Defining an Agenda for Poverty Reduction

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Proceedings of the First Asia and Pacific Forum on Poverty (Volume 1)

Edited by Christopher Edmonds and Sara Medina

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ADB	Asian Development Bank
APEC	Asia Pacific Economic Cooperation (forum)
APP	Agriculture Perspective Plan (Nepal)
ASEAN	Association of South East Asian Nations
BRAC	Bangladesh Rural Advancement Committee
CARD	Computer-aided Administration of Registration Department (Andhra Pradesh, India)
CIDA	Canadian International Development Agency
DAC	Development Assistance Committee (of the OECD)
DALY	Disability-adjusted life years
DBM	Department of Budget and Management (Philippines)
EDG	Electronic discussion groups
EDI	Electronic data interchange
FGT	Foster-Greer-Thorbecke (index of poverty)
GDI	Gender development index
GDP	Gross domestic product
GEM	Gender empowerment measure
GNP	Gross national product
HDI	Human development index
HIES	Household Integrated Economic Survey (Pakistan)
HIV/AIDS	Human immunodeficiency virus/acquired immunodeficiency syndrome
ICFTU-APRO	International Confederation of Trade Unions—Asian and Pacific Regional Office
ICT	Information and communication technology
IFC	International Finance Corporation
IFI	International financial institutions
IIE	Institute of International Economics
ILO	International Labour Organisation
IMF	International Monetary Fund
IMR	Infant mortality rate
IRDP	Integrated Rural Development Program (India)
IRR	Impoverishment Risks and Reconstruction
Lao PDR	Lao People’s Democratic Republic
LDC	Least Developed Country
LMB	Lower Mekong (River) Basin
MRC	Mekong River Commission
MTEF	Medium-Term Expenditure Framework (Philippines)
NEDA	National Economic Development Authority (Philippines)
NGO	Nongovernment organization
NPC	National Planning Commission (Nepal)
NSCA	National Sample Census of Agriculture (Nepal)

OECD	Organization for Economic Cooperation and Development
PCI	Per capita income
PDB	Planters Development Bank (Philippines)
PNG	Papua New Guinea
PRC	People's Republic of China
PRSP	Poverty Reduction Strategy Paper
PSO	Public service obligation (Bangladesh)
RMB	Renminbi (currency of the People's Republic of China)
SAP	Structural adjustment program
SC	Scheduled castes (India)
SDR	Special drawing rights
SME	Small and medium-sized enterprise
ST	Scheduled tribes (India)
UNAIDS	United Nations Program on HIV/AIDS
UNCTAD	United Nations Commission for Trade and Development
UNDP	United Nations Development Programme
URL	Uniform Resource Locator
VAT	Value-added tax

Introduction

Introduction: An Overview of the First Asia and Pacific Forum on Poverty

Christopher Edmonds and Sara Medina

1. Background of the First Asia and Pacific Forum on Poverty

In November 1999, the Asian Development Bank (ADB) adopted poverty reduction as its principal objective. The Poverty Reduction Strategy that resulted from that decision committed ADB to host an international forum on poverty issues every three years. In February 2001, the Asian Development Bank hosted the first-ever Asia and Pacific Forum on Poverty (the Forum), one of the largest international meetings ever undertaken exclusively by ADB: more than 300 delegates from all over the world met in Manila, Philippines, for a week of presentations and discussions of poverty issues.

The Forum built upon previous ADB-organized conferences that were related to poverty. In particular, by launching a volume of proceedings from the 1999 Manila Social Forum, the Asia and Pacific Forum on Poverty highlighted the link between those two conferences.

The Forum provided an opportunity for stakeholders to share views and information about poverty reduction efforts in the Asia and Pacific region. Delegates included researchers from universities and research institutions; policymakers from developing member countries (DMCs); representatives from civil society and nongovernment organizations (NGOs), labor groups, business and professional associations, religious bodies, and other citizen groups; development practitioners from multilateral aid providers and the United Nations system; members of the media; and ADB staff.

The theme of the Forum was “policy and institutional reforms for poverty reduction.” Thirty-six separate sessions considered questions relating to this broad theme. Sessions under the general theme of policy and institutional reform covered three topics: (i) the political economy of poverty reduction, (ii) the ingredients of pro-poor growth, and (iii) social protection. More than 160 individuals formally addressed the delegates and an even greater number took part in the discussions that followed the formal presentations.

Reflecting the Poverty Reduction Strategy’s recognition of the multidimensional nature of poverty in the Asia and Pacific region, the sessions addressed a wide range of topics at the international, regional, national, and local levels. The themes discussed by participants included (i) macroeconomic questions regarding the international monetary system, globalization, macroeconomic growth, and poverty reduction; (ii) issues of practical relevance for region-specific, country-specific, and sector-specific policies and for poverty reduction relating directly to ADB operations; and (iii) implementation of poverty reduction efforts at the micro level, particularly social protection to maintain minimal living standards for the poorest despite income shocks and market changes. A separate set of sessions discussed methods for the measurement and monitoring of poverty.

2. Key Messages of the Forum

Forum participants agreed on several vital priorities: (i) the need for stakeholders to share a common vision, (ii) the importance of promoting good governance in the region, (iii) the value of partnerships with the private sector, and (iv) achievements and shortcomings in the region's progress toward the 2015 International Development Goals (IDGs).

Reiterating the need for multiple approaches in reducing poverty, participants formed a broad consensus that the full range of ADB's activities is necessary: program loans to DMCs; technical, capacity-building assistance in reforming their institutions and policies; and projects that improve the delivery of basic services to the poor. Similarly, participant discussion reinforced the three pillars of poverty reduction under ADB's strategy: sustainable pro-poor economic growth, social development, and promotion of good governance.

ADB's emphasis on improved governance in DMCs received widespread support among Forum delegates and was widely reported by the media. In addition, discussions and presentations highlighted the role of the private sector and the need to engage the private sector more actively in poverty reduction efforts.

ADB's efforts to reduce poverty in the region and its commitment to poverty reduction as its overarching objective were clearly emphasized. The Forum highlighted ADB's leadership in poverty reduction efforts in the Asia and Pacific region, while the active participation of international and bilateral development and aid organizations underscored ADB's collaboration with other aid providers. Regional accomplishments toward achieving the 2015 IDGs were highlighted. At the same time, shortcomings in social development, governance, and environmental issues were also identified.

a. Areas of broad consensus

The Forum succeeded in defining areas of widespread agreement among the participants. Areas of broad consensus at the Forum included the following:

- Recognition that economic growth is essential for poverty reduction. Several presentations, however, emphasized the need for detailed understanding of growth poverty reduction linkages and for qualification of the conditions in which growth reduces poverty.
- The importance of fostering of stakeholder involvement. Stakeholder involvement includes the role of civil society organizations vis-à-vis those of governments and market

institutions in the development and execution of poverty reduction policies and projects.

- The need for appropriately structured and targeted social protection. Delegates agreed that cushioning the poor from the effect of economic fluctuations and the cost of economic adjustments is a priority. Such social protection calls for innovative approaches in financing and delivery, and the use of a variety of funding modalities across national governments, multilateral development agencies, and bilateral aid providers.
- The importance of enhanced basic social service provision for poverty reduction. These services—education, health care, and family planning—are essential instruments for improving and maintaining the productivity of the region's work force, and thus are vital to achieving sustained reductions in poverty in the region.

b. NGO representation and other participants in the Forum

NGOs and stakeholder representatives were active participants in the Forum and contributed greatly to the debate that took place. A number of Philippine NGOs set up information booths outside the Forum meeting halls to inform delegates of NGO activities. Accommodation of NGOs at the Forum also included a stand-alone informal session between ADB staff and NGO representatives on the last day of the Forum.

There were many contributions to the Forum from ADB professional staff, who acted as resource persons and provided about one third of the substantive presentations. Similarly, the Forum marked a positive step by the Economic Research Department toward serving the needs of the operations departments. The Forum benefited from the extensive involvement and support of ADB's partner international development and aid provider organizations, including the ADB Institute, the International Monetary Fund (IMF), the United Nations Development Programme (UNDP), and the World Bank. Several sessions provided opportunities for various agencies to discuss their approach to assisting developing countries in reducing poverty and to work toward better aid provider coordination.

The Forum relied extensively on a committed website as a channel for distributing Forum materials and coordinating Forum activities, including disseminating information and papers before and during the week of the meeting. The website provided easy access by a global audience to papers and presentations used at the Forum through ADB's Internet site.

Feedback from ADB staff and other delegates regarding the Forum was generally positive. Some country delegations indicated that the Forum informed them about substantial work ADB has completed regarding poverty reduction, and thus led them to better appreciate ADB's role as a resource center in the region. NGOs at the Forum appreciated the high quality of papers and presentations. Interactions between ADB staff, DMC officials, and other Forum delegates promise to further the policy dialogue regarding implementation of the Poverty Reduction Strategy in Asia and Pacific DMCs.

3. Organization of the Proceedings

Two volumes of Forum proceedings are introduced here. Volume 1 reproduces a selection from the more than 75 speeches, presentations, and papers given at the Forum. Volume 2 comprises papers from the Forum addressing social protection themes. The selection provides a representative sample of the wide variety of perspectives and range of issues related to poverty reduction in Asia and the Pacific that were addressed at the Forum. Unfortunately, the need to keep these publications manageable in size meant that only a fraction of the excellent materials presented could be published. Nonetheless, nearly all the materials from the Forum are available through other publications. Foremost among these, in terms of completeness, is a CD-ROM that duplicates the Forum web page and includes all the papers and presentations compiled from the Forum (see ADB's website, www.adb.org/Poverty/Forum/, for information about how to order a copy of the CD-ROM). In addition, some papers from the Forum have been published in other books or journals: *Reducing Poverty in Asia: Emerging Issues in Growth, Targeting, and Measurement* (2003) published by Edward Elgar Publishers, U.K., and the *Asian Development Review* (2002), whose volume 18, number two was devoted to presenting some of the papers from the Forum. This introduction discusses briefly most of the papers and themes addressed during the weeklong meeting.[1]

The first volume of proceedings addresses themes that were considered at the Forum, except for themes pertaining to social protection, and are addressed in general progression from topics relating to broad strategies for poverty reduction and macroeconomic issues to more narrowly focused topics regarding economic development, growth, and poverty. This volume is divided into seven main theme areas, and the introduction discusses papers in approximately the same order that they appear in the volume. To begin, the volume reproduces addresses and papers prepared by senior spokesmen from several leading multilateral development institutions. These papers consider the overarching approaches these organizations have adopted to guide their efforts in poverty reduction. Papers also address strategic priorities in reducing poverty and achieving the 2015 IDGs, as well as issues of aid provider coordination and cooperation. In addition, included in this Introduction is a summary of the views presented by bilateral aid providers addressing these issues.

The volume treats more papers from researchers on the theme of broad strategies for reducing poverty in Asia and the Pacific. Papers discussing macroeconomic considerations, increased global trade, and pro-poor growth are presented. The next section consists of papers on the problems of governance in the region's DMCs papers on the role of civil society and the private sector in poverty reduction efforts take up still another section. Papers discussing various countries' experiences in the use of targeted mechanisms to reduce

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[1] To indicate where the materials summarized in this introduction are available in their entirety, papers and presentations apply the following annotations: + indicates the paper is presented in this volume, † indicates the paper/presentation is available on the CD-ROM referred to in the text, * indicates the paper appears in volume *Reducing Poverty in Asia: Emerging Issues in Growth, Targeting, and Measurement* published by Edward Elgar Publishers, # indicates the paper is reproduced in volume 18 number 2 of the *Asian Development Review*; and materials listed without annotation are not available.

poverty, including resettlement, gender considerations, labor policy, improving the health and nutrition of the poor, rural development and natural resource management, microfinance, urban-focused poverty reduction, and technical innovations in the fight against poverty are considered as a wide-ranging group of papers looking at poverty reduction efforts focusing on particular demographic groups or economic sectors. The penultimate section reproduces papers on the definition and measurement of poverty itself, including a review of current practice and recent advances. The final section of the first volume of proceedings comprises regional and country studies, including areas such as the Mekong River Delta and the Pacific islands.

4. Approaches of International Development Institutions to Poverty Mitigation

Most development institutions now, like ADB in 1999, have officially endorsed poverty reduction as their fundamental goal. As part of its three-pillared approach, ADB contends that economic growth is an essential tool in alleviating poverty, but is insufficient by itself to fight poverty. Growth can effectively reduce poverty when accompanied by a comprehensive program for social development—safety nets, better programs in education and health care, and job and income opportunities for more people. Good governance is another necessary tool; it promotes formulation and implementation of policies, sound macroeconomic management, transparent use of public funds, and effective delivery of public services. ADB assists in refining national strategies for poverty reduction by prioritizing these strategies and programs in partnership agreements with governments.

A number of distinct but related initiatives of the main multilateral development organizations active in Asia and the Pacific have helped develop policy positions with respect to these institutions' efforts to reduce poverty in the region. For example, ADB's Poverty Reduction Partnership Agreements (PRPAs) with its member countries highlight shared understandings and delineate strategic priorities in the fight against poverty. The poverty profiles and related research that underpin the formulation of PRPAs have helped to provide a more subtle understanding of the causes of and remedies for poverty in the Asian and Pacific region, and have been valuable in enabling ADB and its counterparts in the DMCs to reorient their activities to achieve poverty reduction.

a. Perspectives of multilateral development institutions

The Forum opened with an address by ADB President Tadao Chino+ who outlined the broad parameters defining poverty in the Asia and Pacific region and reviewed ADB's efforts in adjusting the organization from the goal of broader development lending to spur economic development to the more focused objective of poverty reduction. The address summarized ADB's broad strategy for reducing poverty in the region it serves, and highlighted the importance of cooperation between partner institutions, host governments, and actors in the private and nongovernment sectors.

The presentation by Karti Sandilya, then Manager of the Poverty Reduction Unit of the ADB Strategy and Policy Department†, reviews the steps that preceded ADB's adoption of the Poverty Reduction Strategy.[2] These principally comprise the formation of the Presidential Commission on Poverty, the creation of the Poverty Reduction Unit, and development of an operational framework for poverty reduction. The operational framework defines for ADB the strategic inputs, central goals, and strategic outcomes required for fully elaborating the organization's shift to poverty reduction as its principal mandate. Measures to strengthen ADB's capacity in poverty analysis and reduction, expand the organization's knowledge and experience in designing the implementing interventions intended to reduce poverty, commitment of greater resources, and demonstrated commitment are identified as the key strategic inputs to sharpening ADB's focus on poverty reduction in its operations. Sandilya also discusses ADB's distinctive role in leading the effort to rapidly and sustainably reduce poverty in the Asia and Pacific region.

The address by World Bank President James Wolfensohn+ highlighted the cooperation between ADB and the World Bank, and recalled the issues emphasized in the preceding year's Manila Social Forum that was jointly hosted by these two institutions. The challenges in reducing poverty in light of Asia's changing demography were a major theme in Mr. Wolfensohn's address.

In his address, Masood Ahmed, Deputy Director, Policy Development and Review Department of the IMF+, considers the policy mechanisms available for development agencies and national governments for targeting growth so that its benefits accrue to the poor. The address features a careful discussion of the nature of pro-poor growth and the policies available to spur pro-poor growth. Other issues considered in the address include the importance of increasing the transparency and accountability of aid providers and recipient governments in achieving poverty reduction, the importance of policy initiatives to reduce risks faced by the poor as a poverty mitigation approach, the importance of active labor market policies to ensure that the poor made jobless by economic downturns or structural adjustment processes can quickly find new employment, and the importance of protecting and nurturing social networks in the course of economic development and structural transformation. The actions indicated for multilateral and bilateral development organizations from these priorities are discussed.

The Poverty Reduction Strategy Papers (PRSPs), launched in late 1999 by IMF and the World Bank, perform a similar function to that of ADB's PRPAs in articulating new antipoverty frameworks for developing countries. Both begin with the concept of country ownership, and aid provider organizations should treat these exercises as a participatory process and the starting point for aligning their activities with the priorities that emerge from the formulation exercises. These initiatives require that poverty reduction efforts be country-driven and result-oriented, focused on long-term objectives, and based on partnership (between governments and civil society—the private

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2 The job titles and organizational affiliations noted in the Introduction refer to the authors' or presenters' title and affiliation at the time of the Forum and may not be current.

sector and the donor community). The approaches also underscore the need for a comprehensive approach to development in reducing poverty, strengthening government and financial systems, and addressing social concerns.

