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**Urban Poverty in the Third World and the
Influence of Macro-Economic Policies under
Structural Adjustment**

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Institute for Housing and Urban Development Studies

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Summary

The incidence of urban poverty is influenced by macro-economic policies, as can be learned from the effects structural adjustment programmes have had on the life of the poor in developing countries. In this paper six generations of structural adjustment programmes will be distinguished and described in terms of objectives and the instruments used to achieve these objectives. Subsequent generations of structural adjustment programmes have increasingly tried to address the problems of poverty. The success of these adjustment programmes should ultimately be measured in terms of their effects on the local economy, the number of jobs created for poor people, and their level of income.

To substantiate the point, evidence from three case studies in cities in, respectively, Burkina Faso, Ghana and India is presented; it shows clearly that the urban informal sector is, or small and micro-enterprises are, playing a more important role in a liberalised than in a centralised economy. Poor people often make a living in this sector. At the end of the paper a number of measures will be recommended to ensure that macro-economic policies have positive effects on the poor. They range from providing space to small enterprises to gaining recognition for the importance of the informal sector for the urban economy by the municipal authorities. From stimulating innovation diffusion to helping organisations of small entrepreneurs.

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1 INTRODUCTION AND STRUCTURE OF THE PAPER¹

The macro-economic context influences the situation of the urban poor and determines to some extent their chances of 'growing out of poverty'. In this paper examples of growing out of poverty (Indonesia) and of stagnation due to macro-economic circumstances (Ghana and India before adjustment) will be discussed. The questions to be addressed are: What are the important macro-economic policy instruments, and how can 'an enabling macro environment' be created?

Restructuring processes are going on in developing and developed countries. Time and again the question should be asked: what do they imply for urban poor? Different generations of structural adjustment programmes will be distinguished, starting with a shock therapy and ending with institutional adjustment programmes. The generations are summarised in six tables in terms of objectives and instruments. The distinction is based on experience in developing countries, in particular in Jordan, Guyana and Burkina Faso²

The effects of structural adjustment at the city level and some policy options for municipal governments will be described. Three cities will be studied in more detail. In Ahmedabad in India new policies provide new opportunities after years of macro-economic stagnation. In Accra, the capital of Ghana, there is also stagnation in the sense of increasing unemployment in the formal sector, but there is at the same time a very dynamic urban informal sector in which the poor find employment. Finally in Burkina Faso a repeat study of the informal sector in the capital Ouagadougou has shown a process of differentiation and increasing feminisation in the informal sector.

Subsequently the conditions for successful macro-economic policies (benefiting the poor) will be formulated and an order of policy changes suggested. The argument is that structural adjustment programmes involve a lot of institutional development, by definition a slow process, which also requires reflection on the role of the government in the economy and the speed of privatisation. The paper finishes with a section on some misunderstandings with respect to structural adjustment and urban poverty.

¹ An earlier version of this paper was presented as a lecture in the course: Planning and management of programmes to reduce urban poverty, 68th ICHUD Rotterdam: IHS, 21-8-1996. Comments from Michael Lindfield, Monique Peltenburg, Paul Rabé and Emiel Wegelin are acknowledged

² See, respectively, Van Dijk (1991), Van Dijk (1992a) and Dijkman and Van Dijk (1997). Other summaries of the subject matter can be found in Khan et al. (1991) and World Bank (1994)

2 SIX GENERATIONS OF ADJUSTMENT PROGRAMMES

Below, six generations of adjustment programmes are described in terms of objectives to be achieved and instruments to be used. The definition of a structural adjustment programme is: the set of instruments necessary to achieve the formulated policy objectives. For each programme the major objectives, the major instruments, the principal organisation involved and the onset of the approach are described, and one brief remark is made. The order suggests a step-by-step approach (in the sense of stages of development, cf. Rostow, 1956), while the development from the second to the sixth generation rather refers to an historical development. Many combinations of policies are possible, but the shock therapy often is the start of a longer-term structural reform.

Different evaluation studies of the effectiveness of stabilisation and adjustment policies at the macro level are summarised in Van Dijk (1990). Mark that an adjustment programme needs to be made to measure, and should take into account the nature of the internal or external shocks leading to the crisis which has triggered off the adjustment effort. Internal shocks can be a harvest failure, political changes, an inefficient government, an overvalued currency, a strong increase in the rate of interest or an important unproductive investment. External shocks could be changes in the energy prices, a drastic change in the terms of trade, a decrease in foreign aid, a decline in remittances or a strong increase of the international rate of interest.

The following generations of structural adjustment programmes will be discussed:

1. First generation: the shock therapies, the rapidest freeing possible of prices and markets to raise efficiency (definition in the Financial Times 2-3-1992).
2. Second generation: macro stabilisation programmes associated with the International Monetary Fund (IMF). They focus on the balance-of-payments deficit and have a short term perspective.
3. Third generation: structural adjustment programmes with World Bank involvement, a medium-term growth orientation and a focus on external and internal disequilibria.
4. Fourth generation: programmes with sectorial structural adjustment loans.
5. Fifth generation: adjustment programmes paying attention to the social dimension of adjustment as well.
6. Sixth generation: adjustment plans focusing on the necessary institutional changes. Most relevant for former socialist countries, for example in East-European countries and the former USSR republics.

