



Forum on

## Inclusive Growth and Poverty Reduction in the New Asia and Pacific

8-9 October 2007 • ADB, Manila, Philippines



Session 7B: Geographical Divide

### HOW CAN LOCAL GOVERNMENTS MEET THE CHALLENGES OF URBAN POVERTY IN THE CONTEXT OF INCREASING URBANIZATION AND DECENTRALIZATION?<sup>1</sup>

By: Austere A. Panadero, Undersecretary, Department of Interior and Local Government  
(DILG), Philippines

#### 1 RECENT TRENDS IN URBANIZATION AND URBAN POVERTY

1. A recent study by the World Bank entitled “An East Asian Renaissance: Ideas for Growth” highlighted three observations that would have significant impact on issues of inclusion and cohesion in the Asian region (WB 2007). First, accelerating urbanization has been driving the growth process, with cities in East Asia contributing about three-quarters of GDP and between one-half and two-thirds of exports. The phenomenal growth of cities has largely been driven by agglomeration economies that paved the way for greater linkages with the international community and maximized the benefits of global integration. Second, better opportunities in urban areas has become a pull factor for migration, resulting in congestion especially in larger cities, bringing with it problems of “grime, crime and time” that challenges the livability of cities. Third, the pressure of urbanization in the future will be felt mostly in small (less than 500,000 residents) and middle-size cities (between 500,000 and 2 million residents), which are projected to experience high levels of migration and economic activity. The ability to respond to these trends rests on the local governments of countries, many of which remain unprepared to meet these challenges.

2. The rapid growth of cities positively affected poverty reduction in general. Across Asia, countries and sub-regions within countries that experienced relatively higher economic growth are able to lower their poverty incidences. This finding is reflected in a study by Chen and Ravallion on “Absolute Poverty Measurement for the Developing World, 1081-2004.” Consistent with the high economic growth of cities in East Asia, the share of East Asia in total number of poor has fallen to 17 percent by 2004 from 44 percent in 1984 (Chen and Ravallion). Rural poverty incidence have generally been higher than in urban area using data from 1993-2002 for developing countries, Urbanization possibly reduced poverty in smaller rural towns of high growth or mega cities which presumably benefited from increased economic activity in surrounding areas. Somehow, the growth of secondary cities and the transformation of rural to urban areas may have discouraged migration to more progressive urban areas.

3. However, rural poverty incidence has fallen at a much faster pace than urban poverty between 1993-200, with the number of poor in urban areas increasing by 65 million. Migration to highly urbanized areas, however, may have led to higher number of poor population in cities despite lower poverty incidence rates in some instances (e.g. Philippines from 1997 to 2000). In East Asia, the difference between rural and urban poverty rates was about nine times, one of the highest worldwide indicating the wide disparity between rural and urban development in the region.

---

<sup>1</sup> Statement of Undersecretary Austere A. Panadero of the Department of the Interior and Local Government (Philippines) at the Asia Development Bank Forum on “Inclusive Growth and the New Poverty Reduction Agenda in Asia and the Pacific Forum” Session 7A: Bridging the Geographical Divides – Global, Regional and Local held on October 9, 2007 at the ADB Auditorium.

4. Within countries, regional disparities in poverty situations seem to have worsened with the phenomenal growth experience of cities. First, income differentials between urban and rural areas are widening due to rising skill premium particularly in skill-intensive industries, which are mostly found in urban areas. Second, education and health services may be better provided in urban areas where city governments are able to generate more fiscal resources due to the higher income of urbanites. Third, the quality of leadership in urban areas, with highly educated electorate, also influences the effectiveness of governance in these areas.

