

**Collaborative Research Project —**  
**Poverty, Income Distribution and Labour Market Issues in Sub-Saharan Africa**

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**The role of government and public policy  
in poverty alleviation in sub-Saharan Africa**

by

*Arjan de Haan with*

*Michael Lipton, Eliane Darbellay,*

*David O'Brien, Emma Samman*

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### Introduction

This paper reviews recent literature on poverty alleviation in sub-Saharan Africa (SSA), focusing on the role of government and public policy. It is prepared as part of the AERC research programme on Poverty, Income Distribution and Labour Market Issues in sub-Saharan Africa. The AERC proposal raises four major issues. First, the objective of sustainable poverty reduction has not yet been sufficiently incorporated into a relevant theoretical framework that can be used to inform policy prescriptions. Second, there is insufficient (though rapidly improving) information about the magnitude and behaviour of African poverty. The third important concern is the causal link between stabilization and structural adjustment, on the one hand, and poverty and its reduction on the other hand. The fourth concern regards the effect of economic growth on poverty. The AERC preparatory document distinguishes two approaches to poverty alleviation: a focus on

productive employment opportunities, and a focus on the role of government in areas directly or indirectly linked with poverty alleviation.

## Focus of the paper

Our contribution will address the role of government and public policy in poverty alleviation. The question is, which aspects of policies are central? First, in discussions of poverty alleviation (and structural adjustment), the priority given to "social" government expenditure has been an important issue, and within this category, the priority given to social expenditure that benefits the poor most, such as primary education or health care. But this is only one issue regarding the role of policy in poverty alleviation. Equally important, besides the quantity of poverty alleviation spending, is its quality—for example how well it targets the poor, crowding out effects and whether the measures are sustainable.

Second, within the category of social spending, there is a crucial distinction between policies of income support (e.g., to the elderly) and policies that enhance the poor's capabilities, by providing education or primary health care.

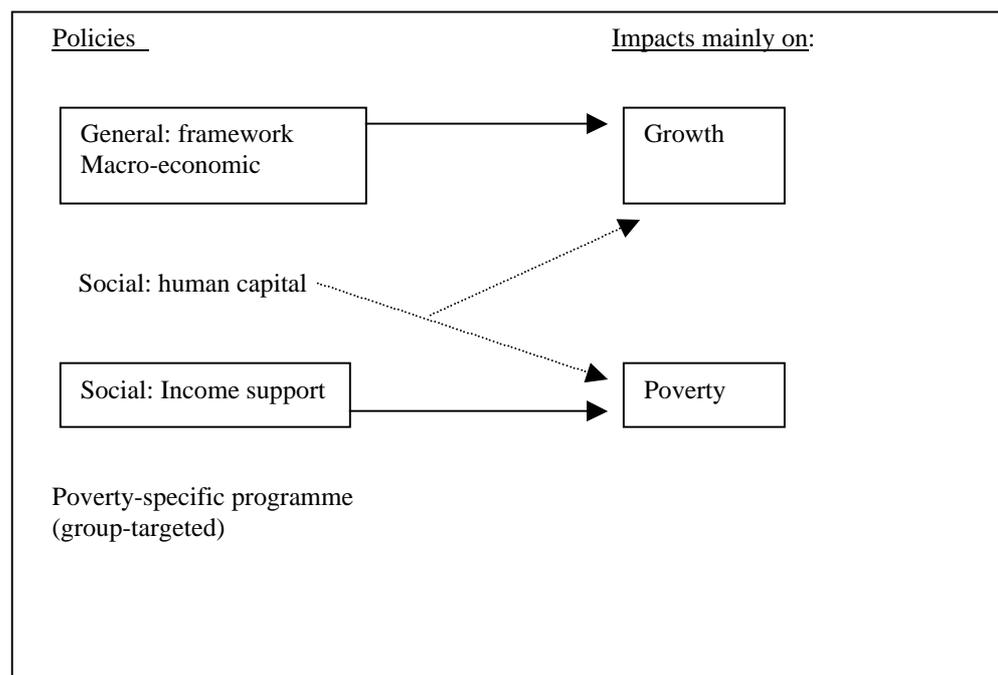
Third, most public policies affect poverty indirectly. Political instability is likely to have a negative effect on the whole population, including, and often predominantly, the most vulnerable. Policies like restriction on migration—as in Ethiopia under Mengistu, or for very different reasons in South Africa under apartheid—are not intended to affect poverty, but clearly do by (usually) keeping people away from more prosperous areas.

Fourth, government policies affect economic growth rates, and therefore poverty incidences. The recent evidence showing that "initial" economic growth does not, as Kuznets predicted, lead to increasing inequality seems convincing, and there is anyway consensus that economic growth is necessary for poverty reduction. Yet, while growth tends to reduce poverty, some groups of the poor may lose; research on the growth—poverty link—some of which is reviewed in this paper—also indicates that the poorest do not always gain, and targeted policies are needed.

Finally, general economic policies such as the type of economic planning and decisions on infrastructural provision affect poverty and income distribution: export promotion, for example, tends to create more unskilled jobs than import substitution policies, and the provision of roads in the poorest areas may have a bigger poverty-reducing effect than expansion of high technique transport facilities in a harbour.

Thus, there are many different channels in which policies (or the state) affect poverty. These are represented in Figure 1.

**Figure 1: Links between policy and poverty**



Because of the close link between economic growth and poverty alleviation, this paper reviews, briefly, the literature on policies that are good or bad for economic growth. Obviously, debates about structural adjustment play an important role, but we will aim to go beyond the polarized debate and try to identify in the literature policies that promote broad-based economic growth.

Our review of the literature suggests that the role of government in poverty reduction—at least in Africa—has been less fully explored than its role in economic development. Since the late 1980s—the 1989 World Bank document *Sub-Saharan Africa: From Crisis to Sustainable Growth* marks the turning point, a turn-around that resulted in the 1997 *World Development Report* devoted to the role and effectiveness of the state—a new debate has rapidly developed, focusing on "governance". We will look at this literature, how it has arisen, the critiques expressed and how it addresses the question of poverty reduction. In this context, we also discuss the importance of political stability, which is a crucial pre-condition for *both* economic growth and poverty reduction. Our focus, however, will be on policies that affect poverty more directly: those that focus on human capital, social capital, and direct poverty alleviation.

## Structure of the paper

The paper has four main sections. Section 1 discusses poverty in sub-Saharan Africa. First we review the state of knowledge, concurring with Killick (1995) and others that although we know much more about poverty now than ten years ago, especially its levels and consumption by the poor, we need to know more about trends and characteristics. In particular, we find that there are gaps in the knowledge about production (and labour use) by poor households, and about how poverty is affected by policy. We then review recent trends in poverty and related indicators in SSA, as compared with other continents, and the divergences within the continent, illustrated with special reference to Ghana, Kenya,

Nigeria and South Africa.

Section 2 discusses economic growth, economic policies and poverty. First, we discuss recent evidence on the growth—poverty link. Faster growth is clearly associated with faster poverty reduction: normally growth is good for the poor. But there are three caveats. First, there are convincing examples of "security-mediated" rather than "growth-mediated" poverty reduction (see further Drèze and Sen, 1989). Second, "the poor" are not a homogeneous group, and there are cases where the poorest have not profited from economic growth, which calls for specific policy attention. And third, if 35–50% of international variance in poverty incidences can be explained by variance in per-person levels of mean private consumption or GNP, 50–65% remains unexplained, which may indicate the large margin where policies (other than growth-enhancing policies) can make a difference. Direct redistributive policies, including land reform—if such policies are designed to minimize rent-seeking and other sorts of inefficiency or capture—have a role to play; very unequal distribution of income and land, apart from directly reducing the shares of low-income groups, tends on recent evidence to reduce the rate of growth and thus doubly harms the poor. Finally, Section 2 briefly reviews the debate around structural adjustment, stressing the variety of policies, or aspects of adjustment or stabilization, and the differential impacts of these.

Section 3 concentrates on the role of the state as such. We discuss the literature on "governance" since the late 1980s, and stress the importance of political and institutional factors. We pay attention to the way governance has been discussed in the World Bank literature, most explicitly in the 1997 *World Development Report*, which defines the state as central to economic and social development. Some selected issues in the political science literature are discussed, concerning the relationship between political and economic transformations, and the roles of decentralization, civil society and non-government organizations (NGOs). We conclude that the literature has moved a long way in incorporating such factors into the explanation of economic growth, but has not yet given similar attention to their role in poverty alleviation. In this context, echoing Hegel's well known concerns that modern civil society would under-represent the interests of the poor, we enquire whether "all good things go together"—that is, whether political transformations (democratization) and poverty alleviation are as compatible as economic growth and poverty alleviation.

Direct poverty alleviation policies are the subject of Section 4. We discuss some of the literature on the role of development of human capital (health and education), for poverty reduction as well as economic growth. This includes reference to patterns of government expenditure. We pay attention to the new debate around social capital—roughly, social patterns and institutions of mutual trust; recent research in rural Tanzania suggests that higher incomes and more social capital go together. The last and main part of Section 4 discusses targeted poverty alleviation programmes, focusing on PAMSCAD in Ghana, and on general rules for programmes that supply credit to the poor, and public works employment.

# Section 1 Poverty in SSA

## 1.1 What do we know about poverty in SSA

There is a general feeling that very little information is available about the socioeconomic condition of Africa's population.<sup>1</sup> A 1990 report by the UN Economic Commission for Africa stated that data gaps affect every sector and every aspect of the African situation. In the field of demography, even the size and growth rate of population in some of the African countries cannot be unambiguously determined. In the field of social statistics, there are gaps relating to literacy, school enrolment ratios, the institutional status of the child and poverty levels. And in the field of economic statistics, basic economic series like GDP and resource flows are sometimes lacking. Data on natural resources and the environment are, if available, in a very rudimentary state. (cited in Chander, 1990).

Weeks (1994) quotes the ILO Yearbook of Labour Statistics, which includes data on the general level of employment for only 17 of the 46 sub-Saharan countries. Quoting Mosley's 1992 article "Policy making without facts", he notes that demographic data are unreliable, perhaps most of all for Nigeria, the most populous country in the region. In most cases, reliable smallholder food production data are not available.

To present an overview of what we know about poverty and related indicators in Africa, we summarize some basic socioeconomic data in Table 1. This reflects the recent data on poverty and related factors that are accepted by international agencies. The first (left) part of the table presents poverty data, in three categories:

- Poverty incidence: based on a "food poverty" line, indicating the proportion of people with private consumption, per equivalent adult, below the level at which a person does not normally acquire enough dietary energy. The data derive from World Bank Poverty Assessments, some of which are based on the Bank's Living Standards Measurement Surveys, many on the country's own data.
- "\$1/day poverty": based on an internationally comparable private consumption poverty line of \$1 a day, at 1985 purchasing power parity (PPP). Data presented here are quoted from the 1997 Human Development Report, and data made available by the World Bank.
- The existence of Participatory Poverty Appraisals (PPA), participatory forms of appraisal carried out by the World Bank.

Data on consumption poverty, of either or both of the first two types, are available for at least 25 of the 45 countries listed here, and poverty data are being generated rapidly. The data set of the second type has in a few years expanded to double its size (adding mainly transitional countries), and other years for the same countries. Around 1993, about 66% of the people in sub-Saharan countries were covered by a recent, fairly reliable household survey (Ravallion and Chen, 1996; the revised compendium by Tabatabai, 1996, also is greatly expanded). National surveys are carried out in many countries; not all these surveys are reflected in Table 1. Similarly, participatory forms of appraisal are increasingly generated. They are becoming part of the general (World Bank) poverty appraisals, and there is a growing consensus that the two should complement each other. The table indicates 21 participatory appraisals, but this is also being expanded.

The World Bank now regularly publishes poverty assessments. Some (about half) of these are based on work done by or for the World Bank, whose initiatives to generate data on levels of living date back to (at least) 1980, when the *Living Standards*

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<sup>1</sup> The following is based on our work for the ILO on Poverty and Employment Monitoring in SSA (de Haan and Koch Laier, 1997). For this we reviewed 21 of the World Bank's Poverty Assessments on sub-Saharan countries, particularly the data on which these reports are based.

*Measurement Study* surveys (LSMS) were established.<sup>2</sup> The objective was to develop new methods for monitoring progress in raising levels of living, to identify the consequences for households of current and proposed government policies, and to improve communications among survey statisticians, analysts and policy makers. The surveys include many dimensions of household well-being and use extensive quality control procedures. Grosh and Glewwe (1995) list data sets for Côte d'Ivoire, Ghana, Mauritania, Tanzania (National and Kagera Region) and South Africa. The *Social Dimensions of Adjustment* Project (SDA) has assumed responsibility for the LSMS surveys in Côte d'Ivoire, Ghana and Mauritania. It also sponsors *Integrated Surveys*, which are very similar to LSMS surveys, in Uganda, Mauritania, Madagascar, Senegal and Guinea. Less complex surveys have been sponsored by the World Bank in a larger number of sub-Saharan countries. The Cornell University Food and Nutrition Policy Programme has sponsored surveys in Guinea and Mozambique (Grosh and Glewwe, 1995: 12).

Hence, there has been a large number of initiatives to improve the collection of data on well-being and characteristics of low-income groups in sub-Saharan Africa. The results vary in scope and quality. Striking even in the World Bank's poverty assessments is the lack of uniformity. Some have been considered deficient by the World Bank, and even good studies can become outdated. The Rwanda data are for 1983, which makes them almost useless for any form of policy making. Also, from one-off surveys trends cannot be deduced, particularly if they come from unusually good or (as for Guinea-Bissau) bad years. Other deficiencies include the lack of information on the links between economic growth and poverty reduction.

Repeated household survey data, preferably for several years (in order to allow for climatic and other disturbances, and to set alongside infrequent data sets such as decennial censuses), are essential to trace poverty changes over time. Proxy indicators can substitute to some extent (cf. Shaffer, 1996). National aggregates, especially production statistics, can present alternative indicators for averages, but some key output data (e.g., production of coarse cereals and roots) for poverty proxying are usually weak or absent even at national level. Anyway, such data need to be complemented by data on (income) distribution. Moreover, agricultural production statistics for smallholders (who are relatively likely to be poor) are notably unreliable,<sup>3</sup> although some inferences can be drawn from prices and wages (Tabatabai, 1991). A final problem is how to use these surveys to estimate the effect on poverty of alternative policies affecting employment in different sectors and/or prices of different outputs; recent CGE-based simulation models, such as those undertaken at Cornell, may provide new insights.<sup>4</sup>

The right side of Table 1, based on UNDP Human Development Reports, is better filled, indicating that much more data are available on general socioeconomic indicators. Child mortality and female literacy data, both rather good indicators of poverty, are available for almost all countries; however, these data can seldom be disaggregated in the desired way, and are reasonably reliable only for the census year (except perhaps literacy data). In addition, composite indicators have been proposed; they may give a rough

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<sup>2</sup> Grosh and Glewwe (1995) provide a "catalogue" of LSMS data sets; this is being updated. Grootaert and Marchant (1991) describe the initiatives with regard to data collection under the Social Dimensions of Adjustment in sub-Saharan Africa programme, concluding that the SDA programme was fundamentally different from that of the LSMS.

<sup>3</sup> And non-agricultural ones as well. Gibbon (1996: 756) states that official Kenya government figures show that in 1990 there were only 172 workers in the non-formal construction industry, and that rural non-agricultural production is statistically assumed to be a fixed fraction of agricultural production.

<sup>4</sup> See also, e.g., Bartsch (1997) and Akinboade (1994) for CGE-based analysis of the effect of improvements in agriculture on the poor in Egypt and Kenya, respectively; and Hassan (1997) for the use of a social accounting matrix for analysis of welfare changes for the poor in Sudan.

indication of welfare, but provide no added value to the primary indicators on which they are based. Human development index (HDI) data, composed of income, health and schooling indicators, are also available for the large majority of countries. The last two columns show two new variants of the HDI, both available for most countries. The gender development index (GDI) indicates the extent of discrimination against or deprivation of women. The 1997 human development report introduced the human poverty index (HPI), which provides a disaggregation of HDI data, but excludes a measure of income poverty. HPI reflects the percentage of people who suffer from deprivation relating to survival, knowledge and a decent standard of living.

Thus, many countries now have some form of poverty data, and new initiatives are being taken. However, data are often one-off, or at best irregular, and there are very few panel data (Côte d'Ivoire being an exception). Hence the SSA poverty data, unlike those for India or Indonesia for example, do not generally permit poverty monitoring, which is important for policy purposes. Large questions remain, moreover, about all these types of data: their timeliness, quality, interpretation and usefulness for policy purposes.<sup>5</sup> But data are increasingly available, and—at least at the national level—it becomes increasingly possible to track changes in socioeconomic indicators.