Table 1: First generation adjustment programme: shock therapy

Objectives	Instruments
To fight hyperinflation	Devaluation
To introduce market forces	Freeing of markets
To get the economy going again	Price and trade liberalisation
To raise efficiency	To diminish subsidies
To revitalise the working of markets	Deregulation
Less important role for government	De-monopolisation
To restore the value of the domestic	Austere fiscal and monetary currency policies
In Eastern Europe: to create a private sector and markets	Announce privatisation Exchange rate unification

The major objective of the first generation adjustment programme is to get the markets functioning again. The major instruments are rapid freeing of prices and markets to raise efficiency, including exchange rate unification. The principal organisation involved is the IMF, which has followed this approach since 1982, the year of the debt crisis. One brief remark, it was originally called the heterodox stabilisation policy and applied mainly in Latin America in the case of galloping inflation. Now often used in Eastern Europe.

Table 2: Second-generation adjustment programme: stabilisation

Objectives	Instruments
Stabilisation of the economy	Demand constraint policies
Equilibrium of balance of payments	Devaluation
Equilibrium of government budget	Limitation imports
Limitation of inflation	Increase of exports Reduce budget deficit: expenditure cutting and switching to achieve targeting Reduce and target subsidies Control money supply Control wages IMF loan

The major objective of second-generation adjustment programmes was to achieve short-term economic stabilisation (reduce the deficits of the balance of payments and the government budget). It is second-generation adjustment programme because it represents a certain refinement of the shock-therapy approach described above. The major instruments were mainly traditional macro-economic policies. The principal organisation involved the IMF providing short-term (1 to 2 year) loans. The economic model underlying the analysis was developed by Polak (see Khan et al., 1991).

This approach was adopted in the 1950s, with the start of the Bretton Woods institutions, but has been particularly relevant since the oil crisis in 1972.

Brief remark: the IMF is not a development organisation; its task is to facilitate international trade by supervising international payments. Member countries can borrow a multiple of what they have contributed to IMF, if they take appropriate policy measures to restore the equilibrium on the balance of payments and in the government budget.

Table 3: Third-generation adjustment programme: Bank's adjustment

Objectives	Instruments
External equilibrium	The IMF stabilisation programme Plus: provide incentives
Internal equilibrium: balanced government budget growth	Reorganise inefficient government services
Economic growth	Deregulate interest
To increase private investments	Liberalise imports
Improve competitiveness	Liberalise capital markets
Improve functioning goods and money markets	World Bank medium term loan
Improve tax collection	Priority investment programme Privatise state companies

The major objective of third-generation adjustment programmes is to restore internal and external equilibria and achieve economic growth. The step forward compared with the previous generations of adjustment programmes is that emphasis on the need to continue developing the economy. The major instrument is still macro-economic policies, but some micro-level policies (incentives for farmers and entrepreneurs, for example), plus medium-term (3 to 5 years') programme loans. The model used since 1974 in this case is the Revised Minimum Standards model (cf. Khan et al., 1991, and NAR, 1991). The principal organisation involved is the World Bank, which started with this approach round 1980. One brief remark: The World Bank is a development organisation and hence takes economic growth for an objective.

Table 4: Fourth-generation adjustment programme of sectorial adjustment

Objectives	Instruments
As third generation, plus:	As third generation, plus:
Sectorial growth	Sectorial policy and programme
Private sector development	Privatisation
A different role for government:	Deregulation
efficient ministries	Reorganising ministries
efficient banking sector	Reorganising banking sector
efficient markets	Creating enabling environment

The major objective of fourth-generation adjustment programmes is that since macro policies are not enough, sectorial adjustment loans are prepared to elaborate these policies at the meso (sector and infrastructure) and micro (producer incentives) levels.

Examples are agricultural, industrial, transport and urban sector-adjustment loans. The major instrument is the additional sectorial adjustment loans (SECAL) and the principal organisation involved is the World Bank, which started with this approach in 1979. One brief remark: The World Bank started in 1978 with policy-oriented lending, in 1979 with sector adjustment loans and in 1980 with structural adjustment loans (NAR, 1991). At this stage institutional changes become important, but are not yet in the centre of attention.

Table 5: Fifth-generation adjustment programme: the social dimension

Objectives	Instruments
Limit the social cost of adjustment	As sectorial, plus
Help specific groups	Social programmes, such as: <ul style="list-style-type: none"> • Socio-economic development funds • Public employment schemes • Targeted subsidies or targeted food aid • Construction funds • Safety net constructions

The major objective of fifth-generation adjustment programmes is because of concern with micro-level impact of the programmes, in particular to mitigate the effects for specific weak groups. The major instrument is a number of social programmes. The principal organisations involved are the World Bank and Inter-American Development Bank (IADB). Sometimes the European Community, or bilateral donors, co-finance these programmes, which they consider attractive, given the common objective of poverty alleviation. The beginning of this approach is around 1988 (the introduction of the UNDP-IBRD social dimension of adjustment programme). One brief remark: this is partially a reaction to the critical comments which the Bank received from the United Nations Children Fund (UNICEF), the World Health Organisation (WHO), the International Labour Organisation (ILO) and the Economic Commission for Africa (see Van Dijk, 1990).

Table 6: Sixth-generation institutional adjustment programmes

Objectives	Instruments
To make the transition to market economy	As previous generation plus: Developing regulatory framework
Different role for the government	Drawing up investment code
Improve foreign debt management	Improving financial management
Improve institutional context	Institutional development

The major objective of sixth-generation adjustment programmes is to guide the transition to a market economy and a different role for government: from an active role for the government in the economy to the creation of an enabling environment for private-sector development. The major instrument and the institutional development programmes. The principal organisation involved is the World Bank, sometimes with technical assistance provided by bilateral donors. The beginning of this approach is around 1990s. One brief remark: often this approach is followed by additional institutional sector reform loans. This generation of programmes is particularly

relevant for eastern Europe and a number of Third-World countries passing from a government-controlled to a market economy. This is the latest vintage of adjustment programmes. However, new issues in the future may lead to the development of new generations of adjustment programmes.

