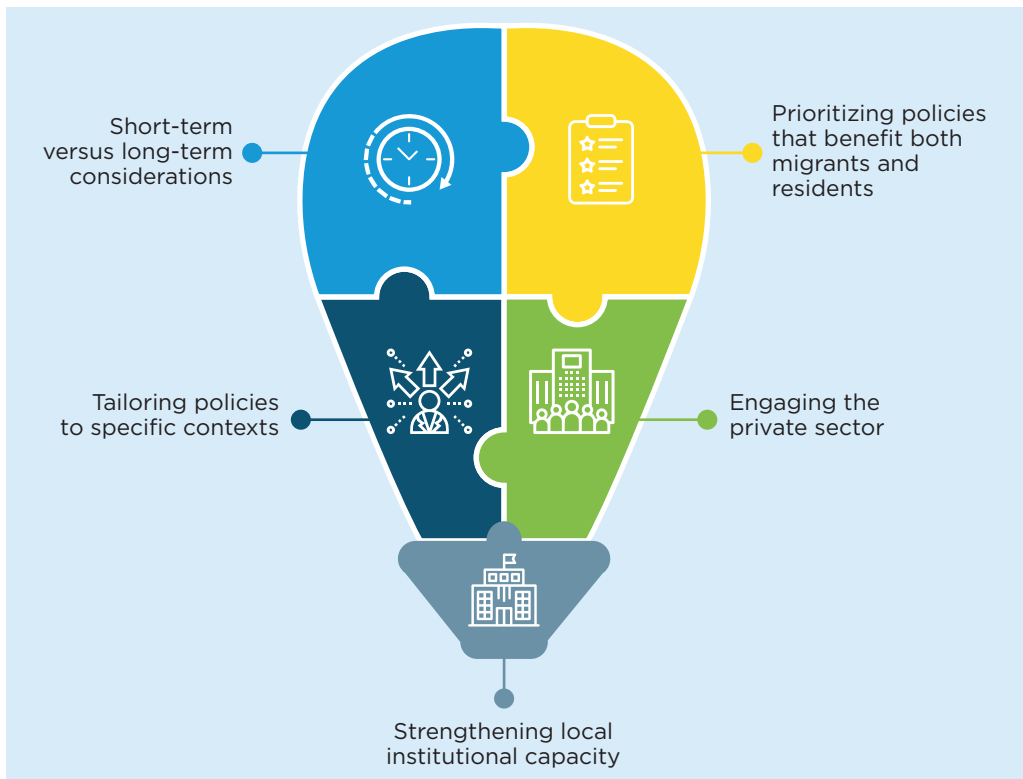
The increases in housing demand following a migration surge are usually larger in the short than in the long run, as some migrants may eventually move elsewhere. To capitalize on the opportunities arising from migration, *cities need to adeptly address these substantial, short-term spikes in housing demand*. A related short-term policy goal is to provide incentives for increasing the supply of “employment-enhancing” housing units—that is, housing that is strategically situated or has access to public transportation, enabling residents and migrants to reach better-paying jobs in the city and fully participate in the local economy. Policies can help by supporting the development of rental markets and utilizing new technologies to provide timely housing solutions.

Migration not only increases housing demand in the short run, however; it also generates long-term housing needs within cities. Ensuring that *local housing supply effectively adapts to shifts in demand over the medium to long term* is essential for maintaining the affordability of housing, as increased construction activity helps keep housing prices and rents within reasonable bounds. Policies can play an important role by enhancing the financial viability of development projects, removing unnecessary constraints on the growth of housing stock, and fostering expansion in the availability of affordable housing units.

4.2. Policy Design Principles

To achieve the main policy goals, a set of guiding principles can help policymakers customize policy instruments to specific circumstances in their cities. Figure 4.2 summarizes five key principles.

FIGURE 4.2 | Guiding Policy Design Principles to Foster Urban Development through Migration



Source: Authors' elaboration.

First, *distinguishing between short-term and long-term scenarios* is crucial. In an efficient market, the economy naturally provides incentives for tackling many of the challenges posed by migration, promoting conditions for urban economies to capitalize on its benefits. Yet, as highlighted in Chapters 2 and 3, migrants are often stymied by a lack of local networks, which can impede their search for suitable employment, child care, or housing. Their limited familiarity with local conditions may also affect their decisions on the best places to live and work, at least in the short term. Over time, migrants will acquire the information they need to make better-informed decisions. If a host city's conditions prove unfavorable, they may find ways to address those obstacles, or they may move to other destinations. For those who shift from the less optimal areas in which they first settle to more favorable ones, migration-related challenges tend to decrease. Migrants initially residing in less than ideal housing, for example, may eventually identify and move to better dwellings. Policies should focus on bridging the gap between short-term challenges and a more stable long-term scenario where maximizing the benefits of migration becomes more feasible.

Second, it is essential to recognize that there is no one-size-fits-all solution when it comes to local policies. Each city has its unique circumstances, and *tailoring policies to specific contexts* is key to capitalizing effectively on migration-related opportunities in cities.

In this regard, policymakers should pay special attention to two key factors: the existence of local economic opportunities and the elasticity of the housing supply. In terms of local economic opportunities, it is useful to remember that, as discussed in Chapter 1, cities that are less economically successful tend to receive different types of migrants than those that offer better economic prospects. Migrants displaced by violence or extreme weather events, for example, often arrive in cities without having had the chance to consider their destinations carefully. Their circumstances are quite different from those of economic migrants, who choose their destinations based on perceived opportunities. In the first case, locals may have concerns about an oversupply of labor that can put them out of jobs. In the second, the influx of workers can be beneficial, especially in high-demand sectors, and the challenges may be more related to housing and ensuring migrants have access to the city's job opportunities. Similarly, the challenges a city faces can depend on whether it is receiving domestic or international migrants. The former may encounter fewer language and legal barriers, while the latter may be more educated but have difficulty with work authorization and credential recognition.

Another important local characteristic to consider when tailoring policies to specific contexts is the readiness and responsiveness of the housing supply. Urban housing markets will adjust differently depending on their housing availability, as discussed in Chapter 3. Some cities have more elastic housing supplies, meaning they can adapt

quickly to increased demand. In Latin America, however, this often means newcomers end up in low-quality housing in informal neighborhoods. In cities with inelastic supplies, where the housing stock cannot quickly respond to increased demand, migration can exacerbate existing deficits. The policy solutions will differ greatly depending on the elasticity of a city's housing supply.