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<sup>5</sup> See, e.g., Appleton (1996) for problems with measuring changes in poverty over time, referring to Uganda 1989–1992: the official report showed a decline in real consumption of 34% during 1989–1992, but radically different estimates exist, depending on discrepancies in production estimates, household size, recall periods and budget shares.

**Table 1: Poverty and related indicators for sub-Saharan countries**

	(1)	Food pover ty	(2)	\$1/d ay pove rty	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Year	HCI	Year	HCI	PPA	Und er 5 mort al. 1994	Fem ale liter.	Ferti lity rate 1992	HDI 1993	GDI	HPI
						per 1000			value	value	%
Angola	94	...		..		292	28.0	7.2	.283	.270	
Benin	95	33		..	x	142	23.2	7.1	.327	.311	
Botswana			85	35		54		4.9	.741	.723	22.9
Burkina Faso		?		..	x	169	8.4	6.5	.225	.211	58.3
Burundi	90	36		..		176	20.9	6.8	.282	.271	49.0
Cameroon	84	40		..	x	109	49.0	5.7	.481		31.4
Cape Verde	88-89	..		..		73	59.6	4.3	.539	.517	
CA Republic		..		..	x	175	47.9	5.7	.355	.346	41.7
Chad		..		..		202	32.4	5.9	.291	.275	
Comoros	92	?		..		126	49.1	7.1	.399	.391	
Congo		..		..		109	..	6.3	.517		29.1
Côte d'Ivoire		..	88	18		150	27.4	7.4	.357	.328	46.3
Djibouti		..		..		158	..		.287	..	
Eritrea	93-94	53			x						
Ethiopia	94	?	81	34		200	23.5	7.0	.237	.227	56.2
Eq. Guinea		..		..	95	177	..	5.9	.461		
The Gambia	91	64		..		213	23.1	5.6	.292	.275	
Ghana	92	31		..	94	131	50.5	6.0	.467	.459	32.6
Guinea			91	26	x	223	20.1	7.0	.306	.286	50.0
Guinea-Bissau	91	49	91	87		231	40.1	5.8	.297	.281	43.6
Kenya	92	46	92	50	x	90	66.8	6.3	.473	.469	26.1
Lesotho	93	49	86-7	50	93	156	60.0	5.2	.464	.454	27.5
Liberia		..		..		217	..	6.8	.311	..	
Madagascar	93-94	70.0	93	72	93	164	41.8	6.1	.349	.346	49.5
Malawi	90-91	?		?		221	39.8	7.2	.321	.312	45.8
Mali		..		?	93	214	20.8	7.1	.223	.215	54.7
Mauritania	89-90	57	87	31		199	25.3	5.4	.353	.338	47.1
Mauritius	91-92	11		..		23	77.2	2.9	.825	.740	12.5
Mozambique		..		..	95-96	277	21.4	6.5	.261	.245	50.1
Namibia		?		..		78	..	5.3	.573		45.1
Niger		..	92	62		320	6.1	7.4	.204	.192	66.0
Nigeria	92	34	92	29	93-94	191	43.8	6.5	.400	.380	41.6
Rwanda	93	51	84	46		139	..	6.6	.332	..	37.9
Senegal		?	91	54		115	21.5	6.1	.331	.314	48.7
Sierra Leone		?				284	16.7	6.5	.219	.196	59.2
Somalia		..		..		211	..	7.0	.221	..	
South Africa			93		95	68	80.8	4.1	.649	.622	
Sudan		..		..		122	32.0	5.7	.359	.327	42.2
Swaziland		..		..	95-96	107	73.6	4.9	.586	.566	
Tanzania	91	51	93	16	95	159	53.9	5.9	.364	.359	39.7
Togo	87-89			..	94-95	132	34.3	6.6	.385	.364	39.3
Uganda	93	55	89	50	93	185	47.7	7.3	.326	.318	41.3
Zaire		..		..		186	64.9	6.7	.371	.364	41.2
Zambia	91	86	93	85	93	203	68.7	6.0	.411	.405	35.1

Zimbabwe	90	26	90	41		81	78.6	5.0	.534	.525	17.3
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Sources:

(1) World Bank Poverty Assessments, data made available by the World Bank. Food poverty lines usually set at approx. 2,000–2,200 kcal day, but there are exceptions (e.g., Lesotho = 2,500 kcal). Question marks indicate that we believe poverty data are available, but have not been able to confirm this.

(2) UN (1997), based on data from the World Bank.

(3) Participatory poverty assessments carried out by the World Bank, year of report indicated when known, others by 'x' (Shaffer, 1996, quoting Norton and Stephens, 1995; this count was made in October 1996).

(5) Female literacy rates: UN (1996: 138–40; HDR calculations based on UNESCO estimates).

(4), (6), (7), (8): UN (1996). Human Development Index and Gender Development Index are values between 0 (bad) and 1 (good).

(9) UN (1997): Human Poverty Index, reflection deprivation regarding longevity, knowledge and decent living standard.

## 1.2 Poverty levels and trends

Recent trends in poverty in SSA as a whole, compared with other parts of the world, are shown in Table 2. This suggests that the number of poor, i.e., people living on less than 1985 PPP \$1 per day, increased between 1987 and 1993, from 180 million to almost 220 million. The head count index increased slightly until 1990, then fell slightly, but was in 1993 still higher than in 1987. This means that during 1987–1993 SSA performed worse than Asia, but not worse than Latin America (nor Eastern Europe).<sup>1</sup> Perhaps most striking is the relatively rapid increase in the poverty gap (similar to the trend in Latin America), especially after 1990. The fact that poverty *gaps* have risen at different, faster rates than *incidences*, suggests (as we shall substantiate below) that the poor are not a homogeneous group, and that some of the poor are falling behind.

**Table 2: Population living below US\$1 per day, 1987–1993**

	Number of poor (millions)			Headcount index (%)			Poverty gap (%)		
	1987	1990	1993	1987	1990	1993	1987	1990	1993
Sub-Saharan Africa	179.6	201.2	218.6	38.5	39.3	39.1	14.4	14.5	15.3
South Asia	479.9	480.4	514.7	45.4	43.0	43.1	14.1	12.3	12.6
East Asia & Pacific	464.0	468.2	445.8	28.2	28.5	26.0	8.3	8.0	7.8
Eastern Europe & Central Asia	2.2	n.a.	14.5	0.6	n.a.	3.5	0.2	n.a.	1.1
Latin America & Caribbean	91.2	101.0	109.6	22.0	23.0	23.5	8.2	9.0	9.1
Middle East & North Africa	10.3	10.4	10.7	4.7	4.3	4.1	0.9	0.7	0.6
TOTAL	1,277.1	n.a.	1,313.9	30.1	n.a.	29.4	9.5	n.a.	9.2

Source: World Bank (1996c:4).

<sup>1</sup> In terms of real (PPP-adjusted) GDP per capita, SSA has been the poorest region since 1988, when the SSA average for the first time fell below South Asia's (World Bank, 1996e). During 1975–1985, SSA had a mean per capita growth rate of -0.3% (-0.1% in Latin America); this was significantly lower than the mean for 129 countries in the data set used in Barro (1997: 21): 1.0%. During 1985–1990 the gap seems to have decreased: mean per capita growth was 0.1% in SSA (0.4% in Latin America) against 1.0% for the 129 countries.

## *Trends*

Table 3 shows divergent trends in the region, as there have been substantial variations in economic growth rates (e.g., Ferree, Singh and Bates, 1997); this will be illustrated below in some detail for Ghana, Kenya, Nigeria and South Africa. A rapid increase in the poverty head count was observed in Côte d'Ivoire between 1985 and 1988, and in Sudan during the 1980s (although data are not readily comparable). But this was not the case for Tanzania, where poverty declined between 1983 and 1991, and in rural Ethiopia, where poverty declined during 1989–1994. Poverty declined also, and sharply, in Nigeria between 1985 and 1992, slightly in Kenya between 1981/82 and 1992, and quite sharply in Ghana between 1988 and 1992. Note, however, that in Kenya and especially Nigeria extreme poverty increased while "moderate" poverty decreased. This—like the faster worsening of P1 than of P0 in

Table 2—would suggest that the poorest in some cases do not profit from economic growth, though the moderately poor do. The trend in South Africa discussed below suggests the same. Another noticeable trend is the relative worsening of urban compared with rural poverty (and in Ghana, particularly, urban extreme poverty), although rural poverty incidences remain clearly above urban ones.

**Table 3: Population below the poverty line in the 1980s and 1990s**

	Year	National poverty		Rural poverty		Urban poverty
		moderate	extreme	moderate	extreme	
Cameroon				71		25
Côte d'Ivoire	1985 1988	30 45.9		77		23
Ethiopia	1989 1994			59.0 41.0		
The Gambia				66		33
Ghana	1988 1992	36.9 31.4	10.2 6.0	42 34 94		19
Guinea-Bissau				58		24
Kenya	81/82 1992	(51.5) 46.4 (48.7)		47.9 46.4 41	11.4 20	29.3 20
Lesotho				54		55
Madagascar				37		44
Malawi				63		10
Mali						50
Nigeria	1985 1992	43 34.1	12.0 13.6	36 78		30 34
South Africa	1993			73.7		40.5
Sudan	1978 1990	38 72*				
Tanzania	1983 1991	64.6 50.5		59		61
Uganda				57		38
Zaire				76		32
Zambia				88		46

Notes: \*Data not comparable over years.

Sources: for Ghana, Kenya, Nigeria and South Africa, see Section 1.2. Cameroon, Côte d'Ivoire (rural and urban), Gambia, Ghana (rural and urban), Guinea-Bissau, Kenya (rural and urban), Lesotho, Madagascar, Malawi, Mali, Nigeria (rural and urban), Tanzania (rural and urban), Uganda, Zaire, Zambia: Cleaver and Donovan (1995). Côte d'Ivoire (national), Ethiopia, Kenya (in brackets), Tanzania: Demery and Squire (1996). Sudan: Hassan (1997), based on ILO and government data; these data leave many doubts about reliability and especially comparability over time.

### *Divergence: Ghana, Kenya, Nigeria and South Africa*

The diverging poverty trends in SSA can be illustrated by four countries: Ghana, Kenya, Nigeria and South Africa.<sup>2</sup> The first three are classified as low-income economies, while South Africa was in the upper-middle income group, with a GNP per capita (all data are PWT5.6) in 1994 around 10 times higher than the GNP of the three other countries, but with probably the world's highest income inequality (cf. the ratio [World Bank, 1997] between mean income in the highest and lowest household quartiles). But the economies of Ghana, Kenya and Nigeria, and the consequent changes in poverty, have evolved differently since the 1970s.

In Ghana, between 1984 and 1994, the annual population growth rate was 3.1%, and the annual GDP growth rate was 5.0%, between 1988 and 1992, so that per capita GDP growth averaged 2.5%. The incidence of poverty was reduced by 5.5%; in absolute terms, the number of poor people in Ghana decreased from around 5.2 to 5 million. The incidence of extreme poverty and poverty intensity declined as well, together with income

<sup>2</sup> This section draws on work by PRUS for the 1997 UN *Human Development Report*. The review of the literature was carried out by Eliane Darbellay.

inequalities.

In Kenya, although the adjustment programme launched in 1986 brought some improvement in economic indicators, GDP growth was sluggish over the 1980s. Real GDP growth averaged 3.8% per year between 1980 and 1993, but the population growth rate was 3.3% per year over the same period; GDP per person, 1981–1992, thus grew by only 0.5% per year. The incidence of rural poverty (the only area for which we have data for 1981/82 and 1992) decreased slightly, by 1.5%. But the incidence of extreme poverty increased by 9% and the depth of poverty increased by 10% for moderate poverty and by 18% for extreme poverty.

The Nigerian government also adopted a structural adjustment programme in 1986. Partly as a result of a massive depreciation of the naira and of the increase in the international price of oil in 1990, the economy recovered between 1986 and 1992 and real GDP grew by an average of 5.4% per year. Poverty incidence declined by 8.9% between 1985 and 1992. However, extreme poverty increased by 1.6% between 1985 and 1992, together with the intensity (0.6%) and severity (1.3%) of poverty, as well as the Gini coefficient.

Thus in Ghana and Nigeria the elasticity of poverty incidence to growth was well below unity—low by international standards—and in Kenya this elasticity was, most unusually, negative: growth of per person income, though positive, was too slow to compensate for initially high, and probably increasing, inequality, so poverty increased.

In South Africa, between 1980 and 1993, GDP per capita declined by about 1% per year. This bad economic performance partly explains why the incidence of poverty appears to have stagnated between 1985 and 1995. Although no strictly comparable data on poverty levels are available for South Africa over that period, different sources all give an incidence of poverty of 40% or slightly above for the years between 1985 and 1995. Since population growth was faster among Africans—the group with much the highest poverty incidence—than among other ethnic groups (SALDRU, 1994), the absolute number of poor increased. The Gini coefficient appears to have been roughly unchanged between 1975 and 1991, but rising between 1975 and the early 1980s, and then falling back in 1985–1994. However, it is likely that South Africa has experienced an increase in the incidence of severe poverty over the last decade.

## **Poverty in Ghana**

After independence in 1957, Ghana's socialist government initiated a massive programme of industrialization along with the creation of a welfare state (which in general remained restricted to the organized sector). GDP and GNP per capita grew between 1960 and 1973, but subsequently declined because of very low returns to public investment, policy biases harmful to agriculture, high inflation, declining terms of trade and crop failures. In 1983, the government initiated an adjustment programme under the supervision of the World Bank (the Economic Recovery Programme). Between 1984 and 1994, real GDP grew on average by 5% per annum (Jayarajah, Branson and Sen, 1996), and real GDP per capita grew at an average of 2.5% (1984–1993). During that period, however, foreign investment proved elusive (apart from mining); the agricultural sector, which contains most of the poor, performed modestly. Substantial research on poverty has been undertaken since the second half of the 1980s. The three living standards household surveys of 1988, 1989 and 1992 provide comparable data, allowing analysts to evaluate the state of poverty over these last years. The World Bank produced two poverty assessments (1993a, 1995c) synthesizing the results obtained in the surveys. Using a relative upper poverty line of two-thirds of 1988 mean per capita household expenditures (fixed for all years), the World Bank (1995c) estimated that in 1988 the incidence of poverty was 37% and the intensity of poverty 12%; they fell to 31% and 8%, respectively, by 1992. The incidence of extreme poverty, measured with a poverty line of one-thirds of

mean per capita household expenditure, also decreased between 1988 and 1992, from 10% to 6%. The absolute number of the poor decreased also over this period, from around 5.2 million to 5 million.

The reduction in all poverty measures appears to be traceable not only to growth, but to significant falls in overall income inequalities between 1988 and 1992; Deininger and Squire (1996a) give values of Gini coefficients of 0.36 for 1988, 0.37 for 1989 and 0.30 for 1992. Yet the elasticity of poverty incidence to growth was small by international standards (see above). This implies that many of the poor started off (in 1988) far below the poverty line; growth improved their income and well-being, but by 1992 was not yet enough to pull them above the poverty line.

The improvement in the state of poverty in Ghana is often attributed to the economic recovery under the adjustment programme started in 1983 (e.g., Demery and Squire, 1996). Economic growth, essential for poverty alleviation, was relatively high over the 1980s and certainly contributed to some reduction of poverty. Moreover, the Programme of Action to Mitigate the Social Costs of Adjustment (PAMSCAD), initiated in 1987, might not have targeted the poorest of the population, but it prevented a further rise in the number of people below the poverty line (see also Section 4).

The evidence available shows the following characteristics of Ghana's poor:<sup>3</sup>

- Even though the incidence of poverty strongly decreased in rural areas between 1988 and 1992, from 42% to 34%, poverty still remained greater in rural areas (especially in rural Savannah) than in urban areas, with 74% of poor people living in rural areas in 1988, and 72% in 1992. On the other hand, poverty incidence greatly increased in Accra, from 9% in 1985 to 23% in 1992.
- In 1992, male-headed households had a slightly *higher* incidence of poverty than female-headed households (32.2% versus 28.5%) and contributed far more people to the ranks of the poor than did female-headed households: 64.2% against 35.8%.
- Even though poverty declined for all socioeconomic groups between 1988 and 1992, the incidence and intensity of poverty remained the highest among food crop and export crop farmers, who in 1992 jointly contributed almost 62% of overall poverty incidence. In 1992, poor households derived 48% of their income from agricultural activities and 33% from non-farm self-employment; for non-poor households these figures were 37% and 35%.
- In 1987/88, among the heads of households without any education, 28% were in the poorest quintile of households by expenditure per person, but no households whose heads had secondary or university education were in the poorest quintile. Only 12% of the households with heads without education, as against 60% of the households with heads with secondary education, were in the richest quintile.