## **2 KEY PROBLEMS OF THE URBAN POOR**

5. The influence of economic geography that emphasizes agglomeration economies behind the growth of cities is also exerting an influence on the causes of poverty in urban areas today. The labor market structure in urban areas which is characterized by higher turn-over, more mobility and greater demand for skill-intensive sectors have given rise to widening wage disparity, rising informal sector, especially in the services sector and more vulnerability to poverty. In general, the poor in urban areas face extreme deprivation due to insufficient and unstable income from basically informal employment, lack of housing and access to basic amenities, high cost of living relative to their incomes and vulnerability to poverty and illnesses. The urban poor are generally exposed to different conditions compared to their rural counterparts, who may be better off due to available backyard food sources. Furthermore, inability to address the pressure of increased migration to urban areas and poor urban planning may have contributed to the rising social and environmental poverty that the urban poor are experiencing.

6. The character of urban poverty may also be differentiated across mega-cities and medium and small cities. Unfortunately, the trickle-down effect of growth in mega-cities or primate cities in the surrounding areas has not been fast enough. The growing pressure from migration in secondary cities may worsen the poverty situation in these areas compared to the mega cities may be partly caused by the inability of the city governments to address service delivery requirements of a growing population.

## **3 NEW CHALLENGES TO PUBLIC POLICY IN ADDRESSING URBAN POVERTY**

### **3.1 Proposals for Public Policy**

Promoting a more balanced growth is a prerequisite to poverty reduction but a challenge to governments in a decentralized environment. The increasing contribution of cities in economic development has called for a more holistic approach at viewing strategies for development. This implies changing the mindset of national governments from concentrating its investments on specific nodes of development particularly in high growth areas to a more coordinated planning that would promote the greater contribution of sub-national levels of governments including secondary cities and rural areas to economic growth. Solving the poverty problem in developing countries requires continued affirmative action for the rural sector where poverty is most serious. Greater connectivity and development in these areas will reduce migration and help reverse the trend of rising urban poverty. Specifically, infrastructure projects that would link geographical areas will pull up economic activity of lagging areas and bridge the gap in development across regions. However, this would require making available more

innovative financing facilities for inter-LGU or joint city projects such as sub-sovereign lending which may not be present or operational in many countries.

7. At the same time, national governments may have to improve its partnership with local governments, particularly city governments, because of their strategic role in pushing overall economic growth and poverty reduction in particular. This implies greater attention by the national government for capacity building programs and addressing financing bottlenecks that constrain the development of lower-level local governments. Central governments should also initiate measures to promote inter-local government alliances that will facilitate agglomeration economies and the joint development of projects not only for the promotion of growth but to solve common problems related to poverty and peace and order. Alliances open up wider financing options for large and capital-intensive infrastructure projects that facilitate greater connectivity and internal integration.

8. Looking forward, mitigating poverty would require capacitating city governments to anticipate the pressures and frictions arising from urbanization. Governance of cities plays a key role in addressing crime, grime and time which hinder and threaten the sustainability of economic development. Some of these problems can actually be addressed if city governments are well-managed and have sufficient resources to delivery basic services for their growing constituents. Projecting the inflow of migration and building the necessary service facilities for the growing population density of cities will promote better livability. However, this requires a different type of capacity building skills which many developing countries probably lack.

9. On poverty reduction, city governments should make poverty reduction their responsibility and priority rather than depending on the national government poverty programs. Having this mindset would ensure that poverty reduction measures are incorporated in city plans and budgets. Labor uncertainty arising from the nature of employment and economic activity in urban areas requires safety nets that would provide temporary relief for populations with income near the poverty line. Among the sectors, the services sector in developing countries has become a “catch-basin” for migrants from rural areas unable to find immediate employment in urban areas. Some city governments have purposely provided temporary employment opportunities in the services sector as a safety net to those in between jobs. Assistance from the national government may be given to city governments in better targeting poverty groups.

10. Incorporating poverty programs and projects in plans and budgets, however, cannot be done without providing local governments with the necessary data and information to analyze poverty conditions in their localities. At present, some countries do not even disaggregate data into urban and rural areas, nor do they generate sub-national economic information that is critical in assessing conditions at the local level. To be effective, government policies should be based on credible and timely data and information which are correctly analyzed.