3 SOME MISUNDERSTANDINGS ABOUT STRUCTURAL ADJUSTMENT

Some misunderstandings about structural adjustment prevail in eastern Europe as well as in many Third-World countries:

1. "Adjustment leads to poverty!" It is too simple to say that adjustment programmes lead to poverty. It all starts with an economic crisis (following upon an internal or external shock to the economy), which necessitates a structural adjustment programme. After years of overspending (an internal shock), or an increase in the price of imported oil (an external shock), governments are forced to reduce their expenditure and are given choices by the Bretton Woods institutions to achieve this.³ Governments prefer to blame the World Bank and/or IMF for unpopular budget cuts, lay-offs or privatisations, rather than taking the responsibility for the crisis underlying the need for adjustment.

2. "Macro-economic adjustment policies do not change through time." Contrary to the perception of many people, the characteristics of structural-adjustment programmes have changed through time. The emphasis has passed from short-term stabilisation to medium-term macro adjustment, from macro-adjustment to sectorial-adjustment policies and from sectorial to adjustment policies with a social dimension. At present, institutional development programmes, incorporating elements of all these generations of adjustment programmes, try to respond as best they can to the crisis which triggered off the need for adjustment.

3. "Structural adjustment is a uniform product: it is the same in all countries!" As can be concluded from the case studies in this paper, adjustment programmes do not provide uniform prescriptions. To design a good adjustment programme it is important to study the causes of the problems requiring structural adjustment and to assess the local conditions for success. Different causes and local conditions require different remedies!

4. "Institutional development is just the latest fashion!" The sixth-generation institutional adjustment programme is comprehensive, incorporating the necessary institutional changes to move a country from a socialist, or inward orientation with an important role for the government in the economic process, to an outward orientation with a different role for the state. Institutional changes concern: privatisation, the

³ They may have to choose in a certain situation between increasing taxes, reducing subsidies or diminishing the number of people working for the government. These are difficult and painful choices in every country, with different effects for different groups of people.

changing or drafting of investment codes, the reorganisation of government services, a new import and export regime, the reinforcement of private-sector institutions, etc.

5. "Poverty is not the business of adjustment programmes!" Indeed, one often gets the impression that poverty is not the business of adjustment programmes and from the objectives for structural adjustment mentioned in the previous tables, it is not specified as such. Hence more explicit attention for the consequences of structural adjustment programmes for the urban poor is necessary. Creating a socio-economic fund is one way to do this (Van Dijk, 1992b).

6. "Structural-adjustment programmes are forced upon governments!" Too often governments present a structural adjustment programme as dictated by the World Bank or IMF, neglecting the question what were the causes of the economic crisis leading to a request for assistance from these institutions, and denying that governments are given choices such as for example:

- to increase taxes, or to reduce employment in the public sector
- to control wages, or to diminish subsidies
- to increase exports, or to diminish imports
- to diminish certain expenditures and to focus on other expenditures (expenditure switching)
- to privatise activities, or to make them self-financing

Structural-adjustment programmes are not dictated, but they are requested by governments. These governments do have different options and should negotiate with the Bretton Woods institutions to defend the choices they want to make, instead of blaming the World Bank and the IMF for them.

7. "Unpopular policies are not necessary in times of crisis!" As mentioned, governments often use the World Bank or the IMF as an excuse for unpopular policies that would have to be adopted any way.

8. "Structural adjustment requires immediate and complete liberalisation!" The point of view that structural adjustment requires immediate and complete liberalisation is an extreme one. The infant-industry argument goes against it. In reality liberalisation of the importation of goods and services and of capital has to proceed by measured steps. "There is a need to rebuild industrial capacity before opening the floodgates to consumer imports" (Financial Times 2-3-1992). In East Asia "real world business skills and the strength of particular manufacturing sectors" was built up gradually (Financial Times 2-3-1992). The newspaper adds that sometimes explicit incentives for export have been provided, and imports, domestic consumption and finance strictly controlled for decades.

9. "Adjustment is a one-time thing!" It is often considered a one time thing. However, in the present world economy, globalisation forces countries and companies continuously to restructure and adjust their economy and the functioning of their enterprises. This also means a constant relocation of industries.

The conclusion must be that there are many misunderstandings about structural adjustment. More research, and discussions of its results, would be desirable.

4 EFFECTS OF ADJUSTMENT AT THE CITY LEVEL

From an analysis of some structural adjustment programmes, the effects at the city level of adjustment include⁴:

1. *Fewer funds will be available* for urban authorities from the Federal and State levels. The mechanism is that expenditure reduction at the national level will lead to reduced budgets at lower levels of administration and those will be stimulated to collect more money themselves, through taxes or by charging realistic prices for services delivered.
2. Economic activities will react to *increased competition*. Further deregulation and liberalisation (of imports for example) will lead to increased competition. This will entail the need to restructure certain enterprises. Some may lay off labourers, and some of those may start again in the urban informal sector.
3. *Space may be used differently* after structural adjustment and in particular after liberalisation of the land market. On the one hand, the distribution of land is one of the revenue-generating activities of the municipal authorities, which they would like to control. However, on the other hand, liberalisation may take away some of the control mechanisms local authorities used to have. The result may be a different use of land from what was originally planned.
4. Structural adjustment could *increase or decrease migration* to the cities. Probably, it depends largely on the changes in the terms of trade between the rural and the urban areas, and the resulting changes in the rural-urban income distribution.
5. As a result of the changes mentioned, the *quality of life may deteriorate* in cities, although this again will depend on the time it takes for the urban economy to respond positively to the new economic situation.
6. The *urban informal sector may become more important* as people will lose jobs in the government sector and in those parts of the modern industrial sector which cannot survive in a more liberal context. Some of the new unemployed will try their luck in the urban informal sector. Another possibility is that the organisations of small entrepreneurs get to assume a different role in a more liberal context.
7. The existing *infrastructure may erode* if not enough money is spent on repair and maintenance.