## Poverty in Kenya

The first decade after Kenya's independence was one of remarkable growth and structural change, with real GDP growing by 7% to 8 % per year. Agricultural and manufacturing growth—combined with the growing productivity of small farm areas, rural employment expansion, and the major redistributive (and probably productive) impacts of land reform in the early post-independence period—brought about a reduction in poverty. Between 1973 and 1980, the situation deteriorated, partly as a result of the rising price of oil and other imports; the declining availability of extra high-quality land alongside rapid population growth; the drift of land towards the better-off; and the absence of sustained

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<sup>3</sup> Based on World Bank (1995b/c) and the Participatory Poverty Assessment (Norton, Aryeetey, Korboe and Dogbe, 1995), which broadly confirms the quantitative analysis of the World Bank's GLSS.

agrotechnical progress. Matters continued to worsen between 1980 and 1985, especially after a severe drought in 1984. From the mid 1970s, cultivated land area expansion slowed down. In 1986, the government launched a structural adjustment programme, which seemed to benefit the economy, as economic growth averaged 6% per year between 1986 and 1990. But between 1990 and 1993 the economic situation worsened again and GDP growth fell; since then, the economy has recovered.

Kenya has been the subject of much social and economic analysis since independence, and has a well developed statistical information system. Despite this abundance of statistical material, relatively few studies relating poverty and socioeconomic indicators at the national level, covering the 1980s and 1990s, have been undertaken. But two household budget surveys, for 1981/82 and 1992, are available (World Bank, 1995d). These data give a good overview of the evolution of *rural* poverty over the 1980s. Full data for national poverty are available only for 1992, but Demery and Squire (1996) estimate a decline of national poverty from 51.5% in 1981/82 to 48.7% in 1992.<sup>4</sup> Using a different (and absolute) poverty line, the World Bank estimated the incidence of rural poverty at 47.9% in 1981/82 and at 46.4% in 1992. However, the incidence of rural extreme poverty, measured with a relative but fixed poverty line (one-third of mean per capita household expenditure of 1981/82) increased between 1981/82 and 1992, from 11% to 20%. For both poverty and extreme poverty, intensity increased between 1981/82 and 1992 (30 to 40% for moderate poverty, 21% to 39% for extreme poverty).<sup>5</sup>

Although the incidence of rural poverty decreased slightly in Kenya over the 1980s, extreme poverty and poverty depth increased; the absolute number of poor increased also, from 7 million in 1982 to 9 million in 1992. Although the economy recovered after 1986, sustained economic growth was not strong enough over the period 1981—1992 to have a big impact on poverty. Poverty must have been worsened by the impact of the growing workforce and by the slow growth of (and inattention to) agricultural productivity. Along with the worsening condition of the poorest in terms of poverty incidence and intensity, income inequalities increased over the 1980s: the Gini coefficient increased from 0.51 to 0.56 between 1981/82 and 1992 at the national level, and from 0.40 to 0.49 in rural areas (World Bank, 1995d)—reflecting the absence after 1981 of redistributive land reform, for which a powerful case (on efficiency as well as equity grounds) appears to exist (Hunt, 1994).

The main characteristics of Kenya's poor are as follows (World Bank, 1995d):

- In 1992, 80% of the total population and 85–90% of the poor in Kenya lived in rural areas. Some 46% of the rural population had a level of expenditure below the upper poverty line, and 20% had a level of expenditure below the extreme poverty line. In urban areas in 1992, the incidence of poverty was 29% (1.2 million people) and the incidence of extreme poverty 25%—respectively much *lower* and somewhat *higher* than in the rural areas, the former reflecting the higher urban mean income, the latter the much greater urban "low-end inequality".
- About one-third of rural households are headed by women. The participatory poverty assessment conducted in 35 villages in 1994,<sup>6</sup> indicates that there were twice as many

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<sup>4</sup> For 1992, Ravallion (latest dataset 1996) gives figures for the incidence of national poverty: at 50.2% for 1\$ a day (1985 PPP) poverty, and at 37.5% for 0.75\$ a day poverty.

<sup>5</sup> A similar trend in the incidence and intensity (i.e., depth x incidence) of moderate poverty is found in the result of Jayarajah et al. (1996) at the *national* level; using a relative poverty line of 2/3 of mean expenditure, they estimated that the incidence of poverty decreased from 51.5% to 48.7% between 1981/83 and 1992/93 and that the intensity increased from 20.4 to 21.4%.

<sup>6</sup> The method for establishing levels of poverty in the PPA villages followed a (subjective) wealth ranking exercise, a group discussion of the characteristics of very poor, poor, average and rich people; once consensus was reached, people were asked to categorize each household in the

female-headed households (44%) as male-headed households (21%) among the very poor. Of male-headed households, 59% were categorized as poor or very poor, against 80% of female-headed households. The contrast may be less between Kenya and Ghana than between participatory and survey-based poverty assessments: Shaffer (1998) shows that, in Guinéa, PPAs produce much higher ratios of estimated female to estimated male poverty than do household surveys *in the same areas*.

- Kenya is a land-scarce economy: only about 40% of the land is arable, and only 20% is of high and medium potential. Rapid population growth in the 1980s—although it resulted in rural to urban migration—reduced the land available per rural household (from 4.9 acres in 1982 to 4.0 acres in 1992) and increased the percentage of households with fewer than 2 acres (from 18% in 1982 to 25% in 1992).
- Declining farm sizes, limited scope for area expansion within the smallholder sector and stagnant yields of the principal food crop, maize, brought a slowing of agricultural growth to 2.2% per year between 1980 and 1993, well below the growth of population, and even of the rural workforce. The share of agricultural income in total rural income fell sharply, particularly for the poor.
- There is a surprisingly small gap between the levels of schooling of Kenyans in poor and rich households, at least as reflected in the primary school enrolment rate. In rural areas in 1992, this was 63% for households in the poorest decile and 78% in the richest decile.

## Poverty in Nigeria

Nigeria's economy relies heavily on oil, which constitutes almost all its exports and budgetary revenues. In 1973, the first oil shock brought a dramatic positive impact on most economic indicators; real per capita income, private consumption and real wages rose sharply.<sup>7</sup> Between 1980 and 1985, economic conditions worsened, mainly because of the decrease in the international price of oil. The oil boom contributed to a large appreciation of the naira (with a negative impact on non-oil tradeables, especially agriculture, and harming employment and income for the immobile). In 1986, the government adopted a structural adjustment programme. The depreciation of the naira combined with the rising oil prices in 1990 boosted the economy; between 1986 and 1992, real GDP grew by an average of 5% per year, but economic growth slowed again during 1993–1995. According to the World Bank (1996b), by 1994 real per capita income and consumption were hardly above levels in 1971.

Despite being the largest economy in sub-Saharan Africa, with some 20% of the region's population, little information on poverty and inequality in Nigeria is available. The World Bank's poverty assessment on Nigeria (1996b) provides one of the few good overviews of poverty and its correlates over the 1980s. It relies mainly on two national consumer surveys, of 1985 and 1992.

With a relative upper poverty line of two-thirds of 1985 mean per capita household expenditure, poverty incidence decreased from 43% to 34% between 1985 and 1992.<sup>83</sup> Using an extreme poverty line of one-third of mean expenditure, the proportion of the population in extreme poverty rose from 12% in 1985 to 14% in 1992. Intensity and

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community in one group.

<sup>7</sup> At the same time, according to Anusionwu and Diejomoah (1981 :96), income inequalities increased sharply, particularly between urban and rural areas, and primarily as a result of oil booms and their spin-offs.

<sup>83</sup> With a poverty line of 1\$ a day (1985) adjusted for purchasing power parity, the conclusion is similar, although the figures are lower: the incidence of poverty decreased from 31.5% in 1985 to 27.1% in 1992. Intensity and severity of 1\$ a day poverty rose as well, from 10.2 to 10.8% and from 4.4% to 5.7%, respectively.

severity of poverty as well as the incidence of extreme poverty increased between 1985 and 1992. While the absolute number of poor decreased from 36 million to 34.7 million between 1985 and 1992, the number of extreme poor increased from 10 million to 13.9 million. Income inequalities among the whole population increased from 0.387 in 1985 to 0.449 in 1992, and the Gini among the poor from 0.188 to 0.251. The poor have the following characteristics (World Bank, 1996b):

- In 1992, 62% of the population was rural. Among these 63 million people, 22.8 million were poor (36%), while 9.6 million were extremely poor (15%). In urban areas, the incidence of poverty was 30% and the incidence of extreme poverty 11%. Poverty intensity was 16% for the rural poor and 12% for the urban poor. The overall decline in national poverty between 1985 and 1992 masks different trends for the urban and rural sectors. Urban poverty incidence increased and rural poverty declined. The *number* of poor in rural areas fell from 26.3 to 22.8 million, while in urban areas it rose from 9.7 to 11.9 million. For the extreme poor, there was a similar trend of urban immiseration, with a huge increase of extreme poverty in urban areas from 1.5 million to 4.3 million and a small increase in rural extreme poverty from 8.6 to 9.6 million.
- The incidence of poverty was greater among male-headed households than female-headed households: for male-headed households it was 44% at the national level in 1985 and 36% in 1992, against 37% and 21%, respectively, for female-headed households. In 1992, male-headed households formed 90% of all households and contributed to 92% of rural poverty and to 87% of urban poverty.
- Unusually (cf. Lipton, 1995), poverty incidence was the lowest among households whose head was between 16 and 25 years old (in this category 20% were poor in 1985 and 22% in 1992). The older the household head, the more likely the household to be in poverty; in 1985, among households with heads between 36 and 55 years, 46% were poor (36% in 1992); in households with heads over 66 years, 52% were poor in 1985 (35% in 1992).
- Employment status of the household head was closely related to poverty in both 1985 and 1992, though rural and national poverty incidences fell for all status groups. In 1985 and 1992, at the national, rural and urban levels, the highest incidence of poverty was found among the self-employed: at the national level, in 1985, their poverty incidence was 53% against 46% for wage earners (in 1992 it was 35% against 28%). Agricultural workers formed the largest component of the extremely poor in 1992 (though falling from 87% in 1985 to 67% in 1992), followed by sales workers (rising from 4% of the extremely poor to 10%, respectively).
- In 1985, the incidence of poverty was 48% among the population with no education, 36% among the population with primary education, 28% among the population with secondary education and a surprisingly high 24% among the population with post-secondary education. In 1992, these figures were 40%, 29%, 23% and 23%.

## **Poverty in South Africa**

Between 1960 and 1970, South Africa's GDP per capita grew at an average annual rate of 4.1%. At the beginning of the 1970s, the economy slowed down. Between 1990 and 1993 annual GDP per capita growth was -2.8%. Since 1993, the economy has recovered; according to Economist Intelligence Unit (1996), real GDP growth was 4.0% in 1996.

The integrated household survey, conducted between 1993 and 1994 by the Southern African Labour and Development Research Unit (SALDRU), offers the best data available for South Africa, although it provides mainly income and not expenditure data. The absence of earlier studies covering an extensive geographical area and a large number of households impedes conclusions on the evolution of poverty and related indicators over time.

Before the 1980s, much poverty research focused on poverty among white South Africans. However, since 1970, several authors have attempted to estimate the incidence of poverty in South Africa, using mainly the minimum living level (MLL) poverty line.<sup>9</sup> It appears that the incidence of poverty fell between the mid 1970s and the mid 1980s, from around 54% of households in 1975 to 41–42% in 1985,<sup>10</sup> but has remained relatively stable since then. The number of poor, nevertheless, has increased, due to population growth. Ravallion (1996) estimated that in South Africa in 1993, 24% of the population were below the \$1/day poverty line, and 14% below the \$0.70/day line.<sup>11</sup>

Income inequality is extremely high in South Africa.<sup>12</sup> The ratio between the income per person of the top 20% and the bottom 20% is the largest in the world: 32.1 (Deininger and Squire, 1996a) ; the average for SSA in the internationally comparable data set was 11.6, and for the world 7.8. The Gini of total household income in both 1975 and 1991 was 0.68. Whiteford and McGrath (1994) show that the distribution of mean *household* income within the poorest deciles of households clearly deteriorated between 1975 and 1991, while income distribution within the seven upper deciles remained relatively stable.

Poverty in South Africa, in some respects, has different characteristics from elsewhere in Africa, though all the following data (SALDRU, 1994) use the MLL, far above the \$1 (1985 PPP)/person/day poverty line:

- Figures for 1993 show the huge gap between black and white poverty: the contribution of the coloureds to total poverty was 5%, it was negligible for the Indians and the whites, and 95% for the Africans.<sup>13</sup> According to Whiteford and McGrath (1994), while the incidence of poverty decreased between 1975 and 1991 for the Africans (from 68% to 67%), the coloureds (from 52% to 39%) and the Indians (from 30% to 20%), it increased for the whites, from 3% of households to 10%. In 1991, the bottom quintile included a significant proportion of whites, contrary to 1975. The top quintile comprised a greater proportion of blacks than in 1975, but the distribution was still extremely unequal.
- With a poverty incidence of 74%, the rural population contributed 75% of national poverty in 1993. In urban areas the poverty incidence was 41%, and in metropolitan areas 20%. These comparative data, are seriously distorted, however (Ardington and Lund, 1996).
- Women *seem* to be disproportionately represented among the poor in South Africa. In 1993, some 60% of the poor were women, although they comprised only about 53% of the population (Pillay, 1996). Poverty incidence in female-headed households *seemed* to be around 67%, while it was 44% for male-headed households; extreme poverty incidence was 38% among female headed-households and 24% among male-headed households. However, the way in which (mainly male) migrant income and residence are recorded seriously overstates female poverty relative to male (Ardington

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<sup>9</sup> This absolute poverty line is the most commonly used; it covers more than what is considered the minimum level of expenditure required to satisfy the basic needs of a household, as it comprises medical and education expenses, plus household equipment replacement.

<sup>10</sup> Simkins (1984); Bernstein and McCarthy (1995), who give an incidence of household poverty of 39% in 1995.

<sup>11</sup> Note that these figures are lower than the estimates derived from MLL poverty line, because \$1 a day is lower than the cut-off point of the MLL poverty line.

<sup>12</sup> Following Whiteford and McGrath (1994), South Africa has the highest degree of income inequality compared with 57 other countries studied.

<sup>13</sup> The distinction between the races used in the SALDRU data is used here: African refers to the indigenous black population, who represented 76.9% of the population in 1993; coloured refer to persons of mixed race descent, who were 8.1% of total population; Indians represented 2.63% of the total population and whites 12.3%. "Black" refers to all non-whites (Africans, coloured and Indians).

and Lund, 1996).

- Children constitute a large part of the poor population. In 1993, 61% of South African children lived in poverty, against 47% of the 16–64 years old and 52% of the more than 64 years old. Because families with many children have high poverty incidence, children contributed to 44% of total poverty in 1993, although they made up only 38% of the population.
- In 1993, poor households tended to be much larger than richer households. The average household size among the poor (bottom 40% of households in terms of expenditure) was 6.1, compared with 3.9 among the non-poor.
- Following SALDRU data, in 1993 the poorest were much likelier to depend on agriculture as a main source of income than the rich, with 37% of the poorest households having agriculture as a main source of income, against 0.6% of households in the richest quintile. The richest households depended largely on regular wages (84%), against 19% for the poorest.

### 1.3 Poverty research and policy recommendations

The descriptions above rely to a significant extent on the World Bank poverty assessments. According to the Bank's own review, these provide useful information as entry points to policy dialogue. However, two shortcomings, relevant for this paper, are identified. First, these assessments provide more information about the contributions of human resource development and social safety nets to poverty reduction—such as analyses of the targeting to the poor of social spending—than they do about the contribution of labour-intensive growth. Second, poverty assessments are thought to contain too few operationally relevant findings and recommendations. Institutional strategies for poverty reduction are not covered.<sup>14</sup> A similar conclusion pertains to the participatory poverty assessments (as Norton et al., 1995). Although these provide insight into the poor's perceptions of poverty, vulnerability and policy priorities, they do not give much information about policies: why, for example, education systems do not reach and benefit more poor people, or how these systems can be improved.

This seems to be undergoing some change, as will be discussed below. For example, according to Sandbrook (1995: 281), the World Bank (1993a) report on Ghana “illustrates how far some neo-liberals had moved from the earlier neo-classical vision of free markets and a minimalist state. This report asks: how can Ghana emulate the East Asian experience to attain accelerated economic development?... Not only does the report advocate a stronger and more directive role of the Ghanaian state, but it contemplates the merits of the government adopting a selective industrial strategy.” Nevertheless, most of the literature we have reviewed does not have that emphasis, and a preliminary conclusion from the literature so far is that little attention is being paid to policy. Though poverty data for SSA are not ample, there have been vast improvements in the last 10–15 years. But they provide us with more information about the state of poverty than about what can be done to reduce it, and particularly about *how* this should be done.