### **3.2 Harnessing Private Sector Participation and Public-Private Partnerships for Poverty Reduction in Urban Areas**

11. Government, by itself, will have difficulty addressing urban poverty problems. In some instances, governments have not been open to engaging the private sector to share in the responsibility of poverty reduction. Experience in the Philippines, however, illustrates the beneficial effects of working closely with communities, NGOs, the corporate sector and the broader private sector in addressing the problems of urban

poverty. In the context of participatory approaches to poverty reduction, community-based programs have the potential of addressing poverty in urban areas. However, some community-based programs that have been set up in rural areas often bypassed local governments, leading to unsustainable programs. In the case of cities, the challenge is to test partnership programs between city governments and communities, and possibly a three-way partnership among the city governments, the community and the private sector. The nature of the labor structure in urban areas which increases the labor turnover and uncertainty is an area where private-public partnership can be forged. For instance, private firms can bridge the gap between the demand for labor skills and the graduates produced by the educational system. The experiences of some corporate groups such as the Philippines Business for Social Progress, the League of Corporate Foundations, and the *Gawad Kalinga* may provide good examples of partnerships for addressing poverty-related problems like housing and education. To strengthen such partnerships, a framework for engaging private sector groups in the poverty reduction program should be formulated with the support and initiative of government.

### **3.3 Implications on Development Assistance for Urban Poverty Reduction**

12. The challenge faced by both governments and development partners is to focus on programs and projects that would make the greatest impact on poverty reduction as rapidly as possible. Given the present trends towards decentralization and devolution, the task of coordinating development assistance becomes more challenging. It is imperative that both governments and development partners exert efforts at bringing into reality the spirit and principles behind the Paris Declaration on Aid Effectiveness.

13. First, consistent with the principle of aligning donor programs with national priorities, lending procedures followed by the development/donor community needs to be reviewed in the context of the decentralization policy of governments. For instance, while there is recognition on the role of local governments, especially cities, in development, most projects of donors are still conceived, developed and approved at the national level through national government agencies; at times without consultations with the recipient local governments. In some instances, donor procedures are so bureaucratic that recipient governments are not given the flexibility to choose consultants, nor are they even consulted in the final scoping of projects. Ideally, the disclosure policy of development partners should be strictly enforced with utmost transparency even at the conceptualization stage of project development. The disclosure of project design should also include sharing of information among development partners to avoid duplication of projects.

14. Second, there is a need for team play in the development community to support the challenges of poverty reduction faced by developing countries. Sadly, despite the call for good governance, governments have been witness to the lack of coordination not only among development partners and even among project managers within one donor institution. This results in duplication of efforts and waste of resources and time of government officials. The importance of adopting a holistic approach to poverty reduction by national governments should be accompanied by a concerted effort by the donor community to also adopt a similar approach in dealing with poverty programs. True partnership based on mutual responsibility and accountability for a common goal of reducing poverty are important in ensuring greater effectiveness of ODA programs for the poor.

15. Third, financing plays a key role in meeting the challenges of urbanization. Though decentralization has strengthened the financial capacity of some LGUs especially in the cities, mechanisms for sub-sovereign lending remain undeveloped. Lending programs of most development partners are mostly with national government agencies though some local governments may already be ready to tap ODA resources.

16. Fourth, in terms of sector priorities, the development partners should be more open to non-traditional areas of assistance based on the needs of countries. For instance, priorities for assistance for the urban poor may have to go beyond the usual water and sanitation towards shelter and housing reforms, urban land markets, transport planning, among others.

## REFERENCES

Asian Development Bank Institute (2001). *Asian Cities in the 21<sup>st</sup> Century: Contemporary Approaches to Municipal Management, (Volume 5: Fighting Urban Poverty)*. Proceedings of a Forum in Shanghai, People's Republic of China, 26-29 June 2000.

Chen, Shaohua and Martin Ravallion (2007). "Absolute Poverty Measures for the Developing World, 1981-2004" Policy Research Working Paper 4211, World Bank, Washington DC.

Gill, Indermit and Homi Kharas (2007). *An East Asian Renaissance*. (Washington DC: The International Bank for Reconstruction and Development/ The World Bank).