

Urban Governance, Partnership and Poverty

Theme Paper 2:

Urban Economic Growth and Poverty Reduction

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Summary

This paper is concerned with exploring the relationship between urban economic growth and poverty reduction. Its core objective is to try to identify what room for manoeuvre municipal government has in terms of either facilitating a process of “trickle down” or mitigating the worst effects of economic decline on poor households.

The first section considers the general debates on poverty to identify lessons for the municipal level. The importance of primary education and health, together with labour intensive growth, is confirmed. It is noted that the former are the responsibility of municipal governments and to some extent dependent upon central-local financial relations. It is also suggested that accountability is an important dimension in service delivery which the top-down macro-economic literature often misses. The paper then moves on to review studies of urban economic growth and poverty, noting the importance of “flexibility” on the part of municipalities and the importance of infrastructure in urban development.

The following section is concerned to unpack the mechanism through which growth is transmitted to the poor, the response of poor households, and the potential role of the municipality in both facilitating and ameliorating impacts. This is done across four dimensions of poverty (using Moser’s recent work) defined by an asset/capital framework, namely income capital, human capital, social capital and productive capital.

Overall, the municipality potentially has a far greater negative than positive role in the process. Thus, inappropriate planning - especially destroying jobs in the informal sector - and the lack of infrastructure and a lack of security are all very damaging to economic growth and to the poor. Furthermore, they serve to undermine the formation of social capital. This is very clear from evidence of these process from South Africa, Kenya, India and Ghana. However the municipality can also help the poor by providing its mandated services effectively, notably health, education and infrastructure; the failure to provide these hurts the poor significantly in terms of lost economic opportunities, constraints upon labour intensive growth and a decline in human capital. Planning and regulation policies are potentially important in facilitating the development of productive capital. The practice of traditional planning, by-laws and regulation can have a significant impact upon poor households.

The main conclusion that emerges is that the municipality should stick to its traditional roles of providing infrastructure, health and education services, and planning. For policy makers this means avoiding employment-limiting activities as well as fulfilling their traditional functions reasonably well. Thus, not providing poor urban governance is more important than providing good urban governance.

Introduction

The aim of this paper is to explore the relationship between urban economic growth and poverty reduction. This is an attempt to “urbanise” and localise the debate on economic growth and poverty reduction which has dominated economic thinking for at least the last 150 years. However, it should be noted at the outset that this paper will not attempt to rehearse all the arguments about the relationship between growth and poverty reduction. There is, for example, a heated debate about whether the economic growth of the Victorian era in Britain did or did not improve the lot of the working population in Victorian cities.

The focus of this paper is to explore the “black box” of how growth actually does “trickle down” to the poorest. The work in this field characteristically focuses on the national level, using aggregate data such as GDP per capita, and then compares this with poverty indicators such as proportion of population below the poverty line or social indicators such as infant mortality or under-five (U5) mortality. This is the method that was primarily adopted in the World Bank’s 1990 report on poverty (World Bank, 1990). The World Bank, however, went on to suggest that the key to reduction in poverty lies in the policy combination of labour-intensive growth, investment in human capital - primary education and primary health - and safety nets for the poor.

A critical concern of this paper is to unpack and to operationalize the term “labour-intensive growth”. In policy terms the aim is to see how municipalities can intervene to help facilitate this process.¹ This concern to identify what policy room for manoeuvre municipalities possess was an explicit aspect of the Terms of Reference for this ESCOR study. This in itself reflects donor funding capacities and priorities. As we shall see this creates two formidable problems; firstly, a lack of data at the “urban” level and secondly, the fact that the majority of the policy levers that might realistically effect poverty reduction are actually at the national level. We shall consider these in turn.

While the approach taken in this paper is sympathetic to Jane Jacobs’ observation that urban areas or cities are the natural unit of economic growth and development (Jacobs, 1984), the fact remains, as she herself observes, that almost all economic data are collected at the national level. It is therefore very difficult to acquire economic growth data - such as GDP or GNP - at an urban level. Furthermore it is also very difficult to acquire disaggregated figures on poverty (income or expenditure definitions) at the urban level. In India, for example, while NSSs (National Statistical Surveys) provide a 50-year time series on poverty lines broken down into urban and rural poverty by states, it is simply not possible to get figures broken down by urban area². It is therefore impossible to know what proportion of, say, Bombay or Bangalore live below a poverty line. The situation is usually worse for other dimensions of poverty such as infant mortality or literacy. In most cases poverty in specific urban areas has to

¹ I should like to acknowledge Sheila Meike’s contribution for this idea from the original workshop in 1996 to discuss the ToR for this ESCOR project on Urban Governance and the Environment.

² Personal Communication Martin Ravillion World Bank who suggested that if one had a Nobel Prize then it might be possible to get access to the original NSS data.

be estimated using a proxy indicator - often the “urban” component of a national figure. In the Indian case it involves the statewise urban component. This is, of course, necessary but is also internally inconsistent with our general argument about the “specificity” of each urban centre.

The second problem with the available data is that, with few exceptions, there is no simple indicator of urban economic growth equivalent to GDP. It is therefore necessary to use a proxy measure which captures urban economic growth; where possible this might involve key indicators for the local “lead economic” sector.³ Alternatively it is also possible to use a national aggregate proxy for urban/industrial growth - this might for example include industrial or manufacturing growth. This again offends the “specificity” argument mentioned above.

Finally it could be argued that urban population growth itself is a proxy for urban economic growth. This is however problematic. Not only does it appear tautological, but the urban growth identified is a function of rural-urban income differences (assuming a Harris-Todaro model) rather than a measure of specifically urban economic growth. Thus, urban population growth may, in fact, measure rural problems as much as urban economic growth. There are, for example, countries in Sub Saharan Africa such as Tanzania that have experienced substantial annual urban growth of 6.7% between 1980 and 1995, despite an industrial growth rate of only 1.8% during the 1980s (World Bank, 1997).

Attempting to solve our data problems we shall first ask if there are lessons from the debate on national economic growth and poverty reduction that we could usefully “urbanise” and/or see whether there are lessons that could be applied at a municipal level. Secondly, we shall also consider the specific examples of cities that have experienced economic growth - whether as part of a conscious policy process or not - and its impact upon the poorest. The final route is to consider at a theoretical level how we might expect the “transmission” of urban economic growth to “trickle down” to the urban poor. The sections of this paper follow this format.

Throughout we shall try to adopt a multi-dimensional approach to poverty (see Beall and Kanji, 1999). Where appropriate we will use a capital/asset framework (Moser, 1998). Furthermore this paper begins by assuming that urban economic growth is a reality and will not discuss the area in which cities are able to encourage such activity (see Vidler, 1999). Our concern is with the second order question of how the municipality can facilitate and/or enable the poor to benefit from economic growth and in trying to identify the room for manoeuvre municipalities possess. This also reflects a notion that in a globalised world making the best use you can out of growth - working with growth - is in reality the “only game in town”. This is in many respects a “top down” approach. Where appropriate we shall also attempt to address the question in a more bottom up and negative way; namely “why would the poor not participate in this growth process”?⁴ This will involve us in considering “barriers” to the poor’s involvement as well as “transmission mechanisms”.

³ This was the method we developed for the analysis of small and medium towns in India (see, Amis, 1994)

⁴ I am grateful to Rakesh Mohan for this comment at the ESCOR workshop at Birmingham in January 1997.

Finally, we should perhaps acknowledge the irony of discussing the theme of urban economic growth in the context of the post-1997 financial meltdown in South East Asia and elsewhere. Firstly the paper was conceived a few years earlier, which illustrates the current speed of global change.⁵ Secondly it was to some extent influenced by work in India - most notably the experience of Visakhapatnam in India, where it was discovered that casual wages had doubled in the last five years (Amis,1997a). To acknowledge these changes in the section on transmission mechanisms we shall also look at how economic decline is transmitted. This however is a relatively rich literature (for the latest contribution see Moser, 1998). A related theme, which emerges, is to what extent Municipal governments are able to ameliorate such a process. Municipal government can be seen as having both an “attacking” role in facilitating the poor’s participation in economic growth but also a “defensive” role in protecting them from the impacts of economic decline. As we shall see local urban government may be able to make a more significant contribution in the latter than the former role. Nevertheless it is still felt, for some of the reasons outlined above, that the issues of unpacking “labour intensive growth”, and seeing what room for manoeuvre there is at the municipal level, are still important to consider. Furthermore, it is an area where relatively little research⁶ has been carried out.

The table below provides growth and poverty indicators for the countries covered by the research, together with some reference countries. The GNP is measured in PPPs (Purchasing Power Parities) which are a recent attempt by the World Bank to account for differences in the cost of living between countries. The overall effect is to lift the GNPs of poor countries and to tend to reduce the GNP figures for rich countries. The next column is the figure for the average annual growth rate of private consumption per capita between 1980 and 1996. This has then been corrected for distribution⁷. “Improvements in private consumption per capita are generally associated with a reduction in poverty, but where the distribution is unequal, the poor may not share in the improvement. The relationship between the rate of poverty reduction and the distribution of income or consumption, as measured by an index such as a Gini index, is complicated. But Ravallion 1997 has found that the rate of poverty reduction is directly proportional to the distribution-corrected rate of growth of private consumption.” (World Bank, 1999,234). The next columns are the per cent of population below that latest national poverty line and the latest under-five mortality rate (per 1,000).

⁵ The speed of the current (1999) “meltup” in certain Asian economies –South Korea and Thailand- is already challenging this crisis perception.

⁶ The results of a BIDS search of the Social Science Citations Index over the last 5-year yielded only two relevant articles apart from the well known urban poverty literature.

⁷ “The distribution-corrected growth rate is 1 minus the Gini index multiplied by the average annual rate of growth of private consumption” (World Bank,1999,234)

Growth and Poverty Indicators for selected Countries (bold in study)

Country (Urban as per cent of total population)	GNP (PPP) per capita, US\$ 1997	Private per capita Consumption Growth (%) D'btn adjusted 1980-1996	Urban poverty % below national poverty line (year)	U5 mortality rate per 1,000 1996
Phil'pnes (56)	3,670	0.4	39 (1991)	44
Indonesia (37)	3,450	2.8	17 (1990)	60
Malaysia (55)	10,920	1.7	N/A.	14
Thailand (21)	6,590	3.0	10 (1992)	38
China (32)	3,570	4.5	2 (1995)	39
India (27)	1,650	1.6	31 (1994)	85
Sri Lanka(23)	2,460	1.8	29 (1990/1)	19
Kenya (29)	1,110	0.4	29 (1992)	90
Ghana (27)	1,790	0.1	27 (1992)	110
S Africa (50)	7,490	0.0	N/A.	66
Uganda (13)	1,050	1.0	N/A.	141
Zimbabwe (33)	2,280	N/A.	N/A.	86
Chile (84)	12,080	1.4	N/A.	13
Brazil (80)	6,240	0.0	13 (1990)	42
Mexico (74)	8,120	-0.1	N/A.	36
Colombia (74)	6,720	0.6	8 (1992)	31

Source: World Development Report 1998/99

Of the seven countries in the case study, India, Sri Lanka, Kenya and Ghana all have GNP per capita at PPPs of around 1,000 to 2,500 US \$, while the Philippines is slightly higher at 3,670, South Africa higher at 7,490, with Chile the highest at 12,080. On the rate of growth of private per capita consumption between 1980 and 1996 which, as explained above, gives a measure of the potential for poverty reduction, the case study countries were generally low, especially when compared with other countries. Within Asia the Philippines at 0.4%, India at 1.6% and Sri Lanka at 1.8% were low in comparison to all other Asia countries in the Table and much less than China at 4.5% and Thailand at 3.0%. Within Africa the figures are generally very low with Kenya at 0.4%, Ghana at 0.1%, and South Africa at 0.0%. For Latin America while the overall level is low, Chile at 1.4% was the highest represented in the Table. Overall, with the possible exception of Sri Lanka, our case study countries are not ones where - over the last twenty years - the conditions have been favourable to a reduction in poverty through economic growth.