The speech by Jean-Claude Faure, Chairman of the Development Assistance Committee (DAC) of the Organisation for Economic Cooperation and Development (OECD)+, highlights the importance of prompting growth as well as income equality in the current efforts to reduce poverty in Asia. Political empowerment of the poor is also important, as is improving social service provision in developing countries. In order to achieve these goals, Mr. Faure argues that forging effective partnerships between the various aid providers and between these and the developing countries are essential. Six principles for forging strong partnerships are set out and discussed. The speech concludes by emphasizing the need for policy coherence—between policies within a single country and between countries—and strong analytical policy work to underpin the reforms needed achieve poverty reduction. Six policy areas are identified as OECD member priority areas for enhancing policy coherence to improve poverty reduction prospects in the developing world.

In 1996, OECD set out its strategy "Shaping the 21st Century: The Contribution of Development Cooperation," a vision based on partnership around development strategies owned and led by developing countries' governments and civil societies. The strategy also committed DAC members to assist developing countries in achieving the 2015 IDGs, which address key dimensions of poverty. Faced with this complex challenge and determined to work more effectively to reduce poverty, DAC members are working within a set of guidelines that call for

- Understanding the nature of and most effective approaches to world poverty;
- Maintaining effective partnerships between government, civil society, the private sector, and aid provider institutions;
- Translating poverty reduction objectives into more effective programs, eliminating multiple administrative and financial requirements and streamlining practices, procedures, and reporting requirements; and
- Establishing better policy coherence in six priority areas: international trade, direct investment, agriculture and food security, global capital movements, natural resources and the environment, and social issues and governance.

For its part, UNDP spearheads the United Nations' advocacy for poverty reduction, and has prioritized the following targets:

- Selecting, pacing, and sequencing policies capable of fostering equitable economic growth;
- Increasing efficiency, transparency, and accountability of institutions that manage economic reform;
- Fostering country ownership of the reform process;
- Reducing national inequalities;
- Mobilizing adequate resources for poverty reduction; and

- Harmonizing national poverty reduction strategies with more equitable global economic and financial regimes.

In his presentation, Hafiz Pasha, Assistant Administrator and Director of UNDP's Regional Bureau for Asia and the Pacific+, emphasizes the multidimensional nature of poverty and the 2015 IDGs' clear recognition of this through their identification of both income and nonincome poverty reduction targets. He highlights six areas in which action by international aid providers and policymakers is called for in developing countries. A key challenge in achieving the goals encompassed in the IDGs, according to Pasha, relates to prioritizing and sequencing reforms needed to create macroeconomic environments conducive to pro-poor growth. The importance of increasing the efficiency and transparency of institutions managing the economic reform process, and fostering country ownership of the reform process, are identified as two other key areas for action. Reducing inequality, ensuring adequate resource mobilization, and harmonization of national poverty strategies with more equitable economic and financial regimes globally round out Mr. Pasha's list of key action areas. His presentation concludes by reviewing UNDP's role and plans for leading the international effort to reduce poverty.

In his presentation, Terence Jones, UNDP Resident Representative in the Philippines, outlines seven key interventions on which UNDP is concentrating its efforts to promote poverty reduction in Asia. These interventions include:

- Stimulating debate on poverty reduction in the developing world at the global level;
- Drawing on the unmatched data and ideas contained in UNDP's Human Development Reports to support national poverty surveys, policy frameworks, strategies, and action plans;
- Engaging in processes to develop national poverty strategies with an emphasis on country ownership and assurance that human development issues are addressed;
- Integrating gender and environment in pro-poor planning;
- Highlighting the importance of technology access, especially information and communications technology, as a tool in poverty reduction efforts;
- Promoting access to sustainable energy resources; and
- Supporting democratic governance programs to ensure participation of the poor and their protection.

An additional contribution from the UNDP was provided by Terry McKinley, Senior Economist at UNDP's Bureau for Development Policy†. His presentation argues that while rapid growth in developing countries could halve income poverty by 2015, it is essential that growth be accompanied by a more equitable distribution of economic resources and political power. Growth, in the absence of improvements in distribution of its benefits, is argued to be unsustainable, and experience demonstrates that growth and equality are correlated. Public policy can facilitate mutual reinforcement of growth and equity, but complementarity is difficult to "engineer." McKinley considers two patterns of pro-poor growth, "broad-based agricultural development" and "export based industrial development," in relation to the question of growth and equity, and notes that the ultimate objective of UNDP's efforts is "poverty-focused human development," which is influenced by a range of policies and is partly independent of growth-inducing policies. The challenge for policymakers is to craft a comprehensive, country-specific public policy that stimulates growth, reduces inequality, and ultimately reduces poverty.

b. Bilateral donor perspectives

Representatives of many of the bilateral development and aid organizations attended the Forum, and greatly contributed to the proceedings by making presentations and participating in and chairing Forum sessions.

The Forum presentation by Paul Flanagan of the Australian Agency for International Development (AusAID)† summarizes that agency's development priorities and approach to poverty reduction efforts. Highlighting AusAID's embrace of poverty reduction as its central program objective since 1997, Flanagan reviews global and regional poverty trends, e.g., the Asian continent continues to have the greatest number of poor, even while it has seen the most striking reductions in poverty in recent decades; this achievement is linked to the high rates of economic growth experienced in several Asian countries. Defining poverty as a multidimensional concept, he spells out four AusAID funding priorities: stimulating growth, enhancing productivity, increasing accountability, and mitigating vulnerability, and outlines the distinct measures to be emphasized in achieving each of these. Flanagan concludes his presentation by considering the modalities AusAID employs in analyzing poverty and in defining its principles for action, and how these drive the agency's funding priorities.

The address by Roger Ehrhardt, Director General, International Financial Institutions, Canadian International Development Agency (CIDA)+, at the Forum outlines the principles of CIDA's Comprehensive Development Framework for poverty reduction. The framework emphasizes the need for a long-term vision, a clear strategy, and enhanced country ownership, including participation of all segments of society, in order to achieve real gains in reducing poverty. He also emphasizes the importance in the Framework of stronger partnership between developing country governments and aid providers, as well as the imperative of accountability for development results of all institutions active in the development process.

Sean Conlin of the United Kingdom's Department of International Development (DFID)† presents DFID's changing paradigm of poverty reduction. A major component of this new paradigm is an increased effort to foster broader policy reform through a move away from investment project financing and toward countywide and sectorwide strategies. Moves toward direct DFID provision of budgetary support for the activities of developing country governments and a greater emphasis on closer collaboration with other development agencies reinforce DFID's changing paradigm. Conlin also discusses the organizational changes and changes in skills and staffing among personnel that DFID is undertaking to adjust to these changes.

The presentation by Christian Breustedt of Deutsche Gesellchaft fur Technische Zusammenarbeit (GTZ)† outlines the broad approach and priorities that GTZ applies in guiding its contributions to international efforts to reduce poverty. Noting that the German government committed itself to the 2015 IDGs at the 2000 Millennium Summit, Breustedt emphasizes that poverty reduction has always been an integral part of German development cooperation. GTZ's approach emphasizes participatory project planning, implementation, and monitoring methods, and follows a multistakeholder and multilevel approach in its advisory services. GTZ-funded initiatives are country-driven, formulated through participatory processes, comprehensive in addressing the multiple dimensions of poverty, and results-oriented; and they provide sustained and continuous policy and project actions. GTZ views stable growth, organized and mature civil societies, decentralized and democratic social structures, and long-term social peace as being necessary to sustained poverty reduction. Breustedt discusses each principle and the organization's programmatic focus in seeking to fulfill it: for example, GTZ underpins the multistakeholder approach by investments in poverty information and monitoring systems, poverty-conscious budget planning, support of social action funds, and financing of public works programs, sector programs, and social safety nets and social security schemes. He concludes his presentation by reviewing GTZ's current portfolio of poverty reduction initiatives in the Asia region.

In his presentation at the Forum, Rentaro Tamaishi, Director of the Social Development Division at the Japan Bank for International Cooperation (JBIC)†, outlines his organization's approach to the pursuit of poverty reduction in its overseas development assistance. Tamaishi identifies two main thrusts: first, financing initiatives to spur sustainable economic growth through the construction of socioeconomic infrastructure; and, second, financing of direct poverty-mitigating interventions. The share of JBIC financing going to social development projects has risen over time, nearly doubling between 1996 (13.4 percent) and 1999 (25.5 percent); poverty reduction projects took up 15 percent of the JBIC portfolio in Fiscal Year 1999. Mr. Tamaishi cites JBIC's operations in Indonesia as reflecting the increased importance being given to poverty reduction and the shifts in programmatic focus this has entailed. He identifies four areas of progress and action through which JBIC works to mainstream poverty reduction:

- Establishment of the Social Development Division,
- Inclusion of social assessment in its project assessment procedure,
- Adoption of performance monitoring with mandated collection of baseline surveys and operation and effect indicators, and
- Greater partnerships with NGOs, other aid providers, or development institutions.

Tamaishi concludes with a review of JBIC's achievements in increasing the number and quality of poverty assessments and social surveys in aid recipient countries.

The address of Patricia Buckles, Philippine Mission Director for the United States Agency for International Development (USAID)+, outlines the sustainable development approach to poverty reduction that guides USAID's grant and technical assistance activities. It emphasizes efforts to stimulate broad-based, equitable economic growth as the most effective means to bring the poor and other marginalized groups into the economic mainstream—in sharp distinction, Buckles notes, to direct poverty reduction strategies. While highlighting the role of economic growth and productivity enhancement as routes to sustained improvements in the standard of living of the poor, USAID's approach tends to give a lower priority to efforts to directly improve income distribution or direct provision of goods or services to the poor. She explains the approach by referring to statistics on the incidence of poverty and the level of economic development in developing countries, and through reference to lessons learned from East Asian development. Ms. Buckles concludes her address by cautioning against adopting rigid formulas and approaches in seeking to reduce poverty, and stressing the need for all aid providers to assure themselves that highly focused or targeted poverty reduction strategies do not diminish prospects for long-term, sustainable poverty reduction.

According to the presentations by donor representatives at the Forum, the experience of the past two decades seems to have produced broad consensus in the approach of aid provider nations: poverty reduction is the goal; everything else must serve that end, e.g., economic growth and development are important, but mainly as the chief mechanism for reducing poverty, and should be focused on increasing incomes for the poor; the inculcation of better governance helps advance programs and policies to reduce poverty; social protection should be aimed at those who are poor or at risk of becoming so. One exception is the position of USAID, which emphasizes growth that will bring all groups into the economic mainstream, rather than activities focused directly on poverty reduction; Japan, meanwhile, stresses growth and poverty reduction as side-by-side priorities. Experience has taught these countries' development agencies that developing countries must "own" the programs that will help them; decisions about what programs and policies to undertake must be participatory among governments, aid provider agencies, and the poor themselves, and carried out in partnership; and that an effective channel for aid is program and sector support that helps governments help the poor more effectively, transparently, and accountably.

5. Defining the Broad Strategy for Reducing Poverty in Asia and the Pacific—Theoretical Perspectives

The papers and presentations dealing with broad poverty-reducing strategies look for ways to generalize from the vast amounts of data amassed in the past 30 years' experience with aid provision and development advice and assistance. The authors look for statements that can be true across all economies, all levels of development and all levels of incidence of poverty.

The paper *A Conceptual Framework for Designing a Country Poverty Reduction Strategy+* by Ronald Duncan, Professor, National Center for Development Studies, Australian National University, and Stephen Pollard, Senior Economist (Poverty Reduction), ADB, considers the optimal sequencing for development and poverty reduction interventions by ADB and similar multilateral development institutions. Their analysis begins with a broad review of advances in development theory over the past 50 years and the changing assumptions about the causes of poverty implied by these theories. They discern an evolution in this theory. Early paradigms focused on technical inputs and the key role of savings and capital investment in prompting development. These gave way to theories emphasizing the importance of human capital development, policy reform, and technical change. The authors highlight more recent development theory that emphasizes the critical importance of institutions and good governance in enabling development and poverty reduction. Legal regimes ensuring secure property rights in the broadest sense are seen as being particularly important in prompting investment and development. Building upon insights from this review, the authors develop a conceptual framework intended to guide development practitioners in prioritizing, sequencing, and characterizing all interventions aimed at reducing poverty.

A more technical paper by Graham Pyatt, Professor, Economics Department, Institute of Social Studies, The Hague, Netherlands, *Balanced Development: An Approach to Development Policy and Priorities**, considers how the poor are conceptualized in current development approaches and proposes reorientation in current practice to better prioritize poverty reduction efforts. The paper advocates refocusing existing approaches in policy modeling to show greater sensitivity to the varied effects of policies at different scales. He finds flaws in existing policy models, which tend to treat policy at only a single scale. For example, macroeconomic models address only macroeconomic aggregates and sectors defined in the system of national accounts, and microeconomic models tend only to model the individual behavior of firms, households, or farms. The paper outlines alternative analytical approaches that permit the consideration of development policies and their effects at multiple scales.

The paper *Marginalization in a Globalizing World: Some Plausible Scenarios and Suggestions for Measurement** by Kaushik Basu, Professor, Department of Economics, Cornell University, argues that the definition of the poor should be changed from one based on absolute income-metric poverty to one based on relative poverty. Citing moral and practical considerations, he advocates that policies be focused to assist individuals whose incomes place them in the lowest quintile of the income distribution, rather than those with per capita incomes below defined poverty lines. While he considers that globalization holds out potential benefits for everyone, he takes the time to describe how globalization can marginalize various individuals and groups; he argues that development should be measured in ways that correct for increased marginalization, and that policymakers' concern should focus on facilitating the participation of such groups in the growth process.

The presentation by Branco Milanovic, Lead Economist, The World Bank, *Conflict Between Horizontal Equity and Maximum Poverty Reduction, How Best to Allocate Funds to the Region: An Empirical Analysis*†, poses the question of how best to allocate scarce development expenditures across regions in order to reduce poverty, when regions vary in terms of their poverty incidence and their efficiency in delivering services to the poor, particularly when regions vary in their capacity to target the benefits of development initiatives to the poor. He examines the trade-off between horizontal efficiency (by which he means budget allocation proportionate to the number of poor in a region) and the poverty reduction impact of development expenditure, and develops the framework within which this crucial tradeoff can be used to answer the question whether it could be optimal, from the point of view of national poverty reduction, to transfer more funds to the richer regions that are better at translating development expenditures into welfare improvements for their poor citizens. Both the analytical and empirical results (from data on regional growth rates, development expenditures, and poverty reduction rates based on detailed household surveys in six East European countries) imply that greater poverty reduction can be gained from reallocation of funds based on regional efficiency in translating expenditures into poverty reduction, rather than horizontal efficiency. The magnitude of poverty reduction efficiency gains varied from 2 percent to 19 percent across the six countries examined. The empirical analysis also finds that targeting efficiency declines with increases in available development funds. The paper concludes by deriving the conditions for the optimal interregional allocation of funds under the condition of a given overall fiscal envelope and a given level of regional efficiency in targeting.

6. Macroeconomic Considerations, Increased Global Trade, and Pro-Poor Growth

a. Macroeconomic factors

The links between macroeconomic policy—exchange rate regimes, levels of debt, terms of trade—and poverty reduction are not obvious. Several papers and presentations prepared for the Forum attempt to make explicit the relationship between these and other macroeconomic considerations and the welfare and future betterment of the poor.

The keynote address by Nobel Laureate and Professor of Economics at Columbia University Robert Mundell addresses *Poverty, Growth, and the International Monetary System+*. It explores the relationship between growth, poverty, and the international monetary system: (i) good and bad policies with respect to the international exchange rate system, (ii) the prospects and potential for an Asian currency, and (iii) reform of the international monetary system. Before discussing the subject, Mundell speaks about key trends in the world economy that are likely to affect poverty and growth. He then traces the history of the international monetary system from the time it was anchored on gold, silver, or both precious metals to the postwar era of fixed exchange rate systems or flexible exchange rates. Next, he analyzes problems of Asian currencies to explain how exchange rate fluctuation was a fundamental causal factor in the 1997 Asian crisis; a credible, fixed, and stable exchange rate system might have mitigated if not prevented the crisis. A major barrier to the implementation of fixed exchange rates, however, is the volatile exchange rate of the two dominant currencies in the region: the Japanese yen and the US dollar. Admitting that the prospect of a single currency is less likely in Asia than in other regions, Mundell nevertheless emphasizes that the need for such a currency exists. Continuing dialogue on setting up a common currency and Asian Monetary Fund is imperative for the region's policymakers. This initiative should be pursued in the context of global development and strategic exchanges of ideas, in order to effect comprehensive reforms that are necessary to improve the international monetary system, sustain and distribute growth, and significantly reduce poverty.