Understanding these differences is essential to avoiding policy missteps. Implementing a policy without considering the specific context in which it is applied could lead to ineffective results or even unintended negative consequences. In a city that has received primarily low-skilled displaced migrants and where labor demand is stagnant, for instance, promoting increased labor force participation can exacerbate already challenging labor market conditions for low-skills residents. Similarly, promoting long-run housing solutions in such contexts may generate incentives for migrants to remain in the city, even if their potential to contribute to the local labor market is constrained.

A third principle in policy design is to prioritize initiatives that not only capitalize on the opportunities associated with migration but *also directly benefit residents, particularly the most vulnerable*. This often occurs organically, since many of the policies discussed in this chapter have broad-reaching effects that benefit significant portions of the population among which migrants happen to be overrepresented. By prioritizing these inclusive policies, policymakers can ensure that both locals and migrants reap the benefits. Such an approach can also help overcome political hurdles by addressing concerns about discrimination against locals or the perceived unequal distribution of benefits to migrants. Misgivings like these are less prevalent when policies, rather than singling out migrants, target broader population segments that include a significant share of the relevant migrant population.

An additional recommendation is to *actively engage the local private sector*. Many of the policies presented here can rely on the private sector as a key partner that can bring a wealth of resources, expertise, and innovation to the table. Private firms and organizations can help drive economic growth, create jobs, and provide services that are essential for both migrants and residents. Involving the private sector in policy initiatives can lead to more efficient and effective solutions, as businesses often have a keen understanding of market dynamics and the ability to respond quickly to changing conditions. Furthermore, public-private partnerships can play to the strengths of both sectors, combining the public sector's ability to address social issues with the private sector's efficiency and innovativeness.

A final important consideration is the need to *strengthen local institutional capacity* to implement many of the policy options discussed in the next section (IDB 2018). Beyond financial resources, several other requirements need to be met for the effective implementation of these policies: a legal framework in place that provides a mandate for governments to implement specific interventions; basic data infrastructure and

data management systems with information on, for instance, land use, ownership, infrastructure, or environmental factors that allows local public officials to make informed decisions; trained personnel (urban planners, GIS specialists, surveyors, and other professionals); and appropriate coordination across government agencies—at both the local level and with state or provincial and national agencies—to ensure any specific policy is aligned with broader urban development goals. Many governments in the region, particularly local ones, may face severe challenges on many of these fronts, and higher-level government entities, along with international institutions, can support local policymakers in effectively promoting the development of their communities.

4.3. Policies to Harness Migration Opportunities for Cities

Local officials, such as mayors and state governors, differ from national governments in the policy instruments they have at their disposal to capitalize on the opportunities migration presents for cities. This section highlights those policies whose effectiveness is supported by existing evidence. Direct and comprehensive evidence for all policies of interest is not always available, however. We explicitly identify those for which it is lacking and draw evidence from other related research areas to assess their potential effectiveness. Furthermore, the need to adjust policy instruments to specific contexts entails evaluating the efficacy of a policy during its implementation in a particular location and, if necessary, altering the course of action based on its performance there. Figure 4.3 presents an overview of the policy instruments we discuss next. While a few of these are specific to the migrant population, most benefit the community as a whole. They can be particularly effective in cities that receive sizable influxes of migrants, and they contribute to enhancing these migrants' contribution to local economic development.

Promoting Effective Agglomeration

Promoting effective agglomeration requires fostering more interactions among people. Three instruments stand out to achieve this goal: transportation investments, zoning, and building height regulations.

Investing in transportation infrastructure and public transit projects can be vital to fostering effective agglomeration. By reducing the distance between people's homes and their workplaces, these projects facilitate the integration of workers in local economies (Berg et al. 2017). They not only benefit migrants residing in poorly connected areas but also improve the overall quality of life for all residents. Existing evidence shows that public transportation investments have a positive causal effect on labor market outcomes in Latin American cities (IDB 2020c). Scholl et al. (2018), for example, found that the implementation of the bus rapid transit (BRT) system and Metro

FIGURE 4.3 | Policies to Harness Migration Opportunities for Cities



Source: Authors' elaboration.

Line 1 in Lima, Peru, led to an increase of 3.9 percentage points in employment rates, a 19 percent increase in hours worked, and a 32 percent increase in monthly income over a seven-year period for people living within 1.5 km of a BRT station. In Colombia, Tsivanidis (2023) found that the expansion of the TransMilenio BRT system in Bogotá

led to significant improvements in access to jobs citywide. In Mexico City, Zárata (2022) found that the construction of new subway lines reduced informality rates by 7 percent in areas near the new stations. Investing in transportation infrastructure would also reduce the bias against capital investment and in favor of current spending that is prevalent in Latin American and Caribbean countries (Izquierdo, Pessino, and Vuletin 2018).

Cavallo, Powell, and Serebrisky (2020) have argued that to enhance urban mobility, large cities in Latin America and the Caribbean need to prioritize state-of-the-art public transportation systems that seamlessly integrate various modes, like buses, rental bikes, scooters, walking, and cars. The distribution of space among the different options to move around the city should reflect the importance of transportation to the well-being of residents in the region's urban centers. That is, first, cities should emphasize public transit and its associated modes over personal vehicle use. Second, within the zones designated for private cars, there should be a push for ride sharing, possibly through the introduction of lanes for vehicles with multiple occupants, financial disincentives for rides with few passengers and, in overly crowded zones, the prohibition of single-passenger rides. Modern technology can play a pivotal role in executing, overseeing, and ensuring compliance with these strategies.

Zoning policies can also be a powerful tool for local governments to promote agglomeration and shape the spatial distribution of economic activities within cities. Zoning regulations dictate what types of buildings can be constructed in specific city zones and establish construction norms for each zone. Research suggests that, in the long run, zoning can be even more influential than geography and transportation networks in shaping the location of commercial and industrial activity in cities (Shertzer, Twinam, and Walsh 2018). Ample evidence also shows that restrictive zoning can have a negative impact on housing affordability (Molloy 2020). This, in turn, can discourage low-income workers (including migrants) from demanding formal housing, which may be better connected to job centers but is made unaffordable by restrictions that do not affect informal housing units. In this situation, policymakers can use zoning to promote conditions that allow for the development of affordable housing near economic centers, potentially reducing the need for public transportation. They can also help promote an increase in economic hubs within a city, making economic opportunities more widespread and easily accessible to people living in different parts of it.