On urban poverty - where data is available - our case study countries are all at the high end of the spectrum; the Philippines is the highest with 39% below a National Poverty line, with India 31%, Sri Lanka and Kenya at 29%, and Ghana at 27%. Finally for Social Indicators (U5 Mortality) there is the largest range from very low rates in Chile and Sri Lanka at 13 and 19 deaths per 1000, up to 110 in Ghana and 90 in Kenya.

Although well-rehearsed the excellent performance of Sri Lanka alongside its low GNP is worth noting.

Urban poverty: are there lessons from debates about poverty and policy in general?

This section concentrates on the lessons we can learn from wider debates about poverty that may be relevant to our focus on municipal government. At this stage it is interesting to consider in a wider context the possible strategies of urban poverty alleviation. A criticism of “urban - and rural - poverty alleviation” strategies is that they have stayed within a narrow sectoral focus. These alleviation programmes - being targeted at poverty - have resulted in a literature which evaluates them to the exclusion of considering the medium to long run processes that will reduce poverty. The latter are necessary for a sustainable approach to poverty alleviation (Mohan and Thottan, 1992).

Furthermore there has been a surprising lack of interaction between this literature and the more general literature that relates poverty to the process of economic development. The aim of this section is to bridge this gap⁸. Conventional macro-economic debates about poverty focus on its relationship to economic growth. This often takes the form of questioning the relationship between incomes - and GNP per capita - and other welfare objectives. This is not the place to consider this debate but suffice to note that considerable variation exists; thus Sri Lanka, and the Indian State of Kerala, have infant mortality rates and life expectancy rates that are higher or the same as substantially richer (GNP terms) countries like Brazil or South Africa. Furthermore there is substantial variation in welfare indicators within India, between states with similar levels of income and poverty; thus a girl born in Kerala can expect to live *twenty years* longer than one born in Uttar Pradesh (Dreze and Sen 1997:)

However, we must not ignore GNP per capita and economic growth because, as Amartya Sen has argued, “a high level of GNP provides an *opportunity* for improving nutrition and other basic capabilities [poverty], but that opportunity may or may not be seized.” (Dreze and Sen, 1989, 181). Indeed a recent study of the changes - the decline - in poverty (urban and rural) in India from the 1950s emphasises the importance of economic growth as the most important determinate of the decline in poverty levels (Ravallion and Datt, 1996). It is worth stating that this relationship - depending upon the nature of municipal finance, as we shall see - can also apply at the urban economic level.

Dreze and Sen distinguish between “growth mediated security” and “support led security”. The former relies upon promoting economic growth and taking advantage of the extra resources, both in terms of private incomes and providing a basis for public support. The latter approach directly attacks the problem through public programmes such as employment provision, income redistribution, health care, education and social assistance before an overall transformation in the resource situation. However they also note that there are important complementarities in the two strategies; in particular the assistance to growth which the support led strategy affords. Furthermore, they note that both strategies

⁸ It is also worth noting that the general literature of Indian poverty routinely ignores urban poverty as an issue for further investigation and inquiry. (See for example Dreze and Sen, 1995; 1997: Ravallion and Datt, 1996).

have been successful in reducing poverty in countries as diverse as Hong Kong, Singapore and South Korea (“growth mediated security”), and China, Jamaica, Chile and Costa Rica (“support led security”) (Dreze and Sen, 1989,183-203).

However, they also note the similarities in the two strategies; namely the critical importance of public provision for primary health care and basic education. Furthermore, if economic growth is to improve living conditions it must be of a participatory form which provides remunerative employment on a wide scale. This itself is also critically dependent upon the forms of public provisioning mentioned above (Dreze and Sen, 1989,268-270). This is consistent with the World Bank’s 1990 World Development Report which emphasised the importance of labour-intensive growth and primary education and health for both boys and girls in successful poverty alleviation (World Bank, 1990). There is indeed an increasing consensus around the importance of the latter. In many respects these interventions are necessary to “make trickle-down work”. The substantial study on the experience of Bogota in Colombia in the 1970s makes similar observations at a Metropolitan level (Mohan, 1994).

A recent book published by Oxfam on Economic Growth with Equity: Lessons from East Asia is a welcome attempt to explore these issues in more depth (Watkins, 1998). It is also important as one of the few recent publications to have incorporated some of the lessons from the 1997 meltdown. Furthermore the study is informed by, and is an excellent synthesis of, the most recent World Bank and other agencies’ research. Given its origin as part of Oxfam’s insight series to support their advocacy work, what is surprising is the extent of agreement with the World Bank’s position. Indeed, the disagreements with the Bank seem to be more contrived than real. Firstly, the study strongly re-emphasises the importance of labour intensive growth and investment in human capital (health and education) - what is interesting is the attempt to be more specific. In this formulation the three lessons from East Asia are: firstly that poverty is not inevitable, secondly the importance of what is labelled growth with equity (which includes three elements: getting the social policy “fundamentals” right; rural development through redistribution and coherent policies for labour-intensive manufacturing) and thirdly the importance of political commitment. We shall consider them in turn.

The figures from East Asia are impressive: thus in the mid 1970s six out of ten people in East Asia lived in poverty by 1995 only two out of ten experienced poverty. In absolute numbers, between 1970 and 1990 175 million moved out of poverty in China, while 40 million did in Indonesia. In Indonesia the percentage of poor fell from 60 to 11 over the two decades up to 1995. (Watkins, 1998, 29-30). The early indications are that it may have increased to around 40% in 1998 as a result of the financial crisis in Indonesia. The contrast between reducing poverty levels over a generation and then losing perhaps half those gains in a year is highly significant⁹. (It is worth noting that this is based on an income and/or expenditure poverty line definition¹⁰). There are clearly very important lessons here in terms of

⁹ Personal Communication David Walton World Bank at DFIDs Economist retreat November 1998

¹⁰ There are three important caveats about the Indonesian “success story”; firstly Indonesia’s poverty line is dependent upon one (increasingly politicised) data set Susenas (like India), secondly the line itself is in fact more stringent than others used, and thirdly micro studies have consistently diverged. The latter may reflect which dimensions of poverty are being measured. (Hill, 1994, 107). Interestingly this was pattern that we observed in Uganda for the Evaluation of DFIDs support for

development - both in the success in reducing poverty in East Asia but also in the speed with which poverty can worsen. The contrast and asymmetry between taking almost a generation to effect a significant impact on poverty, and then to appear to lose most of the gains in a year, is a theme we shall return to¹¹. To finish on an optimistic note - especially for Sub Saharan Africa - Indonesia in 1965 was characterised as a “basket case” suffering from rampant inflation, political chaos, weak administrative control, no private investment since the 1930s and unable to feed itself (Hill, 1994). Major transformations are therefore possible

The main focus of the study however is on the growth with equity argument. Firstly the importance of growth is emphasised and, perhaps surprising coming from Oxfam, is the following statement - based on World Bank research - that “An impressive body of evidence has been compiled to show that the incomes of the poor are increased by growth, and that a rising tide of wealth raises all boats” (Watkins, 1998,23). However the study goes on to unpack growth, noting the success of East Asia where “the poor...have benefited from growth not because the gains have “trickled down” to them, but because the development of their productive potential has been central to the growth process” (Watkins, 1998,24). This study emphasises that for successful poverty reduction - namely growth with equity - three interlocking policy elements must be in place: pro-poor social policies, redistributive rural development and labour intensive manufacturing. Considerable stress is placed on the necessity of all three elements; they can not be selected on a pick and choose basis. Examples are given where the approach has failed because one element is not in place; India (no pro-poor social policy), Mexico, Brazil (unequal assets) and Zimbabwe where despite impressive social policies the rural inequality hinders poverty reduction (Watkins, 1998, 26).

What matters is the quality as well as the rate of growth. The study then goes on to illustrate this by using the concept of “poverty elasticity of growth”. This is estimated at around 3% in countries in South East Asia. Thus in Indonesia and Malaysia, this means that for every percent increase in economic growth the number of people below the poverty line declines by 3%. For most of Africa the figure is below 2% and 1.4% in Nigeria, while the severe inequality in Brazil produces a figure which is less than 1%. In summary the link between growth and poverty reduction is very weak in Latin America, poor in Africa and South Asia, but strong in East and Asia. These differences are primarily explained by income inequality which it is argued actually hinders economic growth; high levels of inequality produce vicious circles of exclusion while low levels of inequality tend to produce virtuous circles based on inclusion. The solution is not simple transfers but increasing the participation of the poor; ... “greater equity in the distribution of opportunities can have positive benefits for both growth and human development. The common denominator of shared growth policies in East Asia was that they relied on enhancing the productivity of the poor, rather than relying on welfare transfers to raise incomes” (Watkins, 1998,45). It is pertinent to contrast this with the essentially welfarist approach to poverty adopted in India. The latter, despite the rhetoric, has had a limited impact.

Poverty study and may reflect the difference between structural and conjunctural poverty (see Wallace, 1999, Illife, 1987)

¹¹ One is reminded of the comments of Admiral Jellicoe who commented at Jutland in 1917 that they had lost “half the [British Navy] fleet in an afternoon”.

Achieving this investment in human capital is of course critical - as anticipated, the importance of primary health and education are emphasised. However, a more nuanced approach is actually necessary. The contrast between Thailand and Indonesia is revealing; both have achieved universal primary education in the 1970s. Thailand's economy grew faster than Indonesia's in the 1980s but with a limited impact upon poverty. The explanation is the former's failure to develop secondary education resulting in a dramatic increase in the gap between the bottom and top of the labour market. Thus, as the economy develops, it requires a more skilled and educated workforce. There is already - pre meltdown - evidence of skill-shortages restricting growth in both countries. (Watkins, 1998, 57). There is a suspicion here that some of the commitment to primary education shown by often authoritarian regimes in South East Asia may also reflect a desire not to allow more highly educated and potentially dissenting groups and civil societies to develop. They may, in fact, have been implementing the "right" policies for the "wrong" reasons. As economies develop this tension seems likely to increase alongside the requirement for a more educated workforce.

Another area where the study makes a contribution is in relation to emphasising the importance of *quality as well as quantity* in public spending. Again what is surprising is actually how little East Asia spends on health and education. The contrast with Latin America, which spends a higher proportion of GNP but with fewer results, is revealing. Latin America, like Africa, spends considerably more in the tertiary sectors in education and health. The tax systems are also different with Latin America relying much more on consumption-based taxes that hit the poor relatively harder. Property tax - a key instrument - of urban governance is much more progressive.

The contrast between Latin America / Africa and South East Asia was clearly brought out in a recent publication comparing the performance of the state and public sectors in Mexico and Kenya (Grindle, 1996). Thus, the last fifteen years of these potential "exemplar" states and public administrations, in their respective continents, is one of decline. An impressive array of data are amassed to consider the performance of the respective states in providing health, education and physical infrastructure (roads). There are some interesting differences between the two countries in terms of whether recurrent or capital budgets were reduced; Mexico tended to cut recurrent budgets while Kenya cut capital budgets and some examples of "New Public Management" innovations. Nevertheless the conclusion remained that... "In Mexico and Kenya, economic and political crises constrained the ability to fund and deliver public sector services in health, education and physical infrastructure" (Grindle, 1996,153). The recent past therefore clearly puts constraints upon the future delivery of public services.

