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on the
Transfer of Real Resources to Developing Countries)



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GLOBAL MONITORING REPORT 2013
RURAL-URBAN DYNAMICS AND THE MILLENNIUM DEVELOPMENT GOALS
OVERVIEW

Attached for the April 20, 2013, Development Committee Meeting is a background paper entitled “Global Monitoring Report 2013—Rural-Urban Dynamics and the Millennium Development Goals: Overview,” prepared by the staff of the World Bank Group and the International Monetary Fund.

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Overview

The *Global Monitoring Report* (GMR), jointly produced by the World Bank and International Monetary Fund (IMF), is an annual report card on the world's progress toward the Millennium Development Goals (MDGs). Now in its 10th edition, the GMR also outlines prospects for the attainment of the MDGs and assesses the support of the international community. Achieving as many MDGs as possible before 2015 remains an urgent endeavor for the development community. This GMR highlights those MDGs that are lagging in progress and consequently need additional attention, while pointing out that accelerating toward attainment of one MDG will likely provide positive spillovers to the attainment of others. The Report shows that official development assistance (ODA) and progress with aid effectiveness have been less than stellar.

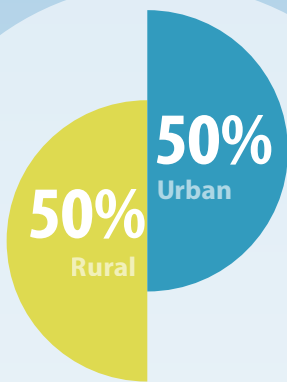
Each annual report has a thematic focus, an aspect of the development agenda on which the GMR provides a more in-depth assessment. The theme of GMR 2013 is rural-urban disparities in development and ways urbanization can better help achieve the MDGs. Not only is the theme highly relevant for assessing progress within the current MDG framework, but it also has the

potential to inform discussions about the post-2015 development framework in which urbanization will be a major factor—96 percent of the additional 1.4 billion people in the developing world in 2030 will live in urban areas.

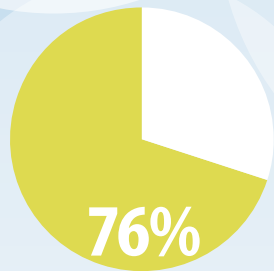
Urbanization matters. In the past two decades, developing countries have urbanized rapidly, with the number of people living in urban settlements rising from about 1.5 billion in 1990 to 3.6 billion (more than half of the world's population) in 2011. The report finds that urban poverty rates are significantly lower than rural poverty rates and that urban populations have far better access to the basic public services defined by the MDGs, such as access to safe water and sanitation facilities, even though within urban areas asymmetries in access are large. If the forces of urbanization are not managed speedily and efficiently, slum growth can overwhelm city growth, exacerbate urban poverty, and derail MDG achievements. As the GMR points out, however, people are located along a continuous rural-urban spectrum, and large cities are not necessarily places where the urban poor are concentrated. Smaller towns matter greatly for urban poverty reduction and service delivery. As urban centers continue their

GMR 2013

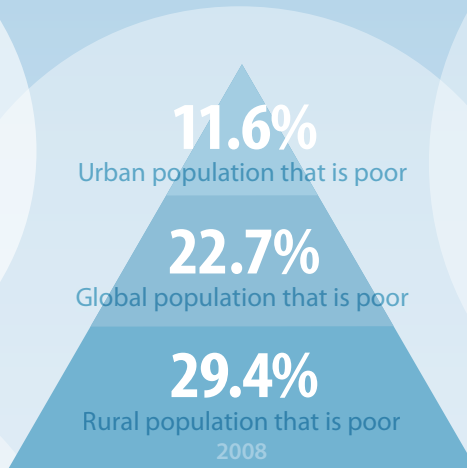
Rural-Urban Dynamics and the Millennium Development Goals



Urban/Rural Population Share



76% of the extreme poor live in rural areas



96%

of the increase in population in developing countries between now and 2030 will be in urban areas

40%

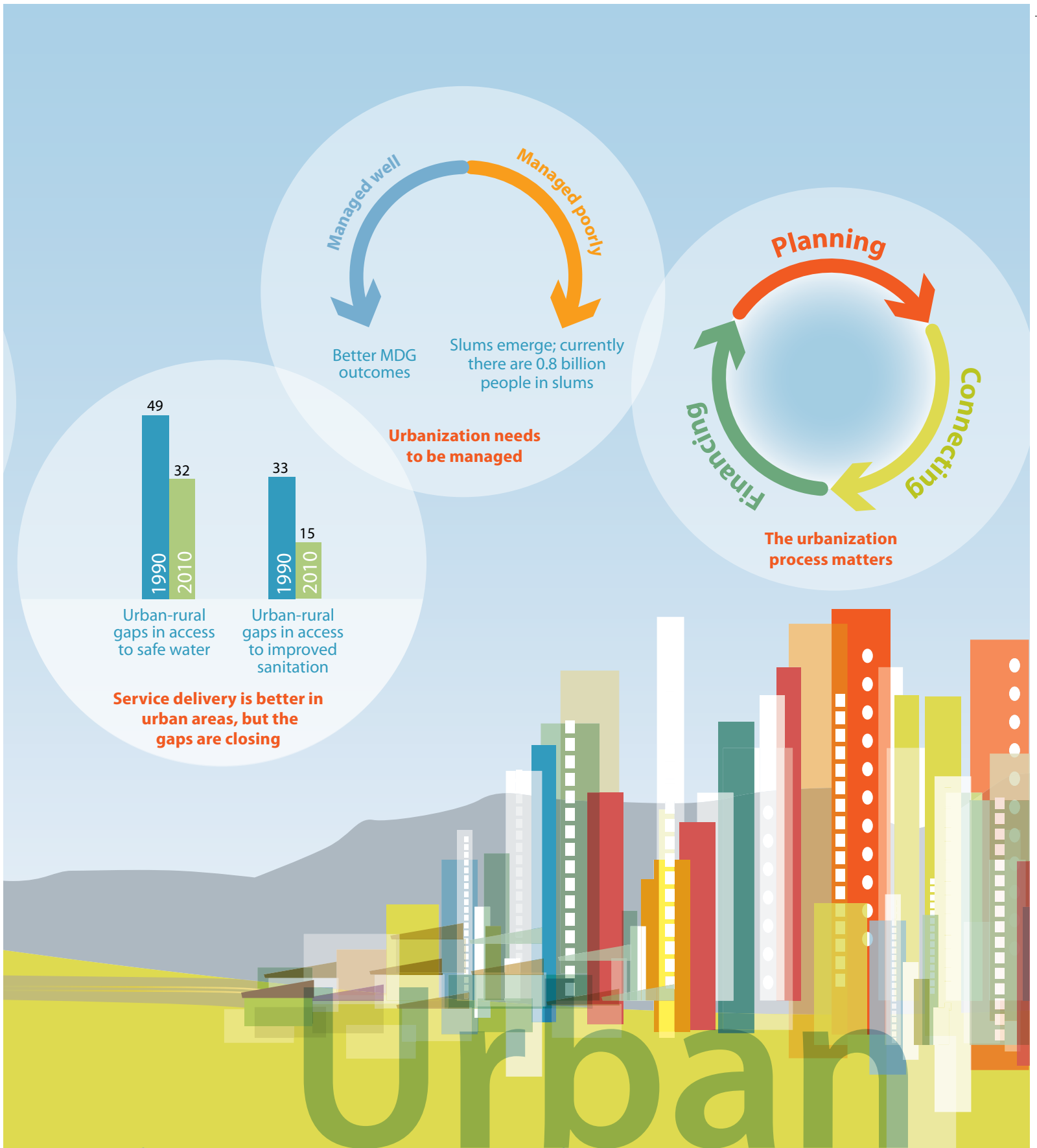
of urban population growth can be expected to come from migration and reclassification



Rural

Four MDG targets have been met: MDG 1.a (halving extreme poverty), two parts of MDG 7 (access to safe water and improved lives of slum dwellers, and part of MDG 3.a (gender parity in primary education). Progress on the remaining MDGs is limited, except for MDG 3.a (gender parity in primary and secondary education), which is close to being on target.