Building regulations, particularly those governing housing and *building heights*, comprise another set of policies that can help promote agglomeration. As discussed in Chapter 3, the gap between actual and potential building heights varies significantly across cities in Latin America, and research suggests these differences are at least partly driven by local regulations (Jedwab, Barr, and Brueckner 2022). Building height restrictions create incentives for cities to expand geographically, which reduces the density of residences near local job centers (Bertaud and Brueckner 2005).

An added benefit of taller buildings is that the increase in residential agglomeration can enhance the efficiency of government service provision. Higher population density reduces the per capita cost of providing public services because the same infrastructure, such as water pipes, electrical cables, or roads, can serve more people in a compact area, reducing the associated costs of installation, maintenance, and operation (Glaeser 2012). Particularly for local governments in small and medium cities, these reduced costs translate into lower spending per capita on public services (Libertun de Duren and Guerrero Compeán 2016).¹

It is important to note, however, that these restrictions are frequently in place to serve other policy goals, such as facilitating the management of emergencies, mitigating seismic risks, preventing the creation of urban “heat islands,” and protecting public spaces, such as parks, plazas, and pedestrian areas, from being overshadowed by tall buildings. Thus, the goal is not simply to remove building height regulations but to improve the regulatory environment to create incentives for vertical growth in the city while protecting the safety of citizens and the local quality of life.

Facilitating Labor Market Participation and Integration

Facilitating labor market participation and the integration of migrants (and other vulnerable groups) may be achieved through the provision of public employment services, child care assistance policies, and, in the case of international migrants, programs to regularize their residency status.

Public employment services are government-run initiatives to facilitate the employment process for both job seekers and employers, acting as intermediaries that connect individuals seeking employment with suitable job opportunities. They also provide various support services to both job seekers and employers, such as job fairs, job placement assistance, and labor market information. This type of intervention can address one of the key constraints on migrants’ participation in the local economy: their limited local networks, as discussed in Chapter 2. Evidence from the United States (Card, Kluve, and Weber 2018; Heinrich et al. 2013) and other Organisation of Economic Cooperation and Development (OECD) countries (Kluve 2010) has shown that these programs tend to improve employment outcomes, particularly in the short run. In Latin America, such policies have been implemented less frequently, but the few studies that exist have generally found positive effects on employment, although the effects on earnings have been mixed (Escudero et al. 2019).

¹ In large cities, expenditure per capita on public services tends to increase with density (Libertun de Duren and Guerrero Compeán 2016). This could be explained by a greater need in high-density cities for certain services, such as policing or health care.

In many developed countries, public employment services play a pivotal role in managing international migration processes, offering services and programs to support both migrants and employers. Baptista, Rosas, and Arboleda (2019) highlight four important ingredients for successful public employment services. First, a proper legal framework is crucial for the integration of migrants over the long term. In Norway, for instance, specialized centers for those likely to be approved for asylum provide access to training programs, including language courses and a fifty-hour workshop on Norwegian culture. Second, employers' involvement is important, as their insights into labor market trends and staffing needs are useful for policy formulation and execution. Sweden, for example, has a fast-track system for placing migrants in sectors with significant skill gaps and offers incentives, like wage subsidies and training bonuses. Third, early and comprehensive intervention is key, as inactivity can demotivate new migrants and diminish their professional skills. Collaborative efforts among public employment services, migration offices, municipalities, nongovernmental organizations, and other stakeholders are essential to provide multifaceted support. Belgium's and Germany's public employment services have developed "one-stop shops" that offer all services under one roof. Fourth, investing in certification, validation, accreditation, and skill development services is paramount. By these means, migrants enhance their job prospects, and employers get a workforce tailored to their needs. In sum, public employment services should take a proactive role in labor migration beyond mere job matching.

The limited availability of local networks for migrants, discussed in Chapter 2, can also impede their engagement in the local economy by constraining the range of *child care* options accessible to families with young children. This can be particularly challenging for female migrants, to whom traditional gender roles often assign the primary responsibility for child care. In Latin America and the Caribbean, the prime providers of child care are extended family members. Talamas (2023) has highlighted that, in Mexico, grandmothers specifically are the primary nonparental child care providers for 40 percent of the children aged 0 to 6 years, equal to the shares of schools and daycares combined. He also has shown that the availability of this type of child care increases the labor force participation of mothers, and that families substitute public and (when affordable) private daycares for grandmother-provided child care. Studies of the effects of early care and education services on parents' labor force participation in the United States and other countries also tend to find a positive effect. In most cases, a 10 percent decrease in the costs of these services is associated with an increase of between 0.5 and 2.5 percent in mothers' employment (Morrissey 2017). For migrants, who often do not have extended family or longstanding friends in their destination cities to assist with child care, access to child care services is likely to be even more relevant.

Policies can, therefore, help promote labor force participation—particularly among women, both migrant and resident—through the provision of public daycares or subsidies

that make private ones more affordable. In Latin America and the Caribbean, child care provision and, more generally, investments in early childhood development are disproportionately smaller than such investments in more developed regions, as is education spending for older children. Berlinski and Schady (2015) have argued, however, that the region's primary challenge is not just increasing spending but ensuring the effective use of those resources, particularly in delivering high-quality services. Historically, government incentives for daycare expansion were tied to encouraging women's workforce participation, with services provided through a mixture of private, subsidized, and public institutions. In thinking about expanding such services, however, the institutional framework governing them should focus on the quality of interactions to benefit children. Other interventions that can help are those that facilitate access to child care services by providing transportation to daycares or schools. In 2007, for example, the city of Nagareyama, Japan, started a program to promote greater gender equality in the labor force with a subsidized service at major train hubs that enabled parents to drop off their young children for school bus transportation to daycare centers with flexible hours (Hiramatsu 2018).

An additional barrier for some international migrants to participating in the labor markets of their destination countries is a lack of legal authorization or proper documentation to work, study, or obtain certain services (IDB 2020b). This can arise if, for instance, migrants cross the border illegally (for example, through unofficial border crossings), if they enter the country legally but without work authorization, or if they overstay the duration of their visas or work permits. The specific legal constraints faced by foreign workers can vary significantly from country to country; this is further discussed in Box 4.1, which provides an overview of the legislative regimes regulating the ability of migrants to work legally in Latin America and the Caribbean.

In cases where large groups of migrants are constrained from working legally in their destination countries, *regularization programs* can be crucial to their integrating in and contributing to the local labor force. To those with concerns that these policies may have negative impacts on the labor market outcomes of residents, the empirical evidence provides reassurance. The 2018 amnesty program in Colombia discussed in Chapter 2, for example, had minimal effects on formal employment and no impact on wages, hours worked, or labor force participation among Colombian natives (Bahar, Ibáñez, and Rozo 2021). Box 4.1 discusses the region's experience with regularization programs in more depth.