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<sup>14</sup> This is, of course, not restricted to the poverty assessments. Much analysis of the characteristics and causes of poverty does not address this. A very useful recent article by Grootaert, Kanbur and Oh (1997), for example, analyses determinants of welfare gains and losses of households over time in Côte d'Ivoire, but pays little attention to policy implications (pp. 655–6). It suggests, for example, that policy emphasis on education should continue (because the educated are much less likely to be poor), but does not discuss how.

## Section 2 Economic growth, economic policies, poverty

### 2.1 Economic growth and poverty

This section discusses some recent evidence on the growth—poverty link. For a long time, it was quite generally assumed—following Kuznets—that with initial economic growth (the take-off) inequality would increase, and therefore poverty reduction would lag behind. Building on vastly improved household consumption data for an increasingly large number of countries (Deininger and Squire, 1996a), new evidence shows that this is not necessarily true.

The 1990 *World Development Report* (Table 3.7, p. 48) was one of the first publications to suggest that Kuznets was "wrong". This indicates that during periods of long-run growth the *observed* poverty reduction was not much different from the poverty reduction according to a *simulation* where inequality was held constant. This picture is slightly different for periods of recession, but not much, and the general observation that economic growth was not accompanied by rising inequality holds. However, in the list of countries, the only SSA country represented was Côte d'Ivoire, and during the recession of 1985/86 only.<sup>15</sup>

Ravallion and Chen (1996; the information in Table 2 is based on these data), using new internationally comparable poverty data, have made a comparable point. They regress changes in surveyed poverty incidences in 42 developing countries against changes in mean surveyed consumption (not GDP/GNP), showing a strong positive association between rates of growth in average standards of living and reduction in poverty, and concluding that growth in the mean usually benefits the poor.<sup>16</sup> Nineteen countries in SSA were included in this data set, and the changes in poverty—for given changes in mean consumption—were not different from the rest of the world.<sup>17</sup>

Bruno, Ravallion and Squire (1996) confirm the growth—poverty reduction link with their findings—from a carefully constructed internationally comparable data set covering four decades—that the Gini coefficient changes little over time. The variation in inequality across countries is greater than the variation over time; over time, no systematic pattern could be discovered. However, although the data base constructed by Deininger and Squire (1996a) does contain a significant number of observations on inequality in SSA, trend data in Bruno et al. contain information only on Côte d'Ivoire, suggesting a slight (statistically insignificant) increase in inequality between the 1980s and 1990s.

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<sup>15</sup> In that year, despite an economic decline of over 5%, poverty increased by only 1%, suggesting improving income distribution. Subsequent research has of course shed much more light on Côte d'Ivoire's developments.

<sup>16</sup> A similar conclusion is derived by Datt and Ravallion (1996) analysing the changes in poverty (using the squared poverty gap) in Indian states between 1957 and 1991. This indicates that in states where growth in mean consumption was fast, poverty was reduced fast; where growth in the mean was slow, poverty declined only slowly. Kerala, often seen as an example of a "welfare state" at low level of economic development, is no exception to this pattern: in Datt and Ravallion's analysis, the relatively rapid decline in poverty can be attributed to growth in mean consumption, and not redistribution. In the case of Kerala, growth in consumption is strongly dependent on incoming remittances.

<sup>17</sup> Only in transitional Eastern Europe and Central Asia—because negative growth and worsening income distribution have gone together since the late 1980s—has there been a significant association between growth and the proportion of income received by the poor.

Whereas the evidence given above focuses on the chain of causation from growth to poverty and inequality, there is also some evidence of reverse causation. It has been argued that the rapid growth in East Asia (and in global cross-country regressions) has been associated with *prior* spread of access to education and land.<sup>18</sup>

This recent literature on the relationship between economic growth and poverty reduction no doubt confirms the importance of economic growth for poverty reduction. Also, the evidence suggesting possible damaging effects of inequality (especially of land ownership, and among regions) on growth is encouraging for those wanting to address poverty and inequality: there may be ways to reduce inequality without damaging economic growth. But it is obviously not the whole story. First, as noted, "the poor" are not a homogeneous group, and there are cases where the poorest have not profited from economic growth; SSA (more than South Asia) seems to illustrate this pattern. This calls for specific policy attention. Second, even if economic growth rates explain 50% of the variation in poverty incidences—as most studies suggest—50% is still unexplained, which may indicate the large margin where policies (other than growth-enhancing policies) can make a difference. Moreover, the literature on inequality stresses that there is no discernible trend in changes in inequality over time, but it also shows that there are large variations among countries, which—again—are unexplained. Very few people would argue that in reducing poverty in, say, the world's most unequal country (South Africa), inequality should not be addressed.

## 2.2 Economic policies

This section discusses economic policies, reviewing briefly the debate around structural adjustment programmes (SAPs). Killick (1995) reviewed the effects of SAPs on poverty alleviation. One of his first conclusions is that the "issues involved are too complex and the obscurities too large to permit simple generalisations".<sup>19</sup> A recent review of the literature on the impact of structural adjustment on rural livelihoods in SSA (Ahmed, 1997) similarly points out the variety of effects adjustment (and stabilization) can have: "there is no systematic improvement or decline in the quantity, quality or sustainability of rural livelihoods as a result of adjustment measures".

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<sup>18</sup> Birdsall, Ross and Sabot (1995); Bruno et al. (1996); Deininger and Minten (1996a/b); Deininger and Squire (1996, 1996a); Persson and Tabellini (1994); Clarke (1995). Drèze and Sen (1989) show a similar sequence for China after 1963.

<sup>19</sup> Killick (1995: 307). The central paradox perhaps is: economics is quite clear that specializing in tradeables should redistribute income towards unskilled labour in labour-plentiful, land-/capital-/skill-scarce countries; why is it that liberalization does not clearly redistribute income towards Africa's poor, by causing more specialization in unskilled-labour-intensive products?

The first difficulty in discussing adjustment policies is that the "packages" include a wide variety of measures. Moreover, probably none of the countries carried out its own full package. Killick refers to Kakwani (1990), who reported 40 policy conditionalities in World Bank SAPs—not all of which are monitored or enforced, and several that have unclear effects on standards of living. Killick mentions devaluation, export promotion, import liberalization, food subsidy reductions, civil service retrenchment, cuts in social services (we will discuss this in more detail in Section 4 below), increased direct (or indirect) taxes,<sup>20</sup> cost recovery measures, privatization, wage freeze, and credit squeeze. Ahmed systematically reviews the evidence for impact on sustainable livelihoods of devaluation, price and trade liberalization, cuts in expenditure, privatization, and interest rate adjustments. An additional difficulty is that the sequencing of various measures may make an important difference.<sup>21</sup> Bourguignon, de Melo and Morrisson (1991) add to this complexity, since they argue that adjustment programmes will fail when they do not recognize the interdependence of the three criteria of efficiency, welfare and political feasibility. Depending on institutional characteristics, identical adjustment packages can have very different distributional outcomes. According to Gibbon (1996: 780 ff), adjusting countries have fallen short of implementing the agenda in three main ways: in the speed of internal trade liberalization, in the extent of public sector reform and in the extent of reductions in state expenditure.

Second, as emphasized by Killick, the effects of adjustment measures are likely to vary among different categories of poor people. For example, import liberalization may harm the urban working poor by forcing the closure of industries, but the already unemployed may gain from increased availability of imported goods. Also, urban and rural poverty are affected differently, generally leading to reduced differentials between urban and rural areas. Ahmed discusses the evidence of the impact on: return on resources, access to assets and services, employment, human capital, agricultural research, long-term sustainability and security, land and water use, and biodiversity. Because of the variety of measures, and the differences across groups, it not surprising that studies come to different conclusions about the effect of adjustment. Furthermore, according to Killick, many adjustment measures are not addressed to variables that are the prime cause of poverty, such as unequal access to wealth, education and services; even if it is wrong to infer that SAPs will not significantly affect poverty (e.g., through re-igniting growth), the prospects are reduced by neglect of such variables. Neither is it clear, according to Killick, that the existence of a SAP makes a decisive difference in the pattern of government spending.<sup>22</sup>

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<sup>20</sup> Younger's analysis of tax incidences in Ghana indicates that the "concern that fiscal stabilization has hurt the poor in Ghana seems unfounded"; the increased tax burden on the poor has been less (relative to expenditure) than for wealthier households (Younger 1995: 249).

<sup>21</sup> Haggard and Webb (1994: 20 ff) discuss the political implications of rapid versus more gradual reforms.

<sup>22</sup> Governments seem to prefer to protect the current budget, sacrificing capital formation like infrastructure. Contradicting Ahmed (1997), for example, social spending according to Killick (1995: 313) seems to be a protected category, and not affected by SAPs per se but by general budgetary stringency.

Demery and Squire (1996), in what is perhaps the first systematic analysis of adjustment on poverty, argue that improving the macroeconomic balance is good for poverty reduction. Their analysis of household survey data in Côte d'Ivoire, Ethiopia, Ghana, Kenya, Nigeria and Tanzania shows that the countries that improved the macroeconomic balance and depreciated the real effective exchange rate experienced faster economic growth and a more rapid decline in poverty. The opposing cases, like Côte d'Ivoire, which failed to adjust effectively (and where poverty increased rapidly between 1985 and 1988), and Ghana, which adjusted successfully (and reduced poverty incidence from 37% in 1988 to 31% in 1992), are used to substantiate the argument. They raise three policy concerns, qualifying the benevolent link between economic growth and poverty: the need for African governments to have a real commitment to macroeconomic reform; the fact that the poorest have not benefited from recent economic growth; and the need for more investment in human capital and better targeting of social spending.

Dorosh and Sahn (1996) use general equilibrium analysis of the effect of macroeconomic adjustment on poverty in Cameroon, the Gambia, Madagascar and Niger. The simulation suggests that trade and exchange rate stabilization tend to benefit poor households in both rural and urban areas. When rents on foreign exchange are eliminated, demand for labour and income from tradeable agriculture increases. However, the effects are too small to make a significant dent in levels of poverty. Hassan's (1997) analysis of adjustment in Sudan suggests that economic reform itself did not hurt the poor, but that the reform was mis-specified.<sup>23</sup>

Identifying the effects of adjustment is not the main aim of this paper; rather, we are interested in how issues of government and public policy making, as they affect poverty, are dealt with in this literature. There is a general critique of policy prescriptions (especially adjustment programmes) that these are of too general a nature, and do not take account of countries' capabilities to implement. According to Killick (1995: 315 ff), SAPs have been associated with a narrow view on policy prescriptions (by the international financial institutions). However, although Killick discusses the political sensitivity of adjustment measures, he narrows the perspective as to what adjustment is. This is indicated by his remark on Malawi, which, in his view "provides a clear case of regressive adjustment, although this appears to be due more to the adverse policy and institutional framework and an uncaring government than to adjustment *per se*" (Killick 1995: 311). This seems to suggest that government issues are identified as external to adjustment measures, yet what governments do and can do is at the heart of "adjustment". In this, the resistance of civil servants is an important issue; in many cases, they have not been adversely affected despite widespread fears (or have been absorbed into the private sector), partly because governments may be unable or unwilling to introduce unpopular measures. This issue will be discussed in some more detail below.

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<sup>23</sup> Admitting that his results must be heavily qualified because of data and methodology limitations (he uses a social accounting matrix), Hassan argues that Sudan's reform strategy during the 1980s failed to tap the possibilities for equitable growth. Although the reform targeted agriculture, its emphasis on irrigated agriculture was not warranted. Traditional agriculture, forestry and livestock would have had the greatest potentials for improving growth as well as the income of the poorest groups.

Referring to the long-term effects of SAPs, Ahmed's review notes that policy reform has not been particularly successful in creating long-term stability and security for rural livelihoods in SSA. Three reasons for this are mentioned. First, there have been inconsistencies in the implementation of the reform programmes, for example in the price setting of groundnut in the Gambia. Second, institutional reforms have been ad hoc, without real coherence of roles and responsibilities. After dismantling of parastatals, large gaps in the provision of services may appear, and fragmentation of services (as in Malawi and Kenya) may occur. Third, adjustment programmes have tended to ignore institutional weaknesses. For example, price liberalization in Zaire failed to provide incentives to farmers because of poor infrastructure. Also, crop output can be achieved not only through adjustment but also by investment in new technologies. The review concludes that there is now a consensus in the literature that reform policies "overemphasised the issues of pricing to the exclusion of other critical factors, in particular technological development and diffusion". Again, as in Killick's review, this in itself seems to imply a narrowing of what adjustment (or economic policy) means. It widens it to different sorts of measures, but it pays relatively little attention to *how* these are implemented, and to the *reasons* for "inconsistencies".

A final point to stress in this context is the observation, in Killick's review of the effects of SAPs on poverty, that poverty reduction is *not* a major concern of most governments. Since the rise of policy-based lending by the World Bank/IMF, discussions about government's poverty reduction programmes have been framed mainly within the context of SAPs. This, in Killick's view, has tended to obscure the fact that the responsibility for poverty reduction primarily lies with national governments. This brings us—after a discussion that has so far mainly focused on economic growth and poverty reduction—to the discussion of government and public policies. Much poverty reduction is due to economic growth, but at least three caveats make it necessary to focus on policy issues:

- The observation that special policies are indicated for the poor groups that apparently do not benefit from economic growth.
- The fact that policy or institutional factors are central to economic growth as well (and therefore to poverty reduction).
- The idea that policies can—and in many cases should—make a difference in distributing the benefits of economic growth more equally.

Targeted policies are the subject of Section 4 of this paper; the next section reviews recent debates on the role of policies and the state in SSA's development, questioning how much poverty reduction is addressed in this.

## Section 3: Good government and governance: Political and institutional factors

“Development is inescapably a political *problem*; a political *issue*; and a political *process*”. (Goldsworthy, 1984: 552)

In the previous section we discussed how a significant part of the poverty literature pays little attention to government issues, and how these issues are kept outside most analyses of structural adjustment. This section will focus on policies, governments and institutional factors, which, as indicated in the quote above, form the heart of development, and therefore of sustainable poverty reduction. Of course, this does not attempt to review all the political science literature, but to highlight some salient aspects.

With SSA’s record of political instability, the poor record on poverty reduction does not come as a surprise. Africa has been a continent of unstable political regimes—distinguishing it from most Asian countries. In 1993, of the 42 war-torn countries in the world, 12 were in Africa and the majority were in the Third World (Smith, 1994: Table 1); during the late 1970s and the 1980s SSA’s record was even worse. Political instability is incompatible with economic development and poverty reduction. Relatively little seems to be written about violent conflict in the literature on "governance", public policy and poverty alleviation,<sup>24</sup> although Zartman (1995) stresses that conflict, among other things, drains public resources, destroys infrastructure, diverts productive enterprise into destructive behaviour, displaces people, scares off investment, disrupts trade, etc. The collected essays in his book demonstrate, unsurprisingly, that planning for development and poverty reduction are far from the priorities of governments engaged in war.<sup>25</sup> One of the most important affects of political instability and violence is the large number of refugees and displaced. It is estimated that in the mid 1990s over 6 million refugees and nearly 17 million internally displaced have been uprooted because of civil war, political turmoil and ethnic conflicts in SSA (World Bank, 1996e). According to UNHCR 1994, SSA accounts for 38% of the world's refugees.

There is a large body of literature on African political regimes and patterns of governance, usually putting them in a negative light. Fatton’s (1992) "predatory rule" is one example among many that focus on states’ personalist, clientelist and corrupt nature. Dia (1993) used the term "patrimonialism" to characterize regimes in which government officials have blurred the boundaries between personal and public resources. Patterns of governance have been authoritarian and exclusionary, and “encouraged the consumption and redistribution of public resources rather than savings or investment” (Lewis, 1996: 100).

In the early 1980s it became fashionable to argue—from the correct observation that many African governments were bad—to the questionable conclusion that less government in Africa would be better. There is, of course, a case for this. The celebrated 1981 World Bank Report *Accelerated Development in Sub-Saharan Africa* (the Berg report) stressed the policies that resulted in economic decline:

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<sup>24</sup> One notable exception to this is the UN Agenda for Peace initiative, which explicitly made the connection between peace and development, and war and poverty.

<sup>25</sup> Harris and Lockwood [1997], with reference to Russia, China, Vietnam and the Ukraine, describe the transition from (and resistance to) "war making" and "centrally planned" states to "market-facilitating" states.

“Statist policies fostered excessive government intervention in domestic markets, bloated and profligate public sectors, protectionism and restrictive investment regimes, and a widespread bias against agriculture. Common recourse to overvalued exchange rates, price controls, subsidies, uncontrolled spending, and heedless foreign borrowing created debilitating economic distortions. Cumbersome administrative regulations stifled trade and investment. (quoted in Lewis, 1996: 96)

By the early 1980s, the state was not seen any more as a solution to the crisis, as used to be the case in the first decades after independence. It had come to be regarded as part of the problem, and some seem to have given up hope that the state could have any useful developmental role (Wunsch and Olowa, 1990; Chazan and Rothchild, 1988; quoted in Seidman and Seidman, 1994: 24) According to Gibbon (1996: 764), in much of the Bank’s analysis,

“Borrowing heavily on American political science, the basic argument is that the African state has become, possibly ever since independence but to an increasing extent in more recent years, a machine concerned only with extending its reach in order to maintain short-term political order in a context of generalized "legitimacy deficit". This it does through the centralized development/extension of patronage institutions and networks, via the disbursement of state resources”.