⁴ These effects were expected before we started field work on the subject in Ahmedabad India (Van Dijk, 1996).

8. Urban *planning becomes a very different game*. It may be more complex in a liberalised context, and in that case the role of the municipal government may change substantially, from directing a development process to creating an enabling environment to promote certain desired processes.

9. *Planning becomes a more interactive exercise*; it has to become more participative. However, given the importance of involving, for example, the private sector in poverty eradication, we must conclude that it will also become a more difficult process.

10. The urban *income distribution may become more unequal*, because poorer people lose their jobs, while richer ones benefit from the economic liberalisations.

5 POLICY OPTIONS AT THE MUNICIPAL LEVEL

One finding was that there are often more policy options at the municipal level after adjustment than before. The possibilities for local governments to receive money from higher levels of government tend to be less after adjustment. However, in the framework of decentralisation they may be allowed to issue bonds or start public-private partnerships. Fewer funds may result in a cut in expenditure on: infrastructure, health, education or social services. It may, however, also lead to an increase in the supply of private health, education and social services. Municipal governments may be stimulated to negotiate with private partners for the supply of services or infrastructure. This may lead to the exclusion of those who cannot afford to pay, unless conditions are included in the contracts to avoid this.

Secondly, municipal governments may try expenditure switching. They could reduce total expenditure on health, but at the same time increase health care for the poor. Governments tend to put more emphasis on primary and preventive health care and on reaching more people. In the same way, basic education and social services to the very poor, may benefit from a greater share in a smaller total allocation, or expenditure switching.

A Social Impact Amelioration Programme (SIMAP) was proposed by the Government of Guyana as an integral part of its economic restructuring programme (ERP). The overall objective of SIMAP is to cushion the effects of the ERP for the poor in Guyana. The programme focused on the establishment of an institution capable of eliciting, improving, appraising and financing.

To protect the poor from the short-term cost of economic transformation, the Indian authorities intend to insulate key expenditures such as primary education, health and social welfare from fiscal consolidation. They have also taken account of the distributional consequences by deciding to raise controlled prices.

Governments may intervene in certain markets to improve the economic performance, to limit abuses such as fraud, pollution and endangerment of health, and to promote the welfare of the poor. For an overview of the basic functions of the government, see World Bank (1997)⁵.

Finally, municipal authorities may be forced to develop an employment policy. If the economy needs to be stimulated, it can be done in such a way as to create a maximum number of new jobs!

⁵ Points mentioned are: providing a foundation of law, an economic policy framework, basic infrastructure and services, care for the vulnerable and for the environment.

6 THREE CASE STUDIES CONCERNING THE EFFECTS OF ADJUSTMENT

We have had the opportunity to assess the impact of adjustment in three cities, one in Asia and two in Africa. In Ahmedabad, the capital of Gujarat state in India, the theme of investigation was how liberalisation policies had affected the local economy and the urban poor (Van Dijk, 1996). In Ghana we were invited to assess urban poverty after ten years of adjustment, using qualitative poverty-assessment methods (Alberts and Van Dijk, 1994). Finally, in Ouagadougou, the capital of Burkina Faso, our research focused on what structural adjustment would mean for the urban poor. The study is a follow-up to my PhD research (Van Dijk, 1986). Two samples of small enterprises, studied in 1976 and 1991, respectively, are compared to assess the development of the economic activities of the poor through time.

6.1 CASE 1: AHMEDABAD, THE CAPITAL OF GUJARAT, INDIA

How have liberalisation policies affected the Indian economy and the urban poor? The Indian authorities have long regarded poverty alleviation as the overall objective of Indian economic policy. The expectation is that the structural reform plans launched in the early 1990s, the resurgence of economic growth and reduced inflation will diminish India's urban poverty. However, few social dimensions of adjustment programmes have been launched.

According to World Bank indicators, India should be considered a 'low-income economy', with a per capita GDP of US\$ 310 in 1992. The World Bank estimated that, at the end of the 1980s, about 40 per cent of the population (about 340 million people) were living below the poverty line defined during the Seventh Five-year Plan (1985-90) as a household income of Rs. 6,400 per year, or about US\$ 460. The estimation of the Planning Commission is that 29.9 per cent of the population were living below the poverty line in 1987-88. The figures for Andhra Pradesh, Punjab and Orissa are 31.7, 7.2 and 44.7 per cent respectively (Economic Survey, 1994-95, p. 158). A real per capita (purchasing power parity) GDP of US\$ 1150 in 1991, together with a life expectancy of 59.7 years, an average of 2.4 years of schooling and an adult literacy rate of 50 per cent, classifies India as a "low human-development" country, according to UNDP indicators (UNDP, 1994).