Populations are typically seen as being spatially bipolar. In reality, people and poverty are located along a spectrum from rural to urban, with many types of settlements from small to large towns. The experience is that the smaller the town, the higher the poverty rate, with less access to MDG-related services.



The MDGs reflect the basic needs of all citizens, and governments should aim to meet them fully in both urban and rural areas. But resources are scarce, and priorities must be set. Much of the sequencing will depend on local conditions regarding degree of urbanization and rural-urban differences in MDG outcomes.

Urbanization by itself is no guarantee for success. If unregulated and poorly planned, urbanization can lead to disproportionate increases in slums. GMR 2013 calls for an integrated strategy to better manage the planning-connecting-financing formula of urbanization.

inexorable growth over the next decades, GMR 2013 calls for an integrated strategy to better manage the planning-connecting-financing formula of urbanization.

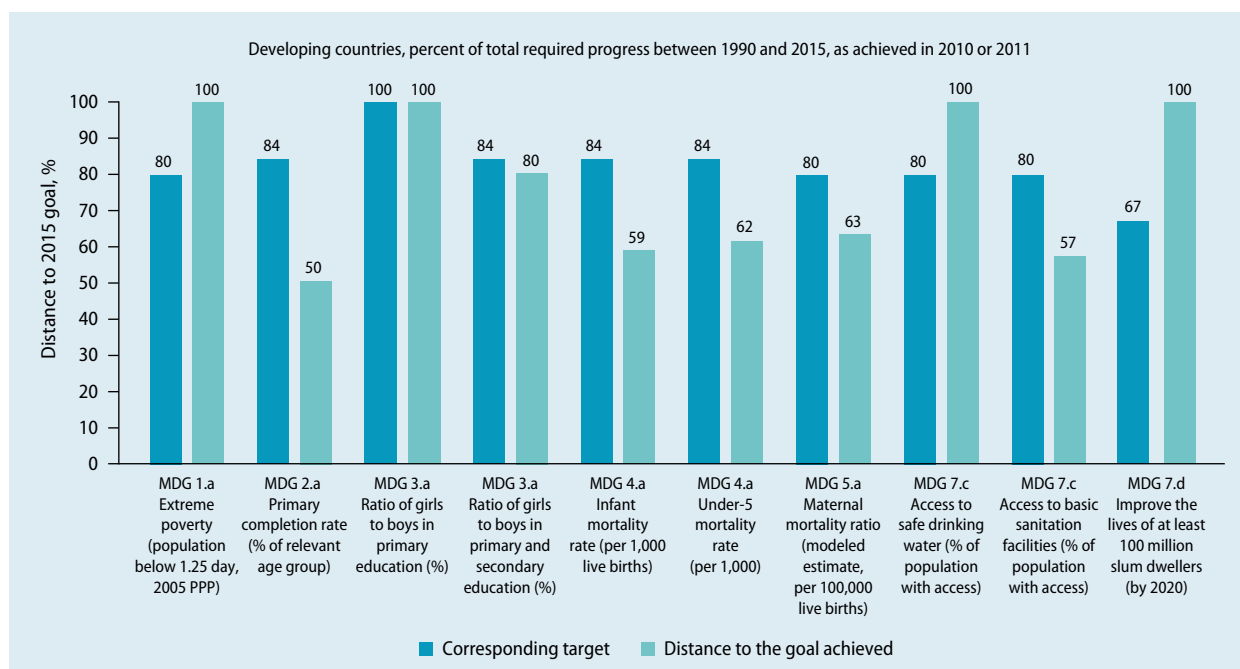
Notwithstanding the importance of urbanization in poverty reduction and MDG attainment, rural areas remain a huge challenge—one that underscores the importance of being vigilant regarding policies that aim to improve agricultural productivity; if successful, these policies can provide positive synergies for farm incomes and nonfarm employment. GMR 2012 highlighted the promotion of increased yields through research, extension, and improved water management, improvements in the functioning of land markets, and increased integration of domestic markets with world markets as a possible set of policies that would positively contribute to increased productivity in the agricultural sector. In addition, closing the gender gap in education can boost rural women's empowerment by increasing agricultural incomes;

relative to male farmers, female farmers have lower productivity, which is directly related to their educational attainment. With 75 percent of the world's poor residing in rural areas, the challenge of effective rural development remains daunting but achievable with complementary rural-urban development policies and actions.

Progress toward achieving the MDGs: The report card

With the 2015 deadline set by the international development community to attain the MDGs just over two years away, only 4 of the 21 MDG targets or subtargets have been met worldwide (figure O.1). New estimates confirm the 2012 reports that MDG 1.a — reducing the \$1.25-a-day poverty rate (2005 purchasing power parity)—was reached in 2010, falling below half of its 1990 value (box O.1). As reported in GMR 2012, the world also met part of MDG 7.c to halve the

FIGURE O.1 Global progress toward achieving the MDGs



Source: World Bank staff estimates.

Note: Intermediate targets were calculated using a linear progression over 25 years, resulting in a needed progress of 4 percent a year. Note that the corresponding target for 2010 would equal 80 percent, and for 2011, 84 percent, to be on track to attain the MDG by 2015. Any value above those intermediate targets indicates that the world is ahead of the required pace to meet the MDG. A value of 100 percent means that the MDG has been met. PPP = purchasing power parity.

BOX O.1 MDG 1 for extreme poverty

New poverty projections for 2015 are the result of various updates of new and more recent household surveys and a new forecast of per capita consumption growth. Sufficient data do not exist to estimate progress on reducing extreme poverty in 36 developing countries. Consequently, the forecasts for these countries are based on changes in income poverty in the surveys of similar countries.

Updated economic projections for developing countries by the World Bank indicate that an estimated 970 million people will continue in 2015 to live below \$1.25 a day, equivalent to 15.5 percent of the population in the developing world. That is lower than the previous estimate of 1 billion people (16.3 percent) done in 2012. New survey information on household budgets, used to estimate the 2010 figures, shows additional improvements in all regions except Sub-Saharan Africa compared with the 2012 extreme poverty estimates. Note that

because new and more complete surveys for Sub-Saharan Africa have become available this year, even the 2008 poverty number had to be revised upward from the 47.5 percent estimate last year to 49.2 percent this year. This new estimate adversely affected the projection of extreme poverty by 2015 for the region, which is now estimated at 42.3 percent, compared to 41.2 percent at the time of last year's GMR. The total projection of 970 million extremely poor people in 2015 is significantly lower than the 1.9 billion people living in extreme poverty in 1990 (43.1 percent).