The paper *Macroeconomic Policies and Poverty Reduction: Stylized Facts and an Overview of Research** by Ratna Sahay, Paul Cashin, Paolo Mauro, and Catherine Pattillo, all of the IMF, reviews recent research on the links between macroeconomic policies and poverty reduction, and examines the impact that policy can have on the level and distribution of income. Policies considered include inflation controls; trade liberalization; management of external debt; strategies to cope with economic crises; and macroeconomic stabilization programs involving currency devaluation, shrinking fiscal imbalances, increases in growth, and decreases in inflation. The authors estimate and discuss the association between these measures and the Human Development Index (HDI) across 100 countries during the period 1975 to 1998. The analysis broadly supports two conclusions: poverty can be reduced by promoting growth in per capita gross domestic product (GDP), and by increasing the share of those resources that go to the poorer segment of the population; and sound macroeconomic policies in developing countries—lower inflation, lower external debt, better rule of law, lower black market premiums, and reduced frequency of financial crises—foster improvements in HDI.

In 1999, the World Bank and IMF responded to a vociferous international campaign for debt relief for very poor countries by introducing an Enhanced Heavily Indebted Poor Country (HIPC) Initiative. The presentation by Roy Culpepper, President, North-South Institute, Canada, and the paper by John Serieux, Researcher, North-South Institute, *Journeys Through the Debt Pipeline: Perspectives on Five Country Experiences With Debt Relief*† report on the experience of Bolivia, Ethiopia, Mali, Nicaragua, and Uganda in the program. Budgetary savings from debt relief, the authors conclude, will be significantly less than the actual debt relief, and will be temporary, as, following an initial decline, debt service levels in all five countries are expected to resume their earlier growth. This is because avoiding indebtedness requires consistent growth in output and exports that these countries have never been able to sustain. The Enhanced HIPC Initiative also made explicit a link between poverty reduction efforts and debt relief, but such efforts have engendered budgetary requirements that HIPC flows alone cannot fulfill. The authors conclude that debt relief can be only a part of the long-term solution to the problem of poor countries' debts to rich countries; over indebtedness appears to be neither purely self-imposed nor accidental, and without a solution that addresses the modalities for delivery of development financing, HIPC debt relief may provide only a respite between crises.

b. Trade and poverty

The paper by David Dollar, Research Manager, and Art Kraay, Researcher, in the Macroeconomics and Growth Team of the World Bank, *Trade, Growth, and Poverty*†, examines data on trade and poverty incidence of a group of they call "globalizers"—developing countries that have implemented large tariff cuts and experienced large increases in trade volume and foreign investment in the past 20 years—and other developing countries. They find that these countries experienced GDP growth of 5.2 percent during this period, while rich countries and nonglobalizing developing countries experienced decelerating growth. Through cross-country regressions and examination of within-country variation over time, they show that changes in trade volumes have a strong positive relationship to changes in growth rates. They also show that there is no systematic relationship between changes in trade volumes and changes in household income inequality; in fact the acceleration in growth rates that accompanies expanded trade translates into proportionate increases in the income of the poor. Thus, absolute poverty fell sharply in the globalizing developing economies in the past 20 years.

In *Implications of Globalization for Poverty Reduction Efforts in Asia and the Pacific*†, Linda Low, then Consultant, Singapore Trade Development Board, broadly surveys the present understanding and evolution of globalization in its many aspects. While she shows that globalization is inexorable and inevitable, she maintains that its negative effects—such as job and wage insecurity, growing inequality, marginalization of some groups, loss of state control over the economy, plunder of natural resources, destruction of communities, etc.—while often blamed on the activities of multinational corporations, more often result from the deficiencies of national governments: corruption, lack of capacity, inability to cope with new concepts, application of the wrong kinds of interventions. She distinguishes among groups trying to roll back, improve, or transform globalization. As to poverty reduction, she believes strategies to help the poor should draw on the strengths of globalization: tapping into multinationals' expertise, utilizing the additional resources it makes available, insisting on corporate responsibility. One way of doing this is to address old and new issues of poverty reduction simultaneously, by directing human resource development and education to information and communications technology and a knowledge-based economy.

c. What is pro-poor growth and how is it achieved?

Is there a trade-off between maximizing growth and maximizing poverty reduction? Is maximizing growth the best strategy for reducing poverty? Are some growth strategies more pro-poor than others? This part of the present volume reproduces selected papers focusing on these and similar questions about pro-poor growth.

The paper *Growth Strategies and Poverty Reduction*# by Siddiqur Osman, Professor of Development Economics, University of Ulster, United Kingdom, begins with the recognition that there is a strong growth-poverty nexus, but maintains that the correlation is not perfect and the relationship between growth and poverty is influenced by an array of factors. Using a conceptual framework outlining a set of relationships among growth, inequality, and poverty based on both statistical studies and theoretical discussions, the paper shows that there are indeed trade-offs: not only does it not necessarily follow that faster growth will reduce poverty faster, but the strategy of maximizing growth can lead to increased inequality, thus undercutting poverty reduction. He then evaluates the potential for poverty reduction of three much-discussed growth strategies: export-oriented trade policy, agriculture-led growth policy, and reforms intended to redistribute wealth and promote equality. He shows that trade policies alone cannot achieve pro-poor economic growth without complementary policies to overcome the disadvantages of the poor. An agriculture-led growth strategy may be the best way to reduce poverty in those countries that are still primarily agricultural, but is not without the potential for growth-equity conflict; and together with an emphasis on redistribution and the achievement of greater equality within a relatively open trade regime, agriculture-led growth can probably have the optimum impact on poverty.

In their paper *Pro-poor Growth and Pro-growth Poverty Reduction: Meaning, Evidence, and Policy Implication*#, Robert Eastwood, Senior Lecturer in Economics, and Michael Lipton, Professor, University of Sussex, assess the large numbers of factors relating to definitions and methods of measurement that impede conclusive answers to the question of whether growth is good for the poor, and conclude that on average, declines in poverty tend to be faster when growth is faster. After sifting through conflicting findings, they find that the "elasticity of connection" linking the mean income of the poor to national mean income shows that growth by itself does not redistribute income. The nature of inequality matters: growth may be relatively anti-poor in countries where levels of inequality are high, especially "ascribed" inequality (based on discrimination by ethnic group, inheritance, gender, or status) rather than "achieved" inequality (resulting from ability to get good returns from inputs). In a final section, the authors make a common-sense inquiry into what types of policy regimes are more closely linked to favorable impacts on poverty. Items proposed for testing later when better data are available are: (i) achieving labor-intensive growth in staple food production; (ii) enhancing the impact of cheaper food and higher demand by stimulating smaller-scale farming through land redistribution; and (iii) increasing incentives to reduce fertility through lower child mortality, female education and work options, and family planning for the poor.

In *A Note on Growth and Poverty Reduction*†, Nanak Kakwani, Professor, University of New South Wales, Australia, asserts that while economic growth and poverty reduction are strongly and positively correlated, poverty reduction is also correlated with income inequality: increasing average income reduces poverty and increasing inequality increases it. He presents formulas to show the intuitive points that economic growth reduces poverty more rapidly when it does not increase the degree of inequality, that increasing inequality will have a greater adverse effect the greater the depth of poverty, and that the greater the inequality in a country, the more economic growth is needed to offset it. If inequality in a country is high, therefore, growth-maximizing policies may need to be accompanied by pro-poor growth policies that can help redistribute the income growth more widely. Mr. Kakwani then calculates these formulas using data from four Asian countries—the Republic of Korea, Thailand, the Lao People's Democratic Republic, and the Philippines—and shows the large variation in individual countries at different stages of development. This is taken to suggest that the same policy prescriptions will not be adequate for all countries.

One of the most technical papers presented at the Forum explores the measurement and analysis of poverty within a general equilibrium framework. Erik Thorbecke, H.E. Babcock Professor of Economics and Food Economics, Cornell University, in *Poverty Analysis and Measurement Within a General Equilibrium Framework**, begins by describing the Social Accounting Matrix (SAM), a comprehensive and disaggregated snapshot of a socioeconomic system that allows for the estimation of the impact of different production activities on poverty alleviation. Computable general equilibrium (CGE) models describe the interaction and interdependence within a socioeconomic system, as well as the structure of the economy, and thus allow the improved understanding and analysis of the indirect as well as the direct effects of policies and shocks on sectors of production on populations disaggregated according to their level of income and poverty status. CGE models, which are derived from SAMs, are used to simulate the effects of exogenous shocks (e.g., changes in terms of trade, recession in importing countries) and of changes in policies on the socioeconomic system and, in particular, on income distribution. The CGE model developed in the paper adds a more flexible income distribution function, specifies intragroup distributions to conform to different group characteristics, and postulates a unique and constant basket of basic needs commodities. These help in analyzing what happens to poverty following a shock. Using a model for an archetype African economy, the paper considers the poverty effects of two simulations: a reduction in the world price of the agricultural export crop and an import tariff reform.

While economic growth is associated with poverty reduction, its effectiveness in reducing poverty varies across countries, according to the paper *Poverty Reduction and Economic Growth: the Asian Experience#* by Peter Warr, John Crawford Professor of Agricultural Economics, The Australian National University. He asks, how much does the nature of the economic growth matter and what kinds of growth reduce poverty most effectively? Looking at the experience of six countries—India, Thailand, Indonesia, Malaysia, the Philippines, and Taipei,China—during the period spanning the 1960s to the 1990s, Warr finds that the relationship between the incidence of absolute poverty and economic growth was the same in all six economies. He argues that this indicates that it was primarily the rate and not the quality of per capita growth that was important in determining changes in poverty in these countries, as growth rates of GDP per capita followed roughly the same pattern as poverty trends. Rates of poverty reduction varied widely, however, from 1.86 percent per year in Thailand to 0.67 percent per year in India. The proportional change in the incidence of poverty is the same: in more open economies, such as Taipei,China, the growth elasticity of poverty reduction was highest and in the least open, such as the Philippines and India, the figures were the lowest. Thus, he argues, a pattern of development such as Taipei,China's labor-intensive, export-oriented industrialization leads to greater reduction in poverty *per unit of growth*.

7. Good Governance and the Fight to Reduce Poverty

Effective governance is management and is critical to the capacity of the State to reduce poverty. As described by various speakers, good governance facilitates participatory and pro-poor policies as well as sound macroeconomic management. It ensures transparent use of public funds, encourages growth of the private sector, promotes effective delivery of public services, and helps to establish and enforce the rule of law. The nature of governance determines the availability and quality of public services and the extent to which the poor have access to them. It has been noted that effective governance is often the missing link between antipoverty programs and poverty reduction. Countries may implement pro-poor economic policies, but the gains can be reversed if governance is ineffective. In the absence of good governance, the poor suffer the most. Inefficient management of limited public resources, as well as corruption and wastage, result in ineffective poverty reduction programs.

The papers and presentations on the theme of good governance and participation include the following:

The presentation *Pro-Poor Governance for Reducing Poverty*† by Clay Wescott, Senior Public Administration Specialist at ADB, gives a brief overview of ADB initiatives in fostering pro-poor governance, which he defines as "the manner in which power is exercised in the management of the country's social and economic resources for development." The presentation discusses (i) how ADB uses the term, (ii) how good governance helps the poor, (iii) examples of pro-poor governance, and (iv) how ADB supports pro-poor growth. It also highlights the need for institutional mechanisms to promote participation and empowerment of the poor by delivering high-quality services.

The presentation *Legal Literacy and Poverty Reduction*+ by Hamid Sharif of ADB's Office of the General Counsel outlines how the rule of law and development are linked. Various theoretical perspectives pinpoint the increasing role of law in development, and Sharif reviews examples of pro-poor legal frameworks and initiatives by governments and NGOs. For example, in instituting governmental reforms, the promotion of legal literacy and the rule of law have been important measures in ADB's recent experience. The presentation also outlined efforts by ADB to foster institutional and policy reforms that reduce poverty in the region.

Laura Pascua of the Philippines' Department of Budget and Management presented *Operationalizing Multi-Year Budgeting Systems in the Philippines, a Key to Reducing Poverty*+. It describes how medium-term budget management by the Philippine government—as opposed to year-to-year budgeting—is a potent tool for fostering growth and reducing poverty, through fiscal discipline, macroeconomic stability, improvement in the portfolio of programs, and fostering a culture of performance and accountability. The presentation describes the strengths and weaknesses of a multi-year budgeting system and how the Philippine government is installing such a system. Pascua argues that reform of the budget system is necessary for poverty reduction, because this reform enables more effective allocation of resources to areas where poverty can be confronted.

Another session of the Poverty Forum considered the role of stakeholder participation in poverty reduction. Speakers in the session included Gordon Wilkinson, then Senior Social Development Specialist of ADB's Social Development Division, who chaired the session; Bhuvan Bhatnagar†, East Asia Senior Social Scientist of the World Bank's office in Manila; Brent Dark†, Senior Poverty Reduction Coordinator of ADB's Programs Department (West); and Bruce Moore, Coordinator of the Popular Coalition to Eradicate Hunger and Poverty. Kari Nordheim-Larsen†, Philippine resident representative of UNDP, and Fr. Francis Lucas† of the Asian NGO Coalition for Agrarian Reform and Rural Development critiqued the papers in the session.

Some of the major points of discussion at the seminar include the following:

- Externally imposed reforms are rarely successful. To be effective, reforms must be grounded in local realities and developed in coordination with stakeholders, and to have a sustained impact they must be implemented with civic involvement.
- Multilateral lending institutions now routinely apply participatory approaches in the development of projects and programs. Putting these efforts into action in Asia has yielded a wealth of information and experience that has begun to inform country poverty reduction strategies.
- The findings of these participatory processes must be linked to policy (i.e., combine a participatory process with substantive decision-making.
- Developing genuine participation takes time, as it involves building credibility and trust between development organizations, governments, and stakeholders. This need for time often conflicts with developing country policymakers with concerns about delaying their access to the concessional resources.
- The issue of coordination of poverty strategies and participatory efforts of the different aid providers merits greater attention. It was suggested that host countries take a lead role in developing a single poverty reduction strategy in which all development organizations are given a role.
- More work is needed to develop adjudication processes and mechanisms to help resolve disagreements that arise between developing countries and multilateral lenders on the course of poverty strategy development. Clearer understanding is needed of the underlying priorities (e.g., economic criteria, satisfaction of participatory objectives, etc.) and the basis upon which poverty strategies will be evaluated.
- Better communication via information and communication technology and mass media hold great promise in fostering greater stakeholder participation in policymaking. Worthwhile participation by all stakeholders demands that stakeholders have access to the information needed to implement, monitor, and evaluate poverty reduction strategies.

The presenters also discussed the ways of achieving effective integration of process and policy. Recommendations included: (i) poverty diagnosis carried out by development organizations should include self-assessments by the poor of the characteristics and determinants of poverty. The findings of such self-assessments often differ from diagnosis obtained from analysis of government statistics. For example, villagers in the Lao People's Democratic Republic (PDR) taking part in an ADB participatory poverty assessment overwhelmingly cited problems with land tenure, which is strongly influenced by government policy, as the chief cause of their poverty; (ii) It is important to feed back the results of participatory research to the communities where the research is carried out. The process can help validate findings and provide an additional opportunity to solicit stakeholder views. It can also foster initiation of local processes to identify and carry out local solutions to identified problems and help foster better appreciation of what participation can achieve; (iii) Gaining an understanding of public expenditures through reference to a printed budget is often difficult for many people, especially individuals with lower levels of education, a situation that is common among the poor. However, fostering reform efforts and informing people's understanding of their economic circumstances often benefits from public expenditure review exercises when they are carried out with stakeholders' inputs. It should be the responsibility of aid providers to help poor people understand budgets, since such understanding can foster more enlightened participation in public debates and foster broader ownership and buy-in by the population—as well as the government—of development initiatives; and (iv) In countries where institutions for democratic decision-making are not well established, it is often necessary to find a "champion" of policy change at the upper levels of government in order for efforts to foster greater participation at the local level to be successful in influencing poverty reduction strategies.

