

Urban Poverty in the OIC Countries

15th Meeting of the COMCEC Poverty Alleviation Working Group

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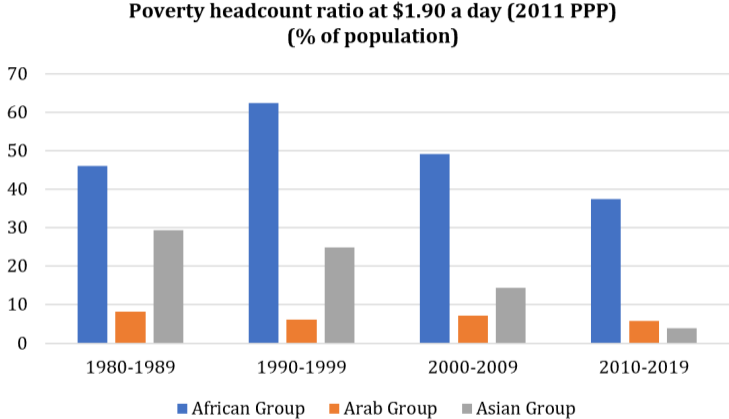


Urbanization patterns in the OIC countries

- OIC countries urbanized at a higher pace than the non-OIC countries in the past few decades. OIC region has been hosting around one fifth of global urban population.
- OIC countries harbor some of the most and least urbanized places, and the fastest growing urban areas in the world.
- There are marked within-country differences in urbanization patterns.
- Urban population shares are expected to be much higher—mostly driven by the Asian and African regions—by year 2050, and a sound policy framework is needed to address the related socio-economic issues.

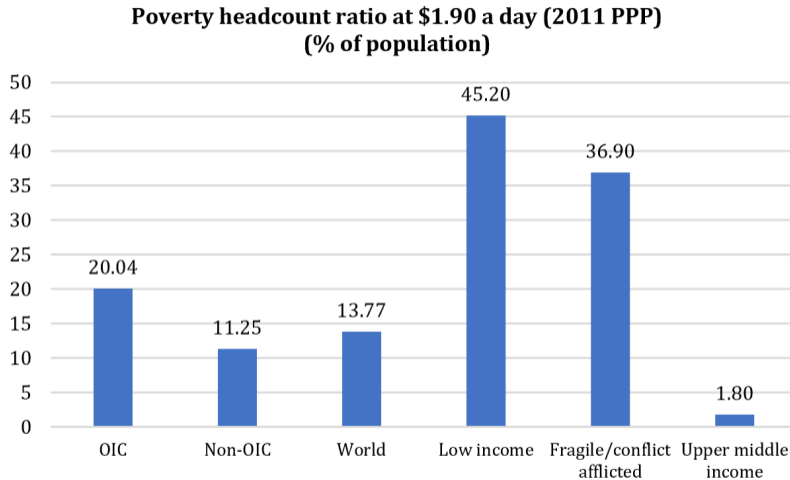
- Several indicators are used: poverty headcount ratio at \$1.90 a day (2011 PPP) (% of population); urban population share; population living in slums; and Gini index.
- Although indicators directly measuring urban poverty are not consistently available, joint use of various related indicators forms the basis for analysis.
- The data period is 1980-2019. Since the indicators are not available for every year and every country, country-level observations are averaged to construct four broad time intervals: 1980-1989, 1990-1999, 2000-2009, and 2010-2019.
- Some countries are still not represented in the analysis, which highlights data gaps.

Poverty headcount ratio by country groups



Source: The World Bank, World Development Indicators.