Except for Sub-Saharan Africa, which had the worst starting position, all regions are expected to achieve the MDG 1.a target of halving extreme poverty by 2015. The poverty reduction in the East Asia and Pacific region has been spectacular as the rate of extreme poverty was reduced from 56.2 in 1990 to 12.5 in 2010.

TABLE BO.1.1 Poverty by region

Share of population below \$1.25 a day (2005 PPP)

Region	1990	2005	2008	2010	2015 (forecast)
East Asia and Pacific	56.2	16.8	14.3	12.5	5.5
Europe and Central Asia	1.9	1.3	0.5	.07	0.4
Latin America and the Caribbean	12.2	8.7	6.5	5.5	4.9
Middle East and North Africa	5.8	3.5	2.7	2.4	2.6
South Asia	53.8	39.4	36.0	31.0	23.2
Sub-Saharan Africa	56.5	52.3	49.2	48.5	42.3
Total	43.1	25.0	22.7	20.6	15.5

Millions of people below \$1.25 a day (2005 PPP)

Region	1990	2005	2008	2010	2015
East Asia and Pacific	926.4	332.1	284.4	250.9	114.5
Europe and Central Asia	8.9	6.3	2.2	3.1	1.9
Latin America and the Caribbean	53.4	47.6	36.9	32.3	30.0
Middle East and North Africa	13.0	10.5	8.6	8.0	9.3
South Asia	617.3	598.3	570.7	506.8	406.5
Sub-Saharan Africa	289.7	394.9	399.3	413.8	408.0
Total	1,908.6	1,389.6	1,302.8	1,214.9	970.2

Source: World Bank staff calculations from PovcalNet database. See <http://iresearch.worldbank.org/PovcalNet/index.htm> for additional information and data.

Note: PPP = purchasing power parity.

proportion of people without safe access to drinking water. MDG 7.d—to have achieved a significant improvement in the lives of at least 100 million slum dwellers by 2020—was also achieved.¹ Finally, the first part of MDG 3.a—to eliminate gender disparity in

primary education—was accomplished in 2010. Global progress on the full MDG 3.a (to eliminate gender disparity in primary and secondary education) is close to being on track.

Overall, global progress on the remaining MDGs has been less than stellar, however,

particularly on those related to education (MDG 2.a) and health (MDG 4.a and 5.a), and a vast acceleration of progress is needed to achieve all of the goals by 2015. Accelerating progress toward attainment of these MDGs is not only intrinsically desirable but can produce positive spillovers between different development objectives. Reducing infant mortality and improving maternal health can pay additional dividends by increasing the returns to subsequent investments in human capital. A vast literature demonstrates that human capital formation is a cumulative process and that the first few years in a child's development are critical, as noted in GMR 2012. In addition, the accomplishment of the extreme poverty MDG bodes well for achievement of other MDGs, given the interrelationship between reduction of extreme (income) poverty and progress toward the various nonpoverty MDGs. For MDG 2.a (ensuring that, by 2015, children everywhere will be able to complete a full course of primary schooling), it is probably already too late, because completion rates depend on net enrollment rates, which have not reached 100 percent: in 2011, the net enrollment rate in primary education stood at only 88.8 percent globally.

Regional progress toward achieving the MDGs is more diverse. At one end of the spectrum, the East Asia and Pacific region is on target to meet most if not all of the MDGs, while at the other end, Sub-Saharan Africa is off target on most MDGs. Those regions still lagging started from positions that required the most absolute progress, however, and they have made significant progress in absolute terms, particularly on those MDGs that the world as a whole is struggling to meet. The relative nature by which many of the MDGs are defined masks to a large extent these accomplishments.

Evaluating progress toward attainment of the MDGs at the country level shows even further diversity (figure O.2). Sufficient progress toward MDG 3.a is most prevalent, with 72 countries on track, while only 18 countries are on track to meet MDG 4.a (reducing infant mortality). However, an additional

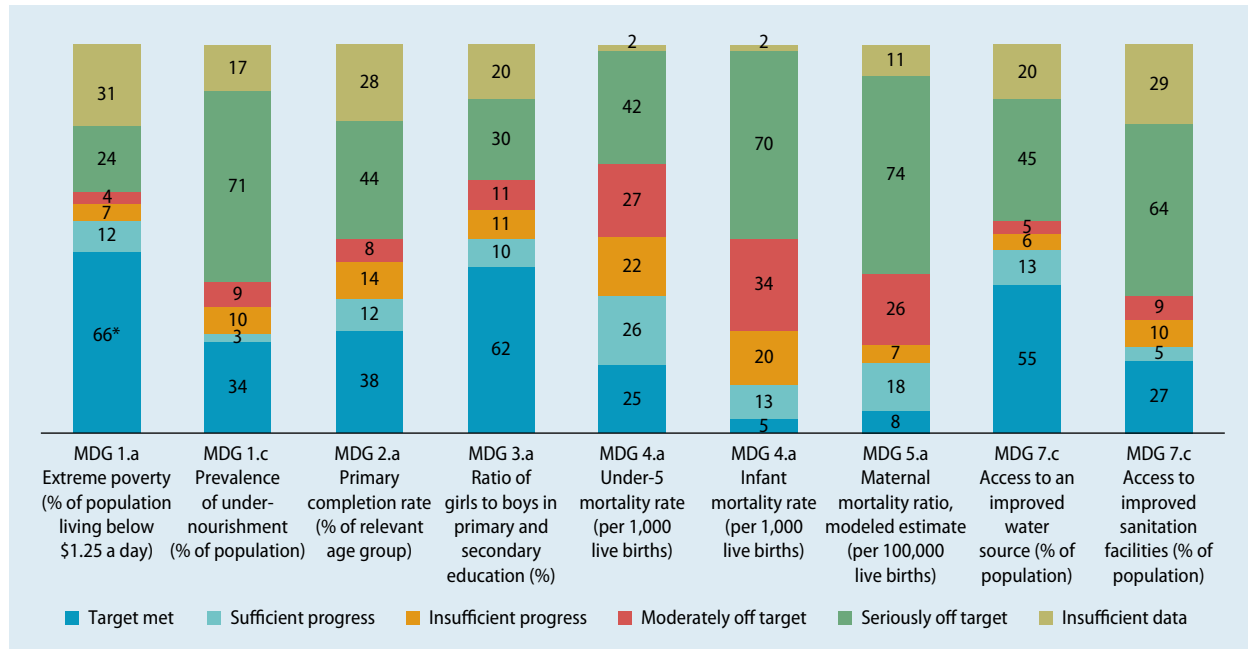
20 countries are projected to meet this MDG between 2015 and 2020. With a significant acceleration of effort, these countries could achieve MDG 4.a by 2015 or shortly thereafter. The same holds for the reduction in under-five mortality: 22 countries have made progress but require an additional push to achieve the target by or close to 2015.