The literature since the late 1980s seems to reflect some new optimism, with the "Third Wave" of democracy, in the words of Samuel Huntington, as many authoritarian regimes began to experiment with new political frameworks. The number of military coups and the amount of violence seems to have declined, and many African countries came to accept political opposition (World Bank, 1995a; quoted in World Bank, 1996e). Regimes began to democratize and elevated popular expectations that reform would improve living conditions. Reforms would include “basic civil and political liberties, the end of arbitrary regulation and state exaction, and greater transparency and accountability in public decision making” (Bratton and van de Walle, 1992: 440). Bates’s (1995) comparison of Africa’s political systems and transition indicate that Africa’s political systems in 1991 were indeed moving towards more democracy;<sup>26</sup> Barro (1997: 36) indicates that democracy (on an average index based on Gastil’s ranking of political rights) in SSA fell from 0.58 in 1960 to 0.19 in 1977 and 0.18 in 1989, before rising to 0.38 in 1994; and Joseph (1997) notes that whereas in the three decades before 1989 an elected government peacefully took power from an elected incumbent in only one case (Mauritius), by 1995 almost all SSA countries had introduced some measure of political liberalization. The literature on the political transitions emphasizes the new potential of state–society interaction, and the benefits this might have on sustainable development. African reform, it is now argued, has three pillars: not only a market orientation, but also liberal democracy and social pluralism (Landell-Mills, 1992, quoted in Sandbrook, 1996b: 2).

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<sup>26</sup> However, as do others, Bates expresses doubts about the extent and durability of the reforms. The other part of his central conclusions is that Africa's political systems in 1975 were less frequently authoritarian than political commentaries would suggest. However, “[w]hen the states are weighed by population or by wealth, the characterization of Africa as poorly governed gains greater credibility”.

But there are authors who stress the superficiality and fragility of the changes so far. Rasheed (1995) points to the hollowness of the political liberalization process, arguing that the reforms have been procedural rather than substantive, and have been initiated by the influence and insistence of foreign donors. According to him, “Africa lacks a solid tradition of pluralistic polity”, and this does not bode well for consolidating political institutions in a democratic framework. Although many observers apparently see the transition that has taken place since 1989 as an unstoppable process of democratic transformation, in many cases this change has not led to genuine participatory democracy: it is still a fragile experiment (Rasheed, 1995: 342; Bates, 1995). Sandbrook (1996b) lists at least seven factors that, many observers believe lower the likelihood of maintaining democratic momentum of regime transformation: low level of economic development and high levels of poverty and illiteracy; the failure of many new democracies to reverse economic decline; deep ethnic and communal cleavages; colonial political conditions that are not conducive to modern democratic institutions; limited experience with multi-party democracies; prevalence of personalism, clientelism and corruption in the preceding regimes; and, finally, the fact that the adjustment policies extract a high price from those organized urban groups that usually form the core of the pro-democracy movements. Yet, according to Sandbrook, the democratic experiences are not doomed, and the “degree of democratic consolidation will vary from country to country”. (See also Joseph, 1997.)

The literature relating to good government—although often not directly linked to poverty reduction issues—fills many bookshelf-metres, and covers a variety of issues. Moore's review of the good government "donor literature" identifies no fewer than 12 components of what good government is thought to entail: (1) participation; (2) accountability; (3) predictability of government action; (4) transparency; (5) free flow of information; (6) rule of law; (7) legitimacy; (8) constitutionality; (9) socio-political pluralism; (10) decentralization; (11) market-oriented policies; and (12) a concern for socioeconomic equity and poverty (Moore, 1994: 1). Within the scope of this paper, we can only review some of the literature on these aspects; in the rest of this section we discuss: the World Bank literature on government (governance); the relationship between political reform and poverty; and, briefly, some literature on NGOs.

### **3.1 Government and the state in World Bank literature**

As indicated, there has been no dearth of studies qualifying African governments as—to say the least—unhelpful for economic development, and, by extension, poverty reduction. And there has been a reaction, claiming that things are improving. Neither approach has been very helpful. Both have little basis in the *determinants* of what governments can do.

However, a change has been taking place since the late 1980. Issues of the state, (good) government and institutional development are currently receiving much more attention. In the words of Sandbrook (1995), politics was brought back in. "Governance" was the new term used to encapsulate this new approach. Within the World Bank literature, the 1989 report *From Crisis to Sustainable Growth* marked this change, which, for the moment, has culminated in the 1997 *World Development Report*.

*From Crisis to Sustainable Growth* was the first Bank document to mention "governance". It argued that there was “a crisis of governance” behind the “litany of Africa's development problems” (World Bank, 1989b: 60). Governance is defined as the “exercise of political power to manage a nation's affairs”. Apparently moving away from a narrower approach, *Sustainable Growth* argues that:

African governments ... need to go beyond the issues of public finance, monetary policy, prices, and markets to address *fundamental questions* relating to human capacities, institutions,

governance, the environment, population growth and distribution, and technology. (World Bank 1989b 1; emphasis added)

The document raises issues of state–society relations by bringing in notions of accountability and legitimacy, and ties these issues to poverty reduction. The key elements of the good government agenda as defined by *Sustainable Growth* are:

- Economic liberalism.
- Civil service reform and increasing accountability, transparency, elimination of rent-seeking and managerial efficiency.
- Political pluralism, participation, decentralization and democracy.
- Social justice, respect for human rights, freedom of expression and association, and upholding the rule of law (World Bank, 1989a; Osborne, 1993).

*Sustainable Growth* (quoted in Seidman and Seidman, 1994: 24) also pleaded for an increasing role of NGOs.

In assessing Africa's troubled progress in structural adjustment, the report contained the seeds of two important new policy agendas: a concern with national institutional capacity for economic, social and political management, or governance, and a sharper focus on poverty reduction. It argued that the fundamental problem with African society (frustrating poverty alleviation initiatives) was the “deteriorating quality of government, epitomized by bureaucratic obstruction, pervasive rent-seeking, weak judicial system and arbitrary decision making” (World Bank, 1989a: 3). In order to rectify the situation, organizational obstacles need to be eliminated if the crisis is to lead to sustainable growth. “Africa needs not just less government but better government—government that concentrates its efforts less on direct intervention and more on enabling others to be productive.” Moving towards this “enabling environment” and empowering people “from the village to the upper echelons of government” (which “also means empowering women and the poor”) stems from Barber Conable’s observation of the Bank’s “growing conviction that ... development must be more bottom-up and less top-down and that a learning approach to program design is to be preferred to the imposition of blueprints” (World Bank, 1989b: 5, 4, 6, xii).

A year after *Sustainable Growth*, the *World Development Report 1990* on poverty focused on the need for international action to support and assist developing countries to reduce poverty. The report—arguing that Africa was the most worrying region in respect of poverty trends—introduced the now well-known strategy for poverty reduction, consisting of three elements: first, increasing labour intensive growth; second, enhancing human capital (which implies a shifting of human resource expenditure to target the poor more effectively; social services were seen as an “essential part of any long-term strategy for reducing poverty”); and third, the provision of safety nets for the poor (World Bank, 1990: 74; Chs. 4–6). However, and surprisingly given the usual emphasis on labour-intensive growth, the Bank's African department, as argued by Addison (1993), tends to emphasize the third part of the strategy, and lacks an articulated approach and implementation strategy for the others.<sup>27</sup>

The state, under heavy attack during the 1980s, was brought back in to support the new poverty agenda. The WDR acknowledged its important role in the past:

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<sup>27</sup> However, the IDS (1994) review of the World Bank’s poverty assessments argued that the Bank’s (short-term) adjustment policy advice to specific countries was not in accordance with longer-term poverty strategies—whether for safety nets or for growth enhancement—as promoted by the Bank.

“It is widely believed that many of the economic problems in the developing world can be attributed to excessive or inappropriate government interventions. Yet most of the social progress observed during the past two decades is clearly a direct result of government action”. (World Bank, 1990: 75)

The thinking about the government's role in poverty reduction had changed from a focus on less government to better government. The positive language is congruent with the participatory development and poverty reduction that the Bank seeks to encourage in sub-Saharan Africa. These new agendas are part of a response to disappointments in the pursuit of structural adjustment.

*Taking Action* (World Bank, 1996e) argued that institutional development is crucial to poverty reduction, at three levels: government institutions, NGOs (including media, academic) and community-based organizations. Also relevant, in the World Bank discourse, is the increasing emphasis on participatory approaches (both in policies and in poverty assessments).<sup>28</sup>

The 1997 *World Development Report*, finally, contains the central message “that the state is central to economic and social development, not as a direct provider of growth but as a partner, catalyst, and facilitator”. For human welfare, the state’s capability—defined as the ability to undertake and promote collective actions efficiently—must be increased. This message translates into a two-part strategy. First, the state’s role should be matched to its capability: how the state intervenes, and where, should be carefully assessed. The second part of the strategy is to raise the state’s capability by reinvigorating public institutions, i.e., designing effective rules and restraints, checking arbitrary state actions, and combating corruption.

This rather intuitive conclusion—that a good state is good for economic and social development—is backed up, for example, by regression analysis using panel data from 94 industrial and developing countries for 1964–1993. This seems worth some attention here since it provides insight into the aspects of government that are seen as important for, in this case, economic growth, and provides some guide to the large amount of literature recently produced in this area.<sup>29</sup> Variables to explain growth of real GDP per person include “state variables” and “control variables”. State variables include:

- Initial GDP per capita, for which the analysis indicates conditional convergence.
- Educational attainment, which affects growth positively but is not significant.
- Population growth rate, exerting a negative but insignificant effect on GDP growth.<sup>30</sup>
- Share of investment (investment–GDP ratio), which positively and significantly affects GDP growth.

Control variables include:

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<sup>28</sup> The 1994 report *Adjustment in Africa*, however, according to Sandbrook (1995: 285) “will disappoint the political economist”. The report's perspective on adjustment was narrow, short-term and economic, and reminiscent of the 1981 Berg report. *Continent in Transition*, on the other hand, showed to Sandbrook that the Bank's integrated long-term perspective survived.

<sup>29</sup> The following is based on WDR (1997: 13, 170–71); see also the Report’s list of references and background papers. A recent paper by Ferree et al. (1997) reviews data on political institutions and economic performance for 46 African nations between 1976 and 1991 (to analyse the structure of political institutions they use a measure of the extent to which the executive must share power with a legislature, and whether both executive and legislature must compete for votes when seeking office).

<sup>30</sup> However, there is much evidence (Eastwood and Lipton, 1997) that lower *fertility* will speed up economic growth and poverty reduction significantly.

- Government size, the effect of government *consumption* spending (i.e., not the government share in GDP), which has an unambiguous negative affect on GDP growth. (Other work, e.g., Asian Development Bank [1997]) suggests that government deficits retard growth, but government size, once again, does not.)
- A "policy distortion index", which is obtained from three key indicators: the degree of openness of an economy, the degree to which a country's currency is over-valued and the degree to which local prices differ from international prices. This has an unambiguous negative growth effect, but the size is not very large.
- A measure of "institutional capability". This draws on work by Knack and Keefer (1995) and Mauro (1995).<sup>31</sup> It is put together from a set of responses by foreign investors that focus on the extent of red tape, regulatory environment and degree of autonomy from political pressure. Institutional capability has a sizeable, significant positive effect on growth, suggesting that not only government consumption but also its types of policies affect growth.
- The average percentage change in terms of trade, which has no significant effect.

What is relevant for the discussion here is not so much the findings of this model (different models come to different conclusions, and definitions of variables differ) but the incorporation of institutional factors in the model, as a sign of the changes in donors' attention and the incorporation of an increasingly wide array of (political) factors.<sup>32</sup>

According to Gibbon (1996: 751–2), discussions about adjustment have moved from a "pricist bias", via "adjustment with a human face" and dispute about the extent to which specific effects could be attributed to adjustment/stabilization, to attention to the politics of adjustment (as well as concerns about the ideological subtext of adjustment).<sup>33</sup> In the words of Sandbrook: (1996b:18)

“[I]nitially, structural adjustment involved an effort to remould the economies of developing countries in the idealised Western image of self-regulating markets. As this project met with political and administrative obstacles, the donor agencies recommended further social engineering. Capacity-building initiatives have sought to restructure Third World administrations into Weberian-style bureaucracies. Programmes to promote better governance and the political capacity of reformist regimes have led the agencies even further afield. ... Almost unnoticed, the agencies have taken on responsibilities that surpass those assumed even by the original colonial powers.

To conclude this discussion of the World Bank literature, at least three critical issues can be raised. First, as suggested above, with the change in perspective—as with the increasing emphasis on poverty, a reaction to the "failures" to address SSA's crisis

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<sup>31</sup> The work of Knack and Keefer was also used to explain economic growth in Asian countries (Asian Development Bank, 1997: 75), which found a strong, positive statistical relationship between this index and rates of economic growth over the last three decades.

<sup>32</sup> A recent paper by Barro (1997) summarizes the work in this field, and provides another model incorporating institutional factors, using a broad panel of countries over 30 years. Factors that are significant in his model include: maintenance of rule of law; smaller government consumption; lower inflation; starting levels life expectancy; male secondary and higher schooling; lower fertility rates; improvements in terms of trade; and democratization, at low levels of political rights (discussed below). Interestingly for this paper, in this model SSA does not show up as an outlier; its bad economic performance is explained by the variables in the model.

<sup>33</sup> The development economics literature, as described by Williamson (1995: 172–3) moved from "getting the prices right" and subsequently "getting the property rights right", to the new institutional economics with an increasing focus on "getting the institutions" right.

adequately—international donors like the Bank may be entering another minefield of political conditionality. This also has implications for the sustainability of proposed reforms, as has been noted in some of the literature on democracy in SSA discussed below. Second, the *Economist* (28 June 1997), in a first reaction to the Report, pointed at a different, and perhaps opposing, point of critique: its lack of answers to the question of what the international agencies should do in practice to bolster the necessary institutions. A final point, and most relevant for this paper, regards the place of poverty. Issues of inequality and poverty are not absent in the report—see particularly chapters 3 and 7—but neither are they central. Little is said about how the most vulnerable in SSA can be protected; the discussion in Chapter 7 of the Report on "bringing the state closer to the people" questions perhaps insufficiently to what extent the poorest will be able to profit from policies involving decentralization and increasing participation. The first expositor of civil society in the modern sense, Hegel, was deeply concerned about its natural tendency to exclude the poor (Lipton, 1982). Some of these issues will be discussed below; what follows is a brief discussion of some of the issues in the "governance" literature.

### 3.2 Poverty, economic adjustment and political reform

One issue that is discussed extensively in the literature is the relationship between political liberalization or democratization on the one hand, and economic reform on the other. Some of the recent literature discussed above seems to emphasize that "all good things go together", that political and economic reform—with its claimed implications, growth and poverty reduction—are two sides of the same coin. But both directions of that causation have been disputed in the literature.

First, there is a considerable amount of literature relating to the question how the political reforms started.<sup>34</sup> We have noted above (Sandbrook) how important external influences are thought to be. Rasheed (1995), pointing to the hollowness of the political liberalization process, and arguing that the reforms have been procedural rather than substantive, argues that democracy has come to Africa not by popular demand and organic movements, but by the influence and insistence of foreign donors.

The political reforms have often been associated with economic crises and adjustment. Cohen, former US Assistant Secretary of State for African Affairs, noted:

"The beginning of the movement for democratic change in Africa coincided with, and was *stimulated mainly by*, structural adjustment, which realigned economic power from urban elites to rural populations and the business community". (quoted in Bienen and Herbst, 1996: 35; emphasis: added)

A similar view is:

"Politically, austerity and corruption violated the covenant which underpinned the right of African leaders to rule and estranged them from their own political base in society. ...Rather than condemning the decline in commodity prices or Western protectionism, [civil society] blamed patronage and nepotism for the economic crisis. (Bratton and van de Walle, 1992)".