Poverty headcount ratio by region

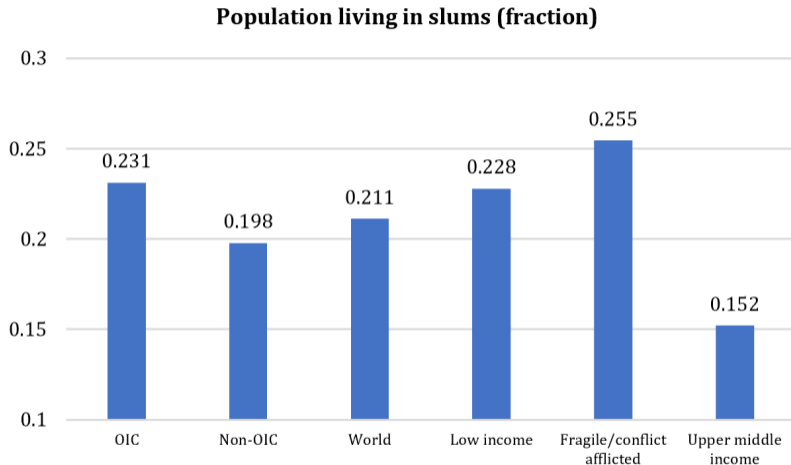


Source: The World Bank, World Development Indicators.

Poverty headcount ratio (PHR)

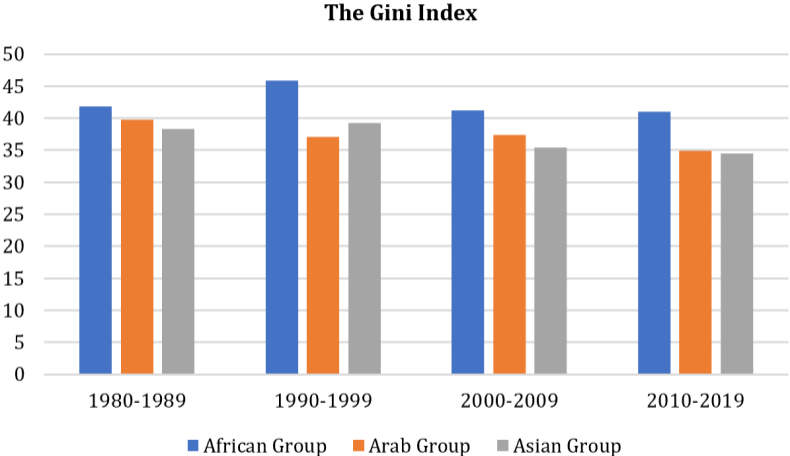
- PHRs are persistently low (around 5-8%) in the Arab group.
- It declined from 30% to below 5% in the past four decades among Asian group. Pakistan, Indonesia, Tajikistan, and Kyrgyz Republic have been successful in reducing poverty headcount ratios, while the decline is slower in Bangladesh.
- Although PHRs have somewhat declined in the African group, it has been persistently high and still hovers around 40%.
- PHR is a general indicator and it may not fully reflect the trends in urban poverty. It may only partially reflect urban poverty trends in OIC countries and, if anything, they underestimate urban poverty rates.

Population living in slums by region



Source: The World Bank, World Development Indicators.

- The slum rates are lowest for the Arab group and highest for the African group.
- There are several countries in the African group with slum rates above 70%. Slum rates are higher in countries experiencing civil conflict even among the Arab group.
- Slum rates are strikingly high in highly populated countries among the Asian group, such as Pakistan and Bangladesh.
- The main message is that urban poverty is actually a more serious issue than what the simple poverty headcount calculations imply.



Source: The World Bank, World Development Indicators.

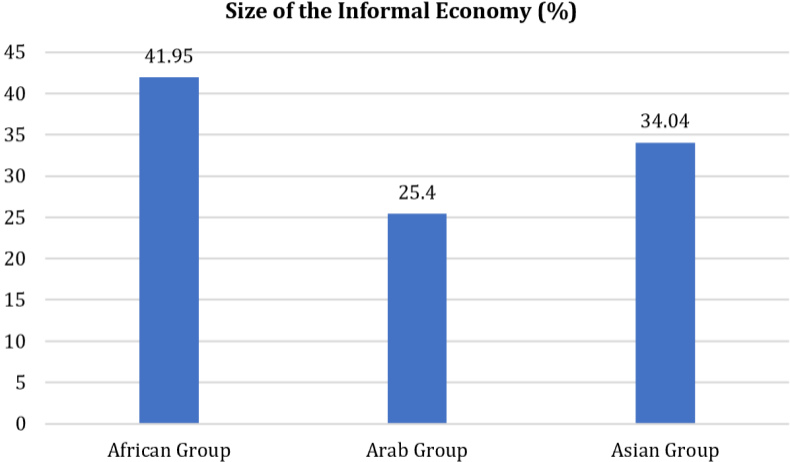
- Strong positive association between urban poverty and inequality is widely recognized. Inequality indicators are often available at national level and inequality indicators are not typically available at city level.
- Inequality is persistently high across the OIC countries—highest for African group.
- Although there is a declining trend over time, the decline is not statistically significant even based on an eyeball test.
- Inequality is persistently high—it even exhibits an increasing trends in some instances—for some countries in the Asian group such as Malaysia and Indonesia.