Global growth and its implications for the MDGs

The global economy is expected to recover, but only very gradually. While the road to recovery in advanced economies will remain bumpy, downside risks to the global outlook have eased as policy intentions in developed economies have become clearer and commodity price volatility has abated. Although, important short- and medium-term downside risks remain—including adjustment fatigue in advanced economies and overinvestment and high asset prices in emerging market and developing countries—such risks are now more symmetric. A broadly appropriate current policy stance in emerging market and developing countries is supporting continued strong growth in these countries. Commodity prices trended down through most of 2012 and are expected to remain stable in 2013, providing room for a flexible implementation of monetary policy, particularly in emerging market and developing countries.

Were the downside risk of a protracted global slowdown extending through 2015 to materialize, it would have a significantly negative impact on growth in low-income countries and their ability to attain the MDGs. Despite sustained economic growth, progress in rebuilding policy buffers in low-income countries has been modest. Indeed, with policy buffers not yet restored to levels preceding the 2009 crisis and against the backdrop of reduced traditional sources of financing, most low-income countries would likely need to undertake adjustments in the face of such a shock. Differences across countries are large, however. Still-high international commodity prices are providing commodity exporters

FIGURE 0.2 Extent of progress toward MDGs, by number of countries



Source: Estimates based on World Development Indicators database.

Note: Progress is based on extrapolation of the latest five-year annual growth rates for each country, except for MDG 5, which uses the last seven years. Sufficient progress indicates that an extrapolation of the last observed data point with the growth rate over the last observable five-year period shows that the MDG can be attained. Insufficient progress is defined as being able to meet the MDG between 2016 and 2020. Moderately off target indicates that the MDG can be met between 2020 and 2030. Seriously off target indicates that the MDG will not even be met by 2030. Insufficient data points to a lack of enough data points to estimate progress or that the MDG's starting value is missing (except for MDG 2 and MDG 3).

* Includes 11 countries for which the extreme poverty rate is below 2 percent. Measuring changes in poverty rates at such low levels (< 2 percent) cannot be disentangled from measurement errors.

with relatively larger buffers than commodity-importing countries.

Aid flows and effectiveness

The international development finance architecture has changed markedly since the Millennium Declaration in 2000. In particular, the relative importance of ODA as a financing instrument for development has declined. The main drivers of that change are the increasing role of developing countries in the global economy, with a massive expansion of net private flows to those countries, and the emergence of middle-income countries as growth poles and important sources of non-ODA development finance.

Even though tough economic challenges have emerged in the developed world over the past few years, it is important that the Organisation for Economic Co-operation

and Development (OECD) Development Assistance Committee (DAC) donors live up to earlier promises to maintain and expand aid flows and improve their aid effectiveness to strengthen the impact of that aid. Especially when the size of ODA flows relative to other financial flows is declining, the quality of aid flows and changes in the effectiveness of domestic policies that it can support become paramount. With improved policies in developing countries, the potential effectiveness of aid has increased. But if this potential is to be fully exploited, donors will have to follow up on aid effectiveness agreements and deliver on their pledges.

At the Gleneagles summit in 2005, DAC donors agreed to increase ODA by \$50 billion between 2004 and 2010, with at least half of the increase designated for Africa—both Sub-Saharan Africa and North Africa. The promised increase of \$50 billion made in 2004

prices and exchange rates would equal an increase in ODA to a level of \$152.2 billion in 2010 prices and exchange rates. In reality, disbursements were only \$128.5 billion in 2010, leaving a gap between initial pledges and actual disbursements of more than \$25 billion. Africa received an additional \$11.8 billion, well short of the pledged \$25 billion. In its 2012 annual ODA report, the DAC estimated that only about \$1.2 billion of the shortfall could be attributed to lower-than-expected gross national income levels caused by the recent global economic crisis.

Improving aid effectiveness could make up for some of the shortfalls, but bilateral and multilateral DAC donors have been unable to reach the ambitious targets set out in the Paris Declaration on Aid Effectiveness. Collectively, the multilateral development banks have reached only one of the thirteen targets established in Paris (to strengthen capacity by coordinated support). Disaggregating the data by the various multilateral development banks and other international organizations, such as institutions of the United Nations (UN) and the European Union (EU), yields a more nuanced picture. For example, the Inter-American Development Bank (IDB) has met four of the eight aid effectiveness indicators for which disaggregated data exist, the World Bank three, and the EU institutions two. All other multilateral development banks have met one indicator.²

The new Global Partnership for Effective Development, agreed upon in the Fourth High Level Forum on Aid Effectiveness in Busan, Republic of Korea, in 2011, represents a window of opportunity for a more balanced international dialogue among all development partners, including traditional DAC and non-DAC donors such as the BRICS (Brazil, the Russian Federation, India, China, and South Africa). The partnership provides space for these partners to agree on more realistic targets for aid effectiveness and to establish mutual accountability to implement agreed-upon actions. To date, more than 160 countries and 45 organizations from around the world have endorsed this partnership.

Notwithstanding these emerging trends in development finance and the aid effectiveness

of DAC donors, development partners, including international financial institutions, continue to play an important role in assisting developing countries to implement policies and programs that help improve progress on the MDGs and other development outcomes, particularly in fragile states.

Rural-urban disparities, urbanization, and the MDGs

Economic aspects of agglomeration are most often looked at from a microeconomic perspective, but broad-based changes in where people work and live obviously also have profound macroeconomic consequences—for example, with regard to economic structural changes. Using an agglomeration index developed for *World Development Report 2009: Reshaping Economic Geography* (WDR 2009),³ evidence suggests that returns to agglomeration are relatively higher on the lower rungs of development. Recent research at the IMF suggests that greater economic diversification is associated with improved macroeconomic performance. Another strand of research that has benchmarked Africa's transformation with that of Asia's provides some optimism with regard to Africa's economic prospects.

Poverty is lower in urban areas

Cities and towns are hubs of prosperity—more than 80 percent of global economic activity is produced in cities by just over half of the world's population. Economic agglomeration increases productivity, which in turn attracts more firms and creates better-paying jobs. Urbanization provides higher incomes for workers than they would earn on a farm, and it generates further opportunities to move up the income ladder. Between 1990 and 2008, rural poverty rates were, without exception, higher than urban poverty rates (table O.1). Indeed, more-urbanized countries have had greater success in attaining the MDGs than less-urbanized ones: countries with a degree of urbanization above 60 percent are expected to achieve 50 percent more MDGs than those with a degree of urbanization of 40 percent or less.

TABLE O.1 Poverty rates are falling in both urban and rural areas but are lower in urban areas*Share of the population below \$1.25/day*

	1990		1996		2002		2008	
	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban
East Asia and Pacific	67.5	24.4	45.9	13.0	39.2	6.9	20.4	4.3
Europe and Central Asia	2.2	0.9	6.3	2.8	4.4	1.1	1.2	0.2
Latin America and the Caribbean	21.0	7.4	20.3	6.3	20.3	8.3	13.2	3.1
Middle East and North Africa	9.1	1.9	5.6	0.9	7.5	1.2	4.1	0.8
South Asia	50.5	40.1	46.1	35.2	45.1	35.2	38.0	29.7
Sub-Saharan Africa	55.0	41.5	56.8	40.6	52.3	41.4	47.1	33.6
Total	52.5	20.5	43.0	17.0	39.5	15.1	29.4	11.6

Source: World Bank staff calculations.

