Bringing people to jobs and jobs to people

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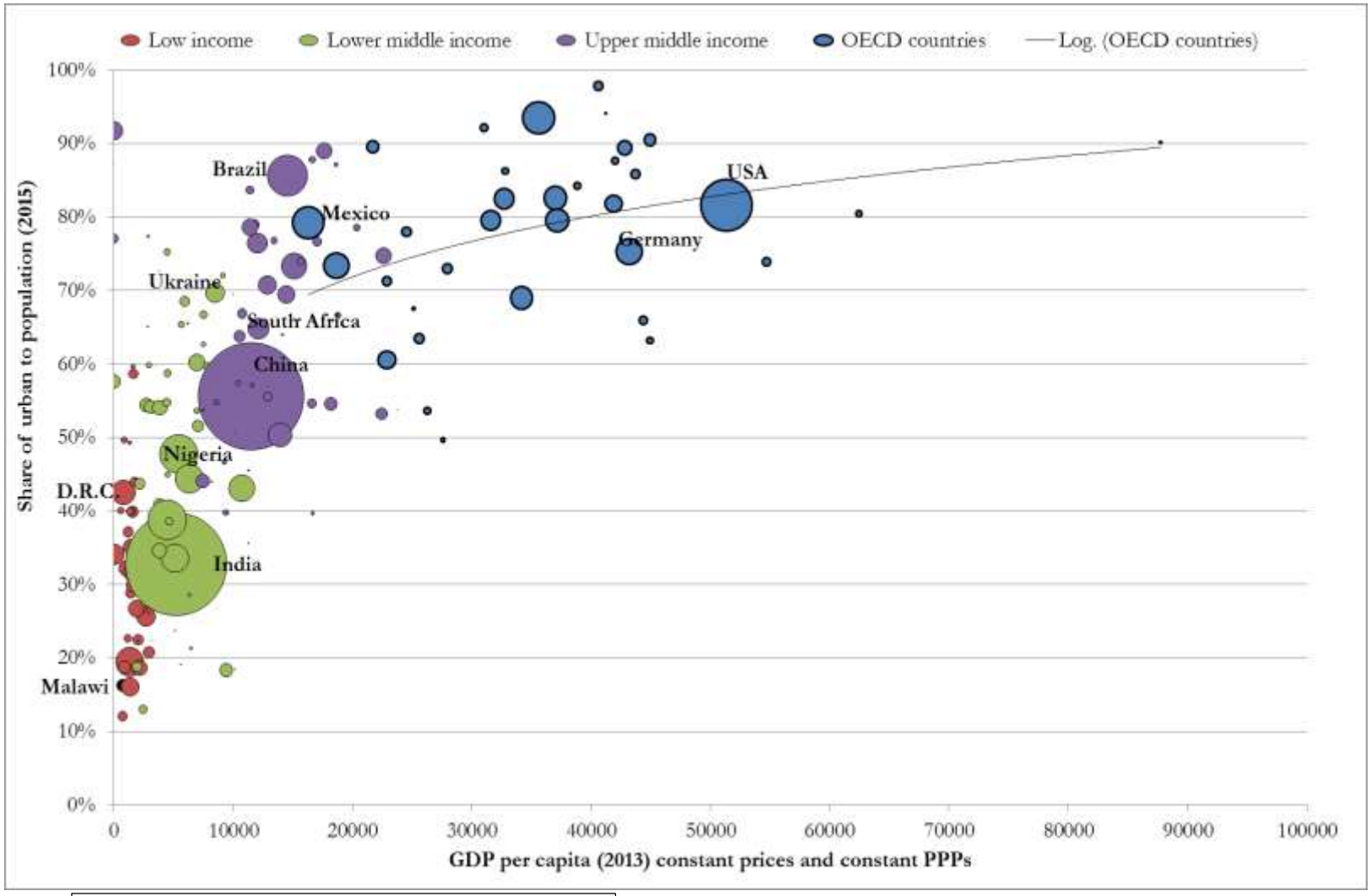
Urbanisation and Growth