The Box below reports from a recent seminal World Bank study concerned to understand why, despite successful economic growth in Uganda (3% GDP per capita increase in real terms since 1987), the poverty indicators - both income and human - remain unmoved. The conclusions very strongly underline the importance of *quality, central-local relations, and accountability* in service delivery. On the first issue we are strongly reminded that in much of Sub Saharan Africa official statistics simply can not be relied upon; there was a 60% discrepancy in education figures. The second major issue is that substantial amounts of allocated funds were not getting through, not through corruption per se but a systemic and endemic problem of fungibility throughout the system. This particularly relates to central-local financial flows. Finally the critical importance of local accountability in effective

service delivery was highlighted: the education system more or less works through local accountability. This confirms work in India that emphasises the importance of local accountability to the effective delivery of education or, put another way, who makes sure the teacher turns up (Dreze and Sen, 1996).

Do budget allocations matter? Evidence from Uganda

This Box is based on a recent World Bank study entitled “Do Budgets Matter?” (1998) carried out by Ablo and Reinikka. This is a path breaking study. The initial rationale is interesting - namely a concern within the World Bank of the lack of linkage between economic growth (3% GDP per capita in real terms since 1987) sector allocations and social indicators. “The principal motivation for this study was the observation that since 1987 spending on basic services had increased substantially in Uganda, albeit from a small base, while several officially reported outcomes and output indicators remained stagnant.” (Ablo and Reinikka, 1998,1). There seemed to be something wrong in the transmission mechanism of structural adjustment, economic growth and poverty reduction.

Their working hypothesis was that service delivery is much worse than budget allocations would imply. There was a particular concern with education. They were thus able to make four observations, which cast very serious doubt on service delivery and, by implication, the poverty impact of the reform process.

Unreliability of official statistics in weak administrations

The first observation is that official statistics are not adequate for policy in weak institutional settings. There is here a similarity with Dreze and Sen’s recent work questioning the relevance and reliability of educational statistics in India. (Dreze and Sen, 1995, 109-139). It is therefore critically important to cross-check official statistics with an independent survey; this is the main focus of the study. One of the most startling findings was a major differences in enrolment figures: thus, when calculated from the survey data they *increased by 60%* between 1991-1995 as compared to official statistics which suggested enrolment was stagnant. Such an enormous discrepancy seriously challenges the use of official statistics.

Failure of public sector allocations to get through to the front line

The second important observation is that funds are not transferred - or do not get through - to where they are supposed to go. Furthermore there is evidence of a very high levels of fungibility in relation to funds between both schools and districts. Thus the survey found that less than 30% of non-salary spending funding actually gets through to the relevant schools. In addition the schools were not allowed to keep tuition fees that they collected themselves. The picture painted is one where not only do schools not receive what they are entitled to from the centre and districts, but that money they collect - for their own use, in theory - is passed up the system. Teacher’s salaries are earmarked and paid directly to the teachers’ account; the district is simply a post box.

Survival of Survival strategies and the non-delivery of health provision

The third observation of the study, and from other work, concerns the continuation of survival strategies and the impact of low salaries. The clearest example is the private sale of drugs by health workers. (Assiimwe et al, 1997) The results - given the importance of primary health care in poverty - are well worth spelling out; as Assiimwe et al observe

“The situation as described by the preceding results can be summarised as the absence of a public health system. Almost all elements of the system, which were once public, have been incorporated into the private business activity of the health workers. Drugs, which are supplied to public health units, become the private property of health workers who resell them in their own private premises

ranging in character from their homes to established medical clinics. Public health facility premises have become sites on which private transactions for health service delivery are conducted. In the large urban district hospital studied the privatisation is more developed and explicit... The result is that very few free services are delivered in the public health facilities, and almost none at all are delivered to the poor” (Assimwe et al in Ablo and Reinikka, 1998, 27-28) The following are worth noting: firstly the critical linkage between low salaries, non performance and charging for services - implicitly discriminating against the poor - and finally the dreadful state of health provision in Uganda. This is particularly important given the crucial importance of health in the alleviation of poverty.

Differences in performance between parts of the public sector: the importance of accountability to the consumer

The fourth major observation concerns the differences in performance between different parts of the public sector. There were substantial differences between education and health systems in terms of financial accounts and performance. While the education system kept systematic documentation of enrolments and financial flows, there was an almost total void of information in the health sector in terms of patient numbers, financial flows, user fees and the transfer of drugs. Accounting for this difference is the historical importance of the PTAs (Parent Teacher Association) in education in Uganda.

During the 1980s local communities effectively took over Uganda’s education system as parents (via the PTAs) began to pay teachers’ salaries directly. This was a response to parents’ wishes to maintain education despite the collapse of wages mentioned earlier. These contributions were enforced through a “school fee” which the PTA would collect. In many cases the PTA contribution was the largest contribution to teachers’ salaries, especially in urban areas. On average, in 1994, the parents’ contribution per student was 13,491 Ushs (or 51% of the total) as compared to a Government contribution of 12,781 Ushs. There was much that was positive in the system - most notably the local accountability that the system provided. The critical importance of accountability in the delivery of education - and teacher attendance and performance - has been noted elsewhere

There are two major observations that follow from this work which significantly qualify the overall poverty debate. Firstly, in most countries primary education and in some cases primary health *are the responsibilities of local government*. The funding may primarily come from the centre and the local tier may only have responsibility for implementation of national policy. However, and whatever the precise arrangement, the success of these services is to some extent mediated through central-local financial and political processes. This issue is greatly exacerbated given the problem of successful “earmarking” or “ringfencing” of funds and the related issue of fungibility¹². This observation, and a realisation of the importance of local tiers of government, seem *almost completely absent* from the poverty literature and debates dominated by macro economics. The importance of the local tier is clearly an area that deserves more attention.

The second observation is that the delivery of services to support human capital (health and education) requires more than just simply allocations; it requires accountability mechanisms that ensure for effective delivery. These again are at the local level. This is also an important observation to the essentially “top down” approach of the poverty debates. Overall,

¹² The fungibility of central local funds is not solely a result of low levels of capacity and therefore simply a “development problem”. Thus for example the UK Government has an ongoing argument with Birmingham City Council that the latter has diverted funds from the education allocation to its prestigious development projects. I think the pragmatic conclusion is that in almost any system of central local financial relations there is room for fungibility.

therefore, in the delivery of services implementation matters and this primarily must take account of the role of local tiers of government.

Labour-intensive growth is critical for urban economies. The lessons are difficult to unpack but the story is clear. Again, East Asia scores; between 1986 and 1993 employment increased by 3 per cent per annum - a figure well in excess of the growth in the labour force. During this period rapid increases in manufacturing output were achieved, combined with rising real wages of between 3 and 6 percent per annum. The contrast with Latin America is again revealing - between 1991 and 1995 regional growth averaged around 3% (more than the 1980s but less than the 1970s) while employment declined ("jobless growth") and unemployment increased. The explanation lies in the capital intensive nature of the growth; in Mexico, Brazil, Pakistan, India and the Philippines each percent increase in manufacturing growth produces less than one and a half times the amount of employment in countries such as Indonesian or Malaysia. This also has been found to explain over the last fifty years the failure of Indian growth to reduce urban poverty (Ravallion and Datt, 1996).¹³ The explanations behind this are concerned with macro economic policy, the type of inward investment sought, and protectionist policy which have favoured capital intensive growth (World Bank, 1990). However the nature of the workforce able to participate in this growth is important. As we shall see in the case of the "boom town" of Visakhapatnam in South India there is strong anthropological evidence that the urban poor are not physically fit enough to benefit from the existing employment opportunities. Unfortunately for this study it appears that none of our city case studies are in countries which seem to have achieved this "labour intensive" growth. (Colombo in Sri Lanka is the only possible exception.)

The literature on labour intensive growth is rather unsatisfactory in that it explains and shows what is necessary without giving clear policy suggestions, except noting the failure of capital intensive growth to absorb labour. The argument is very circular. Nevertheless it is clear that manufacturing is the dominant sector. It is interesting to note that it is precisely the decline in manufacturing growth and replacement by the tertiary service sector that, according to Saskia Sassen, accounts for the dramatic recent increase in inequality and polarisation in the Global cities of the North. (Sassen, 1994,98) It is interesting to pose the question whether there is some urban management ingredient in this East Asia success story. It is obviously impossible to answer such a question but it is clear that extremely poor urban management in terms of the non-collection of taxes, insufficient infrastructure and non-delivery of services can mitigate these positive factors. Furthermore, as will become clearer not having bad urban governance matters much more than having good urban governance.

What, then, are the lessons of this general debate on poverty and economic growth for the urban sphere? Or, to pose the question in another way; which factor can be influenced by urban governance? Firstly economic growth matters; it is a necessary but not sufficient

¹³ India's little known decentralisation policy, which effectively on a sliding scale limits the size of industrial development in urban areas, may also be significant here. This is based on some outdated town and country idea of protecting urban areas from environmental problems associated with industrial activity. At a policy level it implies that industrialisation has no role to play in India's urban development. Fortunately this policy has not been effectively implemented; it remains however a very clear example of the potentially negative role government -local and national- can play in limiting economic activity and thus any positive impact upon urban poverty.

condition for poverty reduction. Secondly the type of growth matters; the poor need to participate in it. The importance of primary health and education are again confirmed, especially when it involves women. Increasing the potential of the poor is a more powerful mechanism than simple transfers.

In terms of human capital (education and health) the quality of service is as important as the simple allocation. In most countries these services are the responsibility of the local (or municipal) tier of government - an observation that the macro-economic literature seems to completely miss. The de facto reality of fungibility means that their delivery is therefore mediated through the local level and is to an extent dependent upon local politics, revenue potential and central-local financial relations. Finally, local accountability is an important dimension in service delivery which is often missed. In conclusion municipal governments have an important role to play in facilitating – or not limiting - economic development and in delivering services. In the next section we shall consider more explicit urban economic growth strategies.

Urban economic growth and/or poverty alleviation at the Municipal level

In this section we shall consider two literatures. First the literature that discusses municipal roles and potentials in encouraging urban economic growth. Second, the literature on municipal roles, constraints and potentials for poverty alleviation.

Urban economic growth

The literature on examples of successful urban growth strategies, which have resulted in subsequent poverty reduction, is limited. This partly reflects, as mentioned earlier, the dominance of the reverse process - economic decline - but also the lack of data at the urban level. The two most obvious and striking examples of successful urban economic growth and poverty reduction are of course the two city-states of Hong Kong and Singapore. Thus even in the mid 1980s it made no sense to consider them as “developing”, while by 1997 Singapore and Hong Kong (China) were, on GNP per capita terms corrected for PPP (Purchasing power parities¹⁴), the *richest and forth ranked* countries of the world with, figures of US\$ 29,000 and 24,540 respectively (comparable UK figure is 20,050) (World Bank, 1999,191). The majority of explanations of their success usually focus on national policy - for example industrialisation - and the balance between exports and imports, and investments in physical and social infrastructure (education and health). This is not the place to rehearse all the explanations for their success, however a few points are worth making. Hong Kong’s success is stands in close approximation to the neo-classical model,

¹⁴ Purchasing power parities are an attempt to correct for differences in price levels between countries and thus allow for a standard comparison between countries. The effect of this adjustment is to reduce the apparent incomes of rich countries (North) and increase the incomes of the poorer countries in the South. They are surprisingly revealing within the EU resulting in a high level of convergence of effective incomes; thus Italy and the UK do better than might be expected while Sweden’s income is considerably reduced.

while Singapore's success is built on very high levels of state intervention, especially in the housing and labour markets (Harris, 1986).

One of the main sources of material for case studies of urban economic growth is the recent collection edited by Harris and Fabricius entitled Cities and Structural Adjustment (Harris and Fabricius, 1996). The study is a series of case studies focusing upon the impact of structural adjustment and globalisation and the municipal response to these changes in the urban areas of both the North (the case studies of Barcelona and Sheffield, for example) but also the South (for example Johannesburg, Kingston Jamaica, and Bogota). These examples are then used to inform the case of the Bombay economic development strategy. From these different examples the key themes that emerge are the importance of "flexibility"; the importance of upgrading infrastructure; and the importance of vision by the municipality and its leaders.