- OIC countries face multiple labor market issues and challenges. High rates of informal employment is an inherent characteristic in most OIC countries.
- Low skill acquisition (both education and vocational training), and high mismatch between workers and firms suggest that human capital utilization levels are low.
- Relative to comparable non-OIC countries, OIC countries have
 - lower employment and LFP rates for disadvantaged groups
 - lower share of high-skilled workers
 - higher agricultural employment as opposed to services and manufacturing
 - higher labor market frictions
 - less structured labor market institutions/regulations
 - less efficient school-to-work transition.

Low labor productivity

- Low human capital reduces firm dynamism, inhibits firm growth, leads to decreased transition from non-exporter to exporter status for firms, lowers returns to human capital investment, and provides lower incentives for R&D, innovation, and patenting.
- Economic activity clusters in the agricultural sector, which is a lower-productivity sector relative to manufacturing and services.
- High informality is associated with lower labor productivity, lower labor income, reduced labor market insurance, lower factor utilization, and lower tax collection.
- Low labor productivity is associated with low income generation capacity for individuals, households, and businesses, and, thus, low welfare levels in general.

Size of informal economy by country groups



Source: Medina and Schneider (2017).

Size of informal economy

- Informality is around 35% in the OIC countries. The African group has the highest informality rate (42%), followed by the Asian group (34%) and the Arab group (25%).
- Informality above 50% is common in African group—63% Nigeria, 54% Benin, 51% Gabon, and 50% Sierra Leone. Some countries in Asian group exhibit informality above 40%—53% Azerbaijan, 44% Tajikistan, and 43% Kazakhstan.
- Countries with low informality rates (below 20%) are the ones with highest public sector involvement in labor markets such as Jordan, Oman, and Qatar.
- Countries that substantially reduced poverty over the past 40 years, such as Pakistan, Indonesia, Cameroon, and Mauritania, experience moderate informality relative to those with worse poverty reduction performances.

Forced migration and urban poverty in OIC countries

- OIC countries include major source and host countries for refugees. Refugees mostly prefer to live in urban areas. They typically do not have official work permit and are forced to seek informal employment.
- Lack of access to decent jobs reduce their income, which forces them to live in slums that are mostly populated by other refugees. Given the ongoing political situations in the major source countries, refugee repatriation is not likely in the near future.
- Urban areas highly populated with refugees pose high poverty risks for both the refugee population and natives. Congestion in education, health, and housing services due to high refugee shares is another important policy challenges.
- Failing to appropriately address these issues may lead to persistent urban poverty consequences for the hosting countries and regions.

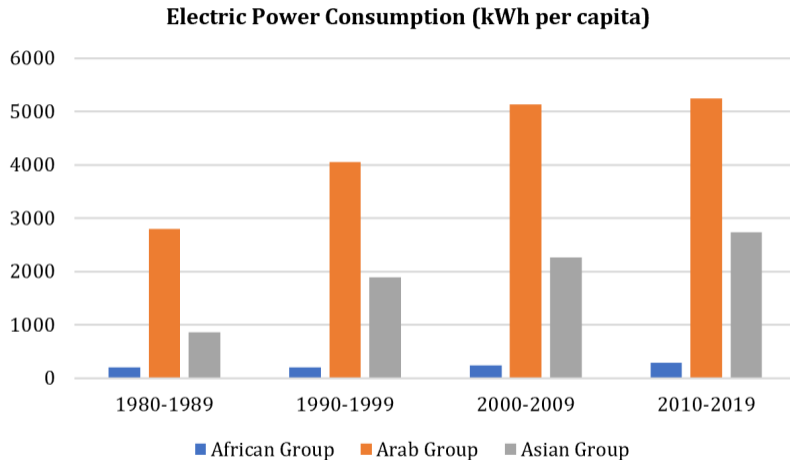
Covid-19 as a new urban poverty challenge