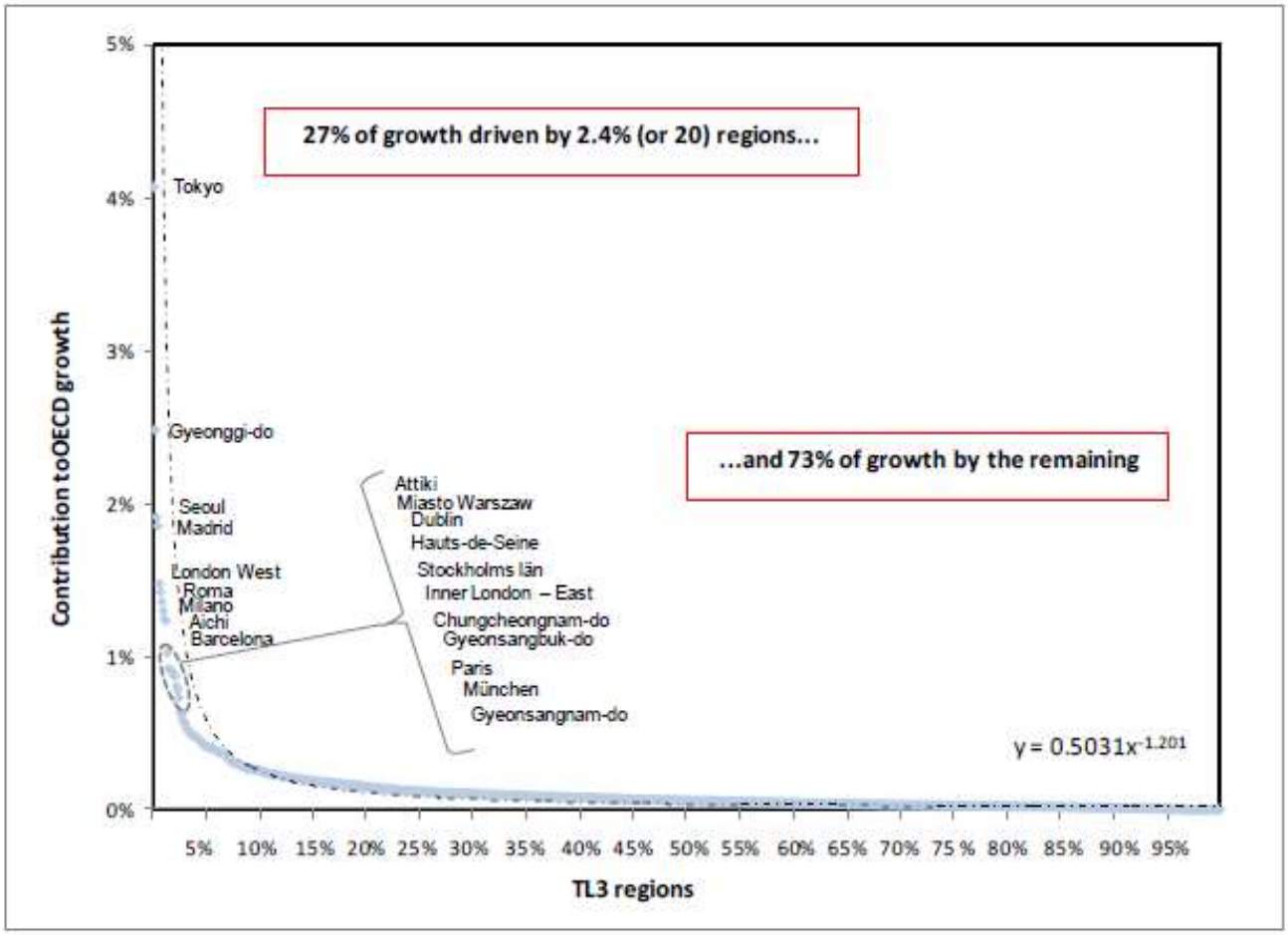


Source: Own calculations based on World Bank (2015)

Since the WDR 2009, it is a near stylised fact that urbanisati

Cities' Contribution to National Per

Figure 7. Distribution of TL3 regions' contributions to OECD GDP growth, 1995-2007



NB: The contributions to growth are normalised to (=aggregate growth rate=1). GDP data for Turkey are only available for 1995-2001 and TL3 data are not available for Australia, Canada, the United States and Mexico and New Zealand

Source: Authors' calculations using the OECD Regional database.

Urban areas' contribution to economic growth are overwhelmingly more significant than any other type of region: 'the bigger bang for the buck'.