Flexibility in the discussion is the key, albeit problematic, concept. The argument is that in an increasingly competitive and globalising world, the ability of institutions and agencies to respond to economic change is a critical resource. Clear technological and capital changes driving these developments include falling costs of transport and communication, fewer barriers to international trade, globalisation of capital, deregulation and the withdrawal of the state. (Townroe, 1996,19) Furthermore "...current pressures are impacting upon the rich and poor cities alike. They are pressing a changing use of the city faster than the fabric of the city can respond, indeed faster than the mix of labour skills and related attitudes and expectations can respond" (Townroe, 1996, 21).

In this changing environment the municipality's role is to provide leadership and vision. What matters is how quickly a city like Sheffield, for example, can respond and develop new initiatives to compensate for the decline and restructuring of its steel industry (Townroe, 1996). Implicit in the argument is the idea that the fast adjusters or the "flexible" will be more successful.

The continual upgrading of infrastructure - usually large - is seen as critical. This includes both traditional infrastructure facilities - port facilities, airports, telecomm (Bogota and Monterrey) - and also "cultural" facilities - culture, tourism and sport (Barcelona). (See chapters in Harris and Fabricius, 1996). Upgrading is no longer a luxury; the globalised world is driving a process of competitive improvements in infrastructure at the urban level. This process has been observed in Southern China and the Pacific Rim.

According to the case studies the ability to respond to globalisation and structural adjustment depended on non-economic factors - including the city's social structure, cultural or religious traditions and the political order. Often these factors related to the "soft infrastructure" - healthcare, education, and so on." (Harris and Fabricius, 1996, 91). The politics of the local and the specificity of urban areas are clearly important.

Nevertheless the overall theme is that of encouraging economic growth rather than poverty reduction; indeed in much of the analysis, that urban economic growth will result in improved conditions for the poor is *assumed*. Thus, "An area of further research relating to income distribution is that of the mechanisms of "trickle down"

(Lever, 1996,99). This is typical of the majority of the literature and municipal efforts are so concerned to achieve growth that there is little energy for poverty reduction.

Finally it is very difficult to relate this dynamic flexible world of competing cities to Sub Saharan Africa where the *leitmotif* is that of decline and stagnation. The question that this begs is that of how much “room for manoeuvre” do cities have. There are two schools of thought. For some, cities are trapped - as it were - by their historical experience and resources (Savitch, 1996; Sassen,1994), while for others anything is possible. Indeed the global city approach has been strongly criticised for its implicit determinism (and pessimism (?)) in the Latin America context (Batley, 1997).

For the possibilist school, “Factors of production can be made to work for a city by means of policy. Except for geography, none of a city’s factor endowment is immutable; all can be modified by policy actions” (Wu, 1996,124). This is a striking optimistic assertion, which it would be nice to believe. However it is difficult to reconcile it with the conditions of many urban areas in the South.

This debate is surely overstated: Cities can either do nothing or everything! The position adopted in this paper is an intermediate one. Cities do have a room for manoeuvre but that it is constrained by their history. This is consistent with the theme paper on City Economic Growth (Vidler, 1999). Indeed the task is precisely to increase this space. We shall argue that the room for manoeuvre is greater at the municipal level than is often thought and as we have already seen, some of the key levers for poverty reduction (primary health and education) are often implemented at this level. The next sub section examines attempts by municipal governments to directly tackle urban poverty.

Urban poverty alleviation at the municipal level

In what follows we shall consider the literature that examines the potential for urban poverty alleviation at the municipal or city-wide level. The intention is not to deny the importance of initiatives and policies at a national or macro level but rather to explore the options that might be open at a municipal level¹⁵. What then are the levers to alleviate urban poverty at the municipal level? This is the issue taken up by Wegelin and Borgam in an important paper summarising UNCHS/UNDP/World Bank Urban Management Programme (UMP) research. They make the point about the importance of the municipal level in terms of improving the regulatory framework; access to municipal services; employment creation; protection from crime and natural disasters and overall co-ordination and integration. This paper is an implicit criticism of the inappropriateness of conventional “urban projects” which focus either upon environmental improvements or small-scale enterprise. (Wegelin and Borgam, 1995).

Thus an environmental focus, while important, is too narrow, while small scale employment schemes are never seriously going to address the labour market issues, despite the targeting problems (Harriss, 1989; Copestake, 1992). Within India, studies

¹⁵ One practical policy reason for focusing at this citywide or municipal level is that bilateral assistance is often only realistically able to work at this level.

have also seriously questioned the effectiveness of the Nehru Rozgar Yojana Scheme (urban self employment scheme) in New Delhi on the grounds of its limited impact given the already saturated markets (Kruse, 1997). Indeed it is almost possible to suggest that defining the urban poverty problem in terms of their ability or inability to gain self-employment or employment in small-scale industry is tantamount to “blaming the victim”. Thus one of the main reasons behind the moderate decline in urban poverty levels has been the nature and subsequent inability of India’s industrialisation process to absorb labour¹⁶ (Ravallion and Datt, 1996). In Africa the main focus of urban projects has primarily been environmental rather than small-scale enterprise. Although recently there have been some urban micro finance initiatives, for example K-Rep in Kenya. Indeed on reflection the World Bank also admits the general narrow sectoral focus of its urban projects and that this was a weakness. (World Bank, 1991)

The role intended for the municipality can be collapsed into three main aims; firstly encouraging and setting the environment in the widest sense to facilitate economic growth (and capital accumulation); secondly providing the appropriate public services (health and education); and thirdly improving the local environment. Wegelin and Borgman however introduce a critical caveat about the importance of decentralisation and the availability of local finance for the municipality to fulfil these intended roles. (Wegelin and Borgman, 1995). This general analysis is at the level of intentions and suggestions for municipalities. The result is the political processes behind these policies are not considered. In what follows we shall try and locate these ideas in their political context. Or, to put it another way, what are the necessary conditions for successful attempts to alleviate poverty at the local level?

The 1990s have marked an increased interest in urban municipal issues and in processes of decentralisation in general. The publication in the early 1990s of the World Bank’s Urban Policy and Economic Development: An Agenda for the 1990s marked a renewed interest in urban issues from the World Bank in particular but also from donors in general. Furthermore it was an attempt to move the urban agenda closer to a more developmentalist position. The approach outlined was entirely consistent with the WDR 1990. Overall the World Bank emphasised three themes: improving urban productivity; alleviating urban poverty and urban environmental management. This was an important document.

Within Sub Saharan Africa the 1990s have at last marked the beginnings of attempts to strengthen local government (including urban municipalities) and encourage processes of decentralisation. This is in marked contrast to the 1970s when in many African states the fear of opposition power centres resulted in an almost uniform process of centralisation and the weakening of local government. For example, local government was effectively abolished in Tanzania and replaced by a centralising system while in Kenya the main source of revenue - Graduated Tax - was taken from local authorities. In addition in many cases central-local finance was increasingly used by the centre in an ad hoc patronage fashion. The problems of central local relations have often paradoxically been exacerbated by the introduction of multi-party democracy (Halfani, 1996).

¹⁶ India’s little known policy of industrial location and decentralisation effectively not allowing large-scale industry in urban areas is perhaps relevant here. (see Footnote 13)

The 1980s was to put local governments under pressure from another source, namely Structural Adjustment. A little commented aspect of Structural Adjustment has been to increase the tension between central and local tiers of government. The control of local expenditure by the centre - as in the UK - was an important part of the process; in many cases this involved the centre in limiting its grants and/or loans for local tiers. Alongside this was often a poorly thought out attempt for local government and particularly urban government to become “self sufficient” or, more reasonably, increase its local revenue. The most extreme example was Zambia, which in the early 1990s effectively divorced its urban areas from any financial central support at all.

Nevertheless, and partly donor driven, there has been a slow realisation that successful governance also includes local government and that these tiers require strengthening. In some cases such as Kenya the donors effectively stopped urban investment as it was seen as “throwing good money after bad into a bottomless pit” without any chance of cost recovery. The result has been a process of reforming central-local financing as a precondition of future urban funding and/or investment.

In other countries processes of decentralisation have been driven by local political forces, most notably Ghana and Uganda who have both, in the mid 1990s, pursued radical decentralisation policies, often in direct opposition to donor wishes. These are generally more focused on rural districts but the approach does also reflect a policy of strengthening local government, which includes municipal areas.

Within India urban municipalities have been greatly improved by the 74th Amendment to the Indian Constitution passed in 1992 which, at least in theory, substantially increases decentralisation and strengthens the importance of Municipalities as local institutions. It should, however, be noted that these reforms are basically directives from the centre (Union level), and are not *compulsorily* to be implemented at the State level. However this reform is the first that has sought to strengthen urban institutions directly, and thus address the core problem of institutional weakness rather than bypass (and weaken) them as have previous reforms which have set up boards for service delivery or urged NGOs to deliver instead. (Jha, 1995; Mathur, 1996). It is still too early to assess the impact of this reform, given the short time period and the fact that it is being implemented differentially in the twenty states of India. Nevertheless it seems reasonable to assert that, for a whole series of different reasons, there are processes which are tending to strengthen local and municipal government in the countries of the South (Smoke, 1993).

However, there are two structural dynamics which are likely to weaken the fiscal base of urban governance. The first concerns the nature of urban growth and service provision, while the second concerns the politics and processes of government expenditure during periods of restructuring and/or austerity.

All urban governments have a tendency to be caught in a dilemma between an increased demand for services and an inability to meet them; the result is an almost endemic tendency towards urban fiscal weakness. The demand for urban services are basically *income elastic*; namely that they increase dramatically and disproportionately as incomes, population and expectations rise. Demand for, say water, sanitation or SWM will probably increase faster than the rise in incomes and populations. The problem however is that, with few

exceptions, urban services have *very small - if any - economies of scale* in their delivery. For example the provision of education, health and solid waste are very labour intensive with very few economies to be achieved through their large-scale delivery. (These are also as we noted earlier very important in building human capital.) These two trends result in a tendency towards an almost endemic problem with the finances of local and/or municipal government.

The second problem concerns the allocation of resources to urban infrastructure during periods of austerity or during the implementation of a Structural Adjustment Programme. Within the Indian context the process of liberalisation since the early 1990s amounts to a similar process. During periods of liberalisation and austerity, governments are pressed to switch resources from non-productive and non-revenue earning sectors towards those which are productive and earn foreign exchange and revenue. Social services such as education, health and urban infrastructure provision fall into the latter category; furthermore, capital expenditure in infrastructure is capital intensive, lumpy and usually a net user of foreign exchange. In addition, the capital investment in these sectors are often easily postponed. (The repeatedly postponed Jubilee line in London is a classic UK example of this type of decision). These sectors are likely to be prime targets for budget cuts during an adjustment process. The result is that in periods of adjustment, social services and urban infrastructure are often disproportionately cut. There is clear evidence of this from across a range of countries in the South (Moser, et al, 1993).

The result of these two processes is an almost inevitable tendency for urban government to face financial and resource constraints. Recent evidence in India confirms this; thus plan allocations and per capita expenditure in the urban sphere, despite the increased importance of the sector, have in fact “declined significantly in the nineties as compared to previous decades”. (Kundu, 1995,11). Overall the urban sector - combined with housing - receives only 2% of total plan investment in the 1991/1992 Annual and Eighth Plan 1992/1997. This trend is even more noticeable in the case of medium-sized urban areas in India; thus there is no government programme of investment or incentives for any urban settlement between 500,000 and 4 Million. (Chatravorty, 1996).