Urban poverty rates not only have been relatively low but have also declined in all regions between 1990 and 2008. East Asia's success in reducing urban and rural poverty has been spectacular, driven to a large extent by China's achievement. East Asia in 1980 had an urbanization level similar to that in South Asia and Sub-Saharan Africa but the highest poverty rate of all six regions. Its success in poverty reduction over the past three decades was linked to its rapid urbanization rate, which more than doubled from 21.5 percent in 1980 to 49 percent in 2010. In 1980, urbanization rates in South Asia and Sub-Saharan Africa were slightly above those in East Asia; by 2010 they had increased to only 37 percent. Urbanization by itself is no guarantee of success, however. If unregulated and poorly planned, rapid urbanization can lead to disproportionate increases in slums.

The challenge of poverty reduction, however, remains largely in rural areas and is concentrated in Asia and Sub-Saharan Africa. In 2008, 46 percent of Sub-Saharan Africa's rural population—but only 34 percent of its urban population—lived on less than \$1.25 a day. In South Asia, the share of the poor in the population was 38 percent in rural areas and 30 percent in urban areas in 2008. Three-quarters of the poor in South Asia live in rural areas. Even in East Asia, the share of rural poor was approximately five times higher than in urban areas in 2008.

Services are better in urban areas

Apart from creating better-paying jobs, cities also make, through their density, public

services more accessible. For example, on average, the cost of providing piped water is \$0.70–\$0.80 per cubic meter in urban areas compared with \$2 in sparsely populated areas. South Asia and Sub-Saharan Africa have the largest rural-urban disparities in all service delivery indicators. The poor often pay the highest price for the water they consume while having the lowest consumption levels. For example, in Niger, the average price per cubic meter of water is CFAF 182 for piped water from a network, CFAF 534 from a public fountain, and CFAF 926 from a vendor. And poor access to basic infrastructure disproportionately affects rural women, because they perform most of the domestic chores and often walk long distances to reach clean water.

Even in the poorest of countries, people have higher expectations for service delivery in cities: that water will flow when a tap is turned on; that one will have access to a toilet; or that one will find a doctor when a child has malaria. In 2010, 96 percent of the urban population but 81 percent of the rural population in developing countries had access to safe drinking water. Disparities in access to basic sanitation were greater: 80 percent of urban residents but only 50 percent of rural residents had access to a toilet.

Schooling and health care can also be delivered with economies of scale in dense environments, close to where people actually live. Urban citizens in rich and poor countries have better access than rural citizens to basic services, including those associated with the attainment of the MDGs. Quite often, both access to and quality of services are better in urban areas.

While good outcomes in nutrition, health, and education are development goals in themselves, they also combine to form human skills and abilities that are strongly linked to productivity growth and poverty reduction. Rural children are disadvantaged because they have access to services of lower quality than do urban children. The inability to attract teachers to rural schools is only one of the reasons for the poor quality of schooling in rural areas.

The spectrum of urbanization is wide

Along the spectrum from rural to urban lie many types of settlements from small towns to small cities and peri-urban areas to large cities. In many middle-income countries, such as India and Vietnam, the urban population is concentrated in the largest cities, but the urban poor are dispersed along a continuum of medium, smaller, and very small towns, demonstrating that urban poverty is not just a large-city phenomenon. Research in India, for example, indicates that while poverty is primarily a rural phenomenon at the aggregate level, urban poverty is becoming a larger problem. The poverty rate for rural areas in India was 28 percent in 2004–05, compared with 26 percent in urban areas. Among urban areas, poverty rates were highest in small towns (population less than 50,000), at 30 percent, compared with 15 percent in large cities (population of 1 million or more). The urban spectrum is less pronounced in Sub-Saharan Africa, where many countries are small and sparsely populated and where urbanization is still in its early stages. Urban poverty there is thus more concentrated in capital cities.

Small rural towns often have high concentrations of poor people. Some poor want to migrate to cities to escape poverty but are reluctant to dispose of their rural assets. In Nepal, for example, where poverty is extreme, migrants prefer not to move too far from their rural residence but value proximity to paved roads and areas with higher housing premiums. Many want to maintain links with their farms, while others fear losing their land if they migrate too far.

Remaining close to one's land is an important factor in migration in the absence of efficient land markets.

Well-designed urbanization is needed to achieve the MDGs

As long as rural-urban disparities in income and service delivery persist, rural-to-urban migration will ensue. Nearly 50 percent of the population in developing countries was urban in 2011, compared with less than 30 percent in the 1980s. Urban dwellers are expected to double between 2000 and 2030, from 2 billion to 4 billion people, and the number of Chinese urban dwellers will increase from more than 622 million today to over 1 billion in 2030. This trend is not unique to developing countries—today's high-income countries underwent the same transformation in the 20th century. In fact, virtually no country has graduated to a high-income status without urbanizing, and urbanization rates above 70 percent are typically found in high-income countries.

For every ten people lifted out of poverty in the East Asia and Pacific region, two were facilitated by the urbanization process alone. Even in Sub-Saharan Africa, half of the decline in poverty originated in urban areas and through the urbanization process. Looking at the impact of urbanization on service delivery provides even stronger evidence of the importance of the process of urbanization itself: close to 30 percent of the improvement in the MDG on sanitation results from the process of urbanization, that is, the migration of people and the expansion of urban areas.

Policies to foster migration are important to enable the poor to move from lagging to leading areas, and governments can help reduce rural poverty by making migration more efficient. Equipping citizens with human capital assets while they are still in a rural area will increase the chance that their job search in the city is successful. Many developing countries have instituted land market policies in rural areas that discourage migration to urban areas. Restrictions in the

land market are not only detrimental to agricultural productivity growth but also hinder diversification into nonfarm activities that have higher returns. They should be relaxed.

However important facilitating the urbanization process is, it is not enough for successful development. Governments must also improve access to basic services in rural areas to achieve development goals, and they face important trade-offs in doing so. Priorities are not easily set, and financing local services is not straightforward. Moreover, governments must address the problem of slums in urban areas and mitigate the negative side effects of urbanization in the form of pollution caused by congestion or urban sprawl. To benefit fully from urbanization, smart planning of existing and new urban areas is needed.

Services in rural areas need improvement

Even as numerous towns emerge in rural areas and many poor people migrate to cities to seek better jobs and services, the prevalence of a large majority of the poor in rural areas remains of great concern. Rural areas need focused policies that help raise farm productivity and connect rural villages to input and output markets. Diversification of employment into nonagricultural activities can also reduce rural poverty. Growth of nonfarm activities is often driven by growth in agricultural productivity, at least at the initial stage of development. Roads and the provision of electricity are needed to improve connectivity to markets and increase agricultural productivity.

Because the MDGs reflect the basic needs of all citizens, governments should aim to attain them fully in both urban and rural areas. Given scarce resources, however, priorities must be set. Consequently, it is important that decision makers take country-specific circumstances into account when allocating resources.