Since according to Dollar and Kraay (2014) 90% of poverty reduction across countries happens thanks to growth, cities are also vehicles to reduce poverty, but challenges

Classification of LAC Countries According to U

- Using a sample of 13 LAC countries for which at least two household surveys were available through SEDLAC (Socio-Economic Database for Latin America and the Caribbean)

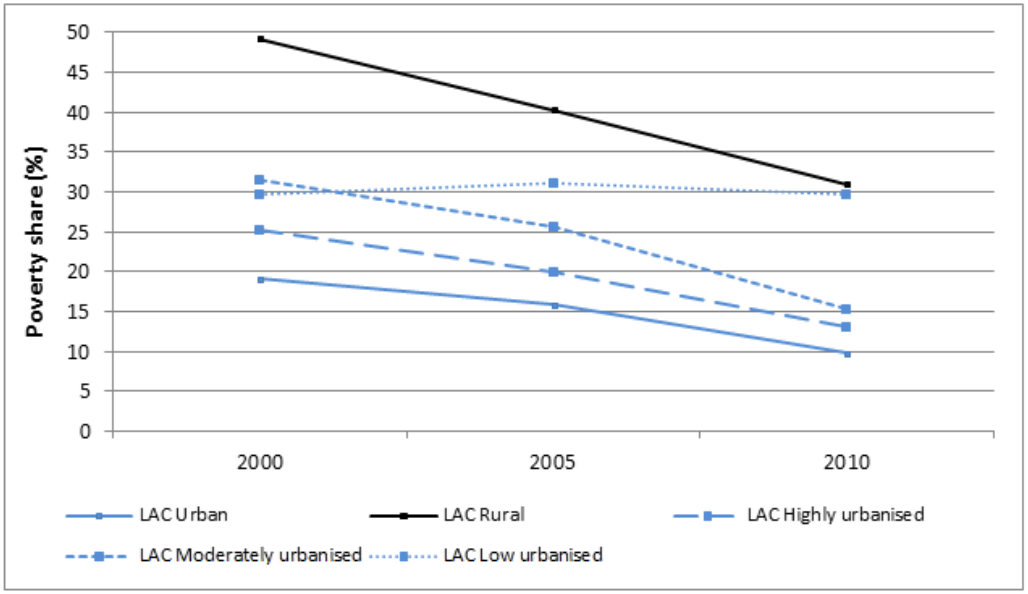
- We can distinguish three groups of LAC countries (we have used cluster analysis to minimise dispersion of cluster members based on urban population shares):

  1. ***Highly Urbanised Countries*** (urban shares of above 73%):
     1. Brazil
     2. Chile
     3. Colombia
     4. Mexico.
  2. ***Moderately Urbanised Countries*** (urban shares between 58% and 65%):
     1. Peru
     2. Dominican Republic
     3. Ecuador
     4. Panama
     5. El Salvador.
  3. ***Low-Urbanisation Countries*** (urban shares ranging from 39% to 54%):
     1. Paraguay
     2. Honduras

Poverty Reduction in LAC Count

Figure 1. Poverty Shares in LAC (2000-2010)