These urban centres would be considered important centres of economic activity in almost any other urban system than India. Small and medium towns in India suffer from the absence of an effective political lobby; individual towns can benefit from patronage but there is no lobby for small and medium towns as such. The result is they get squeezed between the very powerful agriculture and industry lobbies located in the rural areas and Megacities respectively. The latter have received their own investment policy while there are some initiatives for centres under 500,000 (Chatravorty, 1996).

There is clear evidence from East Africa of declining allocations of investment funds to urban infrastructure. Thus per capita allocations to infrastructure declined in both Nairobi and Dar es Salaam. Between 1978/79 and 1986/87 there was an eleven percent decline a year in expenditure on services and infrastructure. While in Nairobi the capital expenditure per head on water and sanitation in real terms over the same period declined from US\$ 7.29 to US\$ 2.30. This represents an average annual decline of 28%, compounded, when both capital and maintenance are included. (Halfani, 1996, 86) This in fact started in the early 1980s but cuts in infrastructure take a long time to become visible. (Grindle, 1996: Halfani, 1996).

However the financial weakness of urban institutions is not inevitable; rather, it depends upon the quality of urban management. Comparative cross-country research strongly emphasises the importance of municipalities having access to a *buoyant* source of tax revenue. It is access to these sources that matter whether through own taxes or allocations by an agreed formula from the centre. A buoyant source of revenue will naturally increase as urban populations, expectations and prices increase (Davey et al, 1996). Thus it allows municipalities to cope with the apparent “problem” of urban growth by having the resources to provide relevant services as cities grow. In this we are in absolute agreement with the UNCHS Global Report on Human Settlements, 1996, in emphasising the positive aspects of urbanisation; thus the question is how to respond to urban growth rather than trying to limit it (UNCHS, 1996).

However, successful urban management is not just a technical question; the financial arrangements are necessary but not sufficient conditions. Local political coalitions for growth are also important; in particular when the local business community or “bourgeoisie” takes an active interest and direct involvement in administration. The result is that things are made to happen. Within India, Ahmedabad in Gujarat is an example. (Batley, 1992; Bergen, 1996). The success of Karatina in Kenya is another example of local political interests together with an efficient administration system making things happen (Smoke, 1993). A critical element is that the administration itself should benefit through increased revenue from the processes of local economic development. This is clearly dependent upon the system of local revenue collection.

The attitude of local politicians is also important. A very crude model suggests three possible strategies for local politicians seeking re-election. The minimalist is to limit taxation by giving away the tax base through exemptions to gain support. This has the great advantage that it is easy to implement. An alternative is to use the municipality as a source of direct patronage in term of employment and as a means of delivering projects to supporters. The final model is to gain support through the general development of the local economy.

Unfortunately, the experience of small and medium towns has often highlighted the first case where support is gained through giving away the tax base. This has been noted in towns in Haryana and in Gujarat. However, examples of the positive impact of political coalitions have also been noted in Kollegal in Karnataka and Anand and Jetpur in Gujarat.¹⁷ The process, enshrined in the APMC (Agricultural Produce Marketing Committees), of taking the fees and licenses from agricultural and food markets is, internationally, very unusual - in many countries as diverse as Ghana and the Philippines revenues from agricultural markets are the most important source of local revenue. Furthermore, the present system seems to isolate the interest of urban administration from that of their rural hinterland. This disjuncture - “cities are rich; but municipal governments [and finance] are poor” - has also been noted for large urban centres. (Mathur, 1996).

In the Indian context the contrast between the very dynamic and important private sector activity, and weak and ineffective municipal institutions, is striking. Medium and

¹⁷ This information has primarily been gained during the training of officers from Medium and Small towns in collaboration with TCPO, New Delhi, SP Ahmedabad and RCUES, Hyderabad.

small towns in India are characterised by weak and constrained urban administrations, poor infrastructure and service delivery and inadequate budget allocations. This situation exists in cities with substantial populations (e.g. more than 250,000) which are, in fact, areas of substantial economic activity.¹⁸ The reverse is often the case in Sub Saharan Africa where there are often large municipal structures and organisations are administering often very weak private sector activity. From personal observation the personnel, facilities and intentions of municipalities - even if none are in fact being delivered - in Sub Saharan Africa are much greater for an urban centre of the same scale than in India.¹⁹

This section has considered two diverse literatures. The first was concerned with the role of municipal government in urban economic growth and the second its direct role in poverty alleviation. In this we have seen the importance of flexibility and infrastructure provision in enabling urban economic growth. However we have also noted the absence of any link to poverty reduction; it is simply assumed. Furthermore we have adopted an intermediate position of the potential for action at the local level; history is a constraint but there is still room for municipal action. In relation to poverty reduction we have explored the roles of the municipality. Furthermore we have noted that there are forces strengthening municipal government but also a tendency for urban fiscal weakness. Finally in both sections we note the importance of local politics and conditions.

Transmission mechanisms: identifying the links between urban economic growth and poverty within an Asset/Vulnerability framework

It is worth beginning this section with the paradox that everybody accepts negative aspects of structural adjustment but nobody accepts “trickle down” as a mechanism for reducing poverty. There is clearly more in this observation than a simple comment on ideology. Although it would be fair to say that ideology and beliefs do underlie some of the difference. In this section we shall attempt to explore what are the transmission mechanisms through which growth and/or decline are transmitted to the poorest. We shall disaggregate by using an Asset/Vulnerability approach to poverty, by time period and by irreversibility. The method for this is partly to attempt to stand the literature that relates structural adjustment and urban poverty on its head. There is now a substantial literature that links the process of structural adjustment to poverty.

The four tables that follow are attempts to map out the relationship between urban economic growth and three types of asset/capital, namely: income/labour capital; human capital, social capital and productive capital. This is an extension and

¹⁸ It is tempting to suggest that the enormous demographic size of India sometimes results in a process by which commentators are so overwhelmed by the absolute quantities that relative and proportionate considerations are ignored. Thus as an example because there are many urban centres in India with populations of 0.5 Million they are not seen as important economic entities despite their obvious importance. Similarly on education the total number of graduates is often quoted rather than considering the proportions who are graduates /illiterate. In many cases India’s performance on a pro rata or per capita basis is not as noteworthy as its performance on the absolute totals.

¹⁹ The fact that the city in Sub Saharan Africa may be higher up the urban hierarchy does not alter this observation; India is a larger country and therefore has more people to fulfil these positions with people and organisations of a suitable quality. (Personal Observation, Rakesh Mohan)

adaptation of the recent approach used to explain household and community behaviour in four communities in Lusaka, Zambia; Guayaquil, Ecuador; Metro Manila in the Philippines; Budapest, Hungary when faced with deteriorating macro economic and labour market conditions (Moser, 1998). This was an attempt to map the “impact on the ground”. The tables that follow include many of the findings of this study but also seek to map the impact on the ground of economic growth as well as decline. Furthermore it attempts to explore in schematic form the role of the municipality.

At this stage it may help to explain the way the following tables work. Thus for each “capital” or asset the first box outlines which dimension or aspect of poverty it captures. The second box is concerned to briefly highlight the impact of urban economic growth and decline on this aspect of poverty in a top-down sense. In addition, an attempt is made to explain the speed with which the transmission takes place. The third box down is concerned with household responses to urban economic change in a bottom up sense. This includes both responses to positive and negative changes. The latter is the main focus of the Moser study. The next two boxes are concerned with the role of the municipality in firstly facilitating a positive impact of urban economic growth on the urban poor while the last box is concerned with the role the municipality can have in ameliorating the negative impacts upon the urban poor. In conclusion it is worth noting that this approach is somewhat asymmetrical and partial as it is primarily focused with tracing the impacts of only one poverty strategy “urban economic growth” impacts upon different dimensions of poverty.

Summary of Income capital relationship to urban economic growth

Income Capital Characteristic	Income Capital/Asset is the classic dimension of poverty associated with household expenditure and consumption. It is the most commonly measured and frequently used by governments as a “poverty line”. Well know measurement problems but income remains central component of urban poverty.
Impact of urban economic change (top down)	Changes are entirely driven through and by position within the labour market and prices (esp. food). Involvement depends on the type (capital/labour intensive) of growth. Positive changes can in theory happen quickly but depends to a very large extent on the state of demand. Negative impacts associated with structural adjustment are transmitted very quickly. Very “efficient” transmission mechanisms
Household responses to urban economic change (bottom up)	<p>Positive: ability to respond to positive economic changes is dependent upon skill/education and health levels. Importance of absence of barriers (physical, and social) in preventing groups benefiting from urban economic change.</p> <p>Negative: critical importance of being able to increase labour within the household and utilise other sources.</p>
Role for Municipality in facilitating (positive)	Limited role in encouraging economic growth. Important role in providing infrastructure for industrial growth. Major role in not restricting informal and SSE activity via planning system. Managing the informal sector is key and becoming more important role for Local Govt. Ability is dependent upon Local Govt revenue sources.
Role for Municipality in ameliorating (negative)	Major local employer - possibility of maintaining employment by changing investment priorities. Potential involvement in implementing temporary labour creation (food for work schemes). Provision of support (credit, premises) to SSE. Moderate ability to influence housing market to reduce costs. De facto acceptance of “urban farming” as survival strategy.

Income capital relationship to urban economic growth

The relationship between urban economic growth and labour/income based dimensions of poverty is the most well researched. As mentioned, this is particularly the case in terms of the negative impact of economic decline - with or without structural adjustment. The transmission mechanisms in this case are via the labour market through a reduction in wages and/or employment and through increases in prices, especially food prices. This has been documented across a range of countries (see Moser, Herbert and Makonnen, 1993). This change is often transmitted very quickly to households, indeed sometimes when associated with a new economic policy and/or and new political regime the change is instantaneous. In some discourses, particularly associated with transitional economies, this is called "shock therapy". The 1982 budget in Ghana associated with Kwesi Botchwey is perhaps the classic of this kind. (Herbst, 1993). The constraints are often of a political kind in that these actions have often produced food riots (or IMF riots) (Walton and Seddon, 1994).

The contrasting situation of urban economic growth is usually less dramatic, and as mentioned earlier is often dependent upon the type of growth and the extent of the labour market. Nevertheless in certain situations - for example South China - at present wages can be bid up quite quickly. Thus it is suggested that wages in the coastal districts (for example Guangdong) are now fifty percent higher than in inland China. Already China's urban-rural gap is considered excessive (Watkins, 1998,118-119).

Bogota in Colombia is one of the few examples in the literature - and not part of the SE Asia success - where there has been a process of successful "trickle down". Colombia and Bogota appear to have escaped the "lost decade" of Latin America. Thus the incomes and basic needs data suggest a significant decline in poverty during the 1970s and 1980s. Poverty fell from 57% of the population of Bogota in 1973 to 17% in 1991; meanwhile the life expectancy rose by five years between the early 1970s to the early 1990s, while infant mortality declined from 50 (per '000) in 1971 to 22 in 1993. The wage data is less convincing but can be summarised as a general increase up to the mid 1980s and then a subsequent decline - but still to levels higher than in the 1970s. (Gilbert, 1997). Despite all the usual caveats the broad data are impressive; furthermore during the time period 1976-1995 the city grew annual at 3.1% which was one of the highest rates in Latin America.

The explanation for this decline in poverty appears to be large-scale employment growth; in 1976 there were 1.1 million people in work; twenty years later there were 2.6 million. Unemployment also fell during the same period. This combination of employment growth, increase in participation, and declining unemployment is very unusual in a world dominated by a concern with capital-intensive growth. It appears that construction work rather than any export orientated industry appears to explain this phenomena. A tax amnesty policy in the early 1990s recycling drug and flight capital into construction seems to have been important .In addition the informal sector has also expanded dramatically. The population may be better off but it is working harder (Gilbert, 1997).