Bridging the Migrant Information Gap

Another challenge for migrants is *limited access to information* about jobs, housing, and educational opportunities, as well as about risks in their new environments. The evidence

Box 4.1 Regularization Programs for International Migrants in Latin America and the Caribbean

Migration regimes in Latin America have typically included some—and sometimes all—of the following components: permanent mechanisms for the regularization of migrants; rights to access to the formal labor market; access to the public health system and public education; the right to family reunification; and, in some cases, even the right to vote (Acosta and Harris 2022).^a The region has recorded more than 90 regularization programs in the past 20 years to enable migrants without residence permits to be registered and documented so they may accede to many of those rights. These regularization programs have been observed in 18 of the 26 countries analyzed by Acosta and Harris (2022). While irregularity is still a challenge in many countries, migrants generally have been welcomed and given status that enables them to participate in the societies and economies of the region. In all countries of the region, most permit categories grant to migrants some access to formal labor markets once they have been given some type of regular status.

Beyond programs for the regularization of migrants who have arrived in irregular situations are other important programs that provide preferential access to temporary residence. The most significant is the Mercosur residence agreement, which covers ten countries in South America to varying degrees. This program grants automatic temporary visas to nationals of signatory countries, including the right to work in formal labor markets. In most cases, after two years, permit holders may either renew these permits or apply directly for permanent residence. An analysis of permit data by the Inter-American Development Bank (IDB) and OECD showed that, in some countries, more than half of permits granted to nationals of member countries were Mercosur permits, with over half a million such permits issued from 2015 to 2019 in the seven countries for which data were available (IDB and OECD 2021).

In the Caribbean countries, skilled workers' permits under the Caricom Single Market and Economy (CSME) program provide a more limited but still important mechanism for regional free mobility. Persons who are certified as having skills in a variety of fields may move without restriction among the participating countries to seek work or establish businesses. Although fewer data are available for other countries, statistics from Barbados show a steady flow of between 100 and 200 skilled workers per year between 2015 and 2019 (IDB and OECD 2021). Caricom has been gradually expanding this program, and these numbers can be expected to continue growing.

In seven of ten countries analyzed in another study, migrants were found to be disproportionately located in urban areas (81 percent on average, versus 70 percent of the native-born population) (IDB, OECD, and UNDP 2023). In most of the countries, there was a gap of at least eight percentage points in this distribution; only in Colombia, Mexico, and Paraguay was the migrant population more likely than the native-born population to reside in rural areas. This higher rate of urbanization means the skills that migrants bring (with tertiary education also more common among migrants in many countries) are also more likely to contribute to the productivity of cities.

^a Acosta and Harris (2022) present a database of forty indicators of national migration policies for the twenty-six borrowing member countries of the IDB. It covers six general topics: international agreements, regional agreements, visa-free entry, access to temporary residence, rights while resident, and nationalization.

suggests this constraint is, again, exacerbated by their lack of local networks. Büchel et al. (2020), for example, used cell phone data from Switzerland to show not only that people are more likely to move to a place if they have preexisting social networks there

than if they do not—a result well established in the literature (see, for instance, Greenwood 1997 or Costa et al. 2018)—but also that this is partly because social networks provide valuable information about the attractiveness (or lack thereof) of the destination. If a location is attractive, the presence of preexisting social contacts increases the likelihood of moving there, but, if it is not, social contacts make moving there less likely. Policies can help bridge this information gap by broadening the scope of existing policies, which currently focus primarily on facilitating job matches. While *public employment services* can help bridge the information gap between job seekers and employers, these services could be expanded beyond the labor market to include other areas relevant to migrants, such as housing, child care, and education.

Information is valuable not only to migrants but also to policymakers. Indeed, a key ingredient for effective policy interventions related to migrants is a clear understanding of how many the city receives, who they are, when they arrived, what their job and housing situations are, what challenges they face, and what their needs are. Migrants must also be made aware of policies and resources that can support their integration into the local economy. Policymakers, both at the national and local levels, can address this need through deliberate *information outreach*. One strategy, for example, might be to establish local information centers for migrants at key entry points, situating them not only at international entry locations like airports, land border crossings, and maritime ports but also at domestic ones, such as regional bus and train stations. These outposts could serve a dual purpose by both collecting valuable data on incoming migrants and providing these new arrivals with information about available support and resources in their new cities. Some precedents for this type of initiative already exist in the region. One is the “Unidad para la Atención y Reparación Integral a las Víctimas” (Unit for Comprehensive Attention and Reparation to Victims), established in 2012 to support victims of the internal armed conflict in Colombia. Its purpose is to coordinate the efforts of a national system for the comprehensive care of victims.

In addition to collecting this kind of information, it is vital to ensure it becomes accessible to the policymakers in charge of deciding what policies should be adopted in the city and to the officials in charge of implementing them. This requires integrated information systems that facilitate the interoperability of the relevant databases while carefully protecting the personal information of individuals and firms. Modern technology can greatly facilitate this process, once the relevant institutional agreements are in place (IDB 2021a).

Leveraging the Human Capital and the Age Dividend of Migrants

As discussed in Chapter 2, skill downgrading—where workers are employed in jobs below their qualifications—is a particularly detrimental feature of skilled migration to

Latin American cities. It gives rise to a lose-lose situation by preventing skilled migrants from maximizing their productivity while intensifying competition in the low-skilled labor market, with negative impacts on both the skilled migrants and the more vulnerable segments of the resident population.

Policies can help remediate this situation by *promoting skill-appropriate employment* in local economies. In some cities, local firms may not demand skilled labor or may not recognize benefits associated with the skills that migrant workers bring. In these cases, local governments can play a role as information brokers, highlighting these skills and their benefits.

In cities where local demand for skilled labor is insufficient, policymakers can help skilled workers, including migrants, get access to international labor markets online. Freelancing platforms such as Upwork and Fiverr offer workers opportunities to provide a range of services to global customers. Policymakers can work to identify and address the barriers that prevent skilled migrants from taking advantage of these opportunities. Obstacles may include a lack of information about the platforms, insufficient access to technology, or a lack of the complementary skills needed to apply their existing skills on these platforms, such as fluency in English. While this is an emerging area, and evidence on the effectiveness of such interventions is limited, these platforms could allow certain types of workers to take advantage of labor demand beyond local markets.