8. The Role of Civil Society and the Private Sector in Poverty Reduction Efforts

Several papers and presentations at the Forum considered the role of the private sector and civil society, and examined the linkages between the private sector and poverty reduction. Christine Wallich, then Director of ADB's Private Sector Group, chaired the session. In her opening statement, *Soft Hearts and Hard Heads: the Private Sector's Centrality to Poverty Reduction*+, Wallich outlined for discussion five possible linkages: (i) sustainable job creation, (ii) private-sector finance of infrastructure that creates space in government budgets for social expenditures, (iii) creative concession projects that make infrastructure services readily available to the poor, (iv) corporate social responsibility or responsible corporate citizenship, and (v) privatization of poverty reduction. Indeed, the private sector and civil society play a pivotal role in poverty reduction. Studies show that the private sector and civil society reduce poverty through the following actions: (i) fostering markets and growth, hence, generating jobs; (ii) providing infrastructure and increasing resources available for public spending on social expenditures; (iii) regulating private utilities to ensure that the poor have access to better and more affordable services; (iv) encouraging responsible corporate citizenship to foster closer ties between the private sector and the community; and (v) forging public-private partnerships that can facilitate greater access to basic municipal services by the poor

The Privatization of Poverty Alleviation+ by Senator Mechai Viravaidya of Thailand centers on the key players in poverty alleviation and their role in Thailand: the government, poor communities, NGOs, civil society, and the private or corporate sector. His presentation poses the question, Why are people poor? His simple and direct answer is that they are poor because they lack the opportunity and skills to engage in business. The Thai government adopted a development framework that harnessed the resource base of specific poor communities to building the capacities of people to engage in livelihood and enterprise projects, mobilizing resources particularly from the private sector, and fostering self-reliant communities. Viravaidya cites various development initiatives linking the private sector to poverty reduction, and commends the Promotion of Rural Industrial Development Project, implemented by the Population and Community Development Association, a large NGO in Thailand that he founded, as a good model for the privatization of poverty alleviation. When capital, machines, and income-generating activities are brought to rural areas, the problem of rural-urban migration is reduced and the destruction of the social fabric is minimized. The presentation also highlights the increasing role of the private sector, NGOs, and civil society in poverty alleviation, as the government tries to refocus its role from provider of needs to a facilitator of services.

The paper *Public-Private Partnership in Infrastructure and Poverty Reduction: The PPIAF Experience+* by Russell Muir, Program Manager, Public-Private Infrastructure Advisory Facility (PPIAF) of the World Bank, explains the linkage between infrastructure and poverty reduction based on the experiences of the PPIAF. He establishes the link between infrastructure, growth, and living standards of the poor as they relate to poverty reduction based on a number of studies reviewed in the paper. The traditional approach based on publicly financed and managed infrastructure provision has brought about only limited access, generally poor quality of services, and muted impact on the poor. The approach has failed largely because public monopolies lacking competitive incentives and suffering from political influence in their management and personnel decisions have often provided inefficient and inadequate services to the poor. Hence, governments are increasingly re-examining their roles as providers of services that benefit the poor, and instead transforming their roles to those of facilitators and regulators. The PPIAF, established in 1999, facilitates private sector involvement in the provision of infrastructure to help eliminate poverty and promote sustainable development. This effort revolves around five key efforts: (i) framing infrastructure development strategies to take full advantage of private involvement; (ii) building consensus in favor of appropriate policy, regulatory, and institutional reforms; (iii) designing and implementing specific reforms; (iv) supporting the design and implementation of pioneering projects and transactions; and (v) building local capacity to provide appropriate regulation of private service providers. To date, PPIAF has received some 250 proposals amounting to $64 million; of these, 118, amounting to $25 million, have been approved.

Lisette Provencher, Advisor, Maynilad Water Services, Inc., Philippines Office, Lyonnaise des Eaux Company, presented the paper *Private Sector Approaches to Water Supply and Sanitation for Low-Income Communities+*. The paper describes new approaches and partnerships between the public and private sectors in the provision of water supply services. Projects in Argentina, Bolivia, the Philippines, and South Africa provide examples of innovative approaches to water management, focusing on adequate supply of potable water to low-income communities. Four key elements in designing partnerships across the public sector, private companies, and users ensure provision of adequate and efficient supply of water in poor communities: (i) an institutional framework that clearly defines the conditions and level of services and the terms of partnership among stakeholders; (ii) cost effective technologies that provide affordable services to participants; (iii) support to community development that is participatory and involves the community in the choice of technology to be used, level of service, and payment option; and (iv) appropriate tariffs that require users to pay for the real cost of the services provided, to insure sustainability and effective delivery of services. In Manila, the "Community Water for All" program has provided more than 500,000 people with affordable, safe, and accessible water since 1999. By the end of 2001, some 1 million people, mostly in poor communities, were expected to benefit from this project.

The paper *Paths Out Of Poverty: The Role of Private Enterprise in Developing Countries*+ by Guy Pfeffermann, Chief Economics Advisor, International Finance Corporation, underscores the link between poverty reduction and private enterprise. It focuses on the sources of economic and social mobility, emphasizing concrete mechanisms that lift people out of poverty. Pfeffermann maintains that although private enterprise plays a unique and irreplaceable role, private enterprise alone, regardless of its form or success, cannot reduce poverty. Instead, competition, deregulation, liberalization, and open trade—elements of the economic environment determined by the State—are each important, and work to weaken privilege and monopolistic or oligopolistic market arrangements that perpetuate poverty in many countries. The paper highlights the positive impact private enterprise can have on poverty as firms create new jobs. At the same time, pressing problems such as graft, corruption, lack of stable macroeconomic policies, criminality, and political instability hamper sustainable growth and private investment. Addressing these problems helps create a positive business climate, which increases investment and creates employment opportunities for the poor. Accordingly, private enterprise requires support of the State to help curb poverty. Clearly, as in the case of Singapore and elsewhere, private enterprise, government, and the poor share a mutuality of interest. Policies and practices that can harness these common interests and foster poverty reduction include sound macroeconomic policies, provision of infrastructure, rule of law, and sustainable economic expansion.

In his presentation *Corporate Citizenship and Ethical Trade*†, Christopher Chalmers, Programme Manager, for DFID, notes that good corporate citizenship—when companies maintain better working conditions, safeguard the environment and natural resources, and emphasize training and education, for workers and for society as a whole—has a direct impact on poverty. Good corporate citizenship also has indirect benefits: greater consultation and openness at all levels of corporate activity raises awareness among stakeholders. The sustainability of investments made by corporations with strong records in terms of their civic responsibility is greater, and ethical market behavior leads to a more stable society that benefits everyone. Mr. Chalmers maintains that behaving like good corporate citizens benefits the corporations themselves in the long run, as it enhances companies' reputations; helps them in managing, motivating, and retaining employees; improves the efficiency and quality of corporate performance; and makes risk management easier.

Former Ambassador Jesus Tambunting, CEO of Planters Development Bank, presented the paper *A Credit Model for Small Entrepreneurs and e-planters.com: The Planters Bank Experience*+, describing the experiences of the bank in fostering small and medium enterprises (SMEs) as a lead sector in stimulating Philippine economic development, and eventually helping in poverty alleviation—particularly in the countryside. As in most other countries, SMEs contribute significantly to income and employment generation, but continue to be hampered by a lack of financing, as banks continue to view them as risky, costly, and difficult to deal with. Given the strengths and weaknesses of the SME sector, Planters Development Bank (PDB) took up the challenge and built upon its commitment to the community. Since its inception in 1972 with an asset base of 6 million Philippine pesos (PhP), PDB has grown into a PhP20-billion development bank, with ADB, the International Finance Corporation, and the Netherlands Development Finance Company among its institutional partners. The paper outlines five ingredients of its success: (i) organizational focus and commitment to SMEs, (ii) profit orientation and mindfulness of the need to remain viable in business, (iii) hands-on management of credit risks, (iv) long-term orientation and development perspective, and (v) ability to capitalize on identified strengths through simple operations and client-oriented company culture. Looking ahead, Tambunting envisions a pioneering approach in electronic commercial banking as it continues to serve a critical segment that contributes to economic growth and poverty reduction.

In her presentation *Dealing with Fallout from Privatization: Can Entrepreneurship and SME Support Help*† Ewa Tomaszewska, Solidarity member of the Polish Parliament, describes how state-owned enterprises (SOEs) were dismantled in her country when it made the transition from a centrally planned to a market-based economy in the 1990s. Prior to the economy's transformation, nearly all Polish workers had been employed in SOEs and unemployment was negligible. Today, about 60 percent work for privately owned companies, but unemployment has risen to 16 percent of the work force. The rise in unemployment has driven many into poverty. The Solidarity trade union, one of the principal organizations that pressed for economic and social reforms in Poland, found that economic reforms were adversely affecting its members. The trade union pushed for government measures to (i) make the privatization process more democratic, (ii) ensure that measures were adopted to protect employees' interests, (iii) provide retraining and job search assistance programs to assist workers displaced by the SOE privatization, and (iv) implement policy change to create a business environment more friendly to private enterprise and entrepreneurship. These measures were financed, in part, through a job fund created with employers' contributions. Workers also received shares of stock for free or at discount prices in the new private enterprises formed from former SOEs. The transition experience of Poland reveals that promoting SMEs helps reduce unemployment. Unfortunately, efforts to foster SMEs have been less successful than was hoped due to an environment that continues to be unfavorable to small business development.

According to Bruce Moore's paper, *Using Assets and Partnerships to Address Rural Poverty+*, the interactions between poverty, food security, and resource rights are beginning to bring about a refocusing of national and international agendas on problems of land tenure and the resource rights of farmers, fisher folk, forest dwellers, pastoralists, and other traditional resource users, i.e., the rural poor. In this light, the reform of agricultural policy and rural institutions should seek to change power relations and the distribution of resources. Development and reform efforts should seek to change land tenure, the access of the poor to credit and other markets, and to transform the poor into active participants in policies and programs that affect their communities and livelihoods. New partnerships that broaden the approach to poverty reduction are necessary. Mr. Moore explains how the Popular Coalition to Eradicate Hunger and Poverty helps form alliances of civil society organizations, NGOs, governments, rural communities themselves, and international development organizations to achieve this aim. The Coalition uses knowledge networks and seeks to capture lessons learned from practical efforts to equip the rural poor with the wherewithal to address the problems and issues they face. The coalition aims to politically empower communities seeking agrarian reform.

Bruce Moore's presentation at the Forum, *From Parallel Actions to a Common Agenda*†, traces the history of poverty reduction strategies, and highlights recent experiences to show how government-led development fails without the active support of civil society, while, simultaneously, development and poverty reduction efforts of civil society fail without the institutional support of government. This points to the need for revitalized alliances linking governments to civil society organizations and to the moral and financial persuasion of the international community. The presentation examines the origins, vision, and activities of the Popular Coalition to Eradicate Hunger and Poverty, a coalition of civil society and intergovernmental organizations that specifically focus on the needs of the rural poor. The presentation draws from Moore's experiences with the Popular Coalition, but the insights from this experience can inform organizations, regardless of their sector-specific interests, about the modalities that harness the energies of different actors into a coordinated mechanism for reducing poverty. The lessons learned are also transferable to other civil society, government, academic, business, intergovernmental, and aid provider efforts to forge collaborations that reduce poverty.

By discussing the role of civil society and the private sector in poverty reduction efforts, participants have developed a better understanding of this role, and have been able to recognize more readily the positive relationship between private enterprise and the public and civil society sectors. The major challenge identified is to redefine and enhance the role of government as a facilitator and mediator that promotes productive competition, enforces fair market practices and standards, implements innovative approaches to service delivery, and insures that essential services reach the poor through partnership with the private sector and civil society.

9. Special Topics: Targeted Poverty Reduction Mechanisms

Most countries in Asia have made use of targeted poverty reduction mechanisms to create assets and employment among individuals, communities, and regions stricken by poverty. These countries have adopted programs that promise to increase human capital, generate income, and stimulate employment opportunities. When poverty reduction efforts have failed, it has frequently been the result of incorrectly targeted programs, corruption, poor choice of investments, or poor loan recovery. The Forum papers and presentations in this section discuss experiences in reducing poverty, generally focusing on particular markets or sectors of the economy, or on particular demographic groups as the intended beneficiaries of poverty reduction efforts.

a. The role of labor market and labor policy in poverty reduction

The paper *Poverty Alleviation, Employment, and the Labor Market: Lessons from the Asian Experience*+ by Rizwanul Islam, Director, International Labour Organization, describes the roles played by the employment and labor markets in reducing poverty in Asia, and reviews Asia's experience with direct labor market interventions, focusing on their performance in targeting efficiency, coverage, and the ability to raise incomes. The paper discusses policies and programs covering issues related to the "working poor," labor market regulations, vulnerability, and organizations that are required to strengthen the contribution of labor market outcomes to poverty reduction.

In his paper *Inequality and Determinants of Earnings in Malaysia, 1984-1997* †, Branko Milanovic utilizes household income surveys covering three years to examine the changes in the characteristics of the working-age population that determined earnings levels. The paper also measures the inequality of earnings and the factors associated with changes in inequality over time. The years covered in the survey were a period of strong growth in which real per capita gross domestic product increased by about 70 percent and real wages of manufacturing workers rose by about 30 percent. Labor force participation rates and average years of schooling increased for both men and women during this period. In fact, growth seems to have been fuelled mainly by increased participation, longer working hours, and improvement in the education of workers. Inequality of earnings remained stable as measured by the Gini coefficient, but other measures show greater wage improvement among bottom deciles and decreases at the top. Women are discriminated against in terms of their earnings, receiving salaries that are 16–20 percent lower than those of men. The level of male-female wage disparity increased over the years examined, and workers of Chinese ethnicity commanded an average wage premium of about 31 percent as compared with non-Chinese workers, according to the data examined in the study.

b. Designing poverty reduction efforts to serve the needs of selected groups: Particular concerns of women and indigenous peoples in poverty

In *Gender Dimensions of Poverty in Pakistan*+, Rehana Siddiqui, Senior Research Economist, Pakistan Institute of Development Economics, notes that the role of females, as productive agents, is becoming critical in a rapidly changing Pakistan. The role of gender in reducing poverty is equally important. The gender dimensions of poverty should be assessed not only in terms of poverty of income but also in terms of human capital acquisition, limited occupational choice, and labor market discrimination. Improvement in human capital formation (education and learning) is important in increasing women's economic involvement and a reduction in gender-based poverty.

In her paper *Poverty and Gender in India*+, Enakshi Ganguly, Executive Director, HAQ: Center for the Child's Rights, New Delhi, stresses the magnitude of poverty in India and argues that women are the "poorest of the poor." She underscores the importance of the following: (i) policies and poverty alleviation efforts must have a strong gender focus; (ii) intra-household and regional gender imbalances must be addressed; (iii) better inputs in health care, education, and the empowerment of women (including recognizing their contribution to the economy and expanding opportunities for them) must be provided; and (iv) gender equality must be mandated and enforced.

As a result of Cambodia's three decades of civil strife and social dislocation, from which the country is only now emerging, the female dimension of poverty is quite different from that in other Southeast Asian countries, says H. E. Katha. P. Ing, Secretary of State, Ministry of

Women's and Veteran's Affairs, in her presentation *Gender and Poverty: Cambodia's Experience*†. Today 19 percent of households are headed by women, including many war widows or single women of fairly young age. The country has one of the highest female labor force participation rates in the region at 74 percent, dominating in skilled agriculture and fishery and in wholesale and retail trade. But female illiteracy is at 78 percent (for a poor family the cost of a child in primary school is equivalent to one quarter of all nonfood spending), a nutritional crisis situation is especially hard on women and children, and medical expenses represent 30 percent of family expenditure.

In Indonesia, poverty did not significantly feminize during the 1990s, reports Mayling Oey-Gardiner, Senior Lecturer, University of Indonesia, in her presentation *Poverty and Gender of Household Heads*†. The share of woman heads of household in the poorest quintile of expenditure classes remained stable at 11 percent. Women heads of household are older than men in all quintiles and three quarters of them had little or no education; women headed households are smaller (and women are eight times as likely to live alone as men), but poor households are larger, so poor households headed by women are worse off. Like the population in general, most poor women heads of households live in rural areas.