But this causality has been questioned. From the wider literature the cause of transitions is not that clear. Haggard and Kaufman (1997), who look at the political economy of democratic transition in ten countries (all outside SSA) conclude that

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<sup>34</sup> Joseph (1997: 368) identifies factors responsible for the political transformation: the weakening of African states by a prolonged fiscal crisis, the increasing control of international financial institutions and bilateral agencies, and the western powers' shift after the Cold War from toleration of, and alliance with, authoritarian regimes to liberalization of their systems.

transitions to democracies have taken place both during economic crises and in good times (the "non-crisis transitions" being Chile, Korea, Thailand and Turkey). It has also been suggested that economic reforms contribute to political problems and social tensions—instability rather than liberalization. Bayo Adekanye (1995), for example, notes that current ethnic tensions are arising as part of the general resistance against both SAP, because of its pauperizing impact, and against the state, which is seen as increasingly coercive and negligent of responsibilities. Kaiser (1996) looks at the degree to which recent religious and racial tensions in Tanzania are related to the ongoing process of economic liberalization. Although according to Kaiser little is known about the contribution of *Ujamaa* to national cohesion, he suggests that this may have had a positive role, and that privatization (e.g., the selling of parastatals) seems to contribute to opening the door to long dormant anti-Asian sentiments. Also, although subsidy cuts may provoke discontent, they do not appear to be more fundamental as a cause of instability than many other factors (Bienen and Gersovitz, 1986, quoted in Kaiser, 1996: 228).

Second, the other direction of causation, that democratization would help adjustment, is equally uncertain.<sup>35</sup> Despite the dramatic procedural democratic changes in recent years and the initial optimism this created, van de Walle is skeptical that political liberalization and the pretense of more open government will have any determining effect on the basic structure of economic policy making in Africa (van de Walle, 1994). Mbaku notes that internal bureaucratic opposition to an open and accountable framework of government management will stymie open processes of policy formation. Public office has been a means to accrue personal wealth and bureaucracies are manipulating the reform process to maintain a monopoly of political power (Mbaku, 1994). Bienen and Herbst (1996: 35) conclude that “the comparative statistics of economic reform in Africa provide little reason to believe that either the middle classes or alternative elites which may champion political reform hold structural adjustment as a high priority”. Unfortunately, not all good things go together, and democracy that is arguably more responsive to popular demands may also be a “prescription for irresponsible economic policies” (ibid.: 24).

According to Barro (1997), the cross-national regressions suggest that democracy stimulates economic growth, but only at the low end of the political liberalization spectrum. He notes that the positive relationship between democracy and a *prior* measure of prosperity (as predicted by Lipset) is well established as an empirical regularity. Increases in political rights initially increase growth, but tend to retard growth once a moderate level of democracy has been attained. In the worst dictatorships, an increase in political rights tends to enhance growth and investment, because these require, above all, some predictable rules for, and limits on, political power. But in places that already have a moderate amount of democracy, according to Barro, further democratization impairs growth and investment because of intensified concerns about income distribution (also Ferree et al., 1997).<sup>36</sup> This, however, is difficult to reconcile with the fact that income inequality appears to harm subsequent growth (see above). Nor to the data support the older view that income equality is less beneficial to growth in democracies (because the poor can there press for direct transfer incomes at the expense of earned incomes [Clarke, 1995]).

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<sup>35</sup> According to Sandbrook (1995), “If economic recovery demands a structural adjustment of politics as well as of economies, then, analysts hoped, democratization may be the vehicle of such an adjustment”.

<sup>36</sup> Factors tested that do not (or only weakly) explain democracy include: female primary schooling; urbanization; a longer-term history of democracy; inequality; ethnolinguistic fractionalization; economic rights; and colonial heritage. Religious affiliation does help to explain democracy (countries predominantly Jewish, Hindu and Christian are more often democratic), but this seems to have more to do with the origin of democratic systems than with the religions per se.

Haggard and Webb, in the introduction to *Voting for Reform* (1994: 6–8), discuss three patterns of relationship between democratization or political liberalization and economic reforms:

- In some cases, including Chile, Thailand, Turkey, Korea and Taiwan, military elites undertook stabilization and adjustment in advance of a significant political liberalization.
- This sequence was reversed in other cases. Most clearly in Poland and arguably Senegal, economic reform was undertaken after authoritarian governments were overturned; in Senegal, however, Abdou Diouf "traded" the two objectives and tried to deflect public attention from the economic crisis through further political concessions.
- The third pattern is exemplified by Nigeria, where Babangida "from above" tried to implement simultaneously programmes of economic reform and political liberalization, an effort that was partly frustrated by opposition groups resisting economic reforms to which Babangida reacted with further political control.

How does the discussion above relate to a central question for this paper: Do the poor gain from political liberalization? This brings us to the issue of the interest groups behind policy changes, a popular topic of course in the political science literature and one of immediate relevance for the issue of poverty alleviation, but one that seems relatively ignored in the debates referred to here. Haggard and Webb (1994), who also discuss the role of institutions in economic policy, the role of coalitions in economic reform and the international influences on the adjustment process, note that the most vociferous opposition to policy changes usually does not come from interest groups or voters, but from ministers and bureaucrats within the government.<sup>37</sup> Williamson (1995), arguing that there is little association between economic reform and the degree of political liberalism, does not discuss implications for poverty or income distribution. But he does note that "the potential beneficiaries of market-based reforms have been too ambivalent or unorganised to reinforce the leadership's political will" (see further Bates and Krueger, 1993; Bangura and Gibbon, 1992). Sandbrook (1995: 284), referring to World Bank efforts to foster political coalitions in adjusting countries that may buttress reforming governments, notes that the view that democratization empowers the majority who purportedly will gain from adjustment may prove naive.

Poverty alleviation programmes raise a set of political problems directly related to government legitimacy and capacity. Poverty reduction requires national commitment to a set of policies that respond to the interests of the poor. Redistributive policies are classically resented and obstructed by the powerful, and the political feasibility of pro-poor policies generally hinges on the degree to which they leave vested interests, and hence underlying structures producing poverty, intact (Nelson, 1989). Policies that challenge deeply internalized systems of inequality, such as efforts to integrate excluded ethnic groups, or to reduce women's dis-privilege, arouse even more profound hostility (Staudt, 1995). This issue is perhaps underplayed in World Bank (1997), and is even more likely to be transmuted to residualist and stigmatizing measures that confirm the *status quo ante*. Effective pursuit of these kinds of policy goals requires substantial national-level commitment and considerable institutional capacity to resist capture by dominant groups and to defend the interests of the poor (see further Goetz and O'Brien, 1995).

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<sup>37</sup> This was recently illustrated in India, where the Pay Commission formulated a proposal to reduce staff and improve their efficiency, including pay rises. The government accepted the pay rises, but "shirked the bit that will cause trouble, job cuts" (*The Economist*, 2 August 1997). Many examples in Africa exist: in Zambia in the 1980s Kaunda's one-party state twice blocked stabilization/adjustment because of strong urban opposition (Sandbrook, 1995: 283).

### 3.3 NGOs, civil society, decentralization

The literature on the political transitions emphasizes the new potential of state–society interaction, and the benefits this might have on sustainable development. Lipton and Maxwell’s (1992: 18) discussion of the "new poverty agenda" noted that “[c]ivil society and open government—both of them inclusive of the poor—are necessary to ensure that new state functions are not marred by private and public rent seeking and patterns of gender exclusion that often discredited the old”. The 1980s “saw, albeit to different extents in different countries, a series of political, institutional and economic changes that have created an environment in which there is more scope for, and indeed pressure for, closer co-operation between NGOs and the state. On the other hand, the trend towards political democratisation ... has made it more conceivable for NGOs to work with governments, and has in some cases made government more flexible” (Farrington and Bebbington, 1993: 124–25). Arguably “[t]he existence of competitive elections, as well as the institutionalisation of political participation, induces state policies and bureaucracies to be more responsive to the needs of rural people, which has often been the key not only to greater economic development but also less inequality” (Healey and Robinson, 1992: 103).

Decentralization is an equally important (and related) element in the literature. Healey and Robinson note that “there is a wide body of opinion that holds that rural development and successful agrarian reform are dependent on decentralisation, widespread participation and diffused political support, even if strong central political commitment is necessary to initiate such reform.” The World Bank prominently features decentralization in its poverty agenda: “Local governments will be the key implementing institution for the Bank’s pipeline of proposed projects, primarily in the area of infrastructure, the social sectors, environment, rural development and poverty alleviation” (World Bank, 1992: 12). But Healey and Robinson’s (1992: 42) comment shows that there is far to go: “Contemporary African states are seen as unresponsive to the interests of interest groups, unrepresentative of the wider society, and ineffective in the formation and implementation of policy”.

Manor argues that there is much rhetoric on the merits of decentralization. Deconcentrating political power and decentralizing decision making to the local level theoretically brings not only decision making powers close to the local level, but it can also bring tyrannies closer to the local level. Assumption that behavioural ills that have been attached to African governments only pertain to national centres and do not flow to the periphery seem unwarranted. Decentralization in practice does not necessarily create greater accountability (Manor, 1995). Indeed, as the World Bank indicates, “[p]erhaps the most serious problem is weak administrative capacity at local levels, leading to waste and corruption. The poorest local authorities, whose constituents stand to gain the most from improved delivery and targeting of social services are precisely those least able to manage increased responsibilities” (World Bank, 1992: 22).

### 3.4 Afterword

Clearly, since the end of the 1980s, the state has been brought (back) into the analysis. This includes the role the state needs to play in economic development—the focus of the last *World Development Report*, for example—but also political issues itself, particularly democracy and pluralism. Whereas the literature shows an increasing consensus (rightly or wrongly) on the first issue, and whereas the attention to poverty has also increased, the role of governments in poverty alleviation seems less well covered. Modelling work, e.g., like that carried out in preparation of WDR 1997, does show the importance of political

and institutional factors for economic growth, but it is not clear whether this also implies a good record on poverty reduction. Because of the close correlation between economic growth and poverty reduction, one might expect this, but do "better states" also reduce poverty faster given a certain rate of economic growth? Or, conversely, are the poor worse or better off under "worse" (predatory) states?

The literature does show that the relationship between political and economic liberalization is not as strong as one might hope. And this uncertainty extends to poverty reduction. Whereas at first sight one may tend to believe that democracy is good for poverty reduction—since a democratic state is more accountable and responsive—this may not be the case. Indonesia and Chile both did very well in reducing poverty, and neither of the two was a democratic state. Some democratic states, particularly the US and the UK, have experienced rapidly worsening income distributions, and—at least in the UK—rising levels of inequality and poverty. The strongest interest groups are not likely to be the poorest groups (the clearest case is the civil service itself). And even though reforms do benefit some of the poor, the groups least endowed with human and other forms of capital may well lose out. Effective poverty reduction programmes depend strongly on government's commitment, about which surprisingly little is said. Decentralization and an increasing role of NGOs and civil society are desirable as such, but—as Hegel recognized two centuries ago—cannot be relied on to reach the poorest.

## Section 4 Policies for poverty alleviation

In this last section we discuss some of the literature on poverty alleviation policies. We first discuss human capital development, the consensus that the provision of education and health are essential both for economic development and poverty alleviation. Second, we look at the recent debates about social capital. Then we discuss programmes for poverty alleviation: social safety nets, which were often introduced to compensate for the effects of adjustment, but are sometimes turned into more long-term policies (Vivian, 1995), and credit programmes and public works employment, both policies that aim to reduce poverty and enhance the capabilities of the poor.<sup>38</sup>

### 4.1. Human capital

The 1990 *World Development Report's* two-part strategy has become an almost undisputed paradigm in development discussions: “rapid and politically sustainable progress on poverty has been achieved by pursuing a strategy that has two *equally important* elements. The first element is to promote the productive use of the poor’s most abundant asset—labour .... The second is to provide basic social services to the poor. Primary health care, family planning, nutrition, and primary education are especially important” (World Bank, 1990: 3; emphasis added). The review of the East Asian experience has probably contributed most to the consensus that health care and education are essential for economic growth and poverty reduction,<sup>39</sup> and that they are essential to prepare the populations of especially poor countries for international economic integration.

This "instrumental" vision of human capital formation is not shared in all analyses. Perhaps most explicitly in the UNDP’s Human Development Report, improving education and health are seen as goals in themselves, not just means to achieving something else. Particularly their latest index, the human poverty index, which excludes a measure of income, indicates the priority of human development over economic growth. This different focus has also been common in writings about welfare states in developing countries, such as Sri Lanka, Costa Rica and the state of Kerala in India, where relatively (for the levels of economic growth) good levels of literacy, life expectancy and infant mortality were achieved.<sup>40</sup>

Much has been written on the social dimension of adjustment, including the idea that social spending was cut during stabilization and adjustment programmes. The decline in such spending has been well documented. For example, Stewart (1991) notes that it declined by 26% for a sample of African countries in 1980–1985. The negative effects have been well described, e.g., by Thomas, Lavy and Strauss. (1996), who analyse the

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<sup>38</sup> The last part draws heavily on earlier work by Lipton (1996), prepared for the ILO, formulating general rules for success in programmes that aim to alleviate poverty. This was based mainly on Asian examples, which is partly a reflection of the existing literature, but more African material does exist, and is coming out (notably also from the World Bank); we refer also to the new material that was presented at the recent 1997 Kampala meeting of AERC (see AERC, 1996).

<sup>39</sup> All the economic growth models to which we have referred above include measures of health and education. This is not to say, however, that they all agree: Barro (1997), for example, concludes that higher (and not primary) male education contributes significantly to higher economic growth; this may be because he does not focus on developing countries only.

<sup>40</sup> See further Drèze and Sen (1989). Their description includes African success stories in preventing famine (for Cape Verde, Kenya, Zimbabwe and Botswana); as far as we know, the literature does not have much on African "support-led security".

negative effect of declining health services and increasing food prices on child (and adult) health in Côte d'Ivoire during the 1980s. Gertler and van der Gaag (1990) present an analysis of the willingness to pay for medical care, indicating—unsurprisingly—that poorer people are much more sensitive to price changes than the better-off.

However, the consensus now is that—in Africa or elsewhere—social spending has *not* fallen faster in adjusting countries than other public outlays, or than in comparative non-adjusting countries (Sahn et al., 1996). Killick (1995: 313) notes, with others, that “social spending is actually one of the more protected categories of expenditure. Although there *have* been serious declines in the quantity and quality of provision in Africa and Latin America, this deterioration appears to be largely attributable to the rising claims of interest payments on the public debt.....and general conditions of budgetary stringency, rather than to the specific provisions of SAPs..... When they have to cut, governments prefer to protect the current budget by the sacrifice of capital formation (e.g., infrastructure).” Killick’s review of the literature indicates that the existence of a SAP does not seem to make a decisive difference in the pattern of government spending. In any case, though social spending is cut in absolute per capita terms, it is cut less than certain other categories.<sup>41</sup>

Further, considerable attention has been paid to how much health and education has been targeted to the poor. “Expenditure incidence analysis” is part of many World Bank poverty assessments (e.g., for Ghana), and World Bank research has clearly shown that most health and education subsidies—although they are progressive and reduce inequality—are not well targeted to the poor. Evidence now exists at least for Côte d’Ivoire, Ghana, Guinea, Kenya, Madagascar, Malawi, South Africa, Tanzania and Uganda (van der Walle and Nead, 1995).

## 4.2. Social capital

Since the early 1990s, the concept of social capital has rapidly entered into development and poverty debates. The reason for discussing it here is that the notion is seen, by some, as important in explaining poverty, for its possible role in (as WDR, 1997: 115, puts it) bringing the state closer to the people, as well as for its potential impact on economic development. Social capital refers to “the informal rules, norms, and long-term relationships that facilitate co-ordinated action and enable people to undertake co-operative ventures for mutual advantage” (ibid.).

The notion is usually associated with Putnam’s (1993) analysis of the differences between northern and southern Italy in forms of networks and civic engagement, and the way this affects economic growth. His analysis suggests that groups or regions with greater degrees of horizontal connections and more voluntary associations have more efficacious governments. Northern regional governments showed much better responsiveness and performance than the southern ones, and the better performance in the North is attributed to the pressure of networks of civic associations and citizens involvement in local affairs.

A recent analysis of the role of social capital in Tanzania by Narayan and Pritchett (1997) suggests its relevance to incomes in poor rural areas. The social capital index of a village is measured by the survey respondents’ membership in groups, the characteristics of these groups (in terms of heterogeneity, inclusiveness and group functioning), and the individuals’ values and attitudes, particularly the expressed trust and perception of social

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<sup>41</sup> See also Cornia and de Jong (1992) for trends in public expenditure, and an analysis of constraints in human resource development policies.

cohesion. This index is strongly associated with higher expenditure per person in each village household (but not with the degree of inequality among households). However, this does not tell us whether social capital density is a cause or effect of higher real expenditure per person, or whether some outside factor causes both. It is quite plausible that a "cushion" of income increases people's willingness to allocate time and trust to "horizontal associations" such as farmers' clubs, so that growth causes social capital, rather than vice versa.

However, the discussion on social capital supports a point often made in analyses of, e.g., development projects and participation, that outcomes of intervention improve with support from the people involved. For example, school quality will be enhanced if parents can organize to monitor and press authorities to maintain or improve schools. The added value of the recent discussions, which have only just begun, is that the argument is brought into a theoretical form, and has been applied in statistical analyses.