Groups of countries according to urbanisation levels



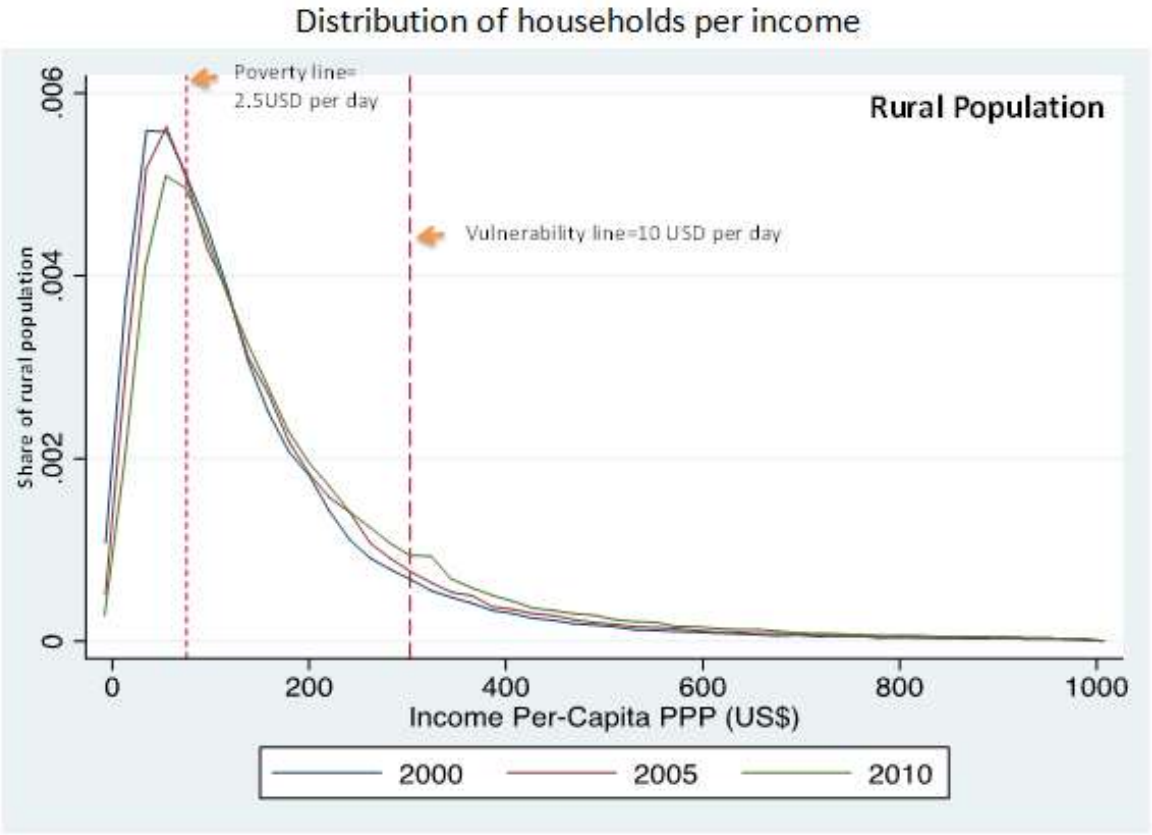
Note: Data for individual countries was taken from individual country household surveys. Different countries had different dates for their surveys but they are displayed circa to the year in which they were issued. For 2000, all countries had surveys for that date except for Brazil, Colombia, Honduras and Paraguay for which 2001 data was used but reflected in this figure as 2000. All countries had 2005 surveys except for Chile and Guatemala and 2006 data was used instead. All countries had data for 2010, except for Chile, Brazil and Guatemala in which case we used 2011 data.

Source: Own calculations based on SEDLAC (CEDLAS and The World Bank)" or "Source: Socio-Economic Database for Latin America and the Caribbean (CEDLAS and The World Bank)

- The LAC region has been successful at reducing poverty across the board and urbanisation has been instrumental to that progress. Poverty shares in rural communities experienced the most progress reducing poverty headcount from almost 50% to less than 31% in just one decade (2000-2010).

Poverty Reduction in LAC Rural

Figure 3. Income per capita for the Bottom 40 in Rural Areas



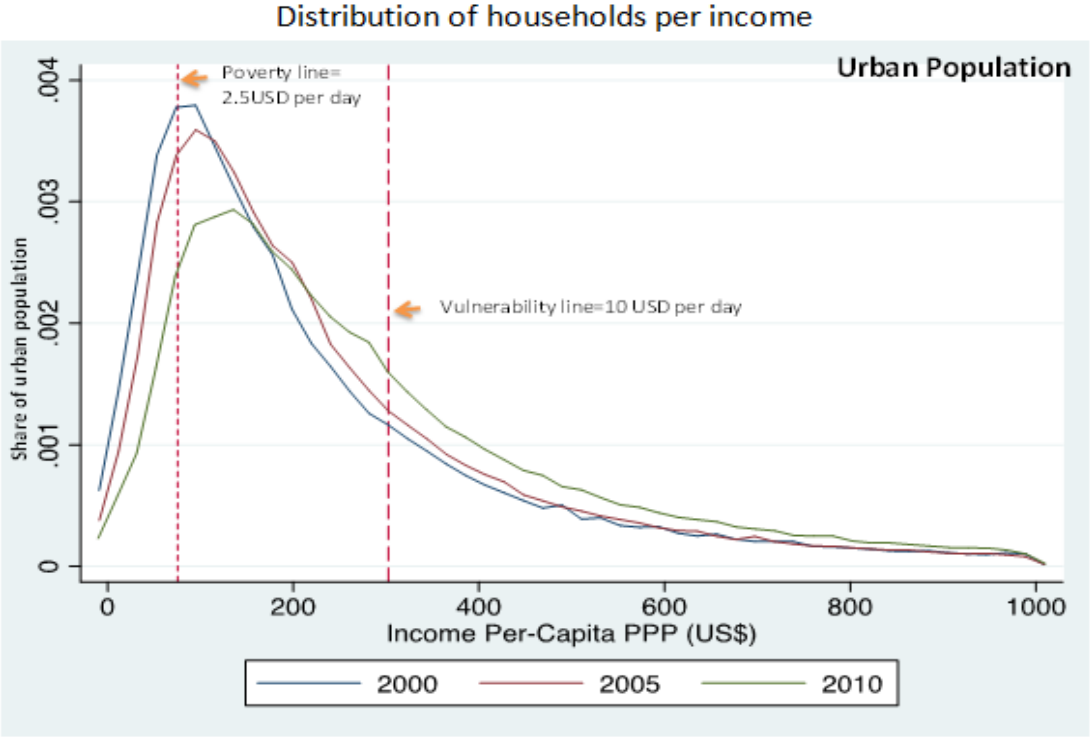
Source: Own calculations based on SEDLAC (CEDLAS and The World Bank)" or "Source: Socio-Economic Database for Latin America and the Caribbean (CEDLAS and The World Bank)