A challenge often highlighted in the literature of international migration is that highly educated and skilled migrants may find their skills difficult to apply as a result of imperfect information about those skills in their destination countries or because their formal certifications are not recognized there. This problem can also affect domestic migrants if, for example, the quality of their schools and training institutions is not known or recognized by employers in their destination cities.

Governments can assist by *evaluating migrants' skills and providing certification*. These interventions could also help combat skill downgrading and facilitate the access of skilled migrant workers to appropriate occupations in local economies. Brücker et al. (2021) found that, in Germany, migrants who obtained credential recognition experienced a 19.8 percent increase in wages and a 24.5-percentage-point higher likelihood of employment three years after the recognition process.

Another family of policies that can help facilitate skills development and knowledge transfers are those that create *apprenticeships*. Traditional apprenticeship programs, through which individuals learn a trade or craft by working under the guidance of skilled workers, can be particularly beneficial for young migrants who may not yet possess the specific skills required by the local labor market. This approach would capitalize on the age dividend that migrants contribute to cities, discussed in Chapter 2. Recent research has suggested, for example, that the Brazilian apprenticeship program—which provides payroll subsidies to firms hiring young workers under temporary

contracts that combine in-classroom training courses with on-the-job training—offers a more effective pathway to securing long-term, higher-quality employment than other kinds of temporary jobs (Corseuil, Foguel, and Gonzaga 2019). By participating in such apprenticeships, young migrants can acquire the necessary skills to thrive in their new environments. This benefits not only the migrants themselves by enhancing their employability; it benefits the local economy as well since, as these young workers have their entire careers ahead of them, they are in a position to contribute significantly to local productivity over an extended period.

The opposite situation—when migrants already are highly skilled or have unique expertise that differs from that of the local population—also represents a source of opportunities that policies can help unlock. Many international and domestic migrants have a wealth of knowledge and experience acquired in their various countries and regions of origin. In these cases, a still untested approach would be to use a “reverse apprenticeship” model, in which incentives are offered to local firms to employ skilled migrants for a limited period. The idea is to facilitate the transfer of knowledge from these migrants to the firms, thereby promoting the diffusion of their unique skills and experiences within the local economy. This approach has the potential to create “win-win” situations. On one hand, local firms benefit from the unique skills and knowledge migrants bring. On the other, migrants gain valuable work experience and can demonstrate their value to prospective employers. Over time, these temporary employment arrangements could evolve into more permanent positions, if both the firm and the migrant see the value in continuing the relationship.

Fostering Entrepreneurship

Existing evidence, particularly in the field of international migration, suggests that migrants often are more likely than their local counterparts to be entrepreneurs—a phenomenon that has been well-documented in studies conducted in the United States and other advanced economies (Fairlie and Lofstrom 2015). As discussed in Chapter 2, however, this does not seem to have been the case in Latin America and the Caribbean, at least not in recent years. Studies on entrepreneurship in the region have found it lagging other parts of the world in terms of the rate of formal business creation (Lederman et al. 2014). This has been attributed to the personal characteristics of potential entrepreneurs as well as such factors as regulatory barriers and the lack of human capital in specific fields, like science and engineering (Alvarez and Grazzi 2018). In a recent paper, Bahar, Cowgill, and Guzman (2023) highlighted the importance of legal regularization to unleashing entrepreneurship among international migrants. Migrants who benefited from the 2018 Colombian amnesty program increased their entrepreneurship rate by more than 200 percent four years after obtaining their work permits. After this jump,

however, their entrepreneurship levels were similar to those of non-migrant residents, suggesting that legal constraints holding back migrants from starting new businesses do not explain why those in Latin America and the Caribbean appear to be less entrepreneurial than in other regions of the world.

The first step toward promoting migrant entrepreneurship in cities, then, should perhaps be to gain a better understanding of the specific constraints inhibiting entrepreneurial activity in this population. Developing further insights on these questions at the local level would facilitate the development of more targeted programs to promote entrepreneurship, focusing on the issues most relevant to each city. If the main constraint is lack of access to credit, for instance, policymakers might consider implementing loan guarantee or seed capital programs, similar to CORFO (Corporación de Fomento de la Producción, or Production Development Corporation) in Chile (Navarro 2018). If it is excessive bureaucracy, they may consider regulatory simplification or the implementation of one-stop-shop models, such as the Brazilian Citizen Service Centers (Fredriksson 2020).

Initiatives to promote entrepreneurship and innovation, such as those recently undertaken in various Latin American and Caribbean countries, can be instrumental in fostering migrant entrepreneurship. Business incubators and accelerators are particularly relevant in this regard. These initiatives, which are the most common instrument used by innovation agencies in the region (Cuello et al. 2022), provide support to startups and entrepreneurs in their early stages. Incubators offer a range of services, such as workspace, mentorship, networking, and funding opportunities, to facilitate the development and growth of startups. Accelerators, on the other hand, are time-limited programs that provide focused assistance, mentorship, and access to resources. Initiatives currently working on incubation and acceleration include Buenos Aires Empeñe in Argentina, Startup Chile, ConQuito in Ecuador, and the Jamaica Business Development Corporation. Evidence suggests programs like these are effective in increasing employment and facilitating access to finance (Lyons and Zhang 2017; Madaleno et al. 2022), but the specific design of the intervention is crucial to its effectiveness (Ruffo et al. 2012; Gonzalez-Uribe and Leatherbee 2018). Ensuring that migrants have access to these services can help bridge the migrant entrepreneurship gap.

Another relevant initiative is Migraflix, a social enterprise based in São Paulo that promotes integration, cultural exchange, and entrepreneurship among migrants and refugees. Migraflix connects migrants with locals interested in learning from their cultures and organizes workshops, language classes, food experiences, and art exhibitions. Migraflix also provides business development training, mentorship, and resources to support migrants and refugees in their entrepreneurial efforts (Buenadicha Sánchez et al. 2023). Further evidence is needed on the impact of Migraflix and to what extent it can inform publicly supported interventions in other cities. The initiative demonstrates,

however, how policy interventions could leverage a key characteristic of migrants: their diverse skills, experiences, and cultural backgrounds, which can be harnessed to stimulate local businesses.

Mitigating Obstacles to Geographical Mobility

In some instances, migrants find themselves in locations that offer limited economic opportunities. As discussed above, this is often the case for displaced migrants, who leave their places of origin in distress and do not have the same time or resources as other migrants to choose their destinations. If it is in the migrants' best interest to relocate to areas with better opportunities, this will, in many cases, happen organically. Migrants may, however, encounter barriers that slow down or hinder such subsequent moves.