A new situation in India developed when the Rao government came to power (Van Dijk 1996). There was no clear structural adjustment programme, nor a clear beginning of an economic restructuring process. However, new opportunities for economic growth were created, by deregulation, by opening up the economy and by promoting exports. Restructuring would be necessary, and was triggered off at the

second phase, when wage costs started to rise, while competition increased as well. In the 1990s, enterprises have increased their production, reaching higher levels of capacity utilisation to meet the demand for their goods and services. The major external shocks for India came before the liberalisation, when the debt burden of the central government increased. Foreign exchange became scarce at that time and revenues from workers in the Middle East declined because of the Gulf war.

The economic recovery from the crisis of 1991-92 has been well-documented (Dreze and Sen, 1995 and World Bank, 1995). Fiscal deficits are at the moment lower than they were in the 1980s. Exports are booming and economic growth has been steady in recent years⁶. The per capita GNP is still estimated to be only 310 US\$ (World Bank News, 16-5-1996). However, according to the 1995-96 Economic Survey of India (GOI, 1995) poverty also registered a decline. A distinction is made by Suryanarayana (1996) between urban poverty (which remained roughly at the same level) and rural poverty (with farmers suffering from a bad harvest and deteriorating terms of trade). Economic policies at the national level have not yet been very clear since the May 1996 and subsequent elections, but the Union Front government was expected to pay more attention to poverty eradication, while keeping the budget deficit down (Financial Times 19-6-1996).

Adjustment has been something generally considered important at the national level, with very little impact at the state level. However, in India the central government and the finance ministry in particular have sought to portray the state governments as foot-draggers in the matter of fiscal reform (Economic and Political Weekly 1996; 797). Still, the States' tax revenue had grown by 16.5 per cent in the 1980s, which suggests that the states had broadened their tax revenues. Grants from the centre have suffered a decline in the 1990s, compared with the 1980s. The Union Front government announced that the budget for state pay and allowances would be frozen for 1997-98, in an effort to reduce government employment (Financial Times 19-6-1996).

The State of Gujarat is facing a series of problems such as droughts, communal problems, power and water shortages. The state government has pursued pro-market policies for a long time, even during the period of socialist planning at the centre. In fact Gujarat State is behaving rather independently from the centre. Most decisions responding to new economic policies are made at the state level. States are responsible, for example, for the patents and sales taxes, and formulate and implement their own economic policies. Gujarat actively tries to attract foreign investors (Financial Times 12-9-1995) and is known as an industry-friendly state. The state is consciously using the fact it has many ports to compete with Maharashtra, stressing, for example, that industrialists who are fed up with the congestion in Bombay's port should come to Gujarat. Such policies have been quite successful in terms of industrial growth and the development of industrial employment in Gujarat. Mark, however, that as far back as the 1960s Gujarat boasted the highest investment in infrastructure, industry, roads, electricity and infrastructure.

A lot has been written about urban poverty in India (recently for example Mukherjee and Mallick, 1996). However, the impact of structural adjustment on urban poverty has not been assessed as systematically as it has been in our study. In India, the impact is often measured by assessing the changes of consumer expenditure during a certain period (based on the National Sample Survey, for example, Suryanaranya, 1996),

⁶ The growth estimated for 1995-96 is six per cent; India Today 31-3-1996.

while poverty is a multi-dimensional problem which could be defined much better in terms of integration in society (versus exclusion) and should be measured in terms of access to employment, housing, water, sanitation, health and education and, in India, to the public distribution system.

Unfortunately, the alleviation of urban poverty seems to have received less attention in India since the liberal economic policies were introduced. Dreze and Sen (1995) conclude that liberalisation and high economic growth alone are not sufficient to eliminate poverty. These policies need to be complemented by promotion of basic education, health care and social security. Kundu (1996) warns that planning in India threatens to be de-linked from poverty alleviation. Some indications of the present lack of interest during the restructuring process for the urban poor are:

- public-employment schemes are not very important any more in Gujarat (Hirway and Terhal, 1994). They have not been replaced by socio-economic development funds (Van Dijk, 1992b).
- the poor are evicted again in those parts of Ahmedabad where the roads need to be widened.
- the BJP state government focuses its efforts on providing infrastructure, which means a choice for indirect poverty-alleviation policies.
- the State government (Gujarat) has taken a more positive attitude towards Nongovernmental organisations (NGOs), but also gives the impression to want to leave the solution of the poverty problem to them.
- the party manifestos for the 1996 elections show no new initiatives as far as poverty reduction and employment creation are concerned (India Today 15-5-1996). The congress party announces its intention to continue the anti-poverty schemes, to lower certain prices and to create 66 million new jobs. The BJP promises more labour-intensive industries and food-for-work programmes (which they did not do in Gujarat), an increase of outlays and a restructuring of public distribution. Finally, the Janata Dal suggests more employment schemes and promises to maximise agro-rural industry. The conclusion is that poverty alleviation was no real issue in the 1996 elections. Advertisements by the Hindu party, the BJP, did not refer to it either.

Some positive aspects of the situation can also be mentioned, however:

- a number of NGOs are active in the slums of Ahmedabad, with educational, health and house improvement projects. The Self-Employed Women Association (SEWA 1996) undertakes a large number of initiatives for women and street vendors, with a considerable impact.
- the private sector seems to be interested in participating in a slum-improvement project, which follows the slum networking approach (Parik 1995).
- many of the textile workers laid off in the 1980s have found new employment.
- the BJP government has a strong pro-business policy and supports in particular indigenous medium-scale enterprises, which often hire the unskilled poor.
- the World Bank promises to put more emphasis on supporting social and urban infrastructure programmes (Times of India 6-5-1996)
- environment has become a real issue and has everything to do with the quality of life in the cities.