The reasons for this success apart from the “tautology” about the importance of labour intensive growth are not clear - neither is the role of the municipality. One suggestion is concerned to note the extent to which Bogota has established itself as the pre-eminent industrial and urban area in Colombia. This included the dominant position achieved in certain manufacturing and service sectors; their competitiveness combined with skills and relatively low wages; and finally the importance of the Bogota as a market itself (Davila, 1996). A complementary explanation is again to suggest the overall the importance of education in this process (Mohan, 1994)

Successful local municipal management can facilitate local economic development. This would require a new role for the municipality in “enabling” as well as in the provision of services. Indeed, it has been argued that one of the major impediments to successful urban development is that urban management has consistently focused its interventions on the city as a centre of consumption rather than considering cities’ productive role (Harris 1996). Thus, urban administrators should see the development of their local economies and the processes of enhanced capital accumulation as one of their main goals. This process - for large urban centres - has been greatly exacerbated by processes of globalisation; cities must perforce engage in attempts to reorganise their economies rather than simply master plan (Harris, 1996a)

The provision of infrastructure and the availability of finance is an acknowledged weakness in urban India (NIUA/FIRE, 1995). What is not so widely accepted is the idea that this lack of infrastructure provision is hindering private sector - industrial and other - development. Research by the World Bank in other countries and cities (Lagos, Bangkok and Jakarta) have clearly shown the costs to manufacturing industry of inadequate infrastructure (World Bank, 1991). These extra costs are caused by input failures (e.g. power) but also by the necessity of having to have back up facilities -generators - on the site. The poorer the public infrastructure, the more the private sector itself has to carry these costs. Furthermore infrastructure problems have been found to act as a significant constraint on private sector activity in the urban area of India. (See Harris et al, 1993 for a discussion of this in Cuttack; for small and medium towns.²⁰) The provision of infrastructure is a very important role that the municipality, whether as a direct provider, in partnership with the private sector, via financial instruments (USAID is encouraging the use of Bonds in India), or as a lobbyist to other governmental agencies, should be involved in.

This has also been confirmed by recent work at the macro level in India which showed that the non-availability of infrastructure restricted the growth of urban centres. It was also associated with inefficient uses of capital and a tendency towards increases in capital intensity (the precise opposite of a labour-intensive strategy). Detailed case studies were carried out on two building material production units that clearly showed how these private concerns operations were negatively effected by poor service delivery in terms of electricity and water supply. Both firms, by having their own back ups, increased their costs per unit of electricity and water by 50% more than if they state provision had worked; furthermore it also affected their profitability and expansion possibilities. The solution proposed was partial denationalisation, remunerative charges, introduction of cost recovery and improved

²⁰ This is one of the main findings of recent ongoing (1997) research on Medium and Small towns in India by TCPO, New Delhi, SP Ahmedabad and RCUES, Hyderabad.

technologies to “unlock the besieged growth potential of urban India” (Mulkh Raj, 1993,172)

While India is the most startling example of the non provision of regular infrastructure restricting urban economic growth and potential employment creation, the provision and renewal of infrastructure remains one of the - if not the most - important interventions on the part of municipalities to facilitate economic growth (Harris and Fabricius, 1996).

The financing of infrastructure is a critical element in urban governance, whether from local revenues, government grants or loans. The politics that underlies this is a very important element in urban governance, and a very important element in potential growth coalitions. The extent to which the industrial sector and/or the bourgeoisie either seeks to stay in the system and improve local delivery, or effectively “exit”²¹ and provide its own services, is very important. The latter strategy is likely to hurt small businesses and the poor as a) the system declines, and b) the powerful no longer have an interest in the system working. In Nairobi the provision of roads and services became so poor in the industrial estate that over the last five years the industrial sector has been through a process of firstly refusing to pay local taxes and then paying them to their own agency to improve the facilities.

Apart from providing infrastructure, a very important role for the municipality concerns the regulatory framework and its “planning”. It is much easier to destroy jobs than create them, especially in the informal and/or SSE sector. Relocation and/or city pride initiatives can easily destroy much local economic activity, often by pushing them to the urban periphery and therefore reducing their profitability. This practice is often the case with hawkers. This negative - even destructive - effect of planning on local economies has been long been noted in the cities of North America and Western Europe (Jacobs, 1964).

The opposite is also true; a municipality adopting a laissez faire approach can “create” employment opportunities²². The clearest examples come from South Africa following the abandonment of restrictive planning and regulatory practice since the end of apartheid in the 1990s. In the early 1980s there were estimated to be only 300 hawkers functioning in Johannesburg’s inner core; the best recent estimate for the mid-1990s is of 4000 hawkers in the inner core and an estimated 15,000 in the Greater Johannesburg area. There is also an international dimension to this dramatic growth in informal activity. Thus, it is estimated that 7,000 of these hawkers were from outside

²¹ Exiting out of the economic and political system is one of the clearest developments in contemporary urban India. Even a cursory look at the adverts for privately run housing and industrial complexes where the entire infrastructure is privately provided in India Today illustrates this development.

²² There is a suggestion that although such a policy may encourage informal sector jobs the damage such policies may do in terms of crime and/or change of image and then the subsequent movement and disinvestment by large scale capital may undermine these “gains”. Personal Communication, Woulter, C (1999)

South Africa. The change in official policy from repression to one of greater tolerance is the main explanation for this growth²³. (Tomlinson, 1996, 188-189)

Within India the importance of a flexible and non master plan approach to urban planning has been noted in the specific settlement of Visas Nagger in East Delhi. This is an area of mixed use where, over a period of time, the area became the main Indian supplier of coaxial TV cables. This, it is argued, was based upon mixed land use in the neighbourhood, community networks (or Social Capital in other discourses), the critical use of land and housing as an asset, and the concept of the “neighbourhood as factory”. Furthermore, there is a critical process through which the community is able to gain incremental infrastructure through political interaction with local agencies and politicians. This often takes the form of some type of patronage, often to provide “legality” and security. These processes are seen in contrast to more formal planning processes (Benjamin, 1991: 1993). To provide an example of the flavour of the argument:

“For the poor, the neighbourhoods brimming with economic activity are “productive” to a varying extent. For the planners and policy makers, operating a home based enterprise - small scale manufacturing or commerce - is problematic: either meaning land value use violations or being an illegally developed area.* Attempting to attract and sometimes divert public investment, local development also relates to thwarting centrally planned projects that conflict with local interests. Often the only way these areas can get development to happen is by subverting development (or getting there before it does) and mustering political support” (Benjamin, 1993, 144-145)

* Footnote in original. “Given present day regulation, except for a very specific range of 38 land uses (which assume that home-based activities are ‘handicrafts’ and not of any serious consequence), income-generating enterprises within planned neighbourhoods are considered illegal -requiring some form of political patronage for legalisation.”

This study is an attempt to marry the insights from the flexible specialisation and/or globalisation discourse (e.g. Sassen) with a local neighbourhood planning approach (Jacobs, Peattie and Gans). One observation is that the former discourse is surprisingly uninterested and informed by the - often messy - dynamics of local economies. The emphasis throughout is on the importance of the local economy, flexibility and diversity. There is also a clear implication that social capital is to some extent being allowed to contribute to urban economic growth (see Social Capital section). The role of the municipality is firstly *not destroying the neighbourhood economy* (and social capital) through “planning”, and secondly providing incremental infrastructure when it is needed to *support* the economic activity.

Income measures (or labour capital) and the related use of “poverty lines” are often criticised as constituting a very narrow definition of poverty. Furthermore, there are many problems in measurement and in certain quarters a tiresome and seemingly

²³ The head of the Urban Strategy Unit in Durban made a similar observation to me in March 1998 when he said that they had “created 30,000 jobs without any using any capital” by the change in hawker policy. As with any job creation estimates it is very difficult to know the accuracy of the figures and the extent to which jobs are created rather than a simple spatial movement.

irrelevant debate about poverty lines. (This is best illustrated by the endless reworking of India poverty lines in the India Journal Economic and Political Weekly). Recent work in India for DFID suggests that, when asked in a series of participatory exercises how they defined poverty, the income dimension remains very important to the poor. Thus, after an extensive documentary analysis approximately half the statements related to incomes, assets and livelihoods. (Amis, 1997a). It seems there is a danger in transferring too freely some of the vulnerability literature to the urban setting. The undoubted problems of measuring income poverty and the tedious and seemingly irrelevant micro economic debates converge to suggest that income does not matter. As mentioned above, it undoubtedly does to the urban poor.

Human Capital relationship to Urban Economic growth

Human Capital (Characteristic)	Human capital is the classic dimension of poverty concerned with human potential. These are closely associated with the provision of health, education and physical infrastructure (water, sanitation and services). Measured by indicators of health (IMR, U5MR), literacy, and access to water and sanitation. UNDP has developed a single HDI index
Impact of urban economic change (top down)	Growth seen as necessary but not sufficient condition to improve. Substantial area for intervention depends upon to what extent growth is translated into higher actual allocations <i>and</i> efficient use of funds. Dependent upon allocation procedures and local control. The reverse argument – human capital improves growth - has been strongly made from SE Asia. Positive Impact is long term (>10 years). Negative impact can be felt in both short and medium term: potential area of cutting during Structural Adjustment.
Household responses to urban economic change (bottom up)	<p>Positive: more resources for extra education: increased attendance at health outlets. Increased perceived return to improvements in education (secondary) and improved health status. More funds for water and sanitation.</p> <p>Negative: withdrawing children - usually girls first - from school. Non-attendance at health centres and/or switch to private or traditional healers. Increase debt to maintain fees (education and/or health) Substitution to cheaper but unclean forms of water and sanitation.</p>
Role for Municipality in facilitating (positive)	Human capital (primary education, health and infrastructure) are major responsibilities of municipal govts. This is usually more the case with implementation than allocative decisions. Impact is therefore more concerned with local government efficiency. Total spend is dependent upon Local Govt revenue sources and degree of “earmarking” of funds.
Role for Municipality in ameliorating (negative)	Potentially important role in protecting the sector from worst impacts of Structural Adjustment. Possibility for targeting and/or access mechanisms to protect delivery to the poor. Introduction of user fees can have very strong and quick impact on services for the poor.

Human Capital relationship to Urban Economic growth

The importance of human capital – primary education and health - to economic growth has been one of the key themes of the first sections. It is worth underlining, once more, the importance of the provision of education and health to overall economic development; particularly when women are incorporated. The effective delivery of these services has very powerful synergies for overall economic development; they are important regardless of whether a “growth mediated security” and “support led security” strategy is adopted (Dreze and Sen, 1989). Increased education, especially of girls, has been shown to be one of the most effective ways of tackling gender inequality (Dreze and Sen, 1996). Similarly, increased resources devoted to health - especially in the public sector - begins to address one of the main causes of urban poverty; namely the negative impact of health-related shocks (Amis, 1997)

This has been a particular failure in India. As Amartya Sen notes,

“ Four decades of allegedly “interventionist planning did little to make the country more literate, provide a wide-based health service, achieve comprehensive land reforms or end the rampant social inequalities that blight the material prospects of the underprivileged. Second, while successive Indian governments have been only minimally active in social development, they have been superactive in tying the economy up in knots of bureaucracy, control and regulations, -the so-called “licence raj”. The power of government policy had been unleashed not on behalf of goals such as providing schooling for every villager [and slum dweller]. But in interference aimed at restricting people’s initiatives” (Sen, 1996,28-29).

The government in India is both intervening too much in some sectors (tradeables), but often not enough in others (non-tradeables). Furthermore, India has perhaps been characterised more by direct poverty initiatives, like IRDP, than most countries, yet has ignored - despite a very powerful rhetoric - the provision of basic needs. Thus Indian government expenditure on health and education at 2% each of central government spending is exceptionally low, especially when compared to countries, at similar economic levels (Compare with Indonesia’s 3% and 10%; Sri Lanka 5% and 10%; Kenya 5% and 19% or the Philippines 4% and 15% of central government expenditure on health and education respectively, (UNICEF, 1996,90-91)).