In her presentation *Gender, Women and Poverty: Engendering Poverty Programs Empowering Women*†, Lorraine Corner, Regional Program Director, United Nations Development Fund for Women, shows that the feminization of poverty is structural: women's work is often unpaid and ignored, economic and political structures are dominated by men and so reflect the needs and views of men, and the market economy privileges economic values over the social dimension that is traditionally female. In addition, legal systems, inheritance practices, financial and employment practices, and gender stereotypes militate against women's ownership of land and capital and their access to credit, technology, and well-paid employment. To eliminate this kind of poverty, creation of a level playing field is needed, including gender mainstreaming and budgeting, creation of a value for unpaid (usually women's) work, and more nearly equal participation by men in unpaid family work as a policy objective.

Indira Simbolon, ADB Social Development Specialist, considers the situation of indigenous peoples in developing countries in her presentation *Indigenous Peoples in ADB Loans Preparation*†. Because indigenous people have a social or cultural identity that differs from that of members of predominant social groups, they are often vulnerable to being disadvantaged in the development process. ADB is prepared to intervene to help protect indigenous peoples in Asian developing countries when the intervention is seen to be consistent with their needs; conceived, planned and implemented with their informed participation; and compatible with their culture and socioeconomic institutions. An Initial Social Assessment is carried out to determine who might be affected by a development plan—for example, through effects on customary rights and access to land resources. Such plans can help avoid or reduce the impact of project-related changes that can detrimentally affect the integrity of indigenous communities or adversely effect their health, education, livelihood, and social status. If impacts of a proposed project on indigenous groups appear substantial, ADB will develop an Indigenous People's Development Plan to address and mitigate any adverse effects.

c. Rural development and natural resource management

A main mechanism through which the modest reductions in poverty in Asia in the past four decades have been achieved has been the decline in the real price of staple foods through the introduction of high-yield wheat and rice varieties and improvements in rural infrastructure. Unfortunately, the positive effects of seed improvements appear to be declining, according to Mahabub Hossain, Economist and Head, Social Sciences Division and Leader, Rainfed Lowland Rice Ecosystem, International Rice Research Institute (IRRI), in his paper *The Role of Agriculture in Poverty Alleviation: Insights from Village Studies in South Asia and Southeast Asia*†. Today the fastest-growing rural sector is rural nonfarm activities—trade, business, construction, transport, agroprocessing, and various kinds of services—and incomes from rural nonfarm sources are growing much faster than agricultural income. The role of agriculture in poverty reduction, therefore, is to increase foodgrain supplies through technological advancements so that the price of staple food is kept within affordable limits for the poor, both rural and urban. This is a necessary condition for the accumulation of capital and the development of markets for nonfarm goods and services, and also for the competitiveness of industries, the accumulation of industrial capital, and socioeconomic and political stability.

The presentation *Biotechnology as a Tool in Poverty Reduction Efforts in Asia: Opportunities and Challenges*† by Ronald Cantrell, Director General of IRRI, discusses the role of biotechnology in developing countries and carries important implications for future rural development in Asia. The presentation focuses on IRRI's work applying biotechnology to develop enhanced rice seed varieties. IRRI is evaluating new strategies and options biotechnology offers and is working with partners in rice-producing countries to develop strategies suitable for developing countries. Cantrell reviews some accomplishments and strategies in molecular biology for rice breeding, including the establishment of the world's largest rice gene bank and the development of new rice strains such as the beta-carotene-enriched "golden" rice. His presentation outlines the challenge of obtaining a completely sequenced and described rice genome. He argues that genetically modified foods have shown no harmful effects on human health or the environment, and that plant variety protection for rice and other genetically modified foods must be a collaborative process that does not marginalize subsistence farmers in developing countries.

In his paper *Pathways of Poverty Reduction: Rural Development and Transmission Mechanisms in the Philippines**, Arsenio Balisacan, Professor in the Economics Department of the University of the Philippines, attempts to account for the country's poor performance, especially in rural development and hence in poverty reduction. The Philippines had the highest GDP per capita in the 1960s, but since then the country's economic development has lagged behind that of its neighbors. He traces shortcomings to misguided development strategies that fostered import-substituting industrialization rather than the agricultural development and subsequent nonfarm rural development that became the path out of poverty for other Asian countries. These policies discriminated against agriculture in general, e.g., by depressing relative agricultural prices and limiting the growth of labor productivity and real income in agriculture; while the few policy interventions targeted to the agricultural sector tended to discriminate against small farmers, and thus against the poor who are concentrated in rural areas. Despite the poor growth performance of the Philippine agricultural sector, rural poverty has declined and continues to decline, albeit very slowly.

In his presentation *The Poverty-Environment Conundrum*†, Joseph Weinstock, ADB Senior Environment Specialist, sets out two questions concerning poverty and environmental degradation: first, are the poor the villains or the victims in environmental degradation? His answer is that the poor are both—they do damage the environment through their use and extraction of natural resources available to them, but under proper circumstances act as beneficial self-interested custodians. Unfortunately, the natural resource areas to which the poor have access are frequently on marginal or fragile lands, and extraction is driven by immediate interests related to basic survival, neglecting longer-term concerns. The poor often lack knowledge about how to manage natural resources and the proper incentives and resources to do so. Insecure tenure over the resources creates weak incentives for the poor to manage resources well. A second question considered is whether strong central government control or local control works better for managing natural resources and ensuring environmental sustainability. Weinstock answers that it depends and that there are advantages to each approach. He cautions that "right" answers are few and generic solutions should be avoided. Instead, careful analysis and much ingenuity are required to find solutions to resource management problems—particularly as they relate to the poor's dependence on and use of natural resources.

High levels of poverty, fertility, the low status of women, and environmental degradation are strongly correlated and are likely to have strong causal links, argues Prodipto Ghosh, ADB Senior Environment Specialist, in his presentation *The Poverty-Environment-Population Nexus*†. According to Mr. Ghosh, environmental degradation is a major causal factor in aggravating poverty. Impoverishment itself can strongly aggravate environmental degradation: environmental resources in marginal areas, such as wood fuel, nontimber forest produce, and fisheries, are vital to the livelihood of the poor, who are particularly vulnerable to the loss of ecosystem resilience, or its ability to tolerate environmental stress. Population growth, in turn, reinforces poverty and environmental degradation: the demand for children is a complex one, but today, households with many children observe the weakening control of community resources and see an opportunity to pass the costs of rearing children on to the community by overexploiting community-owned resources. The result is further pressure on environmental resources.

Brenda Angeles, Regional Vice President, Mediators' Network for Sustainable Development, discusses the needs and rights of the poor in her presentation *Legal Issues and Challenges in Securing Rights of Poor Communities Over Natural Resources*† . She shows that in the Philippines, despite a commitment on the part of government departments and agencies and the existence of laws spelling out the rights of poor communities to have a say in decisions about the exploitation and management of natural resources in areas where they live, it is very difficult for the government to yield control. She illustrated this point with reference to a recent case involving a dispute between local poor communities and the government over control of local natural resources that was appealed to the Philippine

Supreme Court. The case ended in a tie vote. The experience from the adjudication of the case suggests that the Supreme Court and the Department of Environment and Natural Resources would benefit from a deeper understanding of the Philippines' environmental law and greater sensitivity on the part of the department secretary to the needs and interest of the poor. Improving the funding and addressing corruption in the bureaucracy and improving the legal literacy and appreciation of participation by poor stakeholders were seen as other helpful measures in fostering better resolution of disputes.

d. Microfinance program and institutions

Microfinance is an important tool for poverty reduction. However, there are many variants of microfinance. The performance of microfinance initiatives should be judged in terms of their impact on the access of the poor to credit, their sustainability, and their impact on poverty. Asia leads the world in the number of people reached by microfinance, but in many of the existing microfinance programs in the region sustainability is problematic and impacts are difficult to measure and subject to much disagreement. The challenge for Asian economies is promoting institutional and policy changes that will help ensure that sustainable microfinance institutions serving the poor assist in reducing poverty in the region.

In order to measure the real impact of microfinance programs in Bangladesh, says Shahid Khandker, Senior Economist, World Bank, in *Does Microfinance Really Benefit the Poor? Evidence from Bangladesh*†, it is necessary to correct for endogeneity of program placement and program participation, as these may bias impact estimates. Assessments must identify eligible poor participants, assess whether they are being helped by microfinance, and judge whether the microfinance programs benefit the economy as a whole. Using a quasi-experimental survey design correcting for the biases in earlier surveys, Khandker and his group found that microfinance makes a difference to poor participants by raising their per capita income, consumption, and net worth, and increasing the probability that they will lift themselves out of poverty. Despite the fact that an overwhelming majority of the poor and women are reached by microfinance, the aggregate welfare impact of microfinance is small, poverty rates remain alarmingly high, and high transaction costs keep Bangladeshi programs dependent on aid provider generosity.

In *The Approaches and Experiences of the Grameen Bank in Microfinance and Poverty Reduction*†, Siddiqur Rahman, Deputy General Manager and Chief, Grameen Bank, reports on more recent activities of Bangladesh's Grameen Bank—a pioneer NGO in lending through microfinance programs. He cites statistics showing that the percentage of Grameen borrowers living in extreme poverty was reduced by 70 percent within 4.2 years of joining. Profits from Grameen-financed business are increasing borrowers' consumption by 18 percent per year, and Grameen bank borrowers eat 9 percent more than comparable nonborrowing households, according to data collected by the NGO. Some 46 percent of Grameen Bank borrowers are no longer poor, whereas 74 percent of borrowers in a control group were still very poor and only 20 percent of Grameen borrowers are still very poor. Women Grameen Bank borrowers have a 43-percent higher income than those in a control group and 28-percent higher than nonmembers, and women members in 90 percent of top-earning households have either taken over economic decision making or are equal partners with their husbands in such decisions.

e. Poverty reduction targeting urban areas

Asia's future is urban, says Asad A. Shah, Principal Director of ADB's Office of Administrative Services, in his presentation *The ADB Perspective: Policy and Institutional Reforms for Urban Poverty Reduction*† . Today, one out of three Asians lives in a city; by 2020, one of every two will do so. Cities are engines of growth, as estimates place 80 percent of the region's growth in urban areas. However, cities are also centers of poverty and contain about 350 million of the region's 1 billion poor. Shah lays out the strategies of ADB in promoting equitable urban growth and poverty reduction: capacity building and institutional strengthening, including management and other training, and communication of best practices are important efforts. To address urban poverty, it is necessary to stress the role of government as enabler, rather than provider of basic services. Urban investment and management are undergoing transformation, including greater attention to pricing of services and direct cost recovery and greater use of build-operate-transfer and other schemes involving the private sector to provide basic urban services. Partnerships and collaboration between ADB, DMC governments, the private sector, and NGOs and civil society are crucial in policy reform and strategy formulation, in the design of interventions to help the poor, and in other efforts to better target and integrate poverty reduction initiatives with overall development efforts. Efforts to improve urban governance and to decentralize control of municipal services are other important thrusts of ADB's efforts to address urban poverty in Asia.

Small- and medium-sized enterprises (SMEs) play an important role in manufacturing as a tool in the promotion of equitable growth, says Dipak Mazumdar, Professor of Economics, University of Toronto, in his paper *Small and Medium Enterprise Development in Equitable Growth and Poverty Alleviation**. SMEs are an important feature of industrialization, and estimates show that SME development has a larger impact on poverty reduction than the growth of larger enterprises. Policies must be geared toward increasing the share of employment in SMEs and should aim to reduce the economic distance between SMEs and large scale establishments in terms of productivity and wage differentials. Three basic patterns of size distribution and productivity differentials are identified: (i) the extreme and "ideal" prototype from a welfare point of view, with a fairly even size distribution of employment and a relatively small productivity differential between SMEs and larger-scale enterprises; (ii) a distribution of establishments skewed to the large-sized groups, when this pattern started to reverse; and (iii) the more typical pattern of size distribution in Asian economies—a "dualistic" one with a bipolar distribution of firms. The development of SMEs not only provides a seedbed for cultivating innovative and adaptable entrepreneurs, but also helps to increase flexibility in labor markets.

f. Information and communication technological as tools to combat poverty

Three Forum presentations consider the role and importance of information and communication technology (ICT) in growth, development, and poverty reduction. In *New Technologies, Competitiveness, and Poverty Reduction**, Sanjaya Lall, Professor, University of Oxford, considers the extent to which technological innovation accounts for growth in export-oriented industry in Asia. He shows that developing countries' exports are growing faster than those of developed countries, and—contrary to expectations—they are growing fastest in the highest-technology categories rather than in the low-and medium-technology industries traditionally viewed as sectors of comparative advantage. The competitiveness of manufacturing industries in Asia's successful economies has facilitated high growth and expanded job opportunities in industries that employ skilled labor. However, such successes are highly concentrated, by region and by country, and the depth and "rooting" of high technology vary greatly among the successful importers. This raises doubts about the sustainability of competitive performance. To ensure broad and sustained success, Asia's developing countries need to develop stronger local capabilities and skills to attract the mobile resources available in a globalized world.

The paper by Clay Wescott, *E-Government: Supporting Public Sector Reform and Poverty Reduction in the Asia-Pacific Region*+ stresses that e-government, or ICT strategies applied to government activities, is only one tool among many. The author notes that while the level of ICT application in government varies widely across countries in Asia and the Pacific, it is still in its initial stages in most countries. After reviewing the experience of e-government in supporting public sector reform and poverty reduction in various parts of the world and giving examples of e-government in Asian and Pacific countries, the paper explains why the pace of adoption is slower in the region. It also defines and describes six levels of e-government—e-mail and internal networking, interorganizational and public access to information, two-way communication, exchange of value, voting and expressing opinions through the Internet, and vertical and horizontal integration of government using ICT. The paper concludes with a review of the benefits and challenges of each stage and discussion of crosscutting challenges faced in all stages of e-government.

Randeep Sudan, Special Secretary to the Chief Minister, Government of Andhra Pradesh, India, prepared the paper *Use of Information Technology for Poverty Reduction: A Case Study of Efforts in the Indian State of Andhra Pradesh**, which focuses on the role of ICT in India's Andhra Pradesh state. There the state government has premised the introduction of numerous poverty reduction initiatives on the idea that ICT can help poor countries leapfrog toward development, despite the constraints placed on its use by the poor, including remoteness, lack of education, and inequality. Sudan gives numerous examples of ICT being applied in both obvious and surprising ways in the state. These range from encouraging the location of ICT and ICT-enabled services in poor areas to installing Doppler radar to provide data on approaching cyclones. Providing low-cost outsourcing, requiring that universities offer ICT education, application of videoconferencing for information dissemination in remote areas, creating Internet-based programs for tax payment and processing applications for government permits, and setting up systems to provide improved government reporting and to enable citizens to report cases of corruption are other ICT based initiatives adopted in Andhra Pradesh that are discussed in the paper.

g. Improving the health and nutrition of the poor

Malnutrition is a poverty trap, says Joseph Hunt, ADB Senior Health and Nutrition Specialist, in his presentation *Food Policy and Nutritional Security: Lessons Learned and New Paradigms*†. Inadequate nutrition curses future generations, because poor fetal and early childhood development leads to adult chronic disease and depresses economic growth by at least 5 percent of GDP per year. Traditional approaches to food security have mostly been expensive failures. Today, one fifth of maternal deaths are caused by iron deficiency anemia; 54 percent of under-five deaths in Asia are caused by underweight; low-birth-weight babies born to stunted, underweight mothers are 10 times more likely to die in their first year than babies of normal weight; stunted children enter school later and are more likely to drop out. By contrast, less expensive community-based programs centered on maternal and child nutrition and health care have been more effective in producing taller, healthier, brighter children who earn more. Women's education and women's relative equality with men are a major predictor for decline in fertility rates and lower infant and child mortality and under-five malnutrition.