LAC population can be arranged by income deciles and population split into: (i) those that are at the bottom 40 decile or lower, and (ii) those above that - the upper 60

- The poor in LAC seem to be increasingly vulnerable to falling back into poverty and thus the need for promoting income growth for the B40. If :
    - Both rural and urban areas have seen the size of the poor population decrease over time as can be seen by the yearly distribution curves shifting downwards from 2000 to 2010 so

Economic Vulnerability in LAC Urba

Figure 2. Income per capita for the Bottom 40 in Urban Areas



Source: Own calculations based on SEDLAC (CEDLAS and The World Bank)" or "Source: Socio-Economic Database for Latin America and the Caribbean (CEDLAS and The World Bank)

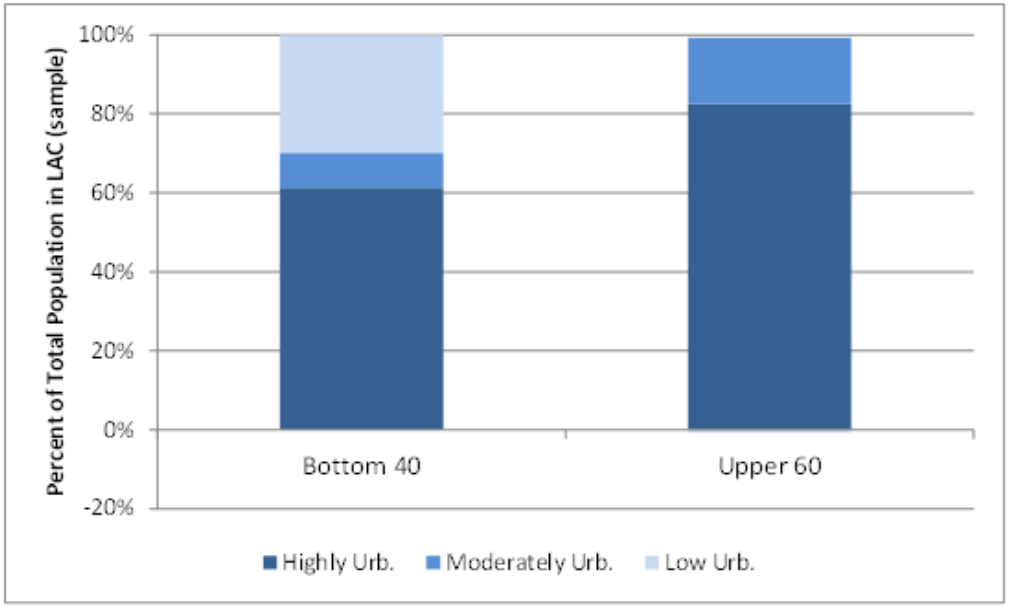
1. Over time urban population mode and mean shift to the right, off the poverty area and onto the vulnerable group area.
   - In contrast, rural population's mode and mean in spite of moving to the right, remain on the poverty zone.
   - **Although that could mean that for urban areas a larger population group is moving out of poverty, they could remain vulnerable to falling back into poverty.**

2. The size of urban areas' vulnerable population seem to rise over time, which can be seen by the larger area underneath the income distribution curve for urban areas in Figure 2 that lies between the poverty and vulnerability lines. Contrastingly, rural areas' vulnerability group in Figure 3 (previous slide), seems to be roughly

But LAC Countries are not all t

Figure 1. Population in the Bottom 40

Groups of countries by level of urbanization



Source: Own calculations based on SEDLAC (CEDLAS and The World Bank)" or "Source: Socio-Economic Database for Latin America and the Caribbean (CEDLAS and The World Bank)