- Highly populated slums expose disadvantaged individuals to Covid-19.
- Risks: Overcrowded areas in slums; Low access to hygienic material and water; Low access to health services; Dependence on public transportation; Non-hygienic employment conditions and low social distancing in workplaces.
- High population density in slums reduces the effectiveness of interventions aiming to locally contain Covid-19 outbreak and develop efficient strategies.
- Indirect urban poverty risks of Covid-19:
 - School closures kept children out of school and increased dropout risk, which expose children to issues such as domestic violence, child labor, and early marriages;
 - Informally employed individuals lost their jobs (formal employment is protected by government guarantees).

The role of infrastructure investment

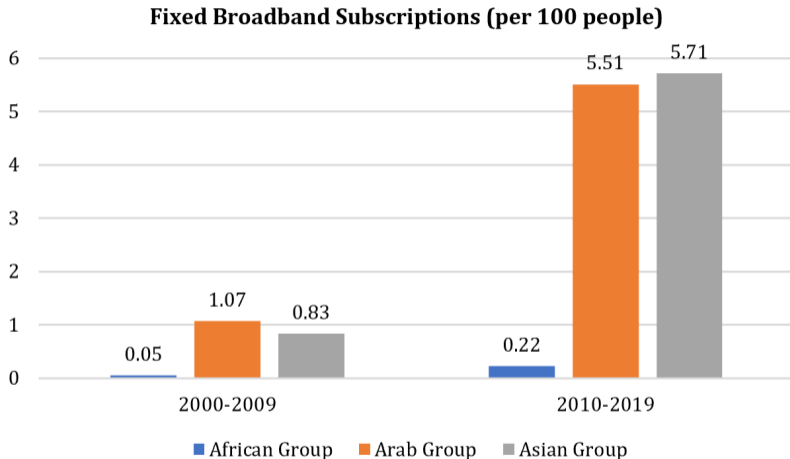
- SDGs underline the importance of pro-poor growth in effective implementation of poverty reduction strategies.
- Infrastructure investment aiming to improve living conditions of urban poor might have extensive positive spillover effects beyond merely improving the well-being of slum residents.
- By improving quality of services and facilities in slums, infrastructure development can reduce socio-economic inequality, increase well-being, boost growth and productivity, and improve policy effectiveness.
- Therefore, sustained infrastructure investment can help achieving the SDG targets for urban poverty reduction.

Electric power consumption by country groups



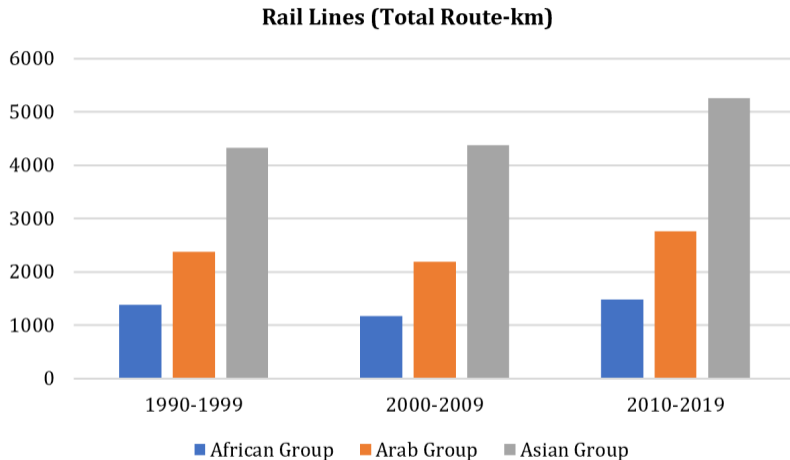
Source: The World Bank, World Development Indicators.