Financial constraints can be a significant impediment for migrants seeking to relocate to new cities. Even small costs can discourage migration, particularly among populations subject to severe financial constraints. Mobility subsidies can help overcome this barrier. In a study conducted in Bangladesh, for example, households in rural areas were randomly assigned an incentive of US\$8.50 to encourage temporary outmigration during the lean agricultural season. This incentive resulted in a 22 percent increase in households sending seasonal migrants, and it led to a significant increase in their consumption at their places of origin upon return (Bryan, Chowdhury, and Mobarak 2014).

Another important constraint is the *lack of information* about economic opportunities and risks in potential new destinations. In the same study in Bangladesh, for example, one and three years after the removal of the incentive, treated households were eight to ten percentage points more likely to remigrate and demonstrated learning from prior migrations in terms of where and when to migrate (Bryan, Chowdhury, and Mobarak 2014). In Brazil, Porcher (2022) showed that the migratory response to an increase in labor demand at a destination varied depending on the migrants' origins. The response was higher if the place of origin was closer to the destination, if there had been higher past migration flows from that place to the destination, and if there was greater internet penetration. These are all factors associated with the cost of acquiring information about the economic conditions at the destination, suggesting that access to information improves migration decisions.

Governments can also help facilitate timely access to relocation-relevant information. An example is Brazil's "Operation Welcome" (Operação Acolhida). Launched in 2018, this humanitarian initiative was designed to manage the increasing influx of Venezuelan migrants at the northern border. The program involves around 120 agencies and institutions and includes an "internalization" component, which cultivates socio-economic inclusion by voluntarily relocating migrants to other Brazilian states. Through it, interested migrants are selected and prepared for relocation by providing them with

information about their destination cities, covering their transportation costs, and supporting their integration upon arrival through assistance with housing, employment, and access to social services. The program has successfully relocated migrants from Roraima—one of Brazil’s poorest states—to areas with more opportunities for social and economic integration. The migrants have still faced significant challenges, however, in integrating into the education system, social protection programs, and formal labor markets at their destinations (Shamsuddin et al. 2021). This outcome highlights the ongoing need for local migrant integration policies, even in relatively more developed cities.

Combating Discrimination

As discussed in Chapters 2 and 3, migrants often must deal with discrimination and xenophobia. Not only can this be detrimental to their psychological well-being; it may also directly affect their livelihoods by restricting their access to higher-quality housing and associated amenities, such as good education and clean air (Christensen and Timmins 2023; Zanoni, Acevedo, and Hernandez 2022; Zanoni and Díaz 2023), which in turn can limit their access to local labor markets and, ultimately, curtail the contributions they make to local economies. Recent data suggest xenophobia against international migrants continues to increase in Latin America and the Caribbean (IDB 2023). By undermining both interpersonal trust and trust in government in receiving communities, these prejudices can reduce the demand for public goods and infrastructure, lead individuals to opt out of public services, and, overall, weaken the ability of local and national governments to be effective (Keefer and Scartascini 2022).

Evidence suggests, however, that *policy interventions can alter negative public perceptions* and prejudices toward migrants. In Colombia, for example, Rodriguez Chartruc and Rozo (2021) conducted a study in which they randomly assigned 850 non-migrant residents either to participate in an immersive online game simulating the life decisions of refugees or watch a documentary depicting the real-life journeys of refugees. Both interventions successfully increased altruism and reduced prejudice among the residents toward migrants. Cruces et al. (2023) carried out similar experiments using videos in nine Latin American and the Caribbean countries, including Barbados, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, Mexico, Peru, and Trinidad and Tobago. They found these interventions modified the attitudes of participants who had previously held very negative views about migrants.

Outside of controlled studies, an example of a successful intervention is “Somos Panas Colombia” (We Are Pals, Colombia), led by the United Nations High Commissioner for Refugees (UNHCR) in collaboration with other agencies and organizations. Through awareness campaigns, cultural events, and support services, this initiative seeks to foster empathy, combat discrimination, and facilitate the inclusion of Venezuelan

migrants in Colombian society. The campaign has been successful in mitigating xenophobia and reducing prejudices toward these migrants and refugees (Durán et al. 2022).

Maximizing the Utilization of Existing Housing Stock

As highlighted at the beginning of this chapter, a key strategy to harness the benefits of migration is to support migrants' efforts to find suitable housing, especially in the short term. A priority in this regard is for cities to make the most of their existing housing stock.

An approach in this direction is to *support the development of rental markets* (Bouillon 2012). As we noted in Chapter 3, homeownership rates among migrants are low, which is understandable given their recent arrival. This makes the development of rental markets particularly relevant for this population. In addition, promoting rental markets could enhance overall job accessibility and integration into the labor market, as rental units are often better located and generally of higher quality than the average housing unit for sale (IDB 2020a).

One way for policymakers to help promote the development of rental markets is to streamline the required paperwork and procedures to convert existing housing stock into rental units. It is important, however, to strike a balance between easing regulations and maintaining essential standards. As we have previously observed with relation to building height restrictions, regulations serve a purpose. The objective should be to remove unnecessary red tape while upholding regulations that guarantee minimum construction quality, safety standards, and environmental considerations.

Policymakers could also make effective *use of new technologies* that have emerged around the “platform-based” economy. Services offered by companies like Airbnb, Vrbo, or CouchSurfing— which connect travelers with hosts who offer short-term stays in private homes, apartments, or shared spaces—have experienced a surge in popularity and widespread usage. Similar technologies could be used to promote more flexible short-term housing solutions for migrants moving into cities. Such services could be particularly beneficial for international migrants, who may have more trouble than locals in securing housing because, for example, they lack the guarantors required by many rental contracts. This approach may not be effective in areas that primarily attract temporary travelers, however, such as neighborhoods surrounding tourist hotspots or business centers. In these locations, accommodation-sharing platforms compete with hotels and other traditional hospitality services, reducing the availability of primary residences for rent and making housing rents less affordable (Garcia-López et al. 2020; Calder-Wang 2021). Homeowners may be more receptive to incentives to convert their properties into short-term rental units in areas that may be less appealing to temporary visitors but desirable for residents and migrants on

account of their proximity to schools, public transportation networks, and other resident amenities.