In his presentation *Health and Poverty*†, Jacques Jeugmans, ADB Senior Social Sectors Specialist, characterizes poor health among the poor as involving a vicious cycle, because ill health reinforces low productivity and poverty, and poverty leads to ill health. The poor have greater unmet health care needs than more affluent people, because their use of health services is low. When accessing health services, the poor receive services that are often of poor quality. Yet, it is the poor that can least afford illness, as their livelihoods depend upon their sole asset, namely their labor. Developing a pro-poor healthcare system involves identifying who is poor, what their health status indicators are, and how they utilize health services; and reaching out, decentralizing and being patient, and ensuring health professionals do the same. Health care financing initiatives and public-private partnerships should aim to provide better and more efficient services. Fostering provision of the services the poor use most—primary health care services, and immunizations, among other services and facilities—and targeting those services to regions and demographic groups where the poor predominate are principal thrusts of ADB's work in improving health care provision to the poor in the Asia and Pacific region.

h. Resettlement and poverty

In order to have a broader understanding of poverty and its relationship to resettlement, Michael Cernea, Senior Advisor, World Bank, proposes use of an Impoverishment Risks and Reconstruction model in his paper *Risk Assessment and Management in Involuntary Resettlement*+. The key feature of this approach is to focus on prevention first; mitigation of those risks and coping with the results of events that occur are fallback positions. The model identifies socioeconomic risks before they occur as part of poverty reduction strategy planning. These risks guide practitioners towards mitigating these risks and safeguarding the interests of people exposed to risk.

Who is poor? Who is near poor, and who is at risk of becoming poor? In a country where many people are not well off, especially by Western standards, how do researchers and aid providers determine who is poor enough to require help? There are many ways to measure the levels of poverty in a country: an absolute poverty standard defined by the budget required to purchase a basket of goods satisfying minimum nutritional needs, or the $1 or $2 a day often used for international comparisons; relative poverty lines, e.g., having income that places an individual in the lowest decile or quintile of the income distribution; or composite poverty indices that attempt to measure income and nonincome dimensions of poverty and satisfaction of a variety of basic needs. All poverty measures are in some way inadequate and can yield incorrect descriptions of poverty based on available data. The choice of measurement method can strongly affect the description of poverty and the understanding of how to address poverty that are obtained from poverty analyses, as discussed in this group of Forum papers. Setting aside concerns about the poverty indicator used, it is important to consider how measurement error and other frequently encountered data problems can affect adversely poverty analysis and lead to incorrect prescriptions or feedback about projects and programs intended to mitigate poverty. Several papers presented at the Forum address the topic of how to measure poverty in developing countries and use quantitative data to judge the effectiveness of antipoverty efforts.

a. Review of current practice

Abuzar Asra, ADB Senior Statistician, and Vivian Santos-Francisco, ADB Assistant Statistics Analyst, show how methods of measuring poverty can influence the characterization of poverty and the inferences that can be drawn from results of poverty analyses. In *Poverty Lines: Eight Countries' Experiences and the Issue of Specificity and Consistency**, the authors consider the trade-off between defining national poverty lines that most accurately measure poverty across the distinct situations found in a particular country (specificity) and poverty measures that provide a basis for comparing the incidence of poverty across geography and time (consistency and comparability). The paper begins with a review of the derivation of national poverty lines in eight Asian countries. While all use similar household survey data, some methods used to define the poverty line place greater emphasis on specificity (Indonesia and the Philippines) while others give more weight to comparability (India, Thailand and Viet Nam). Overall, the paper finds that countries have developed poverty lines and poverty measures that reflect their own views about poverty, and have neglected the need for comparability across countries in the Asia and Pacific region.

In their paper *Specifying Poverty Lines: How and Why*†, Benu Bidani, Gaurav Datt, Jean Olson Lanjouw, and Peter Lanjouw, all of whom work at the World Bank except Jean Olson Lanjouw (who was then Professor of Economics at the London School of Economics), argue that poverty lines must balance often conflicting demands stemming from the various roles poverty measures play in public policy and public understanding of poverty (e.g., defining eligibility for public transfers, understanding the extent and causes of impoverishment, etc). The authors propose a new approach to comparisons of poverty that avoids the need to set a specific poverty line. Using this approach, the entire distribution of income or consumption is compared using various graphical techniques. This addresses the shortcoming that poverty measurement based on a single poverty line or measure inevitably embodies certain normative viewpoints and assumptions. A "dominance analysis" allows examination of poverty for a range of poverty lines and measures and provides more robust poverty comparisons. The chief advantage of this approach derives from the fact that poverty comparisons are of greatest value in ranking poverty across settings, rather than precisely calculating the extent to which poverty differs across two settings.

In their paper *On Specifying Poverty Lines*†, Nanak Kakwani and Hyun Son, Ph.D. student, University of New South Wales, Australia, critically evaluate alternative approaches to setting poverty lines. The paper concludes that fixed or horizontally equitable poverty lines, based on the budget required to attain the goods and services that defines a society's minimum standard of living, offer the best poverty measures. The paper derives a series of "axioms" that a desirable poverty line must satisfy (e.g., poverty lines should be proportional to individual needs, cannot allow for individual tastes, must be consistent in maintaining a constant standard of living over space and time). Using the Foster-Greer-Thorbecke "cost of calorie" function, the authors determine that the food energy intake method is the simplest way of determining a poverty line. The paper describes a methodology to determine consistent food and nonfood poverty lines for households across regions, which is used to evaluate alternative approaches to poverty measurement based on data from Thailand and the Philippines.

Does economic growth favor the poor? It indeed depends on how you measure it, say James Foster, Professor, Vanderbilt University, and Miguel Szekely, Research Economist, Inter-American Development Bank, in their paper *Is Economic Growth Good for the Poor?*#. The authors review established methodologies used to determine who is poor and the extent of poverty. Every method of setting poverty lines faces inherent problems: with absolute lines, the cut-off point defining the poor and nonpoor can be cruelly arbitrary with relative poverty lines, many poor people in poor countries are considered nonpoor even though their incomes are inadequate to enable satisfaction of basic nutritional needs. The authors propose an alternative methodology for tracking low incomes, based on a concept of "equally distributed equivalent income." The proposed approach is based on comparison of growth rates for two standards of living: the ordinary mean, or average, and a "bottom-sensitive" general mean that characterizes the incomes of the poor without ignoring the incomes of the near-poor, and places progressively more weight on lower incomes. The paper presents an analysis of growth elasticity of the general mean for a data set of 144 household surveys from 20 countries over the last 25 years. This shows that growth elasticity of bottom sensitive general means is positive, but significantly smaller than one, meaning that the incomes of the poor do not grow one-for-one with increases in average income.

In *Poverty Comparison in the Philippines: Is What We Know About the Poor Robust ?**, Arsenio Balisacan suggests that our understanding of who are the poor and how we measure whether they are poor can be biased by the indicators and data used to characterize poverty. The paper examines standard approaches used to measure poverty in the Philippines and identifies a number of shortcomings. Since these data inform public policy decisions about poverty reduction, the implications of the problems identified are rather disturbing. Balisacan constructs an alternative poverty measurement approach, one that makes use of current consumption expenditure rather than current income as a broad household welfare indicator, imposes spatial consistency for the construction of poverty lines, and does not depend on food consumption survey data. He finds that contrary to common claims, the economic growth in the Philippines in 1994–1997 was pro-poor (i.e., accrued benefits to the poor) and resulted in poverty reduction that was higher than official statistics indicated. The paper's estimates of poverty incidence and its change over time reveal a geographic distribution of poverty that is quite different from that in the official data. Only four of the 10 poorest regions shown on the Government's official list were identified using Balisacan's approach.

b. Measuring the impact of development efforts on poverty

The paper *Integration of Poverty Impact in Project Economic Analysis, Issues in Theory and Practice*† by Manabu Fujimura, ADB Economist, and John Weiss, Professor, University of Bradford, England, responds to renewed revived interest in poverty issues in project economic evaluation following ADB's adoption of its Poverty Reduction Strategy. The paper discusses the inherent difficulties and pitfalls encountered in assigning the benefits and costs of different development efforts to various individuals. The authors argue that an organization like ADB must decide how much emphasis to place on poverty interventions and how much on growth. They demonstrate how established approaches to cost-benefit analysis can be extended to distribution and poverty impact analysis in a static general equilibrium framework. They also show, however, that the poverty impact analysis requires detailed data at the pre-investment stage. It is difficult for distribution analysis to escape subjective judgment, which makes the task of explaining schemes for weighting costs and benefits to poor and nonpoor schemes—which underpin the analysis—difficult to explain and fully justify. Accumulation of experience across projects is necessary to find a good balance between accurate analysis and existing resource constraints in determining the amount of resources that should be put into distribution analysis in project economic assessments.

Adding to the Fujimura-Weiss paper, another paper by John Weiss, *Assessing the Poverty Impact of Policy and Sector-based Lending*#, considers how to apply the methodology of cost-benefit analysis to examine the poverty impact of policy- and sector-based loans. Such loans represent an increasing share of the loan portfolio of ADB and other multilateral development banks. Program loans support change at the macroeconomic or sector level, but the difficulty of ascribing outcomes to interventions is greater than in the case of project loans, particularly when analysis seeks to disaggregate outcomes across segments of the population. Mr. Weiss reviews the use of a poverty impact matrix to assess policy loan effects, but argues that while it is a helpful way of organizing the necessary quantitative and qualitative information, it does not evaluate the critical assumptions that underlie the analysis, and warns against mechanistic application. He recommends a framework that distinguishes among the different roles of the poor, as consumers, producers, employees, and recipients of public services, and shows how different types of lending can be assessed.

The paper suggests case-by-case assessment grounded in a thorough understanding of the policy environment, and careful quantitative assessment based on the best available data.

At the Forum, Caroline Heider, Richard Bolt, and Manabu Fujimura, all of the ADB, review ADB's criteria for lending to reduce poverty in their joint presentation *Evaluating the Anti-Poverty Approaches and Activities of ADB*†. The presentation notes that poverty alleviation has been a strategic development objective at ADB since 1992, which has been sought through stimulating pro-poor economic growth, targeting lending to benefit the poor, increasing the access of the poor to social services, and ensuring that vulnerable groups are protected from adverse impacts ADB lending. The presentation reviews how the anti poverty aspects of ADB's activities are undertaken today. The Poverty Reduction Strategy is used to guide these efforts, which include poverty analysis, improved project design, and increased monitoring and evaluation at the country, sector, and project levels. The presenters discuss how the poverty impact of ADB-funded projects is assessed, and how policy based loans, a more recent addition to ADB's portfolio, can support the poverty reduction objective.

11. Regional and Country Poverty Profiles

Despite the large amount of analysis and research at the Forum drawing generalizations about poverty and comparing poverty trends across developing countries in Asia and the Pacific, it was also clearly recognized that each country has its own poverty profile, its own problems, and its own successes and failures in addressing poverty. According to the country-specific analyses presented at the Forum, these experiences range from the bleak failure of Nepal's rural areas to participate in the country's economic growth, to the problems of economic poverty in spite of excellent social development in the Indian state of Kerala. The country and more localized studies of poverty presented at the Forum revealed common problems in addressing poverty that apply to regions and subregions of Asia. For example, the Mekong River Delta countries share resources and problems spread along the Mekong River, while the poor in countries of the Pacific islands share a form of poverty characterized by a lack of opportunities, multiple vulnerabilities, and poor governance. The final section of this Introduction summarizes many of these subregional and country studies that were presented at the Forum.

a. Individual country studies

Growth and Poverty Reduction in the People's Republic of China (PRC)† by Wang Guoliang of the Leading Group Office of Poverty Alleviation and Development reviews the three major stages of poverty reduction efforts since the opening up of the country in the late 1970s: structural reform (1978–1985), organized large-scale interventions (1986–1993) and special efforts against hard-core poverty (1993–2000). His paper describes the characteristics of poor areas and outlines how poverty is measured in the PRC. Today, poverty reduction efforts are focused on development in rural areas, especially in the West. Better management of funds, increasing the role of provincial government and line agencies, increasing funds for poverty alleviation efforts, improving cooperation and the economic linkages between the eastern and western parts of the country, enhancing voluntary resettlement programs and assisting mobile laborers, strengthening village organizations, and expanding of cooperation with international organizations are all measures being undertaken to alleviate poverty in China. The country's aims for poverty reduction in the 21st century include full implementation of an income support program for individuals below the subsistence poverty line, preventing those who have provisionally risen from destitution from falling back into poverty, and fostering continued economic improvement for members of the population living just above the poverty line.

In his presentation *Macroeconomic Policies and Poverty Outcomes: The Indian Case*†, Sudipto Mundle, ADB Senior Programs Officer, considers the interplay between macroeconomic policy and poverty using the example of India. The presentation argues that macroeconomic policies have figured in the phenomenon of high growth and persistent poverty. Despite the fact that agriculture's share of India's gross domestic product fell to one third of total GDP in the 1990s, the sector still employs two thirds of the work force. This locks a large proportion of the workforce into a low-productivity sector and dooms most workers to poverty. Mundle maintains that agricultural growth is needed for poverty reduction and that it can be strengthened through increased agricultural research, development, and extension; increased investments in rural infrastructure (e.g., irrigation and roads), and increased public expenditures on social services; and maintenance of stable and affordable prices for food grains. The presentation finds fault with the Indian Government's preoccupation with the trade, industrial, and financial sectors, and its reliance on price interventions instead of investments. He also criticizes the Government's acquisition of huge buffer stocks of food grains for taking up scarce public financial resources and greatly increasing demand for food credit from the banking system—which in turn crowds out private investment and public spending in more critical areas for both growth and poverty reduction. The presentation encourages renewed attention to rural and agricultural development through measures it outlines.

Kerala state in southern India has long been considered a model in terms of its social development and equity (i.e., providing for the population's food and social security, achieving good coverage of basic minimum services, and preventing abject poverty), despite more modest achievements in terms of economic development, says S. M. Vijayanand, Secretary, Committee on Decentralization, Government of Kerala, in his paper *Poverty Reduction Through Decentralization; Kerala's Experience*+. The problem is that the economy has not grown and poverty has persisted, while it is becoming harder and harder to sustain the level and quality of government service provision. Rapid decentralization has been undertaken with a view to reforming state planning and advancing a development strategy that would address the state's peculiar poverty problems (e.g., large numbers of educated poor and landless or nearly landless poor). Mr. Vijayanand considers experiences under the decentralization and finds that local governments have performed well on the whole. Some gaps and shortcomings are identified. The paper concludes that the greatest promise for poverty reduction in the state lies in networks of self-help groups of poor families headed by women.

Since independence, Sri Lanka has registered exceptional improvements in its human development indicators and greatly reduced starvation and destitution in the country, notes Saman Kelegama, Executive Director, Sri Lankan Institute of Policy Studies, in his paper *The Poverty Situation and Policy in Sri Lanka**. Despite these accomplishments, broader poverty declined little in Sri Lanka during the 1990s, and between one fifth and one third of the population remains poor. This is explained by the country's economic performance, which while steady has never been strong. Mr. Kelegama identifies shortcomings and impediments in the existing poverty reduction strategy and programs in Sri Lanka, which include both structural and political factors, as well as policy shortcomings related to inadequate market liberalization in the country. These have caused the general failure of Sri Lanka's poverty reduction efforts, according to him. Depoliticizing the implementation of existing poverty programs and undertaking economic/market reform, Kelegama argues, are steps that hold promise of making existing poverty programs more effective.

Nepal's poverty is predominantly rural, reports Devendra Chhetry, Professor, Tribhuvan University in Nepal, in *Understanding Rural Poverty in Nepal**. Sluggish agricultural growth (i.e., low growth of agricultural productivity) and high rates of population growth and the associated large size of households and high rates of illiteracy are the major economic and demographic factors perpetuating poverty in the country's rural areas. Since even rural dwellers with substantial amounts of land suffer from income poverty, land reform or redistribution is not a sufficient strategy for reducing rural poverty, according to the analysis presented in the paper. Microlevel data shows that while economic reforms since 1985 have had profound effects on Nepal's nonagricultural sector, their effect has been much more muted in the agricultural sector and in rural areas, where there has been virtually no growth in per capita household income.

The incidence of poverty in Pakistan increased significantly in the 1990s, rising from 22.4 percent of the population in 1992–1993 to 35.2 percent in 1999, according to the paper *Structural Adjustment, Macroeconomic Policies, and Poverty Trends in Pakistan*† , by A. R. Kemal, Director, Pakistan Institute of Development Economics. Poverty also became more rural and inequitable in the distribution of income during the 1990s. Macroeconomic policies account for at least some of the increase in poverty. These involved a series of structural adjustment programs that adversely affected output and employment due to cuts in public subsidies and development expenditure. Insufficient provision of credit for investment to the private sector by the government also stifled growth, while changes in the tax structure increased the tax burden on the poor by 7 percent while decreasing that of the richest class by 16 percent. These policies had the effect of reducing the income-earning opportunities of the poor due to the deterioration of labor market conditions they caused.