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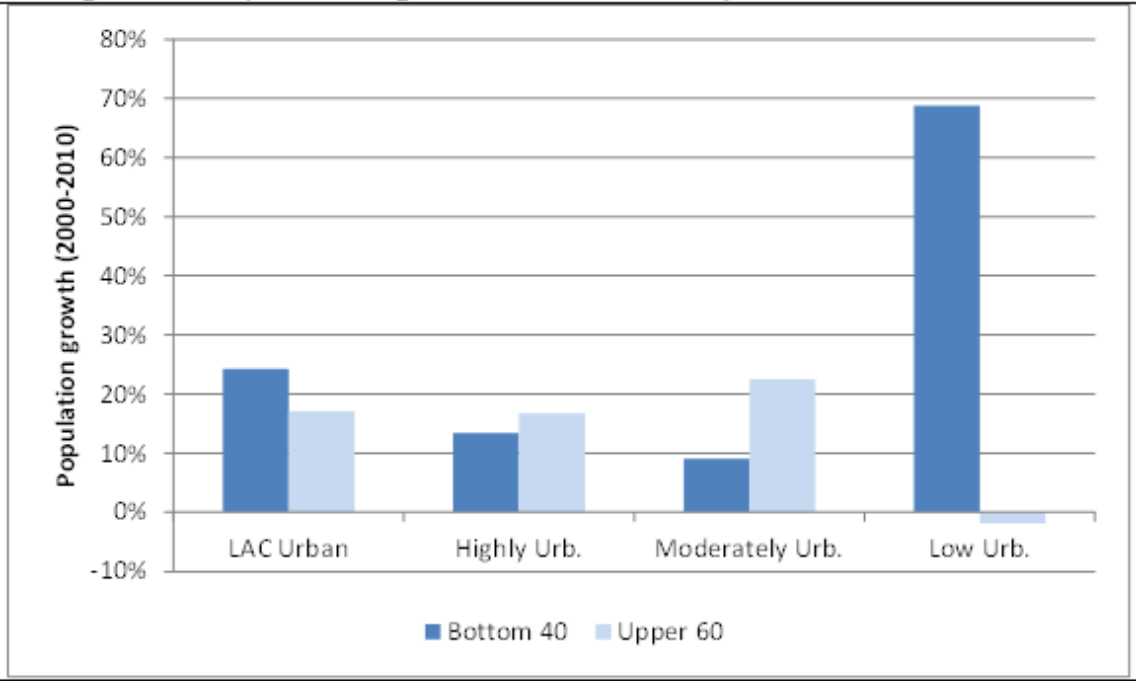
[2] The 13 countries for which data was available through their national household surveys and which displayed data for urban and rural areas were: Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Panama, Peru and Paraguay.

The middle class that is less vulnerable to fall back into poverty (Upper 60% - U60), represented by the upper 60 grew even more: nearly 34 million urban dwellers in LAC are now part of a more sustainable middle class. However, that phenomenon is for the most part **taking place in large and highly urbanized countries**: over 80% of such growth