Boosting Housing Supply

In addition to increasing housing demand in the short run, migration can, over time, increase the long-term need for housing in a city. This can, in turn, exacerbate housing deficits and social inequality. As discussed more extensively in Box 4.2, the lack of access to adequate housing in Latin American and Caribbean cities is closely connected with other correlates of social exclusion, including income, race, birthplace, and gender. A key policy goal is, therefore, to ensure that the local housing supply can adapt to shifts in demand over the medium to long terms. Doing so can also contribute to maintaining the city's affordability, since more construction helps keep housing prices and rents low. Recent evidence finds, for example, that constructing large new apartment buildings in low-income neighborhoods increases local agglomeration and reduces rents in nearby buildings (Asquith, Mast, and Davin Reed 2023).

Housing development is shaped by an often complex set of regulations and taxes, which varies across cities. Because building construction and the resulting agglomeration of people can generate negative externalities, including crowding of schools and road congestion, some level of taxation is economically justified. Most empirical studies find, however, that the costs of these constraints on housing supply tend to be excessive relative to their benefits (Glaeser and Gyourko 2018; Molloy 2020).

This finding suggests that policymakers can *make projects more financially viable for developers* and boost the housing supply by using instruments like property tax abatements, exemptions, or reductions for specified periods. Effective strategies could also include reassessing housing codes, including regulations on building heights. As in similar examples discussed above, it is important to evaluate regulation reforms on a case-by-case basis. The goal is to identify and eliminate regulations that unnecessarily restrict housing stock growth and increase prices while maintaining those needed to achieve other policy priorities.

Policies focused on consolidating the local formal housing supply should be accompanied by others that, on the demand side, support formal homeownership. As mentioned in previous chapters, homeownership may not be the most financially sound option for short-term settlers or some low-income households, as their homes do not appreciate enough to compensate for the acquisition costs (IDB 2020b). It is more likely, though, to be financially beneficial for long-term settlers in cities in the context of formal housing markets, and it may often be one of the only forms of formal savings to which families have access. Indeed, housing remains a prime mode of saving for households across Latin America and the Caribbean, even when the net rental yield

Box 4.2 Housing Deficits and Social Inequality in Latin American and Caribbean Cities

Although urbanization has provided a rapid pathway out of poverty for millions of households throughout the world, income inequality persists. In Latin America and the Caribbean, the share of urban households with a daily per capita income below US\$5.50 fell 42 percent, from 31 to 18 percent, between 2000 and 2018. By contrast, the share in rural areas fell only 23 percent, from 77 to 59 percent (World Bank 2020b). Even so, inequality within the region's cities remains high (OECD 2018). On average, their Gini coefficients are higher than for cities in other emerging regions, with only some cities in Africa scoring higher on this measure than the most unequal Latin American and Caribbean cities. In some, such as Santiago de Chile and Buenos Aires, income inequality has risen despite the fall in the total number of people living in poverty (UN-Habitat 2016).

Income inequality is just one of many facets of structural social exclusion in Latin American and Caribbean cities. Social exclusion operates on different levels, including for neighborhoods (in terms, for instance, of access to basic services and healthy environments) and households (for example, in access to housing and political participation) (WHO 2020). Exclusion in the region's cities has a clear spatial component, with such exogenous characteristics as ethnicity and birthplace highly correlated with household location (Kaltmeier and Breuer 2020). In 2018 in Colombia, for example, 28 percent of urban households that identified as indigenous or Afro-descendant resided in informal neighborhoods, compared to 8 percent that identified as neither. Similarly, this difference was 34 percent versus 19 percent in Brazil and 13 percent versus 5 percent in Mexico (World Bank 2020b). Location matters for intergenerational social mobility, as well as children's school attendance rates and future earnings (Chetty and Hendren 2018). It also matters for individual health and longevity. Even after controlling for key variables, the life expectancy of women living in the neighborhoods of Santiago de Chile in the lowest income decile is 18 years less than for those living in neighborhoods in the top decile. Significantly lower life expectancy has also been documented for poorer areas of Panama City, Mexico City, Buenos Aires, and Belo Horizonte, Brazil (Libertun de Duren et al. 2022).

In terms of access to adequate housing in both formal and informal markets in the region, the most current comparable data show that housing deficits affect 55 million households, or about 45 percent of the total population (Bouillon 2012).^a The incidence varies by country, with less than 15 percent of the population affected in Chile and Costa Rica and more than 55 percent in Bolivia. In all countries, a third of all households with housing deficits are in the lowest income quintile (UN-Habitat 2016). Overall, there is a slow but positive trend toward a reduction of this deficit. In Argentina and Brazil, it declined from 32 percent in 2011 to 26 percent in 2018; in Bolivia, from 64 percent in 2011 to 58 percent in 2018; in Mexico, from 28 percent in 2010 to 23 percent in 2015; and in Peru, from 60 percent in 2012 to 40 percent in 2017. At the current pace, however, it will take more than 30 years to close the gap (IDB 2020a).

In general, qualitative deficits (inadequate building materials, lack of access to basic services, overcrowding, and inadequate property titles) affect 75 percent of households with housing deficits, while the rest are classified as quantitative (improvised dwellings or cohabitation) (Libertun de Duren 2018). The type of qualitative deficits depends on city characteristics. Large cities with expensive land values, for instance, have more overcrowding, while smaller cities have higher percentages of households lacking basic services (CAF 2018). Also, at all levels of income, women are less likely to own either land or housing (Libertun de Duren 2021). Only 13 percent of women in Peru, for example, have reported owning land individually. Similar patterns of ownership among women pertain in other countries in the region, such as 14 percent in Honduras, 20 percent in Nicaragua, and 24 percent in Haiti (Libertun de Duren et al. 2020).

(continued on next page)

An array of factors contribute to housing deficits, including a quasi-inelastic supply of land with services, policies that favor housing that is in low demand and that does not support rental markets, and underdeveloped mortgage markets. Basic infrastructure is undersupplied in the region, with the urban households having sewerage services amounting to only 79 percent in Panama, only 74 percent in Brazil, and only 44 percent in Nicaragua (World Bank 2020b). The combination of underserviced land and population growth boosts land prices, which in turn leads to higher housing prices in the formal market. From 1994 to 2004, the contribution of the cost of land to overall housing costs increased from 7 to 20 percent (Brain and Sabatini 2006). Priced-out households turn either to living in informal neighborhoods or to subpar arrangements in formal markets, such as overcrowded housing or cohabitation (Ferreira and Roberts 2018). In addition, housing policies have often misallocated resources by supporting affordable housing in peri-urban locations, where land is cheaper but housing demand is limited (Libertun de Duren 2017). In Mexico in 2014, for example, one of every seven affordable homes built, or five million units, was vacant (Monkkonen 2014). Thus far, national policies have promoted homeownership over rental housing, which increases the costs and limits the adequacy of housing solutions, especially for migrant workers and younger households (Blanco, Cibils, and Muñoz 2014).