The above discussion concerns the importance of education, and to a lesser extent health, in allowing for the poor to benefit from urban economic growth. The box below illustrates the case of casual workers in the booming port of Vishakhapatnam(Visag) in South India - through the lack of investment in health, and nutritional status, they are unable to share in this growth. Visag is now the fastest growing urban centre in India and while there is enough casual work to be had, the workforce is not fit and/or healthy enough to benefit from this growth. This Box again illustrates the importance of the complimentary nature of the poverty growth/human capital relationship.

Resting or Lazy: The health limits to how much the poor can work

A very important finding of the Qualitative team (Thinksoft) has been the observation that there are fit young individuals who are unable to consistently carry out daily wage labour. At first appearance they may appear to be lazy - this was the research team's first reaction - however after further investigation this appeared not to be the case. The conclusion was that these individuals were "resting" rather than idle; they are recovering from the very hard physical exertion such jobs often require.

This was also confirmed by a recent anthropological work in Gujarat²⁴ and in Visag²⁵. These Pedda Coolies who may be paid 50Rp to 70Rp a day with an average of around 55Rp from the Bazaar (March 1997 rates) are only able to work three or four days a week. In a month they can only work approximately fifteen to sixteen days. It is impossible to work 30 days. These are individuals who are working on their own in which there is no lightening of the load by informally sharing the work around. Paradoxically those who work in groups - which is lighter work - but less well paid at around 35/40Rp a day may be able to work for the majority of the month.

It is worth emphasising two things: firstly it is only in a relatively buoyant economy (tight labour market) like Visag that this issue is ever likely to present itself. In many places the option of working 30 days a month is simply not on offer. Secondly these individuals are young and able bodied. The problem is not one of direct ill health but of overall nutritional levels, poor diet and physical fitness and the severity of the physical labour. The policy implications are enormous; namely that the labour force of India is physically not fit enough to participate in economic growth. The implication is to emphasise the importance of health provision for workers. This is an extension of the familiar ill health - asset loss - debt argument.

Source: DFID Impact Assessment Study of Slum Improvement Projects in India Working Paper.

The importance of the human capital dimension of poverty has been confirmed by the use of panel data from the Côte d'Ivoire. Panel data involves interviewing the same households repeatedly, it therefore allows us to consider poverty dynamics; namely what are the processes that are moving some households into poverty and facilitating some to escape. This is in contrast to the "snapshot" approach of most poverty studies, household surveys and the subsequent construction of a "poverty indicator". Through this method it is possible to distinguish between those in temporary and chronic (permanent) poverty, and to consider different policy options. The analysis of the panel data in Côte d'Ivoire suggests that in urban areas human capital is the most important endowment explaining welfare changes over time. Households with well-educated members suffered less loss of welfare over time than other households. What seemed to matter were skills learnt through education rather than diplomas obtained. Indeed diplomas may even have worked against some households in having orientated workers too much towards a formal sector job when employment growth came almost exclusively from small enterprises. (Gootaert et al, 1995).

²⁴ This observation has also been made about informal migrant labour who have to take time off to recuperate because of the "murderous work pace" (p.70) Bremen, J (1996) Footloose Labour Cambridge University Press.

²⁵ Personal Communication Rajesh Patnaik Urban Poor, Social Policy and International Assistance: Dimensions of Planned Interventions in the Slums of Visakhapatnam Phd thesis presently submitted to Andhra University, Waltair. The thesis is currently being examined and is under "embargo" at present.

This focusing upon poverty dynamics has recently caused considerable interest in the UK with the phenomena of “bottom end churning” identified by the British Household Panel Survey based at Essex University. Thus of those individuals in the poorest 10 percent of the population in a given year, roughly half will have escaped from the bottom one year later. This suggests higher levels of mobility than expected; but for many the escape is only temporary. However the survey confirms that for some households poverty is a permanent condition. A third of those surveyed in the poorest group at the beginning (1991) had continuously remained in that category three years later (1994). There is therefore *both* significant mobility out of poverty but also a hard core whose position is permanent and subsequently very serious. (Webb, 1997). In this paper we are of course not interested directly in the UK, however the importance of understanding poverty dynamics is very important. The key issue is the duration²⁶ or length of time a household remains below a certain indicator; thus the policy conclusions are very different if it is the same 20 per cent of households who are below the line every year than at the extreme if it is a rotating twenty percent. Unfortunately research is only beginning to address such issues.

In conclusion, as discussed in the second section, the provision of human capital is a major responsibility of municipal government and is also therefore important to wider urban governance issues. The positive impacts of increases in human capital on the poor are a medium to long term impact. The failure to provide regular and efficient services particularly hits the poorest who are unable to exit to the private sector.

²⁶ Duration or the length of time individuals are unemployed is an analogous problem. The extent of duration is missed in the headline figure.

Social Capital relationship to Urban Economic growth

Social Capital (Characteristic)	Social capital is the dimension of poverty concerned with households, networks and community. Seen as very important aspect of poverty for facilitating local solutions to problems. Difficult to measure, indicators usually look at “community-ness” and outputs of social capital.
Impact of urban economic change (top down)	Urban economic growth usually positive on social capital but stratification can reduce social capital. Economic decline tends to weaken social capital, especially dramatic decline which is likely to fracture communities and households. Nevertheless there is no clear direct relationship between social capital and growth; the local specificity is most important. The changes are likely to come out in the medium term. Infrastructure changes can change social capital quite quickly.
Household responses to urban economic change (bottom up)	<p>Positive: Increased time and money to support CBOs and other community activities. This is especially important for women. Funds available to start credit union and/or other activities. May be easier in a buoyant situation to forge political alliances. Lessen dependence upon patronage/patriarchy structures. Strengthen extended family.</p> <p>Negative: lack of attendance at and activity of CBOs, especially by women. Increases in youth gangs, crime and murder. Increased dominance of illegal activities. Increased domestic violence. Lack of activity at night.</p>
Role for Municipality in facilitating (positive)	Very important role in setting the scene and providing the environment and funds. The success of community organisations (and participation) is often conditional on flexibility and delivery by governmental agencies. Providing for law and order is critical. Street lighting is important.
Role for Municipality in ameliorating (negative)	Potentially critical role in supporting community initiatives. Importance of preventing violence and destruction of social capital and subsequent increases in poverty.

Social Capital relationship to Urban Economic growth

Social capital is the dimension of poverty concerned with households, networks and community. It is seen as a very important aspect of poverty for facilitating local solutions to problems. It is very difficult to measure, indicators usually look at “community-ness” and outputs of social capital. These are the reciprocal exchanges that exist between individuals and households (or social economy as it is sometimes called) which allow “local citizens to work together in identifying and acting on local problems or in taking local initiatives” (UNCHS, 1996, 419). These are very important in India - for example SEWA in Ahmedabad or SPARC in Bombay. What is critical is that the local authority sets the tone and environment for these initiatives to take place.

Research has clearly shown that it is the maintenance of security or the absence of intimidation and violence that is critical in allowing such initiatives to flourish. Work in Jamaica - admittedly a very violent society - makes it clear that this endemic violence totally undermines any local initiatives *but also* any chance of local economic growth (Moser and Holland, 1995). It is worth thinking about the extent to which communal violence, crime and protection racket type patronage in some urban areas in India may have similar outcomes. (See Das (ed.) 1990 for descriptions of riots and communal violence in South Asia). The other interesting feature about urban violence and patronage in urban India is that a substantial amount of it is in fact concerned with controlling access to informal sector employment opportunities. Thus Das, in a recent study of the riots in New Delhi associated with the assassination of Mrs Ghandi, in addition to documenting the violence associated with the riots, noted that in relation to economic activity “that the fencing mechanisms and the regulation of entry into most sectors of the informal economy were a product of several factors - caste and kinship networks - defined by spheres of influence by politicians and local Big Men, and the constant threat of violence to regulate behaviour” (Das, 1996,188).

The work of Das is particularly interesting in South Asia as it uniquely explores some of the issues around violence and patronage that much of the Indian literature seems to miss in often more positive (romantic (?) interpretations. These mechanism of controlling access to the informal sector by kinship, underpinned by violence, have also been observed in Sub Saharan Africa. That there are constraints on the ability of the informal sector to absorb labour is again worth reiterating. (Amis, 1995)

The perception of violence and security is a critical development issue in South Africa, both at a national and municipal level. Within Johannesburg there has been a process of spatial economic restructuring . Firstly the perception of violence and security has resulted in a substantial process of migration of economic activity (mainly formal and “white”) from the inner city to the suburbs This has begun to create a series of problems similar to the “inner city” problems of North America and the UK. Meanwhile however there has also been a migration of African firms (SSEs) from Soweto to colonise the now vacant inner city of Johannesburg. This is also driven by security and violence issues as the firms attempt to escape the appalling crime levels of the former. (Tomlinson, 1996).

Finally it is interesting to reflect that the importance of violence and security to poor households is one of the major contributions that participatory research methods have made

to our knowledge. (Wratten, 1995; Amis and Rakodi, 1995). This was very clear in the participatory work carried out in Nairobi for ODA (Jones, 1999) and recent work in India. (Amis, 1997). This is a useful counter to the usual debate among urban poverty alleviation practitioners²⁷ in which (to paraphrase) the engineers and architects see the problem in physical and/or environmental terms while the social scientist often seen the problem as one of poverty, labour markets and gender. Neither view is actually based upon the poor's own perceptions.

The maintenance of "law and order" and a safe urban environment is another important governmental function. The impact of violence on the urban poor; in terms of limiting the development of enterprises, community activity and "social capital" has recently been well documented (Moser and Holland, 1995). The conclusion is that the local authority has an overall responsibility to facilitate and indirectly support individual, household and community "survival strategies" for the urban poor. Finally we should note the critical importance of intermediate organisations - in a situation where the state cannot provide - in providing some security from the economic shocks mentioned earlier.

²⁷ As part of the first phase of the Impact Assessment Study of DFIDs Slum Improvement Projects in India we asked all the secondary stakeholders (Govt, Municipal and Donor) their perceptions of poverty. Without exception everyone asked gave a sectoral definition e.g. Health officers would define poverty according to health objectives.

Productive capital relationship to urban economic growth

Productive Capital Characteristics	Productive capital is an additional “capital” that Moser suggests should be incorporated as a dimension of urban poverty. Within this the use of housing as a productive asset is the most significant. The extent to which this is significant clearly depends upon the nature of the housing market; in particular the extent of “ownership”. Clearly only “owners” can use housing as a productive asset.
Impact of urban economic change (top down)	<p>Urban economic growth is likely to increase the use of a house as a productive asset; furthermore it is likely to increase its value. These are particularly important for women and for home based enterprises.</p> <p>In periods of economic decline housing can act as a very important “cushion”</p>
Household responses to urban economic change (bottom up)	<p>Positive: use additional resources invest in housing as an asset, either renting out or improving the existing structures. (Plastering walls, improve roof and provide infrastructure on site (water/toilet). Use more of housing resources for family and own benefit</p> <p>Negative: Diversify income through home based enterprises and renting out.</p>
Role for Municipality in facilitating (positive)	Potentially very important “In those urban contexts where the poor are ...excluded from formal sector jobs and the capacity of ..to generate additional jobs in limited. the removal of tenure-insecurity related obstacles that prevent or constrain households from using their housing effectively as a productive asset is possibly the single most important critical poverty reduction intervention” (Moser,1998,11). In addition the municipality can very strongly influence this process by the provision of basic infrastructure.
Role for Municipality in ameliorating (negative)	The activity of the Municipality is critical in influencing the housing market. A restrictive regulatory environment can prevent the use of housing as a productive asset. This is an area in which - as far as enforcement is possible - local government has complete control over implementation. The legislation will however usually be drawn up at national level. Most research however suggests that local implementation is more important than legislation.