For example, if the prime source of urbanization is domestic migration, then a strategy that focuses on MDG-related services that

are portable (such as health and education) and that facilitate the integration of migrants seeking better opportunities in cities might have a higher payoff than one that indiscriminately tries to equalize MDG-related services across urban and rural areas. Early investments in education and health in rural areas will prove useful to those who seek jobs in cities but can also contribute to higher farm and nonfarm incomes for those who never migrate. Such a payoff seems particularly relevant for sparsely populated countries with both low urbanization and agglomeration rates, as in Sub-Saharan Africa.

If the prime source of urbanization is gradual thickening of population density, then the countrywide equalization of MDG-related services is more appropriate. This seems most relevant for countries with a low urbanization rate but an elevated level of agglomeration, as is the case in various countries in South Asia and those countries with a high urbanization rate and low expected migration.

If people get stuck in small towns, with little prospect of moving on to large cities, then policies should focus on improving connectivity with other urban centers. Poverty in small towns is often high, and the quantity and quality of services there differ little from those in rural areas and lag behind those in more mature urban settlements. Measures to better connect the activities in those small towns with economies of larger cities are then paramount.

In all cases, the challenges should not be underestimated. Many developing countries have been unable to provide a coordinated package of physical infrastructure and social services in rural areas. In part, that is because the financing of public goods in poor areas is a daunting task, a point about which more is said below.

New forms of service delivery are required in slums

Although poverty rates in cities are relatively low and declining, poverty in many countries is increasingly becoming an urban phenomenon as more and more people live

in cities. Slums are the urban face of poverty and emerge when cities are unable to meet the demand for basic services and to supply the expected jobs. A likely 1 billion people live in urban slums in developing countries, and their numbers are projected to grow by nearly 500 million between now and 2020. Slums are growing the fastest in Sub-Saharan Africa, southeastern Asia, and western Asia. Currently, 62 percent of Africa's urban population lives in slums. Women and children bear a disproportionate burden of improper sanitation and poor health care in slums. The lack of urban planning by governments has implications for the urban poor, especially in Asia and Africa. Qualitative research, community surveys, and studies by nongovernmental organizations show that the actions taken by the urban poor in response to inadequate urban institutional support can produce severe indirect impacts.⁴

The absence of land tenure is a key factor. According to the UN's *MDG Report 2012*, slum evictions without due legal process are the most visible violation of housing rights confronting the urban poor. Household surveys carried out in a range of cities around the globe found that slum dwellers reported insecurity regarding possible eviction was high, ranging from 20 percent in São Paulo to nearly 45 percent in Lagos. Insecure tenure in slum settlements means that governments are unwilling or unable to provide basic services to these areas. In the absence of basic services, one coping strategy for the urban poor is dependence on informal providers, who offer low-quality services, often at higher costs than those paid by the nonpoor with access to formal services. This practice not only places higher economic costs on the urban poor but also leads to increased health costs, especially in the form of child morbidity from unclean water. Similarly, the lack of adequate sanitation facilities in low-income settlements can lower the school attendance of adolescent girls and eventually increase their dropout rates. This problem has been specifically detected in Kenya's urban slums, where qualitative and quantitative data show

that girls in grades four through eight who have reached puberty miss six learning weeks a year on average.

Combined with their informal employment, the inability of migrants living in slums to produce water or electricity bills or a formal rental lease to prove urban residence puts them in an even more precarious situation. In some countries, proof of urban residence is needed to access basic services, as is the case with health services in Kyrgyzstan, and can sometimes lead to reverse migration. For example, when the quality of health services is dismal or when a migrant is excluded for lack of required documentation, an illness can push a migrant back to a rural area. Additionally, the inability to provide required identification and proof of urban residence excludes the urban poor from accessing financial services, leaving them with little means of saving for future investment or insurance in the event of economic shocks. In a detailed qualitative study of 176 rickshaw pullers in Delhi, only 1 percent had bank accounts, although 95 percent consciously saved daily or periodically.

The most common coping strategies for saving in the absence of bank accounts include depositing money with a local shopkeeper or a relative or friend (with the risk of being cheated); carrying savings on one's person at all times; and burying small amounts in the ground or hiding money in perceived safe spots within one's residence. Savings handled in these ways are vulnerable to theft. In the event of economic shocks from periods of unemployment or illness, the absence of savings can lead to discontinuation of children's education, especially that of girls, and to interruption in remittances. Remittances are also affected by the high cost of sending money by informal means, given the lack of access to banking by both the urban and rural poor.

Impermanent, unsafe housing and the lack of basic services in slums force some migrants to maintain split households (separating spouses and leaving children with grandparents in rural areas), thus introducing

instability into the urban transition. This continued dependence on rural areas has several negative implications, including the increased burden of child care on aging grandparents, the inability of migrants' children to access better-quality primary education and health services, and numerous other harmful psychological and health consequences. Several studies from Asia and Sub-Saharan Africa have documented the adverse effects arising from split households.

The key message is that governments should not discriminate between slum dwellers and the rural or urban poor. Slum dwellers should be provided access to basic services just like the poor in rural areas or cities, although the modalities may be different. Where land tenure issues are pervasive, and services cannot be or are not connected to informal dwellings, public connections may be more appropriate. Alongside increased instances of slum evictions and slum clearance in the past decade, a growing number of success stories of slum service provision and upgrades are beginning to be noticed. For example, in the Lao People's Democratic Republic, the government had never given land on a long-term lease to a low-income squatter community until recently, when two government projects did so, thus regularizing people's status on public land they already occupied. In Vinh, Vietnam, government has moved to provide slums with better services by adjusting existing planning standards to make them more realistic and to lower costs and make it easier for the urban poor to develop housing that matches their needs.

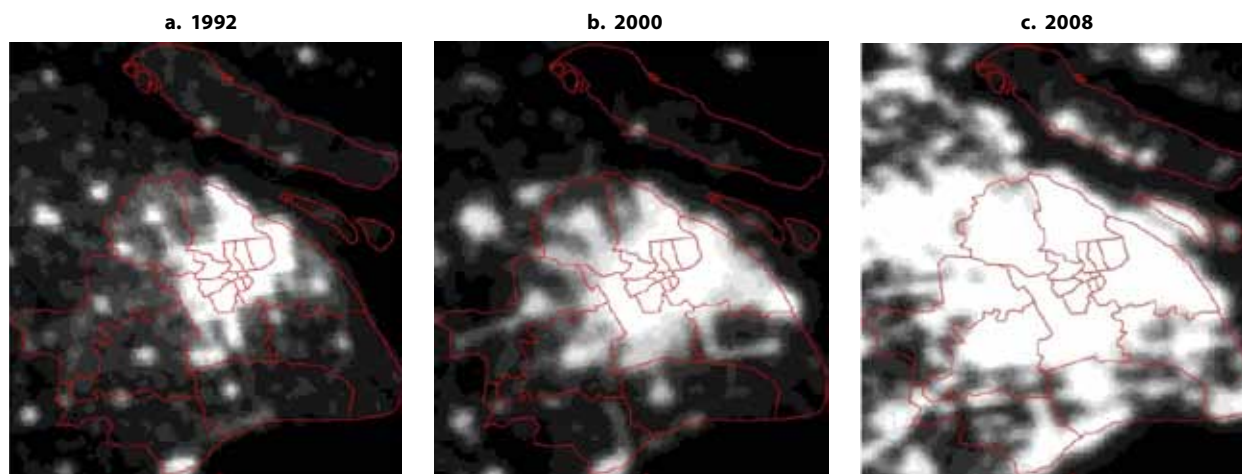
Uncoordinated urbanization can lead to pollution, sprawl, and congestion