Fixed broadband subscriptions by country groups



Source: The World Bank, World Development Indicators.

Rail lines by country groups



Source: The World Bank, World Development Indicators.

Some examples from the OIC countries (infrastructure investment)

- PPP-financed infrastructure investment in Turkey.
- Indonesia: school construction, nation-wide road/highway/tollway construction, distribution of clean water, investment in internet and telecommunication lines.
- Bangladesh: Padma Bridge, Dhaka Metro Rail, Rooppur Nuclear Power Plant, Purbachal New Town.
- Pakistan: China-Pakistan Economic Corridor (CPEC), other energy related projects.
- Coordinated projects: CASA-1000 aiming to transfer the hydroelectricity surplus in Tajikistan and Kyrgyzstan to Afghanistan and Pakistan.
- Other examples: Senegal, Uganda, Egypt, Cote d'Ivoire, Gambia, and others.

Some examples from the OIC countries (addressing basic needs)

- Creating long-term employment opportunities for disadvantaged groups (Chad - N'Djamena Nadif, Mozambique).
- Voucher programs to address basic needs of the urban poor (Gaza).
- CCTs (Indonesia - Program Keluarga Harapan, Turkey, Jordan, Lebanon).
- Other cash assistance programs (Mozambique).

- Enables the poor to assess their own situations, identify their own needs, and seek solutions based on the available options.
- Enables governments to identify vulnerable populations; employ various algorithms (such as ML and AI tools) to implement targeted policies rather than spending resources widely; and develop more effective regional/sectoral policies.
- Enables entrepreneurs to make better decisions in establishing, developing, and/or expanding their own businesses; making operations more profitable; accessing new markets both nationally and internationally.

- Enables job seekers and employers to have access to better labor market information, which helps eliminating labor market frictions.
- Enables large business owners to make more effective investment decisions in terms of acquiring additional capacity (i.e., new plants, machinery, and equipment).
- Enables international organizations to identify the needs of the poor worldwide and define policy priorities.
- Despite the recent improvements, internet access is still very limited—less than 10 percent—among poor in some OIC countries especially in African group. There is still lots of room for improvement.

Islamic social finance as an urban poverty reduction tool

- Standard poverty reduction approaches attribute a high weight to public policy, while the role of existing socio-cultural mechanisms is not discussed in a systematic way.
- The within-neighborhood networks in the Islamic society actively monitor and identify the needs of the poor, and then mobilize the necessary resources accordingly.
- Islamic social finance institutions, such as sadaqah, waqf, or zakat, are often used to mobilize those resources for poverty reduction. OIC countries are inherently equipped with those institutions.
- The zakat fund in Indonesia is an infrastructure investment tool in slums. There are other examples in Malaysia, Turkey, and Pakistan. Redistributive function of such funds can reduce inequality and eradicate poverty in urban settings.

Policy recommendations

1. Develop more effective urban planning strategies that particularly focus on better management of slums (through dissolving/depopulating slums and preventing formation of new ones).
2. Use the relevant ICT tools and techniques more effectively to monitor slums and accurately identify the urban poor.
3. Design local labor market policies that would help tackling the informality problem; gradually reduce the share of informal employment over time; and create more and decent jobs.
4. Improve resilience to unexpected events—such as natural disasters, large population movements, and health shocks.

5. Activate the Islamic social finance tools and systematically integrate them into the general urban poverty reduction policy toolbox within a well-crafted “policy-mix”; utilize the related ICT tools.
6. Improve urban governance capacity by establishing long-term national strategies, strengthening policy coordination between national and local authorities, enhancing legal and institutional capacity, and engaging with international policy network.
7. Conceptualize urban poverty to improve our understanding of the main policy issues and to facilitate policymaking; improve data collection practices; and develop new instruments to enhance measurement of urban poverty.