Productive capital relationship to urban economic growth

Through the planning process, both formal and informal, municipalities can have significant impacts upon the poor in terms of their productive capital. This is often through interventions in the informal housing market. As highlighted in the Table the importance of households being able to use their house as a productive asset in periods of decline (but also growth) - in terms of household enterprise and/or renting and other activities - is an important finding of the World Bank study (Moser, 1998) Indeed the point is made that in some circumstances it is one of the major poverty reduction tools (Moser, 1998,11). This is a lever that is almost exclusively de facto controlled at the local level, regardless of national legislation.

The Box below provides results of recent work carried out in India for DFID, which has highlighted relationship between improvements in infrastructure provision in slums and improvements in environmental conditions and income earning activities and the development of productive capital.

The positive impact of infrastructure provision. Evidence from the an impact assessment study of DFID's slum project in India

Since 1986 DFID has been providing funds to selected cities to provide basic infrastructure (water, roads, and sanitation) combined with community development initiatives (education, health and local neighbourhood committees) to improve the conditions of slum areas. There have been six-multi sectoral Slum improvement projects (SIPs) in the following cities: Hyderabad, Visakhapatnam, Indore, Calcutta, Vijaywada and Cochin. DFID commissioned studies to determine the impact of such projects on the conditions of the poor. This is a wider question than a normal evaluation. These impact assessment studies (IAS) are part of a new methodology. The perceptions of the poor themselves are an important aspect of this new method

The study comprised quantitative analysis, a participatory rapid appraisal, complimentary city-wide studies and institutional analysis in three SIP cities; Visakhapatnam, Indore and Vijaywada. Indian consultants carried out the work; the quantitative work (a survey of 600 households in each city) by a team lead by Gita Dewan Verma. The participatory in-depth studies of four slums in each city were carried out by a team led by Thinksoft, a consultancy based in Hyderabad. Care was taken that the research team was gender balanced; thus women were only asked questions by women researchers.

The key findings are discussed below. Firstly, when asked the poor confirmed the multi dimensional nature of poverty. Within this livelihoods and assets were considered as the most important dimensions. However other dimensions not related to economic factors such as lack of support and/or dependency, ill health, debt and alcohol abuse were also mentioned

The infrastructure components of the projects were greatly appreciated by the inhabitants in improving their overall environment (through reducing flooding, and making roads passable and reducing the burden of collecting water); this was particularly liked by women. In addition there was some evidence that these improvements through effectively increasing the length of the day (by street lighting) and increasing the use of outside space had resulted in some increases in economic activity.

These findings were very strongly supported by the quantitative survey data. For example on average in the three cities 84% of respondents noted that the scheme had improved the image of the slum, while 93% reported improved access for vehicles and pedestrians, and 30% and 49% noted a reduction in flooding and water stagnation respectively. Meanwhile 46% reported the increased use of public space for social activity while 35% and 10% reported the increase use of public space for

household and economic activity respectively. On Water 56% of households reported a decline in the burden for women while 68% reported a time saving. Given that the infrastructure improvements had in some cases taken place over five years ago these are very strong findings. A very important additional finding –from a special follow up survey- was that the projects had not resulted in increased residential turnover. Thus the original “target group” were the main beneficiaries of the project; this is often not the case with such projects elsewhere.

The other social and community development components were less well implemented and had a tendency to sometimes have been taken over by one group to the expense of others. Of the Social components the provision of Balwadis (pre school play centres for young children) were the most widely appreciated. The key factor in making them work was the motivation of the staff which itself is a function of the accountability of the staff to community pressure. This confirms the importance of accountability in the delivery of education in India that has been found elsewhere.

In summary the project impacts was very significant in terms of improvement in the “quality of life” and/or environmental dimensions of urban poverty. The project has been much less successful in addressing the problems of survival and security e.g. livelihoods or income, ill health and debt which were also identified as important dimensions. Nevertheless the study provides very strong support for the provision of basic infrastructure to the poorest in India cities. This may be a limited objective and impact but there is no question that it is appreciated and can be successfully delivered.

Cities’ different responses to informal housing and trade is most one of the main differences between cities in policy and implementation. Furthermore this varies over time. For example Nairobi in the 1960s has historically been harder on the informal sector than Mombasa. The policy at the moment is more strident in Kumasi than Accra. If this observation is true then this is a major policy area for municipal intervention.

A detailed longitudinal analysis of informal rents in Nairobi since 1970 shows, contrary to most expectations, that they have *gone down in real terms*. In this process they have followed urban wages down as well in real terms. Given the ruthless nature of Nairobi landlords, this is startling. Furthermore there has been no corresponding increase in overcrowding. This surprising observation is explained by the dramatic increase in informal sector housing. It is therefore possible to assert that the impact informal housing has had on the urban poor is neutral or even positive (Amis, 1996:1999). The Nairobi authorities, in sharp contrast to their repressive approach of the 1960s and 1970s has, whether consciously or not, allowed the informal sector to build dramatically. Kibera, Nairobi’s largest unauthorised, has grown at 12% per annum since 1980.

A recent study of Zimmerman estate noted that there was a three-way trade off for the authorities in dealing with housing. These were: a reduction in formal building standards; accept overcrowding; and tolerate informal settlements. Despite twenty years of discussion the authorities have refused²⁸ the first route and instead de facto accepted the third option, namely the growth of both low and middle-income informal settlements (Gatabaki-Kamau, 1995). This accounts for the relative lack of overcrowding in Nairobi's unauthorised settlements.

²⁸ The Kenya Government has finally in 1995 accepted a revision to the building by laws for low income housing (Agevi and Yahya,1997). This is a tribute to the persistence of the groups that have lobbied for this change.

The reverse situation has been noted in Harare where informal housing has been limited but at the cost of increases in rent overcrowding (Potts and Mutambirwa, 1991; Rakodi, 1996). In Latin America during a period of recession in the 1980s a similar contrast is depicted between Chile in which self help housing was restricted and overcrowding increased while in Brazil and Venezuela where there was a proliferation of poor quality (informal) accommodation (Gilbert, 1989).

In policy terms there are two divergent options in terms of housing markets and their responses to economic recession. Firstly an 'informal sector' option and secondly an 'overcrowding' option. The former is characterised (like Nairobi) by rapid informal sector growth, low quality accommodation with no increase in overcrowding. The latter category applies at the persons per room level rather than at the settlement level, which may in fact be very dense as a result of the rapid informal growth. Indeed during the 1990s the structure density in Kibera has increased dramatically making any environmental improvement considerably harder than before and greatly worsening its sanitation problems.

The second option requires state intervention to provide relatively high quality public housing and to limit the growth of the informal sector. The result is increases in overcrowding and rent inflation in this relatively high standard accommodation.

At a policy level it is, at present, simply not possible to weigh up the advantages and disadvantages of the two options. This will clearly vary with local circumstances. Furthermore it is only possible to make such a judgement at the household and settlement level for which data is not available.

However what is clear is that in the medium to short term it is possible for Municipal Governments through action (intervention or non-intervention) in urban "planning" to mitigate to some extent the impact of increased levels of urban poverty. However this needs to be balanced by not allowing the density of structures to increase to those currently in Kibera where this positive rental advantage are outweighed by environmental problems. Nevertheless this is a lever that can be used at the local level.

Conclusion: Towards a Reinvention of planning

From the above discussion it is clear that municipalities have different potentials for intervention in facilitating and mediating the effects of urban economic growth or decline upon the poor. In this paper we have tried to map them out in terms of an Asset/Capital framework (Moser, 1998). We then considered the role for the municipality in each case; below we highlight the strongest findings.

In relation to Labour Capital (or income) the main observation concerned the importance of the provision of infrastructure for successful economic growth. The poor and small and medium enterprises suffer the most from the non delivery of infrastructure both because they cannot provide their own facilities (Cohen, 1996) but also through restricting growth itself. Furthermore it accentuates the tendency towards capital-intensive industrialisation. This is very clear in the shameful case of the provision of urban infrastructure in India. The second area where the municipality has an impact is through inappropriate planning, by laws and restrictive practices, which can substantially destroy employment opportunities.

The reverse situation was alluded to in the case of South Africa. Given the increasing importance of the “informal sector”, managing the informal sector is becoming one of the most important tasks of urban management in sub-Saharan Africa (Halfani, 1996). Not destroying economic activity is more important than facilitating it. The negative levers are so much more effective than the positive.

The overall poverty literature stresses the importance of the Human Capital dimension of poverty. These services (primary health and education) are often mediated and delivered by local and/or municipal government. While the circumstances vary the effective delivery of these services is a function of funding mechanisms which themselves will depend upon central local relations and local revenue systems. This is determined by local governance, revenue structures (buoyant or not), and also by local political coalitions. Furthermore accountability is a very important component in determining successful local delivery. Again the poor suffer most from the non-delivery of these services both directly; by not being able to exit; and by not being able to participate in growth. This was vividly illustrated in the case of the inability of casual workers to take available jobs in Visag in India.

Social capital is a dimension of poverty that the donor community and other academic commentators have made fashionable. The strengthening of social capital is increasingly seen as an critical aspect of development. However research has shown the devastating effect that crime, violence and the lack of security has on the formation of social capital. It also is shown to have a very negative impact upon urban economic growth. Participatory research methods often highlight crime and violence as one of the poor’s main problems. Here the key role for the municipality centres upon law and order to limit these problems. This seems particularly important in not letting criminality take hold in the first place. While reducing crime is problematic there are examples of successful interventions; for example urban renewal has reduced crime in inner city Kingston, Jamaica.²⁹

²⁹ Personal Communication Richard Billings Project Manager Kingston Restoration Company Ltd.

The final dimension of poverty considered is productive capital. In the urban sphere this is primarily associated with housing and household enterprise development. In recent work it was noted that lifting restrictions upon using housing as an asset constituted one of the most important interventions on the part of municipalities for the poor. (Moser, 1998). Similarly the regulation and land use policy and attitude to the informal sector can significantly affect the rents poor households have to meet. (Amis.1996: 1999) In addition the positive impact in a neighbourhood (or slum) of improvements in urban infrastructure in encouraging and facilitating economic activity was noted. These are all areas where municipalities can and do actively intervene.

The main policy implication is to emphasise the importance of Municipal governments and the fact that they should “stick to their knitting”. Despite the hype about urban growth, “city marketing” and Mega projects, traditional service delivery makes a difference. The poor benefit “disproportionately” from the efficient and inclusive delivery of services. However this is not to deny the importance of the political process that drives the process. “To compete effectively, a city’s governing coalition needs to crystallise and endorse a vision of the future that is acceptable to both businesses and citizens. Private and Public sectors must collaborate so as to share the burden of risk. The Public sector should return to what it does best: Keeping urban infrastructure in good maintenance and repair, building new facilities to accommodate new needs, and policing the public environment” (Wu, 1996,149)

It is important to understand the time and governmental issues: successful poverty reductions are the result of making the system work. The experience of South East Asia shows this clearly. This is a criticism of the “crash” or emergency poverty programmes. The latter are tempting as many States have had successful relief programmes that they seek to turn into poverty programmes. The 1999 Kenyan Poverty Plan unfortunately exhibits these characteristics. In summary poverty reduction is a marathon not a sprint!

The strongest conclusion is that the municipality should stick to delivering traditional roles of providing infrastructure, health and education and planning. For policy makers this means concentrating on not destroying employment opportunities as well as providing traditional functions reasonably well. Thus not providing poor urban governance is more important than providing good urban governance.

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