Perhaps the main difficulty, as indicated, is the question of causality: does social capital improve economic (and other) performance, or is it the other way around? Narayan and Pritchett (1997) try to take account of this through an instrumental variable, but this is not wholly convincing. Even if social capital is indeed a causal factor, the question remains whether "social capital" can be enhanced, i.e., whether it is amenable to policy intervention. There is a tendency in some of the literature to treat social capital as similar to other sorts of capital, which, by implication, would mean that its stock could be increased by outside intervention. Social capital, though, has a much more embedded nature, and can much less easily be enhanced.

At least two sorts of related questions could be asked in the context of this paper. First, how does social capital relate to good government, or to improving government? From Putnam's analysis it follows that social capital will help.<sup>42</sup> But, as indicated in discussions about decentralization, this bears little promise for poor, far-removed communities, with sparse networks, in developing countries. As was suggested in Section 3, government policies are more likely to change under pressure from better-off urban groups than from the poorest in remote rural areas. In these cases, government commitment is needed.

Second, the notion of social capital pays little attention to exclusion, to those people who are deprived of social capital. Most seriously, the poorest are likely to suffer from multiple forms of disadvantages (as described in Lipton and de Haan, 1997, for Asia's poor), and these are likely to be the groups that have not profited from the improvements experienced in SSA—i.e., those possessing few physical assets or social capital, belonging to minority ethnic, religious or linguistic groups, having bad health and little education, and living in generally deprived areas without adequate infrastructure. In the remainder of this paper we look at the kinds of policies that are needed for these groups.

### 4.3. Programmes poverty alleviation

The need for safety nets, like the emphasis on human capital, has become part of the consensus over the "right" development and poverty alleviation policies. This has come about partly as a result of the critiques on structural adjustment programmes particularly in SSA (Jolly, Cornia and Stewart, 1987). Recently, a lot of literature has appeared discussing good and bad in safety nets. For example, a recent World Bank publication (Subbarao, Bonnerjee, Braithwaite, Carvallo, Exemenari, Graham and Thompson 1996)

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<sup>42</sup> According to Barro (1997), Putnam tends to equate good government with big government.

discusses how safety nets should be designed, urging for, for example: an innovative design to make sure the programmes are well-targeted, but also warning that the poorest may lose from too much targeting; low programme costs; and low transaction costs for the poor. The 1997 World Development Report (p.31) provides a useful overview of different sorts of social programmes, which is summarized in Table 4, focusing on the existence of these schemes in poorer countries.

**Table 4: Social policy in poor countries**

Programme type	Coverage	Design issues	Positive stories
Pensions	Low in SSA; medium to high Latin America	Actuarial imbalances	Innovative schemes in Argentina and Chile
Family assistance	In middle to high-income countries	Family size correlates highly with poverty	
Social assistance (cash)	Rare in Asia, non-existent in SSA	Suitable for countries with low poverty	Chile's family subsidy
Housing subsidies	General price subsidies in SSA	Fiscal sustainability	Tunisia's price subsidy reform
Energy subsidies	In transition and oil-producing countries	In Asia and SSA gasoline subsidies favour non-poor	
Public works	In Maharashtra, India; part of "social funds" in Bolivia, etc.	Provide insurance and assistance, appropriate for transient poverty	Maharashtra's scheme
Credit-based programmes	Prevalent everywhere		Grameen Bank

Source: World Bank (1997: 56).

### *PAMSCAD and beyond*

Here we discuss "rules for success" (Lipton, 1996) for public works and credit-based programmes, i.e., internal design issues, but first we pay some attention to PAMSCAD (the Programme of Action to Mitigate the Social Costs of Adjustment) in Ghana, the programme that in the SSA context has been discussed most frequently. As was indicated in Section 2, poverty in Ghana might have risen faster but for the introduction of PAMSCAD. It was initiated by the government in 1987, and developed as a short-term action programme to address the immediate needs of the poor and vulnerable groups, whose situation had deteriorated during the previous decades of economic decline and/or had become precarious under adjustment (Gayi, 1995). It consisted of various projects, in such diverse fields as small-scale mining, credit for small enterprises, agricultural rehabilitation credit, a de-worming programme for children, food-for-work, etc.

Although the PAMSCAD has been widely criticized as having very weak effects in reducing poverty, notably for not being targeted adequately to the poorest, more than US\$40 million were spent between 1989 and 1993, for among other uses employment generating projects (43%), compensation for public service employees declared redundant (22%) and basic needs projects (20%) (Jolly, 1990).<sup>43</sup> The main targets for benefit were the losers from adjustment, rather than the poor as such. However, several of the projects must have helped to ensure that these losers did not compete against the poor (e.g., for informal sector jobs), or to provide extra livelihoods. Thus it is likely that even though the PAMSCAD did not draw many households out of poverty, it prevented a further rise in the number of people below the poverty line. Surely, the funds for PAMSCAD could

<sup>43</sup> According to Sverrison (1996) US\$82 million was allocated, forming 7% of the total adjustment aid to Ghana. Of this, two-thirds went to urban areas, about US\$22 million to those who "had been pushed into poverty by SAP", and US\$10 million was earmarked for retrenched civil servants.

have done more to reduce poverty if they had been aimed at that main goal. But the vociferous, even if non-poor, losers from adjustment might then have used their influence to undermine the process. This is a special case of a general rule: targeting the poor can be too good, if it undermines necessary broad-based support for poverty reduction because most people (the non-poor) see no direct gain, but only costs. Of course, this is not an excuse for random leakage to the rich, or for grossly inefficient targeting, but these do not appear to have characterized PAMSCAD.

Some donor-specific problems have been associated with PAMSCAD (Sverrison, 1996: 140–41). The erratic flow of donor funds meant that many projects did not take off. Also, many projects depended on multi-donor collaboration, with complex procedures, local bottlenecks and administrative limitations. Further, low organizational capacity meant that areas for intervention were located at the political centre. Two-thirds of the allocated funds went to urban areas. Sverrison draws three central lessons from this. First, emergency poverty alleviation programmes need to be drawn into the core of regular development programmes. Second, greater donor flexibility is required. And finally, the “failure to include the poorest groups in the emergency relief programme must be considered a policy failure and would eventually undermine the whole poverty alleviation effort” (Kayizzi-Mugerwa and Levin, 1994: 7, quoted in Sverrison, 1996: 141).<sup>44</sup>

Relevant to the subject of this paper are the political issues that PAMSCAD involved. The political sustainability of the government’s adjustment programmes was an explicit objective. Also, Gayi (1991: 559) notes, the Government of Ghana made it clear that the programme would be introduced only with additional funding. This political visibility, although on the one hand a precondition for the existence of the programme, might also be its “Achilles’ heel” (Gayi, 1991: 564). The programme aimed to kill two birds with one stone: to alleviate poverty and to score politically. Paul Streeten has somewhere questioned whether anybody has ever killed two birds with one stone; indeed, whoever tries may well fall between their two stools. Finally, according to Gayi (1995), PAMSCAD became very much part of Ghana’s bureaucracy, with all sector ministries taking responsibilities of parts of the programme, which may hinder its proper implementation, or make it vulnerable to the influence of interest groups.

Similar political arguments behind safety net programmes are stressed by Sverrison (1996), who provides a comparative insight into safety net programmes in Latin America and Africa. He argues that safety nets were designed to build political support for SAPs (or prevent political fallout) by giving the poor some perceived interest in sustaining the course of adjustment. Nelson (1989) gives a similar motivation for increased social sector expenditure and safety nets, and argues that they were not done to reduce poverty but to offset possible political opposition to adjustment: pro-poor adjustment programmes are being urged as a means of containing rising popular political resistance to the painful side effects of stabilization and adjustment.

In the 1990s there has been some movement towards a different approach to pro-poor adjustments; instead of “sticking plasters” to compensate poor losers after the event, outlays—and cuts—are designed to minimize harm to the poor and near-poor. Morocco’s World Bank SALs exemplify this approach, which can have rather heavy information requirements—ideally a CGE model, or at least good household and company expenditure surveys.

The choice between integrated pre-planning and safety nets has to depend on

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<sup>44</sup> Sverrison (1996: 141 ff) goes on to discuss the programmes DIRE and AGETIP in Senegal (AGETIP having become “subordinate to the interests of politically vocal groups”); the measures taken under Zambia’s Economic Recovery Programme; PAPSCA in Uganda (which example “can be used to illustrate bad practice regarding PAs [poverty alleviation programmes], in particular the role that politics play in the success or failure of a programme”).

which works better, at what cost, and for whom. Graham (1995) offers an overview of safety net programmes, and the politics behind them, in six countries, including Senegal and Zambia. She offers these two countries as contrasting examples: Senegal is a country in which the programmes have not been successful, mainly due to the politics of their implementation.<sup>45</sup> Zambia is a country that has enjoyed success due to a different set of political factors under which they were implemented.<sup>46</sup> From these case studies, she argues that several factors are important for the development of successful safety nets:

- There is a need for an open political system that facilitates poverty reduction—less open systems let entrenched groups protect their positions.
- The pace and scope of economic reform are critical in creating political opportunities for governments to redirect public resources to previously marginalized groups, otherwise entrenched interests can thwart the process.
- Programmes must operate in a transparent manner and incorporate participation of the poor.
- Programme must be autonomous.

Demand-based projects are best suited to creating self-sustaining activity, which is the key to lasting poverty alleviation and enhancement of democratic government at the local level. Yet centrally implemented public works schemes may be better suited to relieve the social costs of adjustment and help the poorest quickly and on a large scale.

Certain programmes—often part of these safety net programmes—clearly have the aim to reduce poverty, and there have been clear cases of success. Lipton (1996) reviewed the recent evidence on various programmes, and the remainder of this section draws on many specific examples cited in this review. This emphasizes that poor people are unlikely to achieve durable progress unless they can meet several requirements jointly: sufficient food; safe water and primary health care sufficient to transform nutritional intakes into decent health; physical assets or job access, sufficient to turn their improved physical condition into income; and access to education, if their improved health, nutrition and physical assets or job access are to generate levels of income secure against poverty. Two policy implications follow from this. The first is that if many things must be done, it may often not be feasible for the public sector to do all those things at once. Yet these things are complementary. So poverty reduction may require a strong concentration of public actions, in several complementary sectors, on a few regions of greatest need. Second, attempts to rely on either states or markets, on either productive instruments or welfare instruments alone, or on either private goods or social services alone, are likely to be fatal to effective poverty reduction. All the tools are likely to be needed, working

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<sup>45</sup> Senegal's efforts were characterized by clientelism and corruption. Graham (1995) reviews two programs. DIRE (1988–1990), a state-run programme that gave loans to laid-off public sector employees to start businesses, was overrun by corruption (nearly \$3 million were lost); beneficiaries were a very privileged group. There was too much clientelism and the project did not come close to reaching the poor. AGETIP (1988) was more successful. It was a semi-public entity, removed from direct government control, that sought to mobilize unskilled youth to construct infrastructure. It too was marred by corruption in that municipalities had to apply for loans and only mayors who supported the government were granted them. While it did create a large number of temporary jobs and boost infrastructural production in poor areas, it was still marred by outreach problems; it was not linked to any NGOs and failed to reach the poorest.

<sup>46</sup> Zambia implemented rapid economic and political reforms and correctly targeted subsidies. For instance, in 1991, when price controls were removed from grains, government retained subsidies only on “roller meal” a coarse grind that none but the poorest eat. It was also careful to educate the population as to why it was taking the steps it did. An open political system was not held hostage to the influence of entrenched interests. Also the 1991 MPU scheme, which is demand-based and supplies money for community infrastructure projects, responds to the needy rather than the well-connected and has a good record of outreach to the most vulnerable.

together, if a poor country is to reduce poverty substantially over much of its terrain.

### *Credit for the poor*

There is growing experience of successful "new wave" lending focused on the poor. Several special credit programmes for the poor, most famously Grameen in Bangladesh, have emerged to address such issues. The features making for success in such programmes echo the features of much older credit interventions. Mutual monitoring by small groups of borrowers, as in Grameen, was the central tenet of cooperative credit before it became politicized. For Africa, few examples are available, although experiences such as with the Mudzi Fund in Malawi (Hulme, 1989) need further review.

The new consensus is based in analyses of financial institutions. It recognizes that lending to the poor is expensive. Formal lenders, with thin local knowledge, face especially high costs if they lend without collateral, due to moral hazard, adverse selection and enforcement problems. Even localized money lenders often face huge screening costs to reduce such dangers. Banks also face greater problems in enforcing repayment in remote or dispersed areas. However, formal lenders have one huge advantage over localized lenders. Local loans, especially in agricultural areas, tend to go sour together; when the rains fail, many borrowers in the same village will have difficulty in paying. Such covariance is much less for a big, multi-purpose, multi-sector lender.

The poor often cannot get the loans they need by offering higher interest rates: the lender will find these may be a self-defeating way to recoup the cost of supervision, since they will induce borrowers to invest in riskier prospects (Stiglitz and Weiss, 1981). Therefore, the real problem of the very poor is often not that they face very high interest rates, let alone that they are caught in a debt trap, but that they cannot borrow at all. Finally, informational and other features of Third World credit markets, especially in remoter rural areas, normally prevent the achievement of a desirable equilibrium, so that some sort of actions by states or NGOs may be indicated.

The available evidence permits some consensus about what makes for success in anti-poverty efforts based on credit.

**Respect fungibility of credit:** The standard 1970s model was for supervised credit. The normal model was that a state-designated agency sought to ensure that borrowers used the loan for a purpose approved as productive by the agency. But such supervision cannot ensure that the loans support the extra activity, because the borrower might have undertaken it even without the loan. The lender is rightly concerned about the impact of the uses of the loan upon repayment capacity; but the best way to improve such capacity is not to ignore fungibility, or to second-guess the borrower about the extra purchases made with the borrowed funds.

**Seek poverty-focus, but by means other than direct targeting:** Direct targeting to people defined as poor by credit project managers is not feasible in the context of a project to allocate any subsidies: people may be induced to claim that they are poor, and the programme managers may be induced to compete in overestimating the numbers of poor people in "their" areas. Large-scale credit programmes that have attempted direct targeting have experienced substantial leakage to the non-poor. Four approaches have proved more successful than direct targeting by project or credit managers: selection of potential beneficiaries by appropriate local groups; targeting, not of individuals or households designated as poor, but of those with particular characteristics that are strongly correlated with poverty; self-targeting the poor by selecting and enforcing "rules" (e.g., small loans) that make loans more attractive to poor borrowers than to others; and finally, deliberate steps to improve loan managers' capacity and incentive to identify the target population.

**Avoid anti-poor rules and actions:** The requirement of land as collateral prevents

tenants and non-farmers from borrowing. The notable success of MYRADA, Grameen and BRAC in reaching the poorest stems from the use of alternatives to tangible collateral, together with avoidance of form-filing and delays. Public actions on subsidies, taxes, or infrastructure delivery also create a form of "rules", or conditions, strongly complementary with the success or failure of credit in reducing poverty. Often, poor people's requirements for *timing* of credit—and of repayment—are not obvious, and do not meet the standard format for formal lenders.

**Find alternatives to physical collateral:** To be viable, lenders need ways to avoid moral hazard and adverse selection, and to enforce the recovery of funds. One option is group lending; here the central idea is that members of a group are co-signatories, jointly taking responsibility for repayment for each member. If any member defaults, other members suffer. Hence it may be in the interests of a group to adopt peer monitoring, to enable lenders to reduce both supervision costs and default risk on small loans, yet to avoid collateral requirements that exclude the poor. Group lending and peer monitoring are not new, but new is the combination of group lending and peer monitoring with intermediation, usually by branches of NGOs. A main reason for advocating group lending is that it permits peer monitoring (which is more poor-friendly than collateral) as a means to reduce the risk of default. However, there are costs to each group member: in terms of the time to monitor colleagues' repayment, and in accepting her colleagues' monitoring of one's own repayment. Credit groups are likeliest to succeed if small, voluntary and homogeneous.

**Cut poor borrowers' transactions costs:** Poor borrowers often transact with money lenders at high rates of interest, and because of high transaction costs do not take advantage of much lower rates on publicly supported loans labelled "for the poor". If transaction costs are reduced, many more poor borrowers are able to borrow at interest rates high enough to keep the formal lending agency viable. The main route to reduced transaction costs for poor borrowers is to instal local intermediation. However, it is costly to implement, especially in dispersed rural areas. Lending groups, participation, and the principle of "nesting" all help to decentralize lending sources.

**Reduce covariance of repayment, e.g., by nesting peer monitoring groups:** Especially if lending is confined to farmers, the lender's risks are highly covariate unless there are many dispersed borrowers. A solution is "nesting". Persons in a primary group of (say) five borrowing neighbours are stimulated to monitor their peers. About 20 such village-level groups look to a higher-level block lender for future credit; hence each block comprises a group of groups with an incentive to peer-monitor each other.