Among households living with housing deficits, those who reside in informal neighborhoods suffer even higher levels of exclusion. While Latin America and the Caribbean have made progress in reducing habitation in informal neighborhoods—from 25.5 percent of the population in 2005 to 20.4 percent in 2014—at least 105 million people were still estimated to reside in them as of 2020 (World Bank 2020b). These neighborhoods lacked access to one or many basic municipal services, including electricity, water, and sanitation; safe public spaces; and suitable education and health management services. In Argentina in 2020, for example, more than 98 percent of households in informal neighborhoods were estimated to lack access to municipal sewerage services, and almost 94 percent had no connection to water services. Only 30 percent had had access to some health services in the previous 12 months (RENABAP 2020). At the same time, the inadequate sanitary infrastructure in informal neighborhoods makes them hotbeds for endemic diseases, such as malaria, zika, and dengue (Libertun de Duren 2022), and they are often located on hillsides, ravines, or riverbanks, making them vulnerable to landslides and floods (Libertun de Duren et al. 2021). These neighborhoods are also often home to migrants, partly explaining the housing deficits observed in this population. Among migrants in Colombia and Costa Rica, 32 percent and 36 percent, respectively, lack access to adequate housing; 16 percent of migrants in Ecuador are homeless; and 60 percent in Panama cohabit with other households (Elias et al. 2020).

A policy that addresses housing exclusion in Latin American and Caribbean cities has four main pillars. These are urban plans that address environmental vulnerabilities and connect informal neighborhoods to the city's main infrastructure grid and social and transportation services; mechanisms to increase the availability of serviced land for housing uses; programs that improve the quality of existing housing stock; and targeted housing programs to reduce quantitative deficits among excluded households. Significantly, the success of these pillars depends on working with the intended beneficiaries to identify their needs, create alliances, and ensure the sustainability of all actions.

^a Quantitative housing deficits measure the need for new constructions due to the fact that multiple families are cohabitating in the same dwelling, homes are poorly built or makeshift, rents are unaffordable, or old homes need replacing. Meanwhile, qualitative housing deficits measure the total number of homes with at least one of the following deficiencies: poor building materials, no access to basic municipal services like water, sanitation and electricity, overcrowding, or unclear property documentation (Bouillon, 2012).

of housing is lower than the return on investment for other forms of financial savings (Cavallo and Serebrisky 2016).

A key consideration for homeownership is *the availability of affordable financial products* accessible to potential buyers. As of 2020, mortgages remained well below 10 percent of gross domestic product (GDP) across Latin American and Caribbean countries, less than half that in comparable economies in Asia and almost ten times less than in the United States (IDB 2020a). Countries in the region have implemented various initiatives to develop these markets from the public sector, including allocating credit through public banks, subsidizing interest rates, and earmarking private sector funds for mortgage credit. These initiatives have had limited success, however, pointing to a need for further development of private sector-led mortgage markets. This, in turn, will require reforms at the national level, including better protection of creditors' rights, improved property registries, and the promotion of transparent and efficient risk valuation systems (Bouillon 2012).

Finally, a central constraint on housing supply in Latin American and Caribbean cities is the scarcity of land with appropriate municipal services. Addressing this constraint requires *active land-use planning, focused on supporting future housing accessibility*. Since overhauling or relocating infrastructure after the land has been occupied can be up to three times more expensive than building it beforehand (Fernandes 2011), planning for expansion before settlement takes place is critical to providing the necessary services (Collier et al. 2020). This approach was exemplified by New York's 1811 "Commissioners Plan," which reserved land equivalent to seven times the size of the city for future structure expansion, ensuring that the new parts of the city would be efficiently connected both with the road grid and the water and sewerage networks beneath (Collier et al. 2020). Nowadays, this type of planning can also help promote housing affordability in low- and middle-income countries. The city of Ahmedabad, India, for instance, developed over 2,500 hectares between 2000 and 2010, allocating a quarter to the private sector at market prices for housing development and reserving the rest as a land bank for future development. The result was lower land and home prices and improved accessibility for lower-income households (Bertraud 2015; IDB 2020a). For initiatives like these to sustainably expand the availability of serviced land, part of the land allocated for future development should be explicitly preserved for public good provision, such as roads, public transportation, water and sewerage systems, and open spaces (Collier et al. 2023).

4.4. Conclusions

Migration presents a wealth of opportunities for receiving cities. These are not always fully realized, however, and the role of policy is pivotal in unlocking the potential of

migration and mitigating its challenges. This report has argued that the two key policy goals in achieving this are promoting migrants' contribution to local productivity growth and alleviating housing constraints. The pursuit of these goals should be guided by a set of principles that include considering short-term versus long-term scenarios, tailoring policies to specific contexts, engaging the private sector, strengthening capacities in local institutions, and prioritizing policies that benefit both migrants and residents.

Local governments are often best positioned to understand and respond to the specific circumstances of their communities. Although the extent of their power varies across countries in the region, all have a variety of tools and strategies at their disposal to capitalize on the opportunities presented by migration. It is essential, however, to strengthen local governments' capacity for fiscal and data management and ensure that urban territorial development plans explicitly incorporate the goal of maximizing the contribution of migrants to the local economies.

The preceding discussion has also underscored the need for national policy dialogue, informed by the evidence that the ongoing internal and international migration experienced by countries in Latin America has a significant impact on the demand for public services. The substantial movement of people inherently leads to an increase in demand for local public services in some areas and a decrease in others, a dynamic that puts pressure on the local public finances of some local governments and raises questions about the frequency with which geographical allocation rules for budgets should be reassessed.

Policy interventions that can foster the economic contributions of migrants are far-reaching. They not only benefit the migrant population but also extend to the non-migrant residents, particularly those most vulnerable, and stimulate overall community prosperity. They are investments in the future that set the stage for long-term local economic development. By facilitating migrant integration, cities can tap into a young labor force, with a wealth of skills and perspectives that can drive innovation and productivity, leading to increased community competitiveness and prosperity. Unlocking the promise of migration is a pathway to a more prosperous, innovative, and inclusive urban future in Latin America and the Caribbean.

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