- the present higher pace of economic growth means that there is money around, which also benefits the poor.

In conclusion, new possibilities for poverty alleviation have developed in Gujarat since economic liberalisation started. In the first place economic growth has had some positive effects for the poor. It has created jobs and the trend seems to be that wages are rising somewhat in the state. In the second place, the NGO sector has reached a certain level of development and its activities do have some impact, in particular the activities of SEWA. In the third place, a new approach to slum upgrading is in the make which is based on cooperation with the private sector. Finally, the city now has access to private sources of finance, provided projects are submitted in a bankable way. However, poverty may get less attention, unless researchers, politicians and NGOs manage to keep the issue on the agenda.

6.2 CASE 2: A QUALITATIVE POVERTY ASSESSMENT IN ACCRA, GHANA

Economic growth has been very important for the reduction of poverty in countries like Indonesia and Thailand. The same applies to Ghana, where the agricultural and industrial potential needs to be fully developed. The government should formulate and implement the macro-economic policies necessary to create the conditions for economic growth, and try to link rural and urban economic growth. It should take a more positive attitude to the economic activities of the poor and try to stimulate the necessary increase in their productivity. Appropriate macroeconomic policies will help the development of micro and small enterprises. Technology policies could be directed towards developing products and improving production methods of micro and small entrepreneurs. Physical planning policies can help to make available to them land and the appropriate infrastructure.

Structural adjustment policies have been implemented in Ghana since 1983. The World Bank (1994) now considers the country an African success story. The country has moved from adjustment to development and scores well by such macro criteria as its fiscal and exchange-rate policies. Ghana scores fair in terms of monetary policies and adequate on other macro-economic policies (World Bank 1994). The question is whether the urban poor would agree with that assessment. Results of a qualitative poverty assessment in Accra to be presented (Van Dijk 1997) suggest that quite a number of people in Accra (many more than the World Bank estimate) do consider themselves poor.

The research process was oriented to giving voice to local perceptions, understandings and analyses of the causes and experiences of poverty. In the semi-structured interviews the respondents were asked to elaborate on what they consider to be poverty and whether they consider their household to be poor. Although people occasionally felt embarrassed by our questions, the answers were usually very straightforward.

Many households do consider themselves poor, however their perception of poverty was described in many different ways. This resulted in a great variety of poverty definitions. The poor in Accra, the capital of Ghana, are usually not born in that city, but in the rural areas. Half the households interviewed in one neighbourhood consider that they are poor. They mentioned many reasons why. These reasons were classified into eight categories which were then used as dimensions of poverty and as criteria for

a poverty score (see table 7). We subsequently ranked the households in our sample as poor by their own criteria, if the score was greater than zero.

The group of 'subjectively' poor households can eventually be compared with the group of urban poor according to the Ghana Living Standards Survey (GLSS) definition, using some poverty line (cf. Chhibbers and Leechor, 1993)⁷. The qualitative poverty assessment goes beyond identifying the poor. It also links poverty to what people are doing to overcome poverty by describing their coping strategies. Households have adopted various coping strategies to overcome the implications of their state of poverty. In their daily struggle for survival, respondents have evolved certain patterns of behaviour and activity which enable them to manage or cope with their resource-poor conditions.

Table 7: Criteria for a qualitative poverty definition

1	<p>NO MONEY for BASIC NEEDS, defined as:</p> <ul style="list-style-type: none"> - not able to buy sufficient food - not able to pay school fees - not able to take care of medical expenses - not able to pay the rent - not able to start even a very small business
2	<p>NO ASSETS:</p> <ul style="list-style-type: none"> - no proper house - no means of production - no employable skills - no household appliances
3	<p>BAD APPEARANCE:</p> <ul style="list-style-type: none"> - the way people are dressed - the way they walk, their movement, their gait, the way they carry themselves - their sitting - their speech - if there is no show off
4	<p>UNEMPLOYED (or UNDER-EMPLOYED) adults in the household, or adults depending on odd or irregular jobs (nature of employment)</p>
5	<p>A bad FAMILY SITUATION:</p> <ul style="list-style-type: none"> - divorced (abandoned) women with children - families left behind by migrants who stopped remitting - old people not taken care of by their children - families with no support or fall-back

⁷ The idea of this comparison is to find out whether more people are poor by their own criteria than by the criterion that their expenditures are for example below two thirds of the national average. Such a comparison can help us to understand better who are poor and why they are poor.

6	MISFORTUNE:
	- disease
	- accidents or incidents
	- recent death in the family (funeral obligations)
	- eviction with goods or means of production confiscated
	- refugee
7	MISCONDUCT:
	- dubious moral standards
	- alcoholism, drug addiction
	- prostitution
8	VULNERABILITY:
	- at present not poor by these criteria, but could easily fall into poverty
	- marginal ability to cope

Specific policies to develop the economic activities of the poor were recommended (see table 8).