But LAC Countries are not all t

Figure 2. Population growth in the B40 by level of urbanization



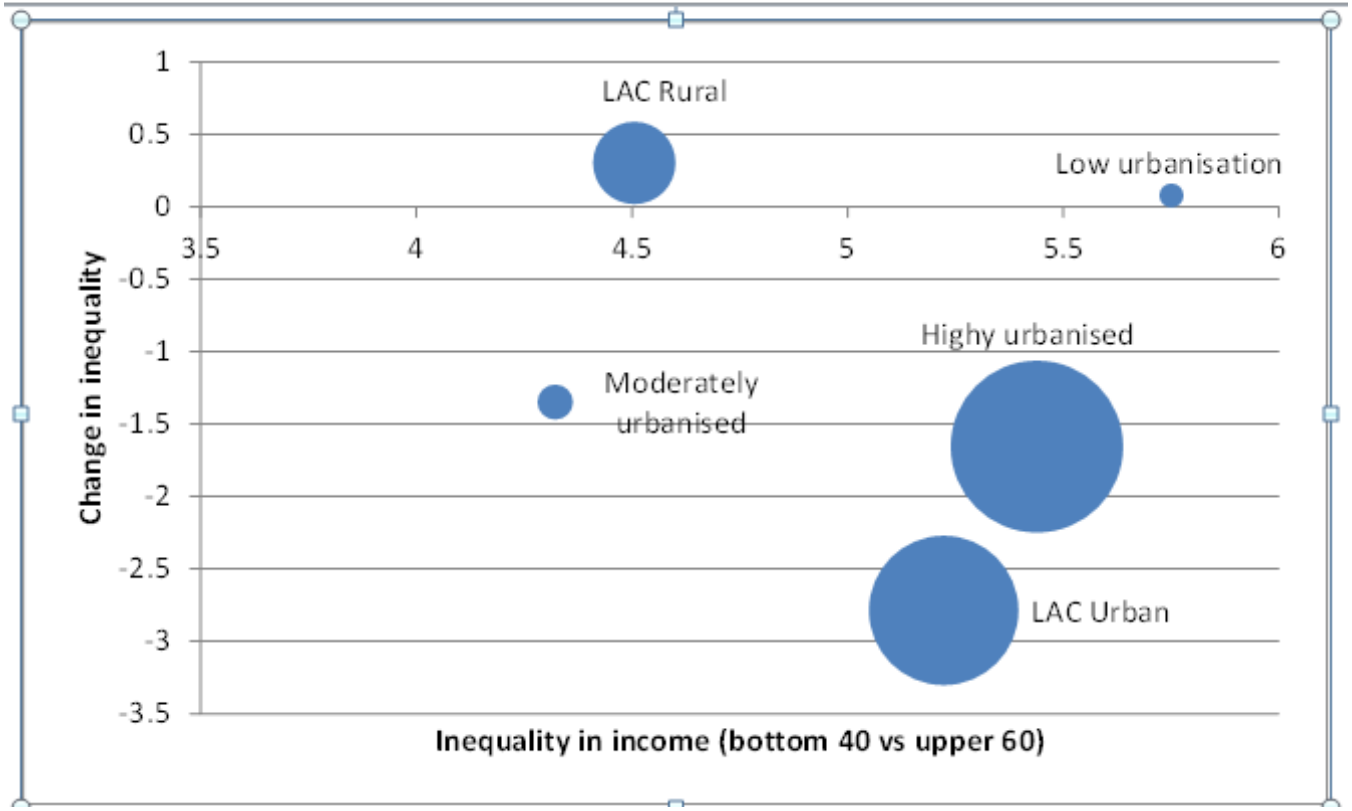
Source: Own calculations based on SEDLAC (CEDLAS and The World Bank)" or "Source: Socio-Economic Database for Latin America and the Caribbean (CEDLAS and The World Bank) - – For country details see Annex 2.

The vulnerable population is growing mostly in low-urbanisation countries:

- In relative terms to their 2000 population size, urban areas in LAC have experienced a slightly larger population growth in the bottom 40 than in the upper 60 (Figure 2). However, for low-urbanization countries, the change has been quite

Urbanisation and Inequal

Figure 6. Income in the Bottom 40 vs. Upper 60
Groups of countries by level of urbanization



Thus, poverty reduction and inequality have been reduced (**B40 as a proportion of U60 not in absolute terms**) in urban areas in LAC, but **the gains are mainly stemming from large and highly urbanised countries.**

Note 1: Income differentials for 2000 and 2010 refer to the number of times (quotient) U60's monthly income is that of the B40
Note 2: Income is expressed as monthly per capita income weighted by population

Urbanisation and Jobs: Spatial mism

- Most new jobs will be needed in urban areas.

- With the developing world quickly urbanizing, new urban dwellers find themselves in cheaper but remote areas with poor job creation and facing a costly commute that reduces their chances of being hired; in many cases resulting in migration to OECD countries.

- In a way, a spatial mismatch between residence and employment areas acts –like a skill mismatch—reducing employment for workers and shrinking the pooled labour market for employers.

- To address a spatial mismatch, we can (i) improve access to public transportation in affected communities, (ii) provide rental vouchers to foster labour mobility by abating housing costs in areas with higher land costs but better access to employment, or (iii) reduce the cost and length (time) of commuting.

Bringing people to jobs: Johann

Spatial Mismatch

Figure 1.38. **Gauteng's spatial mismatch**

Employment and income shares mismatch by municipality and location of lower income households