Urbanization is largely a natural process, driven by the opportunities cities offer. Unregulated markets are unlikely to get densities right, however, and spontaneous development of cities can create negative side effects such as congestion or, alternatively, excessive sprawl. The consequences are pollution and inefficiencies. Without

coordinated actions, cities will lack the proper investments to benefit from positive externalities generated by increased density. Higher-quality construction material and more sophisticated buildings are required to support greater densities, but if these higher costs must be fully internalized by firms and households, underinvestment is the result. In addition, complementary physical infrastructure is critical: roads, drainage, street lighting, electricity, water, and sewerage, together with policing, waste disposal, and health care. While a market-driven process could possibly gradually increase densities through shifting land values over time, the long-lived and lumpy nature of urban investment often inhibits such a process. A city's physical structures, once established, may remain in place for more than 150 years.

Under current trends, the expected increases in the urban population in the developing world will be accompanied by a tripling in the built-up area of cities, from 200,000 to 600,000 square kilometers. As an example, consider Shanghai, which has rapidly expanded over the past 20 years (map O.1). Such rapid population growth accompanied by an even faster spatial expansion of cities is likely to lead to low-density development dominated by individual-vehicle transportation—a largely irreversible pattern that runs the risk of dampening density-induced productivity and service delivery efficiencies. An additional consequence of rapid urban growth is worsening air quality. A recent study of the 189 largest cities using satellite data found that air quality worsened between 2002 and 2010, particularly in the largest cities of the Indian subcontinent, parts of Africa, the Middle East, and north China—places experiencing rapid urban growth.

Emissions from the burning of fossil fuels include fine particulate matter (PM10 and PM2.5), carbon monoxide, nitric oxides, and sulfur dioxide, which can cause allergies, respiratory problems, cardiovascular disease, and cognitive deficits. The impacts are significant. In Russia, a conservative estimate

MAP O.1 Shanghai's spatial expansion as shown by average nighttime light intensity

Source: China Data Center at University of Michigan.

suggests that annual health damage from fossil-fuel burning amount to \$6 billion. The social cost of transport in Beijing is equivalent to 7.5–15.0 percent of its gross domestic product, with about half of that stemming from air pollution, including carbon emissions. The largest share of these costs comes from increased mortality.

Globally, acute respiratory infections associated with air pollution cause about 20 percent of all under-five deaths. In the former Yugoslav Republic of Macedonia, a country of about 2 million people, air pollution is the cause of an estimated 1,300 premature deaths annually. Beijing, Cairo, Delhi, Dhaka, and Karachi each see an estimated 3,500 to 7,000 premature deaths annually from cardiovascular disease caused by air pollution. Managing environmental quality while enhancing urban productivity is critical.

An integrated strategy

Three interrelated dimensions of urban development triangulate the coordinated approach needed to enable a country to take advantage of its urbanization process: planning, connecting, and financing.

- *Planning*—charting a course for cities by setting the terms of urbanization,

especially policies for using urban land and expanding basic infrastructure and public services.

- *Connecting*—making a city's markets (labor, goods, and services) accessible to other neighborhoods in the city, to other cities, and to outside export markets.
- *Financing*—finding sources for large capital outlays needed to provide infrastructure and services as cities grow and urbanization picks up speed.

These are terms that policy makers use on a daily basis, but they often focus on financing first without fully considering the other two dimensions. Of the three, planning for land use and basic services is the most important. In fact, the key challenge for countries at all stages of urbanization is strengthening the institutions for land management. Yet because planning must allow for people and products to be mobile, it must be coordinated with and connected to all stages of a city's growth. Financing should be city leaders' last concern rather than their first.

In designing policies to manage the process of urbanization, it is paramount to enhance women's empowerment and to close the gender gap in earnings, largely by improving women's access to education. *World Development Report 2012: Gender*

Equality and Development (WDR 2012) details that the emergence of agglomeration economies can have disproportionate benefits for women with basic education through job opportunities in light manufacturing. Hence, in addition to the importance of getting polices right regarding planning, connecting, and financing, a priority is reducing gender gaps in human capital, specifically those that address women's education.

Urbanization should start with planning

Planning is fundamental to agglomeration economies in three ways. First, land use requires effective systems for land valuation. Second, land use must be allocated in a way that allows for infrastructure improvements as the city grows. Third, the most basic infrastructure services—water, energy, sanitation, and solid waste management—need to be provided for all residents, urban, peri-urban, and rural alike; natural market mechanisms are unlikely to provide those.

Lack of early planning often imposes very difficult corrective measures later on. Measures that could have worked well at an early stage are much less effective once city structures have been locked in. For example, to manage slum formation and reduce the hazards faced by slum dwellers, policy makers often try to move people to safe environments or provide better housing elsewhere. Initiatives include urban upgrades, such as community and household infrastructure projects; resettlement to new housing developments; housing subsidies; and land titling. But many of these policies do not work because people do not always willingly trade a good location for a better home with more modern utilities. People choose neighborhoods for their affordable services and amenities—but also for their proximity to jobs.

In many developing countries' cities, it can be difficult to live near one's job. One consequence of failed land markets and restrictive regulations is that the formal housing supply is low. But it may also be difficult and costly to commute to work, because transport infrastructure fails to connect urban

neighborhoods. In many African cities, commuting by public transit costs more than half of a poor household's income. In Harare, the poor spend more than a fourth of their disposable income on transport. In Kampala, the figure is 50 percent.

To foster better living conditions, policy makers need to coordinate land market rules with urban infrastructure development. Hanoi has been able to grow without the formation of large slums because the government set prudent rules for land markets and infrastructure. It allowed the densification of former village areas. It pushed to modernize road networks just outside the city, yet it mostly avoided demolishing older houses. These roads have opened new land for formal developers while improving connections between existing village areas and the city. The village areas were allowed to grow and were integrated into the urban economy.

Policy makers in Bogotá similarly succeeded by coordinating land use with infrastructure development. The Programa de Mejoramiento Integral de Barrios aimed to improve mobility and living conditions in 26 of the poorest city areas, called Unidades de Planificación Zonal. The Unidades comprised 107 neighborhoods of informal origin, with 1,440 informal settlements, 300,000 plots not formally titled, and about 500,000 structurally substandard dwellings. The program legalized homes and neighborhoods; it expanded infrastructure with roads, rainwater traps, and sanitary and aqueduct trunk networks; and it added urban facilities (stairs, parks, community rooms). Living conditions improved for about 650,000 people. Complementary improvements in communication and interregional transport can make it easier to integrate neighboring peri-urban and rural areas with urban economies.