While the economy of the Lao People's Democratic Republic (PDR) grew at an average rate of 4.6 percent per year in the 1990s, the benefits of this growth to the poor were largely offset by a large increases in inequality, report Nanak Kakwani; B. Sisouphanhthong, Director, and P. Souksavath, Deputy Director, National Statistical Center, State Planning Committee, Lao PDR; and B. Dark in *Poverty in the Lao PDR*†. This study undertook to develop poverty lines based on updated and more accurate data than were available previously. The paper finds that the incidence of poverty decreased from 45 percent in 1992–1993 to 38.6 percent in 1997–1998, an annual rate of poverty reduction of 3.1 percent. Study results show the incidence of poverty varies greatly across regions and between rural and urban areas. The impact of growth on poverty reduction was much greater in rural areas because the increase in inequality in rural areas during the period was much smaller than the increase in urban areas.

Over the last 15 years, Viet Nam has achieved strong economic growth combined with a relatively equitable distribution of assets and services—achieving a rise in GDP per capita of 57 percent over the period and one of the fastest rates of decline in poverty ever recorded. D. Schumacher, Assistant Resident Representative and Head, Poverty and Social Development Team, United Nations Development Program, notes this in her presentation *Poverty Alleviation in Viet Nam*†. Despite the tremendous increase in wealth, 15.7 percent of Vietnamese still live in dire poverty and 37.4 percent lack the minimum income necessary to provide a decent standard of living. A critical factor in sustaining growth and decreasing inequality in the country, Schumacher argues, is the extent to which growth can be diffused to all households. Economies undergoing transition from a centrally planned system to a market-driven one typically experience sharp increases in inequality. Viet Nam is no exception, although the level of inequality remains fairly low.

b. Regional studies

The cross-boundary impacts of poverty reduction strategies are important in a river basin that feeds some 300 million people, argues Joern Kristensen, Chief Executive Officer, Mekong River Commission Secretariat, Asian Institute of Technology, in *Food Security and Development in the Lower Mekong River Basin: A Challenge for the Mekong River Commission*+. Pressure of population growth is increasing regional interdependence and making greater the need for cooperation among the countries in the Mekong River Basin (Cambodia, Lao PDR, Thailand, and Viet Nam), and collaboration is demanded in prioritizing and coordinating development initiatives. The Mekong River Commission evaluates both positive and negative effects of development in the "catchment," or individual stream system, and uses the information in determining strategies to promote long-term food security; increase development, especially of natural resources and food supplies; and guide the achievement of the overarching goal of poverty reduction in the subregion. The commission ascribes to the principle that development options that have a negative impact on poverty should include measures to compensate individuals and families that are adversely affected, and should be incorporated in development strategies for the Mekong subregion.

c. Pacific islands

The paper *Is Poverty an Issue in the Pacific?** by Christopher Lightfoot and Anthony Ryan, consultants of ADB's Pacific Department, poses this apparently surprising question. The authors answer that poverty clearly exists and is a problem in the Pacific islands, but that the cultural pride commonly expressed by Pacific islanders impedes public acceptance of this reality. Poverty in this region results less from nutritional or material deprivation, though hard-core poverty does exist in many areas, than from greater vulnerability in the face of severe land and other natural resources constraints, limited labor market opportunities, and income insecurity caused by frequent environmental and economic shocks. The paper traces poverty to shortages of financial, technical, and social services. The authors consider the nature and quality of governance processes and their role in driving poverty in the Pacific islands, and also discuss poverty resulting from discrimination based on gender, ethnicity, and social status.

In the Pacific islands, “subsistence affluence” and a sharing society have traditionally made sure no one is destitute, reports Vijay Naidu, Professor, University of the South Pacific, Fiji Islands, in *Opening Doors to More Inclusive Societies: The Case of the Pacific Island Countries.** His paper shows that both absolute and relative poverty are increasing. The paper associates the “poverty of opportunity” that characterizes poverty in the Pacific islands with a lack of openness in the societies that exist on the tiny land masses that are endowed with few natural resources and which face recurring environmental disasters. Small domestic markets and the inability to influence the markets for the commodities they produce make economic growth in the area difficult to achieve and highly volatile. High rates of population growth place pressure on urban areas and generally exacerbate the aforementioned problems. Professor Naidu recommends the opening up of country economies and political affairs to facilitate development of more inclusive societies as a priority in reducing poverty. He also highlights improvements in the provision of basic resources and services to vulnerable groups and the creation of opportunities for productive and sustainable livelihoods as necessary areas of action for governments in the Pacific islands seeking to reduce poverty.

Overcoming the “denial syndrome” about Pacific island poverty is also a central theme in the paper by Crosbie Walsh, Professor, University of the South Pacific, *Poverty in Fiji Islands and the Pacific Islands*+. He defines the denial syndrome and argues that it represents a major impediment to implementation of pro-poor policies. Denial that poverty is a serious issue preempts efforts to address the problem. Citing available poverty figures, Walsh shows that poverty is longstanding and is now widespread in several Pacific island countries; in fact, poverty in the Pacific islands compares unfavorably with that in some Asian countries. For example, an estimated 40 percent of households in the Fiji Islands are poor or nearly poor. The basic causes are embedded in social structures and cultures. Poverty eradication calls for the reexamination of some institutions in order to create a democratic and inclusive environment that can commit public resources to sustainable and equitable economic growth. Development of an educated civil society and a socially responsible business community are identified as valuable measures in efforts to eliminate poverty in the Pacific islands.

Broad strategies for reducing poverty in Asia and the Pacific

Macroeconomic policy and the role of multilateral development institutions

Inaugural Address by Tadao Chino

President, Asian Development Bank

Distinguished participants, colleagues, ladies and gentlemen,

It gives me great pleasure to welcome you to the Asian Development Bank (ADB), and to inaugurate the Asia and Pacific Forum on Poverty. In my remarks this morning, in order to put this Forum in perspective and provide some context, let me briefly give you my personal views on: why the fight against poverty is so important, why the Asian and Pacific region is so important in the fight against global poverty, why ADB's focus is on reducing poverty, and why this gathering is so important.

Why the Fight against Poverty is Important

Let me start, then, with why the fight against poverty is so important for us. Your Excellencies, Ladies, and Gentlemen, every human being on this planet should live with dignity and hope. Poverty is an unacceptable human condition. Poverty is a deprivation of essential assets and opportunities to which every human being is entitled. The latter half of the 20th century saw impressive advances in science and technology. And the pace of this progress is accelerating. We now have the capacity to apply this knowledge and resources to rescue the destitute. Poverty in a world as knowledgeable and resourceful as ours is unacceptable, totally unacceptable. As income levels in developed countries rise further, as the size of the middle class in developing countries expands, the continued existence and increase in absolute poverty becomes harder and harder to accept. In addition, growing dissatisfaction with inequality threatens social and political cohesion, and casts doubts on the morality of economic reform, liberalization, and globalization. However, poverty is not immutable. Public policy and action can and must eliminate poverty. This is what development is all about. This is what we, all together, are all about.

Fortunately, the global community was alert to the danger of continuing poverty and increasing inequality, and called attention to it. In a remarkable demonstration of wisdom and solidarity in the early 1990s, the nations of the world adopted a series of commitments that have come to be known as the International Development Goals (IDGs). These targets are mostly to be achieved by the year 2015. They cover economic well- being, social development and environmental sustainability and regeneration. The best known of the IDGs is the call to halve the proportion of people in extreme poverty, over the 25-year period ending in 2015. Given the performance of the global economy so far, and that of the Asian and Pacific region, this is a challenging, but not impossible goal. With the right approaches, strategies and policies, it can be achieved.

Why the Asian and Pacific Region is Important

Now let me turn to why poverty matters so much for the Asian and Pacific region. Because Asia is home to two thirds of the world's poor, the fight against global poverty must be won here in this region. We at ADB are dedicating ourselves to achieving our vision: a region free of poverty. This is no utopian dream. The Asian and Pacific region can be free of poverty. This will lead to a world free of poverty. If the world is to halve poverty by 2015, Asia and the Pacific must be the spearhead. Success in fighting Asian poverty will be crucial for the attainment of the IDGs. If this region does not meet the target, the world as a whole will have failed to do so. So for me, this Forum is set to tackle questions of truly global significance.

Why ADB's Focus is on Poverty Reduction

Next, let me outline briefly ADB's focus on poverty. In November 1999, new Poverty Reduction Strategy was approved unanimously by the Board of Directors, and poverty reduction is now the overarching goal of ADB.

Our poverty strategy has three conceptual pillars: promoting pro-poor sustainable economic growth, social development, and good governance.

Let me briefly elaborate on the thinking behind these three pillars. All around the world, experience has shown that growth is the most powerful weapon in the fight against poverty. Without sustainable economic growth, we can not achieve sustainable poverty reduction. Economic growth can reduce poverty by generating employment and income. Growth also expands public revenues that could be used for better basic infrastructure and social services, of which the poor are in desperate need. Growth can lift many more people out of poverty if it is pro-poor and sustainable.

But economic growth alone is not sufficient for poverty reduction. Growth can effectively reduce poverty only when accompanied by a comprehensive program for social development. For example, if the poor people have no access to basic education, how can they take advantage of the job and income opportunities created by economic growth? If there are gender discrimination and other forms of social exclusion, how can the discriminated and the excluded people take advantage of the expanded economic activities and share the benefits of economic growth? Social development should accompany economic growth in order to reduce poverty effectively.

"....every human being on this planet should live with dignity and hope. Poverty is an unacceptable human condition."

Likewise, good governance is essential for poverty reduction. It improves the formulation and implementation of policies as well as sound macroeconomic management, thereby

"Our poverty strategy has three conceptual pillars: promoting pro-poor sustainable economic growth, social development, and good governance."

contributing to the first pillar of pro-poor sustainable economic growth. Good governance also contributes to social development, the second pillar of our strategy, because it ensures the transparent use of public funds; and promotes effective delivery of public services; and addresses public sector inefficiencies, corruption, and waste, which leave insufficient resources to reach the poor and the vulnerable.

This is why ADB is pursuing poverty reduction through these three conceptual pillars.

In each borrowing member country, we—in cooperation with others in the donor community—will use poverty analysis to encourage the government and other stakeholders to develop or refine a national strategy for reducing poverty. This will help us identify the priorities for ADB's own country strategy and program, to be highlighted in a partnership agreement with the government. Two such partnership agreements were signed in 2000, and most of the other agreements will follow this year. Simultaneously, we are trying to improve the design of investment projects and policy-based programs, and the techniques of poverty targeting.

For successful implementation of ADB's Poverty Reduction Strategy, we also need to learn from many others who work in this field, and share experiences with them. This brings me to the present Forum, the first of a series we plan to organize once every three years.

Why the Forum is Important

Over the last few years, particularly since the Asian financial crisis has added to the number of the poor in this region, poverty issues have come to invite increasing attention. Given the magnitude of the challenge, I take it as a welcome sign that able minds are concentrating on this important subject and seeking to extend our knowledge and understanding. That is certainly true of this Forum, which brings together senior government officials, distinguished academics, representatives of civil society and the business community, and colleagues from bilateral and multilateral agencies.

We are honored today by the presence of many distinguished guests and representatives from our member Governments, including Mr. Dante Canlas of Philippine National Economic Development Agency and Director General Roger Ehrhardt of Canadian International Development Agency. We are honored by the participation of Nobel Laureate Robert Mundell and Professors Michael Lipton, Sanjaya Lall, Graham Pyatt and Kaushik Basu, and President Roy Culpeper of the North South Institute. From civil society we look forward to hearing the views of many distinguished guests, including Dr. Mechai Viravaidya of Thailand, Bruce Moore of the Popular Coalition for the Eradication of Hunger and

Poverty, and Mr. Noriyuki Suzuki, General Secretary of the International Confederation of Free Trade Unions-Asian and Pacific Regional Office. I am also grateful for the high-level support extended by sister institutions in the aid provider community, including President Wolfensohn, Prof. Masahiro Kawai, and Director Vinay Bhargava of the World Bank; Chairman Jean-Claude Faure of Development Assistance Committee of the Organisation for Economic Cooperation and Development; Mr. Hafiz Pasha, Assistant Administrator, and Mr. Terrence Jones of United Nations Development Programme, and Mr. Masood Ahmed, Deputy Director of the International Monetary Fund, to name a few.

The objective of the Forum is to highlight ways in which better policies can make economic growth more beneficial for the poor and improve the quality of life of all people in the region. It is to help us all to identify and carry out the reforms of policies and institutions so that the cause of the poor becomes ever uppermost in the minds of governments. To this end, the Forum is organized around three central themes:

- First, forming consensus for poverty reduction—how to ensure that the different stakeholders involved pull together, and how to obtain support for antipoverty initiatives;
- Second, the ingredients of pro-poor growth—how to promote it, measure it and evaluate it; and
- Third, tackling vulnerability—how to help those who may be bypassed by the growth, and how to provide social protection.

I am confident that we can gain enormously from this Forum. First and foremost, we wish to showcase your research, insights, and experiences and those of our staff. We trust this exchange and exposure will lead to fruitful learning on all sides. Second, we believe that the different stakeholders represented here—government, civil society, academia, business and donors—can recognize a commonality of interest and be persuaded to revisit their respective roles in that light. Each has a part to play while collaborating mutually.

ADB has created a web page for the Forum. We hope very much that the discussion at the Forum will continue through the web page for a long time to come.

Conclusion

Ladies and gentlemen, ADB is truly committed to reducing poverty in the Asian and Pacific region. ADB wishes earnestly to be your partner in poverty reduction. I am confident that this Forum will contribute to advancing our understanding of poverty, and enhancing cooperation among the partners towards realization of our shared vision: the region, and hence the world, free of poverty, where all people can live with dignity and hope.

I wish you all successful, productive and joyful participation in the Asia and Pacific Forum on Poverty.

Thank you.

A Presentation by Nobel Laureate Robert Mundell

Professor of Economics, Columbia University

It is a great pleasure for me to address this conference on the subject of growth, poverty and the international monetary system. The subject might at first seem to bring together some strange bedfellows. After all, what literature in the learned journals of economics relates growth and the international monetary system or poverty and the international monetary system? I can illustrate that divide from a conference I attended in Paris last June sponsored by the World Bank, in which there was virtually no discussion, apart from my presentation, of the relation between growth and macroeconomic polices. What accounts for this divide? I cannot go into it deeply now, but let it suffice to say that the reasons lie partly in the dichotomy between real and monetary theory, and partly in the breakdown of the international monetary system.

How are growth and poverty related to the international monetary system? I think the answer is quite clear. When the international monetary system works well, economic policy falls into place, instruments are assigned to targets appropriately, and discipline is maintained. When it works badly, as during the chaos of the 1930s and during the 1970s, policy becomes badly designed, growth falls, and poverty increases.

For this reason, I shall devote most of my lecture to a discussion of good and bad policies with respect to the international exchange rate system, consider the prospects and potential for an Asian currency area, and conclude with some steps on needed reform of the international monetary system. First, however, I want to plunge into my subject by commenting on some key trends in the world economy that are likely to affect the issues of poverty and growth with which this conference is concerned.

1. Key Trends Affecting Poverty and Growth

The first item on the list is the " new economy," the information technology revolution, that has the hope of democratizing information in a remarkable way, of affecting productivity and cost in every aspect of economic life: in firms, households, institutions, and governments. Even if there were no new innovations, just the spread of existing technology would be enough to keep productivity rising for several years to come. In fact, information technology continues to move at breakneck speed, creating the possibility for some countries of leapfrogging ahead of others that formerly were leaders. The events of the new economy are potentially very equalizing, because they lower the cost of two very expensive factors of production, knowledge and technology, both of which are scarce in poor countries. An investment in Internet connections and broadband networks could have a high payoff for the developing countries.

I want to make another point in this connection. At the present time, the United States (US) is the technological leader in the information technology industry, with Japan and Europe coming up. The dominant language of the Internet is English and this gives a great advantage to the US and the other English-speaking countries. It also suggests that "catch-up" will depend partly on training in the English language and that presents a suggestion for teaching English in school at an early age. Countries like India; the Philippines; Hong Kong, China; and Singapore are especially favored in this respect and should be able to develop important comparative advantages in the software industries.