Table 8: Policies, projects for urban poor in Accra

Constraint	Suggested Policies	Project Activities
1. Low labour productivity	Training and technical assistance Create technology centres	Use existing training facilities Use universities and laboratories
2. Limited access to capital	Stimulate access to existing formal and informal credit institutions	Use existing formal and informal credit facilities; try to link them
3. Barriers to entry	Deregulate Avoid legal barriers	Help entrepreneurs to deal with the requirements
4. Cost of formalisation	Facilitate administrative procedures	Help entrepreneurs to deal with formalities
5. Competition	Stimulate specialisation Train in design	Assistance to find niche markets Improve quality
6. Lack of networks	Stimulate networking by using networks for consultations	Create special purpose cooperatives Stimulate trade associations
7. Seasonality	Stimulate diversification	Help with storing
8. Marketing	Stimulate diversification	Make available good locations
9. Lack of appropriate technology	Stimulate the development of labour intensive technologies	Promote clustering and technology centres
10. Unclear tax system	Explain different taxes and their use	Train entrepreneur to take taxes into account

At present many rules and regulations complicate the life of small entrepreneurs; selective deregulation will help the development of this sector. Similarly a large number of taxes need to be paid and it is not always clear to the entrepreneurs how much and which taxes need to be paid for what purpose. The government should clarify the system and redesign it in such a way that small enterprises are not driven into illegality because of the large number of taxes and the lack of clarity about them.

The conclusion from the Ghanaian case can be that there is an important role for different layers of government to help eliminate urban poverty in the country. The national government creates the macro-economic conditions, but the city government would be responsible for most of the small-enterprise promotion policies listed in table 8. With so many poor employed in this sector of small and micro businesses, these policies will help to alleviate poverty, however.

6.3 CASE 3: THE POOR ARE FEMALE ENTREPRENEURS IN OUAGADOUGOU, BURKINA FASO

Economic growth slowed down in Burkina Faso in 1989 and 1990 by 0.4 and 1.3 per cent respectively, which would mean in per capita terms a decrease of 3.0 and 1.3 per cent. Underlying factors were a decrease in agricultural production due to irregular weather conditions and a decline in gross domestic savings and investments. Typically, the balance of payments and the government budget had sharply increased while the revolutionary president Thomas Sankara was in power (1982-87). The private sector had lost its confidence in the government and investments declined. The government tried itself to replace private sector initiative and embarked on a number of projects which drained the budget, while fiscal revenues and substantial economic results were lagging.

The new government in 1987 became aware of the limits of the 'dirigiste' approach to development (trying to steer the process), which had characterised the Sankara period. In 1988 they started discussions of economic management with the World Bank and the International Monetary Fund (IMF). The Government started to prepare reforms which would liberalise the economy and increase the role of the private sector in development. The general aim was to achieve more rapid growth and sustained development in the future. More specifically, production needed to increase in different sectors of the economy. Sectorial adjustment loans were given by the World Bank (with specific objectives) for the agricultural, the transport and the private sector.

To achieve these objectives the Government intended (IMF Survey, 1-4-1991):

- a. To increase the production and exports of the agricultural sector
- b. To broaden the role of private investment through liberalisation of trade, price decontrol, labour deregulation, and rehabilitation of the banking system.
- c. To strengthen and rationalise public-sector management.
- d. To improve the quality of human resources through better education and health services.

The main research question was what structural adjustment would mean to the urban poor. The research undertaken paid particular attention to the effects of structural adjustment for women, because more and more poor women depend on the informal sector to survive in the city (Dijkman and Van Dijk 1997). It was found that a growing number of women in Ouagadougou are no longer maintained by a husband⁸.

⁸ The study concerned a sample of 350 small businesses, half of which were run by women.

34% of the sample were single women, for example. Divorce, uncommon in rural areas, becomes possible for men and women in the capital. Widows no longer go back to the village or join the household of a family member of the deceased husband. Finally, a number of young girls wait longer before deciding to marry if at all.

Women in Ouagadougou can cross several barriers to start a currently male-dominated activity, notably those of capital, labour and workspace, but they will encounter serious problems trying to cross the barriers to education and skill training and may find it hard to market their products or services. Also it can be difficult for women to employ qualified labour. These problems direct women to stick to the limited range of traditional female activities. Because of their domestic duties, women acquire skills and equipment that they use in their economic activities. The market potential of these activities is low, however, while the need for women to earn an income becomes more urgent.

For policy reasons it was important to identify which barriers to entry can be removed. Women can get access to activities if the authorities help them to gain access to relevant training in markets where either male producers instead of female are active, or where female customers dominate. For those reasons women have tried tailoring and hairdressing. Here customers are found among the richer women, and training is provided specifically in women schools or in the informal sector.

Economic growth has also been very important for the reduction of poverty in Burkina Faso, but a more positive attitude should also be taken to the economic activities of women and an attempt should be made to stimulate the necessary increase in the productivity of these activities. Appropriate macro-economic policies will help the development of their micro and small enterprises. Technology policies could be directed towards developing products and improving the production methods of these entrepreneurs.

Again, many rules and regulations make the life of a female entrepreneur complicated. Selective deregulation may stimulate the development of their activities. A whole range of projects and policies are directed at small enterprises in general, and at the economic activities of women in particular. They can contribute to a labour-intensive development of these economic activities. Often, the private sector will have to be encouraged to start these activities, to provide access to small entrepreneurs and to subcontract to them.

On the basis of the research the following recommendations were made:

- (a) To promote the development of associations of small entrepreneurs. In many branches there are already associations and some of them work very well. They should function as a platform for discussion, exchange of new ideas and experiences, and should be the interlocutor for negotiations with government. Giving small entrepreneurs the opportunity to communicate will also help them to build up the networks they need to expand their businesses. Female entrepreneurs often participate and sometimes play a key role in these organisations.
- (b) Local and municipal governments should reserve space and provide infrastructure for micro and small enterprises.
- (c) The tax system needs to be clarified and the government should communicate with entrepreneurs about how they will benefit from the payment of these taxes.