**Avoid lending monopolies:** Even when such credit is made available, borrowers still need informal credit to meet many sudden, or small-scale, needs, and informal lenders require high interest rates to meet high costs and risks. Competition from formal sources keeps down the cost of informal credit by preventing local monopoly. But laws that enable one particular formal source to monopolize credit lead to the neglect of credit requirements that the monopoly finds it unprofitable to supply. They are likely to damage the poorest by reducing credit supply, promoting its rationing (to the better-off) through bribes and other economic rents, and raising its price.

**Ensure that extra credit can be productive, before raising its supply:** State action to expand the supply of credit to the poor normally involves real cost. Only in areas where there are opportunities for productive expansion by the poor—opportunities not quite profitable or safe enough to be taken up without expanded credit—is state action to increase the supply or competitiveness of credit for production, even by support to NGOs, likely to help the poor. Their welfare can also be helped, in a wide range of cases, by credit that eases "consumption smoothing", or that enables the poor to spend more on

education or health care; where this cannot be transformed into extra productive capacity, the issue of where the resources are coming from is acute.

**Subsidize transactions costs and administration, not interest:** Almost all the success stories of credit for the poor do rest upon substantial subsidies from the state, or from international concessional lenders relying on the state. However, these subsidies are to the agency, in order to reduce the administrative or transactions costs of lending in ways that are convenient to poor borrowers. The subsidies are not direct to borrowers, especially not as reduced interest rates for on-lending. Subsidized credit may *lower* the supply of credit to the poor, because it undermines the viability both of lenders that provide it, and of their artificially undercut private competitors—and because it is seldom the poor who can politick or bribe their way to scarce and subsidized items such as credit.

**Avoid politicizing or softening repayment, but anticipate emergencies:** Lax repayment discipline does not help the poor. As a rule, it is the well-off who default because they can (having the political power), rather than the poor because they must; default rates are usually higher among the better-off. Strict repayment discipline is associated with larger proportions of credit reaching the poor (and women), and in the medium term with larger, not smaller, total amounts of credit for the agency to lend. Repayment of capital, in the case of collateral-free and hence poor-friendly loans, must be enforced strictly in normal circumstances (but with incorporation of some form of fund or insurance against verifiable outside risks such as illness and drought).

**Complement credit with infrastructure and education:** However, there is no clear verdict on whether credit agencies do best by providing credit alone or "credit plus". It is not clear whether credit and other programmes are best combined in a single agency, or provided separately. As for infrastructure, transport and telephones are ways of reducing transaction costs, both of obtaining credit and of choosing things to buy with it; such possibilities are especially important for the poor, because they tend to make small loans, so that transactions costs loom large relative to the amount borrowed.

**Improve borrowers' performance with savings requirements:** Borrowers are most likely to repay, and to select successful uses of credit that ease repayment, if they have previously been small savers. Even a tiny, but regular, commitment to savings demonstrates a person's financial discipline, and thus is likely to indicate somewhat greater probability of repayment. More specifically, members of a group whose savings build up a group fund have extra rewards from ensuring that their fellow members use that fund responsibly.

**Create incentives to lenders and borrowers for repayment:** Penalties on late payment have clear advantages. But incentives from the higher level also assist repayment and its peer monitoring. In the case of Grameen, the primary group is encouraged to levy individual penalties for repayment indiscipline. Access to personal savings, and to the proceeds of the "tax" on individual loans, is restricted unless the group's repayment record is good. Lenders also need to impose on employees and agents the sense that their incomes, careers and ultimately jobs will improve with their degree of success in inducing good repayment performance.

### *Public works to create employment for the poor*

The scale of several public works programmes in developing countries has been substantial. Manual labour on public works, especially if the wage rate is rather low, attracts only people who have few other opportunities to earn money, and who need income much more than they need leisure. Immediate self-targeting on the poor has usually been very good, but the ill, the weak and those with major child-care obligations may be unable to participate. Especially where these schemes use piecework, targeting women is also good. However, public works employment, as compared with credit and

other schemes for the poor, normally provides them only with *current* benefit. Unlike credit, land or skills for the poor, public works do not enable permanent escape from poverty—unless accompanied by special measures so that the works programme itself builds up assets (savings, physical capital, skills, health or infrastructure) owned by, or providing future employment income to, the poor. Analogous to those for credit, Lipton's review formulated rules for success in anti-poverty objectives for public works programmes.

**Design employment for low opportunity cost:** This implies ensuring that the scheme is available in the slack season. There is urgent need to provide employment income to those without reserves in a drought, or a slack season following a below-average harvest. Small and decentralized works reduce transport time, which is especially important for the poor, who are likeliest to be compelled to use slow and time-consuming transport, and (absent a crèche) for women. Substantial numbers of scheme employees are women, and it is therefore important to ask whether the opportunity cost of women's participation is affected by the timing or other details of a scheme.

**Seek alternatives to direct targeting—but wage effects are complex:** Very low wage rates will attract the most severely poor people, who can do no better outside the scheme; slightly higher rates will attract workers near the poverty line, whom the scheme might push above it, thereby reducing the numbers of poor people. The doubling of Maharashtra's employment guarantee scheme (EGS) wage rates in 1988 led administrators to concentrate job offers on occupations with lower piece rates, as well as to reduce the number of work places. However, if scheme resources are substantial, wage rates slightly above contemporary market levels can be set. It is crucial to examine the effects of both a wage rise and any consequent extra unemployment upon household income per person among poor and non-poor people.

**Use scheme rules and conditions to discriminate for the poor:** *Wage payment systems*, and the precise *phasing of works*, are important components of success. Piece rates are especially favourable to participation by women, small-sized people, and others who may prefer longer or intermittent work to more intense work, and who are often excluded under time rate systems. Poor people's timing requirements are complex: responsiveness to local variations may largely determine programme success.

**Allow for poor workers' frequent physical difficulties:** Labourers, and the poor in general, are often removed from work by illness or injury. There are large numbers of people who are able to work, but impaired by weakness from working well. What can public works schemes do for them? First, such people find a meal before work, nearby schemes, and prompt payment especially important. Second, it may be possible to provide types of work that are less demanding of physical energy. Third, it may help to steer public works towards health improvements. Finally, patterns of illness and injury are usually seasonal; it may be possible to shift local public works slightly in order to avoid the illness peak.

**Minimize poor participants' transactions costs:** The main transactions cost for potential workers in public works programmes is the cost of obtaining access. Part of the wage may be forfeited to a contractor, official or politician. It is important to consider payment or management systems that reduce such costs. Piece rates are a possible approach, but they tend to move production towards activities where output can be readily standardized, which may well not be the most productive, or poverty-reducing. Another approach is joint ownership of the completed asset. If workers form a closely-knit group, this could lead to a form of peer monitoring that will reduce or remove incentives to shirk.

**Reduce covariate stresses on public-works resources:** Stabilization will usually be required at much the same time in different places. If authorities need to prepare cash flow to meet that demand in many places with the same season of stress, then fiscal and monetary policy must be adapted accordingly. However, it may be

possible to include regions with different peaks of need for public works employment.

**Use retailer, employer and public works competition "for the poor":** In Botswana, drought relief worked moderately well in the 1970s because food was supplied through a variety of retailers. However, the programme was substantially more cost-effective after the switch from direct food distribution to labour-based relief, because the retail system responded to the extra wage demand, with no attempt to "force" food (Drèze and Sen, 1989: 156). Even more important than retailer competition for food is employer competition for labour. While public works employment always implies public (or community or NGO) financial *provision*, the *production*, for example of roads or irrigation maintenance, can sometimes be carried out by private employers, selected after competitive tenders to the public sector.

**Check that low demand for labour causes poverty:** If all labour supplied is fully employed at an equilibrium wage rate sufficient to prevent poverty, there is no case for a scheme of public works employment to reduce poverty. The lesson is to ask, first: is unemployment, a low real wage rate, or something else the main cause of poverty? Second, how cost-effectively will proposed public works employment remedy the cause, allowing for secondary and knock-on effects in the private sector? If poverty arises mainly because illness or discrimination cuts labour supply, a programme to reduce poverty via public-works labour demand may not help.

**Subsidize coverage, sustainability, graduation—but seldom above-market wages:** Successful public employment schemes for the poor often involve paying somewhat more for the end product than could be achieved outside such schemes. This is a hidden subsidy. However, just as successful credit for the poor usually focuses any subsidy on other things than the interest rate, so successful public works employment usually focuses subsidy on other things than the wage rate. It is usually better to apply a given subsidy to extending scheme coverage, and to permitting the poor previously covered to graduate from the schemes by making the assets themselves labour intensive, or suitable to generate income streams for the poor after the works end.

**Encourage grassroots pressure groups:** Reliable availability of public employment can provide the poor with an opportunity to organize around common interests. It is the legal guarantee of employment, rather than discretionary provision, that makes this possible. Political and hence financial unsustainability is the main single problem of anti-poverty programmes, and organization of beneficiaries is perhaps the main remedy. However, a major problem in sustaining common-benefit organizations (e.g., a users' group in a public works programme) is free-riding. It may be feasible, without co-option or corruption, for a small grant to be made out of scheme resources to provide some clearly designated incentive for organizers of employees' representative groups.

**In performance and outreach, let employment schemes complement other programmes:** The net economic and social benefits to most public works are increased if other appropriate activities have been pursued at the same time in the same region. Groups of poor people in an area who are not reached by a public works programme are liable to be reached by appropriate anti-poverty programmes of different types. Many of the poor are unlikely to benefit from public works schemes, but can benefit from other anti-poverty programmes like food distribution or other forms of social security.

**Build up capacity of schemes and workers before works begin:** The absence of a "shelf" of properly pre-evaluated works is one of the reasons why rapid, widespread expansion into new regions of public works schemes so seldom works well. In Botswana, the transition from food distribution to labour-intensive rural works was prepared by recognizing and planning for future drought problems well in advance. Years

before Maharashtra's employment guarantee scheme began, it had been the subject of political debate and administrative preparation, so that a large "shelf" of projects had been prepared.

**Use performance incentives for officials and participants:** Direct incentives should be used, where possible, rather than rules, to improve scheme performance. The problem of incentives to officials is somewhat less fraught than for credit programmes, because of the *self*-targeting of low-wage unskilled labour upon the poor. The question of control of works remains, however; the differences among and within public works programmes in this regard suggest that performance incentives for officials may be important.

#### 4.4. Afterword

What does this summary of "rules for success"—summarized from Lipton (1996)—show in the context of this paper? It indicates, first of all, that quite a lot is known about how these programmes should be framed. Second, it focuses on the new "consensus" about the means through which poverty should be addressed. Few seem to argue any more that this can or should be the responsibility of the state alone. As with new debates on land reform, market-friendly measures are proposed, involving state and non-state actors, and policies that take account of incentives of beneficiaries, programme managers and administrators.

These rules—which are closely parallel between employment programme and credit—relate to three central principles of market-friendliness: incentive compatibility, bias avoidance and competitiveness. But some of the rules (e.g., the need to ensure, before starting a credit or employment programme, that it addresses a major cause of poverty) embody preconditions for public anti-poverty actions that are needed to simulate rules (e.g., market testing) that would automatically be observed by private profit-seeking agents. Market-friendliness gets us only part of the way to poverty reduction.

The rules also illustrate the importance of political commitment, and strength. On the one hand, this calls for building up groups and political power among the poor. On the other hand, just as problems with PAMSCAD—so it is argued—arose from its political visibility, this review shows that the programmes need to be devised so as to resist, or to accommodate, likely political pressure. To keep credit programmes sustainable, for example, repayment rules should be relaxed only in exceptional circumstances; but such circumstances need to be specified in advance, and protected against, e.g., by insurance. And the efficiency (in terms of targeting) of the Maharashtra employment guarantee scheme—which, after all, has depended to a large extent on the support of the rich urban population—was reduced when it was forced to pay statutory minimum wages. Neither relaxing repayment rules nor increasing wages is undesirable in itself, but there are trade-offs; schemes like this are successful only under "good policies", policies that may be unpopular with various groups, for different reasons.

The two main programmes discussed above—public works and credit—are programmes that can target relatively well. But they do not cover everything. Employment programmes are, or should be, only temporary, and the weak and old may not be able to participate. And credit programmes may not target the poorest, perhaps because the poorest are not able to use credit in a way that will take them (permanently) out of poverty. Moreover, programmes often have a more sustainable effect if complemented by other measures, and further measures are called for to reach the poorest of the poor.

## Section 5 Conclusion

The new consensus about the role of the state seems to include an opinion that many SSA countries are suffering from a crisis of statehood—a crisis of capability. An urgent priority is to rebuild state effectiveness through an overhaul of public institutions, re-assertion of the rule of law, and credible checks on abuse of state power. Where the links between the state, the private sector, and civil society are fragile and underdeveloped, improving the delivery of public and collective services will require closer partnerships with the private sector and civil society. (World Bank, 1997: 14).

As is indicated in the same WDR, thinking about states—which have almost invariably continued to expand relative to the countries' economies—has undergone important changes. From a postwar optimism about the possibilities of the state, via the rolling-back of the state in the 1980s, we now seem to have come to a more balanced position in which the question is not *whether* the state should intervene, but *where* and *how*.

Our impression from the literature is that the knowledge about the role of the state has progressed much more in relation to economic growth than to poverty reduction. Although the two agendas, of poverty reduction and political reform, came up at the same time around 1990, they are not always linked. And, unfortunately, not always do all good things go together. The literature indicates that the marriage between political and economic liberalization is not simple and stable. First, supporters of political liberalization do not necessarily support economic liberalization, and the objectives may become "tradeable" (Haggard and Webb, 1994: 7). Second, those who are influential and strive for political liberalization are not necessarily the ones who will, or want to, reduce poverty. A solution to this, no doubt, is empowerment, but this is difficult to achieve for those who suffer from multiple deprivation. Neither can NGOs reach them easily. The relationship between democracy and economic growth is not very strong, although not absent; a similar relationship between democracy and poverty reduction—despite the argument that famines do not occur in democratic societies—has not (yet) been shown in the same literature, though Dasgupta (1990) provides hints in that direction.

Much of the poverty literature seems to pay relatively little attention to governance issues. A clear consensus has emerged about the importance of public intervention, particularly in the fields of basic health, education and the provision of safety nets, but much less is said about ways to achieve this. Yet from the literature that focuses more closely on policy issues, clear problems emerge. Three issues seem of central relevance here. First, it has been noted that state reform, for faster economic growth or poverty reduction, needs state capabilities that are often lacking. States need to do more in order to do less. (Even in Thatcherite Britain, the government was unable to reduce state expenditure, even as a percentage of GNP.) In Lipton's review clear rules emerge for "successes" in anti-poverty, but the review also indicates that states (or other agents) need to have the capability to implement them: for example the technical capability, the political will and possibility to encourage grassroots organizations, but also to resist pressure groups to maintain the sustainability of programmes.

Second, in the political science literature there is very little evidence of a relationship between the type of political regime and types of economic development or adjustment. Though rich countries are much likelier to be democratic than poor ones, economic growth does not necessarily lead to a certain political regime; nor is a particular type of political regime always better or worse for economic growth. Good government, defined in the narrow terms of economic models, does contribute to faster economic growth, but the same correlation has not been established for wider political issues such as democracy, human rights and participation—although Barro does show this relationship at the lowest levels of political rights. The balance of evidence suggests that

equality contributes to faster economic growth, but equality and democracy are not necessarily linked causally (see, however, Dasgupta, 1990, for some evidence of a statistical correlation in between civil and political rights, on the one hand, and social spending likely to favour the poor, on the other). The social capital analysis of Putnam in Italy does suggest that social capital contributes to economic growth, but similar analyses are lacking for developing countries, including sub-Saharan ones.

Third, much of the political science literature on adjustment in SSA stresses the importance of coalitions. At the same time, it stresses that the dominant coalitions do not necessarily include the poor, and that programmes to mitigate the negative effects of adjustment are often not targeted at the poor. It is striking that the programme that is best covered on the literature, PAMSCAD in Ghana, although it deserves credit and probably has helped in the decline in poverty, was not targeted at the poorer sections of the population and had the explicit objective of helping to create the political support for the adjustment programme. Little attention has also been paid—despite the fact that this is increasingly becoming part of aid conditionality—to whether governments have poverty alleviation as a national policy priority, in theory as well as in practice.

A general picture that is emerging from SSA is that economic growth, although slightly picking up, has been very low. As a result, since the late 1980s, poverty incidences are higher than on any other continent (although close to South Asia's), although there are divergences within the continent. But perhaps most serious, and something that too little attention has been paid to, is the fact that in several cases extreme poverty seems to have increased rapidly; some of the poor seem to be left behind by whatever little economic growth takes place. This calls for specific policy attention, and very little research (and policies?) seems to be focusing on this. Even Africa's more successful poverty reduction programmes may not adequately address this problem.

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