Integrating planning, connecting, and financing is also key to the “greening” of growth and getting urbanization right. While there is a perceived trade-off between “building more cities” to accommodate rapid urban growth and “building cities right” to enhance social and environmental outcomes, compelling evidence shows that “building cities

right” generates co-benefits in the near term and reduces the prohibitive costs of addressing sprawl, congestion, pollution, and climate change later. Integrating land use and transport plans effectively allows public transport (with its lower energy consumption and emissions) to be a major mode of transport in locations zoned for high density. The Brazilian city of Curitiba has managed to concentrate its population around public transportation lines and hubs, making it possible to maximize the share of trips with low-energy-consumption modes of transportation. Copenhagen redesigned its urban transport network to follow a transit-oriented and bike-friendly approach: it started with a “finger plan”—the identification of few priority development areas—and then invested in five-axis transit radials and corridors of new, satellite, rail-served towns.

Connectivity depends on more than infrastructure

To benefit from the opportunities that cities offer, commuting costs need to be low. Moreover, if connections with the surrounding areas are well developed, urban densities can also have a positive impact on rural areas. Research in India has shown a growing link between urban development and a reduction of rural poverty; higher demand for rural products and more options for rural nonfarm diversification followed India’s economic liberalization in the early 1990s.

Connections, both between and within cities, benefit producers and consumers, both in urban and rural areas. Connections give producers access to input (including labor) and output markets. They give consumers options and, in many cases, better prices. And connections expose cities and rural areas to new economic opportunities. But policy makers who envision better transport connections for cities and neighborhoods face difficult choices. With limited resources, they cannot invest in everything. It is hard to know which new or improved connections will yield the highest returns over time. Setting priorities for connective investment means picking

winners and losers in the short run—but in the long run, thinking about priorities can make a vast difference for cities, surrounding rural areas, and even countries.

More than building and fixing, efforts to improve intercity connections are about the economics of the transport sector, which has a tendency toward natural monopolies. If the market structure for transport service provision does not promote competitive pricing, any cost reductions stemming from network investments will be absorbed as profit by monopolistic providers. The government regulates in large part to induce healthy competition, limiting monopolistic behavior but also limiting the number, or behavior, of competitors where required. Investments in infrastructure are more successful when bundled with regulatory reforms that promote competitive pricing while also ensuring compliance with safety standards.

In Uganda, as in many other African countries, a large gap between transport costs and prices attests to monopolistic behavior. Along the Uganda stretch of the Kampala–Mombasa corridor, home to most of Uganda’s industrial production, transport prices average \$2.22 a kilometer—double the average price in the United States—even though transport costs are about \$0.35 a kilometer. According to trucker surveys, 86 percent of the corridor is in good condition. So the fact that providers are making more than 85 percent profit suggests a need for competition, which can be induced most effectively through policy measures and regulation.

Within many cities, the poorest residents are often deprived of affordable transport services. An extreme example is Mumbai, where, according to a study published in 2007, transport expenditures represented at least 16 percent of income for riders in the lowest income category, even though subsidies covered as much as 30 percent of transport costs. While subsidies have not always been successful, some targeted subsidies do reach the right groups and increase access to jobs. For example, South Africa uses highly subsidized weekly coupons, good for 10 journeys between black townships and

industrial development areas, to connect low-income workers to jobs. Brazil requires formal sector employers to provide transit tickets to employees through a system called *vale transporte* (VT); firms then deduct the VT expenditures from taxable income. The VT system—albeit affecting only the formal sector—effectively spreads the cost of transport subsidies between employers and the government.

Finance is the difficult final part of the puzzle

Having identified priorities for planning and connecting, policy makers confront the problem of financing those investments. The main difficulty is the need for money up front. Large capital outlays are needed to provide infrastructure and services that are not fully in demand now but will become so as urbanization picks up speed. The large capital investments that are needed in the construction phase, whether for transport, water provision, solid waste management, or sewage removal and treatment, are likely to far exceed the budget of any city government. But financing can become more sustainable through taxes realized with increased economic growth, and with the ability of policy makers to leverage land markets and approach local currency debt markets.

More generally, financing of all local services is challenging. While services are best delivered locally, the local tax base is often narrow. That is true not only for cities, but for all subnational governments.⁵ These governments are often better suited than agencies of the national government to address the challenges of service delivery. They can more efficiently detect citizens' needs given their informational advantage. That is particularly relevant for beneficiary identification in poverty programs. Subnational governments can direct resources toward these needs (*allocative efficiency*) and can provide some services more efficiently than national governments (*productive efficiency*). Decentralized management and execution of public investment can also be strengthened by joint

approaches to address infrastructural gaps. Chile, for instance, is coordinating public investment through regional investment windows, including cofinancing with municipalities. In addition, political decentralization lowers the “barriers to entry” for different groups of society, so they can more easily and directly participate in decision making. An example from Mexico underscores the importance of decentralization: because of political resistance, federal teachers were not decentralized to the states, resulting in a parallel hiring process at the state level that blurred the lines of accountability.

Local provision of services requires fiscal equalization across space to ensure that necessary resources flow toward the districts most in need of them. No country starts from a clean slate, however, and more often than not, reforms of intergovernmental transfers are done at the margin and incrementally. An example is Colombia's current royalty reform, which achieves more equitable distribution of royalty resources.

The financing challenges are largest in rural areas: they are home to the largest number of poor people, but, under growing disparities in fiscal capacity, they are increasingly resource constrained. Subnational governments in urban areas have higher fiscal capacity and are hence better able to influence outcomes through their own revenue decisions. Absent any convergence effects, fiscal capacity in urban areas will increase as agglomeration unfolds, putting rural areas at a further disadvantage. Given uneven advances and levels of autonomy in expenditures, rural governments are more constrained in their ability to provide a high-quality package of services to the poor or to target the incidence of spending on direct services where they are needed most.

Notes

1. The original target to improve the lives of at least 100 million slum dwellers by 2020 was based on an estimation of close to 100 million slum dwellers in the world. Upon measurement of slum populations using the internationally

agreed upon UN-Habitat definition of slums following the UN Expert Group Meeting of October 2002, it was learned that the global estimate of the slum population was in fact close to 1 billion (924 million). As a result, even though the slum target has been globally achieved, and in fact significantly surpassed 10 years ahead of schedule, there is little room for complacency given the existing magnitude of populations currently living in slums.

2. As detailed in the OECD's report "Aid Effectiveness 2005-10: Progress in Implementing the Paris Declaration" (2011).
3. Many reasons for the occurrence of urbanization were discussed in WDR 2009, which provided ample evidence of the benefits of agglomeration. WDR 2009 developed an agglomeration index with a uniform definition of what constitutes an urban or agglomerated area. An urban or agglomerated area is defined by population size of a settlement (more than 50,000 people), population density (more than 150 people per square kilometer), and travel time to the nearest large city (60 minutes).
4. The report draws upon an in-house desktop review of qualitative research, the findings of community-level surveys on slum dwellers in cities of developing countries, and fresh inputs sought from civil society organizations across a range of developing countries. This body of research has explored several themes affecting the urban poor, especially rural-urban migrants, and the strategies they apply to remain resilient to the challenges posed by urban poverty. Data and insights have been drawn from countries in Asia, Sub-Saharan Africa, and Latin America, including Bangladesh, China, India, Indonesia, Kyrgyzstan, Thailand, Ghana, Kenya, South Africa, Tanzania, Uganda, Zambia, Brazil, and Ecuador.
5. The term "subnational governments" encompasses, among other entities, regional or state governments, provinces, and municipalities.