- (d) Subcontracting and other relations among micro, small, medium and large enterprises need to be developed.
- (e) Technology development and innovation diffusion need to be stimulated. Female entrepreneurs need special attention. Multi-purpose equipment can help them to become more innovative.
- (f) The development of clusters of economic activities should be stimulated, including the physical grouping of enterprises of different sizes.
- (g) Aid should be given to female entrepreneurs to gain access to credit, training and marketing channels. Private banks and training institutes should be encouraged to become involved in this important market.
- (h) Innovation-diffusion centres can play an important role in the development of small and micro enterprises. To assure maximum use of these centres, also by female entrepreneurs, a business and technology support system needs to be put in place (Pedersen et al., eds, 1994).
- (i) Entrepreneurship development programmes can be useful, particularly for female entrepreneurs and enterprises, which are blocked at a certain level and find it difficult to take the next step.
- (j) Clusters, networks and different forms of cooperation should be used to bring in new ideas in this dynamic sector.
- (k) Access to credit and government orders should be facilitated for entrepreneurs who cooperate and for those who participate in clusters and networks.
- (l) Barriers to entry should be diminished through deregulation and by facilitating administrative procedures. Information and assistance should be given to entrepreneurs on how to deal with existing formal requirements.

The conclusion of the Ouagadougou study was that adjustment creates new opportunities for small entrepreneurs, but at the same time leads to differentiation. In particular female entrepreneurs risk to remain marginal and get very few chances to improve their situation, unless special attention is paid to their needs.

7 ENSURING THAT MACRO-ECONOMIC POLICIES ALSO HELP THE POOR

From the case studies the conclusion may be that macro-economic policies can be called successful if they create sufficient new opportunities for small enterprises in which poor people work. However, not all urban poor will benefit from these new opportunities and hence other safety nets remain necessary. In the long run, only if the poor can find work can they grow out of poverty.

Some conditions for the success of the macro-economic policies have been identified in the literature:

1. Some degree of democracy is necessary to obtain popular support for the adjustment programme. Sometimes absolute regimes (Pinochet in Chile) did the job, but such regimes are not sustainable in the long run. However, too many elections may also spoil the positive effects of reforms, as can be seen in India. In particular if politicians consider elections an opportunity to spend more government money to assure their re-election, the overall effects may be negative.
2. Governments should gain the confidence of the private sector, which was for example a great problem in Guyana (Van Dijk, 1992a). In addition there needs to be a private sector to pick up the opportunities created by the shock therapy. NGOs, as the non-commercial private sector, can play an important role in mitigating the short-term negative effects of adjustment.
3. Specific programmes for the urban poor need to be undertaken. This assumes the existence of a non-commercial private sector helping to mitigate negative socio-economic effects (a problem in Guyana and Jordan; Van Dijk, 1991). Besides creating a socio-economic development fund, other possibilities are:
 - a construction or infrastructure development fund
 - labour-intensive public works
 - subsidies targeted on basic needs
 - direct income transfers to the most affected groups
 - programmes to stimulate self-employment and the creation of small enterprise
4. Foreign aid and preferably even foreign investment need to come forward to support the reform programmes.
5. Access to western markets facilitates the success of shock programmes in the Third world and eastern Europe.

6. Structural adjustment is an interrelated process, involving structural reforms, institutional developments and the quest for macro-economic stability, for social security and for political support. Additional reforms need to be carried through in a certain sequence. A very interesting sequencing of economic reforms over a period of ten years is given by Gelb and Gray (1991). It makes clear that adjustment is not a short-term thing. A recent seminar organised by the IMF (IMF Survey, 11-1-1993) remarked on the sequencing of economic reforms that four factors are important (see table 9).

Table 9: IMF-suggested sequencing of economic reforms

- a. Macrostability should be emphasised at the outset, because it is a necessary precondition to the successful development of market economies.
 - b. Countries should move quickly (equals shock therapy; MPVD) to align internal relative prices for tradable goods and services with external relative prices, because appropriate relative prices are critical for obtaining the appropriate allocation of resources.
 - c. Economies in transition can afford to postpone labour market reforms and the liberalisation of financial markets.
 - d. At an early stage attention should be paid to the question of large state enterprises
-

8 CONCLUSION

Adjustment policies and economic reforms initiated under structural adjustment programmes have partially succeeded in shifting the terms of trade from non-tradables to tradables (facilitating exports). Restrictive monetary and fiscal policies, which were usually part of the adjustment programmes, have affected the urban poor through contractions in the labour market.

The most important element of the resource endowment of the urban poor is their labour. Developments in labour markets therefore have a direct impact on the living conditions of these poor. The urban poor are particularly vulnerable to contractions in the labour market.

Establishing the link between the poverty of urban households and the economic activities of the household members enhances the understanding of their vulnerability. The household's resource endowment and therefore their capacity to cope is determined by what they initially own and what they can acquire through exchange.

More explicit attention to the consequences of structural adjustment programmes for the urban poor is necessary. Some recommendations have been formulated in this paper to ensure that macro-economic policies have more positive effects on the urban poor. They range from macro-economic policies to policies to be formulated and implemented at the city level by local authorities. Alleviating urban poverty starts with the recognition of the importance of the urban informal sector for the poor and should lead to a more positive attitude to these activities and the implementation of the policy measures suggested, which would help to develop the economic activities of the urban poor.

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