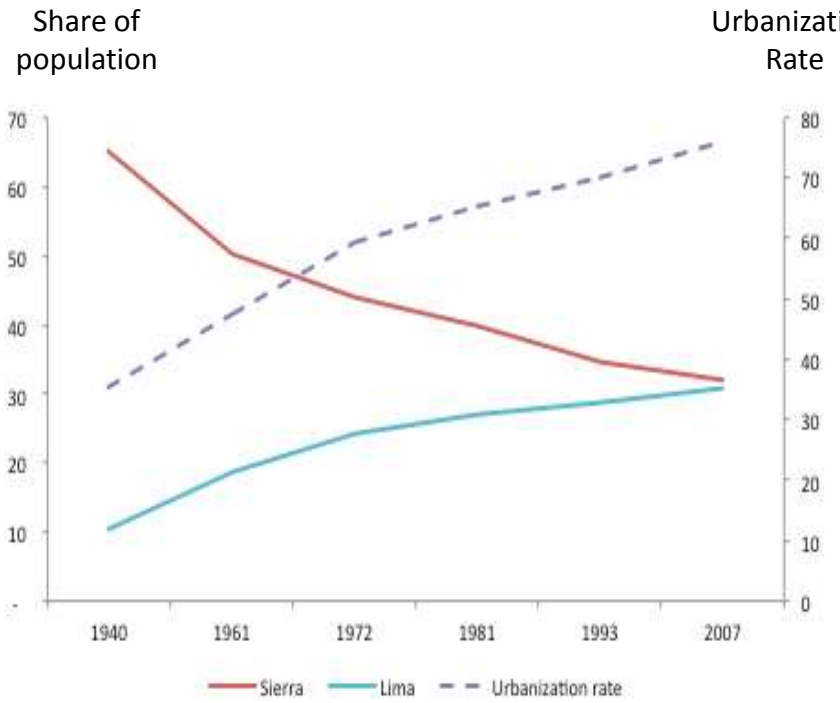
Source: OECD (2011) "OECD Territorial Reviews: The Gauteng City-Region, South Africa", OECD Publishing, Paris.

The mechanisms that create such a spatial mismatch are not only the cost and length of commute, lower job-search efficiency and intensity given the distance, and employers discrimination among others.

In the Gauteng City-Region (Joburg), residents in municipalities in the periphery of the Joburg-Pretoria corridor are more likely to live in poverty and to show a greater spatial mismatch.

Note: This map is for illustrative purposes and is without prejudice to the status of or sovereignty over any territory covered by this map. $SM = \frac{1}{2} \Sigma \, | (Income_i/Income) - (Employment_i/Employment)|$ Define Income i as the income in transport zone i (where i=(1,…,n) and indexes the transport zones in a given municipality), Employment *i* as the number of employed people in transport zone *i*, Income as the total income in the municipality, and Employment as the total number of employees in the municipality. This index ranges between 0 (perfect balance) and 1 (perfect imbalance). Dark blue highlights municipalities with a greater spatial mismatch and light blue highlights municipalities with a lower spatial mismatch. Circles are transport zones with average household income lower than the poverty line (lower than ZAR 1 400).

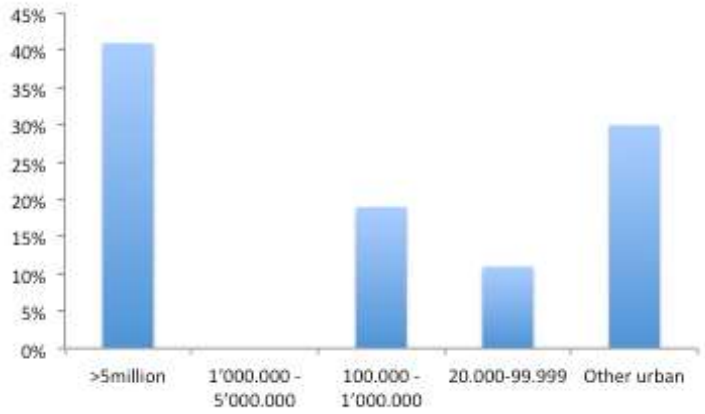
Bringing jobs to people:



Resulting in a two-tailed distribution of cities

- Large primacy of Lima
- A large proportion of population living small towns.
- Lack of intermediate cities.
- Relatively small medium sized cities

Distribution of urban population by city size



Source: Based on Census 2007.

A costly urbanisation form for growth and jobs

- International experience shows that urbanisation has a 0.85 correlation with growth. Mostly due to localized scale externalities.
  - Peru grew the most in periods of stronger growth in Lima
  - However, urbanization form matters. Too strong primacy has costs.
- Lima has 10 times more population than Arequipa. Concentrates 41% of the population and 45% of GDP
- Because such strong primacy Peru misses 1.65% in additional annual GDP growth (Henderson,2013).
- Improve neighbourhoods' urban environment and use of idle land/assets for firm establishment.
- Support (grants, administrative and training) for local cooperatives and micro/small-firm development.