A second factor is globalization, which you've all heard about, the good and bad aspects of it. It is not the first time we've had globalization trends. Globalization occurred at the beginning of the century under the first few years of the gold standard, with low tariffs, large capital movements, and a stable monetary system. It has been accentuated today by the information technology revolution and the big changes in communications. Globalization is neither good nor bad in itself: it is just that in the long run it is a step toward efficiency, but in the short run it involves all kinds of painful adjustments. And every country has to meet the challenge of globalization in its own individual way. The countries that treat globalization as an opportunity rather than a problem will benefit the most. Just contrast the export growth of the People's Republic of China (PRC) with that of India! Notice the key link here between globalization and foreign investment. Opening up traditional economies to the rest of the world means that a lot of costs and benefits now depend, to a larger extent than ever before, upon foreign direct investment and its magic package of capital, technology, and markets. Two fast-growing countries have pointed the way here: a big country, the PRC, and a little country, Ireland.

The third factor is the US economic "miracle." In the past 18 years, the US economy has been characterized by very rapid growth, creating something like 40 million jobs in the US economy, punctuated by the tax or supply-side revolution in the 1980s. Marginal income tax rates were lowered at the federal level from 70 percent in 1980 to 28 percent in 1988, and corporate taxes were lowered from 48 percent to 34 percent: a remarkable and complete revamping of the tax structure of the US economy that set the stage for a much more efficient private sector and that had its payoff in the 1990s. That period of 18 years has been one of continuous expansion, except for a nine month recession at the end of the 1980s. The expansion resumed in the spring of 1991 and up until recently, we have been in the longest boom in US history. Of the four great expansions of the 20th century, this most recent expansion has been the longest. If it is now over, as early figures suggest, the US will be confronted with a problem of financing its

" The countries that treat globalization as an opportunity rather than a problem will benefit the most ."

huge current account deficit of $450 billion, and the rest of the world will have to cope with the need to find a new "motor" for the world economy.

The deficit/debt situation here is relevant. The US has a current account deficit of over 4 percent of GDP, at $450 billion a colossal annual flow. As this deficit encounters financing problems, and the dollar goes down, the US deficit, a great advantage thus far for the world economy as a source of both markets and foreign exchange reserves, will shrink, with vast implications for adjustment in the rest of the world.

The fourth factor is the continuation of the "Milken revolution" of the 1980s involving corporate restructuring. Companies are now bought and sold in the marketplace almost like ordinary commodities, and banks are being restructured. The optimum size of the firm has grown, and the optimum size of banks has grown. What becomes relevant is not the size of a firm in relation to the national market, but its size in relation to the world market. An open economy is the best way of ensuring that domestic monopolies are kept in check. Countries now need to look at company size in relation to the global economy.

The fifth factor relates to the advent of the euro and the reorganization of currency areas. The highlight here is the advent of the euro. It has been compared in importance to the breakdown of the international monetary system in the early 1970s. However, it is really quite different from that, because the euro has a promise of changing the power configuration of the international monetary economy, whereas the breakdown of the international monetary system (the movement from a fixed exchange rate system to flexible exchange rates) did not change that power configuration. Before and after 1971 or 1973, the dollar was the dominant currency in the world, as it has been throughout most of the 20th century. So I like to think of the advent of the euro as the most important event of the 20th century, at least since the dollar took over from the pound sterling as the most important currency in the world around 1915.

2. Growth and the Exchange Rate System

For most of world history, the international monetary system has been characterized by fixed exchange rates anchored to gold or silver, or both precious metals. That system was destroyed in the aftermath of World War I, when the gold standard broke down, was faultily restored, and broke down again. After 1934, when the US devalued the dollar and put the price of gold at $35 an ounce, the dollar anchored to gold became the center of the international monetary system that was endorsed in the 1944 Bretton Woods arrangements that set up the International Monetary Fund (IMF) and World Bank. However, after the inflation fallout from World War II, the Korean War, and the Viet Nam War, the $35 price of gold was no longer sustainable, and in August 1971, the US took the dollar off gold, and the other countries took their currencies off the dollar, giving rise to flexible exchange rates. Although an attempt was made to erect a dollar standard in December 1971, it broke up as a result of a conflict between US policies and those of the rest of the world. Generalized flexible exchange rates ensued that, in 1976, would be enshrined in the amended IMF Articles of Agreement.

a. United States monetary policy sets the pace

The mechanisms at work in the postwar fixed exchange rate system are worth noting. US monetary policy set the pace for world monetary policy and the US inflation rate became the floor inflation rate for the European countries that had moved to a surplus position. Europe wanted the US to reduce its inflation rate and correct its balance of payments. The US at first promised to try to correct its deficit but then, in the grip of the Viet Nam War, tried to get the surplus countries to appreciate their currencies. The European counter to this argument was that the inflationary country should do the adjusting in the interests both of its own economy and those of the rest of the world. Fixed exchange rate zones do not work unless there is agreement on the common inflation rate and the mechanism for controlling the money supply of the area as a whole.

Despite these defects, however, the performance of the international economy under the fixed-rate system was much better than that after fixed rates had been abandoned. Countries adhering to the monetary standard experienced, on the average, inflation rates lower than 3 percent in the two decades between the end of the Korean War and the move to floating exchange rates in 1973. Although the dollar standard did not possess the same degree of inflation control as the gold standard, it was much better than the flexible-rate system that followed it.

Table 1.1 demonstrates that for the major countries, on grounds both of inflation and growth performance, the era of fixed exchange rates was superior to the period of floating. It is apparent that the rates of inflation are higher and the rates of growth lower *in every single case*. The experience of the G-7 countries—the pacesetter for the world—reflected the consequences of the breakup of the international monetary system into a regime of flexible exchange rates.[1]

Table 1.1. Inflation and Growth, Averages, 1963- 72 and 1973- 82

COUNTRY	Inflation 1963- 72	Inflation 1973- 82	Growth 1963- 72	Growth 1973- 82
U.S.	3.5	9.0	3.8	1.6
Japan	5.4	8.3	9.7	3.5
Germany	3.1	5.2	3.6	1.9
France	4.4	11.4	5.3	2.5
United Kingdom	5.3	14.7	2.9	0.8
Italy	3.8	17.4	4.6	3.0
Canada	3.6	9.3	5.3	3.0

Source: WEFA *Historical* Statistics, July 1993

[1] The inflation of the early 1970s is sometimes blamed on the Middle East War in 1973 and the subsequent quadrupling of oil prices, just as the acceleration of the price level in the late 1970s is blamed on the doubling of oil prices. There is no doubt that the rise in oil prices played a role in the increase in inflation. It could not have occurred, however, without the increased elasticity of international money, manifested in the explosion of the Eurodollar market that arose from the movement to flexible exchange rates. From the end of 1972 to the end of 1974, this market increased by 79 percent, from $284.7

A flexible system of exchange rates was, of course, by no means a new phenomenon in 1973. In the past, however, flexible exchange rates had emerged, for the most part, out of the exigencies of war and revolution. There were some exceptions. One was the argument of Thomas Attwood, a member of the Birmingham school writing soon after the end of the Napoleonic wars. He argued for flexible rates as an alternative to Britain's deflationary return to the gold standard after 1815. Irving Fisher in 1912 and John Maynard Keynes in 1922 advocated a standard based on price stability as an alternative to the gold standard. Frank Graham advocated flexible exchange rates in the 1940s as part of his scheme for a commodity reserve currency. In 1950, Canada adopted flexible exchange rates in violation of IMF rules, before returning to fixed rates in 1962.

b. The push to flexible exchange rates

It was, however, the influence of an unlikely pair of economists that did most to foist flexible exchange rates on the world in recent decades. They were James Meade, an English liberal socialist, and Milton Friedman, an American conservative libertarian. Meade saw flexible exchange rates as a way of allowing macroeconomic planning on a national scale while preserving, as he thought, the benefits of a market economy. Friedman saw them as a preferable alternative to the panoply of discriminatory trade and exchange controls that had sprouted up all over the world. That was back in 1950. It is interesting and very relevant that these two important economists were from the two countries that have been at the center of the international monetary system over the past two centuries.

The early arguments made a case for flexible exchange rates. "Fixed prices" smacked of wartime controls. Initially, Friedman's argument was that flexible rates would replace post-war controls. In the Tinbergenian policy matrix, two extra degrees of freedom appear to be obtained, as the exchange rate is shifted from the target to the instrument category.

3. Alternative Monetary Rules

But a choice between fixed and flexible exchange rates is an oxymoron. They are not comparable. A fixed rate is a monetary rule and gives the country the inflation rate of the area to which it is fixed. By contrast, a flexible rate is only the absence of that particular monetary rule and is consistent with hyperinflation! A fixed exchange rate therefore has to be contrasted with alternative monetary rules. Once this is seen, and alternative routes to a given degree or definition of monetary stability are compared, the extra degrees of freedom disappear. To be sure, the exchange rate is shifted from the target to the instrument camp, but at the same time, money, or the price level, is shifted in the opposite direction, from the instrument to the target camp.

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billion to $509.5 (IMF *International Financial Statistics Yearbook*, 1986, p. 68); after the second oil shock in 1979, the Eurodollar market expanded by 30 percent, from $1,537.5 billion to $1,856.7 billion. In both cases, the explosion of international money accommodated the oil price increases. Also in both cases, the dollar price of gold and foreign exchange reserves soared.

The three possibilities are noted in Table 1.2:

Table 1.2. Alternative Fixed Points of Economic Policy

System	Fixed Point	Variable	Variable	Variable
A	Money Supply	Exchange Rate	Price Level	Gold Price
B	Exchange Rate	Price Level	Money Supply	Gold Price
C	Price Level	Money Supply	Exchange Rate	Gold Price
D	Gold Price	Money Supply	Exchange Rate	Price Level

In an abstract static general equilibrium model, these systems are formally equivalent. With four equations representing the excess demands for goods, money, foreign exchange, and gold, and four variables—the money supply, the exchange rate, the price level, and the gold price—and the assumption of homogeneity, there is one degree of freedom. The static equilibrium will be invariant with respect to the choice of numeraire.

I have put gold into the table for completeness, because of its historic importance and the possibility that it might be used again in our new century. But a discussion of gold at the present time would be a distraction from the main points I want to make, and I will leave any discussion of it out of what follows.

In the real world, there is a great deal of difference between these policy alternatives. Policy assignments in the real world are more complex. Policy management requires an assignment of instruments to targets that will optimize price level stability. Let me give you my views on the three assignments.

a. The monetary rule

The monetary rule (or the money-base rule) is the weakest of the three systems. Under normal circumstances, it is almost never optimal to fix the money supply or its rate of growth if the objective is to achieve price stability. There are too many different definitions of money; its measure is not easily obtainable on a day-to-day or even weekly basis; the demand for money is quasi-random in the short run, being influenced by exchange rate and interest rate expectations; the meaning of money is constantly changing with innovation and, even if a single definition of a monetary target could be agreed on, it would be rendered obsolete by innovations; and so on. Monetary targeting has failed in every country in which it has been tried.

" Fixed exchange rates, however, are not an alternative for all countries. "

This is not to say—to repeat the obvious—that policymakers should not carefully monitor the money supply; obviously all the variables in an economy have to be watched. Policymakers will always want to pay attention to the information implicit in the monetary aggregates. Especially in situations of high inflation, stability will not be achieved without control over the money supply. But the link between the money supply and the price level is too elastic to be suitable as a target.

b. Setting exchange rates

Not so the exchange rate. The value of the exchange rate is well known on a daily and even hourly basis. It forms a suitable index on which to base expectations. A commitment to maintain a fixed exchange rate provides a guideline about future monetary policy. For small, open countries, the exchange rate is the most important price in the economy and the best indication of the value of money. When a small country fixes its currency to the currency of a larger partner, it will eventually get the inflation rate of its partner.

Obviously, the choice of a partner is important. The partner economy should be both large and stable. Size is important because, like a big oceangoing liner, it is immune to the tides of speculation. Stability is important; there is little advantage to fixing a country's exchange rate if the partner's inflation rate is higher than the inflation preferences of the fixing country. A fixed exchange rate also helps a country to gain access to the money and capital markets of its partner.

Fixing the exchange rate establishes monetary discipline; the balance of payments governs the change in reserves that, if not offset by changes in domestic assets of the central bank, will affect the money supply in such a way as to establish equilibrium. What is often not realized, however, is that a fixed exchange rate also imposes fiscal discipline. A budget deficit would set in motion speculative forces that would undermine the fixed exchange rate. If fixed exchange rates have become rare, it is because profligate governments have not come to grips with the problem of establishing fiscal balance.

Fixed exchange rates, however, are not an alternative for all countries. It would not work for countries that cannot achieve fiscal balance and do not have access to borrowing; inevitably, monetization of the deficit would conflict with the monetary policy needed to maintain the exchange rate. Exchange rate adjustment is inevitable in countries that are inflating relative to their neighbors.

Nor would fixed exchange rates be an alternative for a country that, for economic or political reasons, cannot find an appropriate partner currency. The dollar is a top candidate as the anchor currency because it is at present the only global currency. Soon enough, the euro will become a global currency and compete with the dollar in that respect. Nevertheless, political considerations might rule out a dollar fix; some countries might choose to peg to a basket of currencies, such as the special drawing rights (SDR) or a basket of the dollar, euro and yen.

It should be realized, however, that, other things equal, the use of a basket is inferior to a single-currency peg. One of the great advantages of a fixed exchange rate is the clue it provides to the price level, interest rates and future monetary policy. The more currencies in the basket, the more transparency and the unit-of-account advantage of fixed exchange rates is lost, and the more likely the fix is to be a soft rather than a hard fix, as a result of surreptitious changes in the composition of the basket. The connection to capital markets is also less effective.

It goes without saying that a fixed exchange rate is not an option for the dollar. Mexico; Canada; or Hong Kong, China can fix their currencies to the dollar, but the US cannot fix the dollar to the peso or the Canadian or Hong Kong dollar. As the possessor of the “nth” currency with the largest transactions domain, the US cannot expect to achieve stability by fixing its currency to a smaller currency area; it would only serve to dominate that country’s monetary policy. The US therefore must have a mixed policy, paying attention to major factors like the domestic inflation rate, major exchange rates, and the price of gold.

c. The inflation rate

The most important ultimate policy target is the inflation rate. An inflation rate target between 1 percent and 2 percent would be appropriate, allowing for the acknowledged upward bias of the consumer price indexes due to undercounting of new products and innovations in the service industries. But ignoring the exchange rates and the price of gold would be a serious mistake. Inflationary impulses typically affect the exchange rate and the price of gold first, before they have worked through to the price level. Inflation in the consumer price index typically has to wait for inflationary pressure to affect wage rates, which signals inflation only after the harm has been done.

In the special position of the US, an upward movement of the price of major foreign currencies combined with an increase in the dollar price of gold is almost certainly an indication that monetary policy is too loose; the opposite is a warning that monetary policy is too tight. Exchange rates and the gold price are leading indicators of changes in the inflation rate.

This phenomenon is well illustrated by the mistakes made by the US Federal Reserve between 1979 and 1981. In the years 1979 and 1980, the dollar was falling, the price of gold was soaring and the inflation rate had jumped, respectively, to three back-to-back years of two-digit inflation. In 1981 and 1982, the Federal Reserve was guilty of the opposite mistake: money was tightened, the dollar soared on exchange markets, and the inflation rate came down to 10.4 percent in 1981 and 6.2 percent in 1982. The brakes had been slammed on too heavily and unemployment soared to 11 percent. While the second mistake was more understandable than the first—the Volcker Federal Reserve had to deal with inflationary expectations that had gotten out of hand—a slower disinflation would not have sacrificed so much output and employment.

I have discussed elsewhere *(Asian Wall Street Journal*, 30 March 2000) my suggestions for a three-currency G-3 monetary union. It seems politically unrealistic today, but the mechanics would not be difficult. It is outside the scope of my talk today to deal with this possibility.[2] I want to focus attention instead on Asian currency problems under the situation prevailing today.

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[2] A three-currency monetary union would involve bringing the three currency areas to the stage that the euro area had arrived at before completing the transition to the single currency, which is scheduled in Europe for the first half of 2002. Essentially, there are five steps: (1) choose a common inflation target; (2) devise a measure of the common price level (such as Eurostat’s harmonized index of consumer prices; (3) select a monetary leader (assumed here to be the Federal Reserve System) and a pivot currency (the

Important exchange rate changes have been a fundamental causal factor in the Asian financial crisis. The appreciation of the dollar against the yen was an important cause. Recall that the dollar was 78 yen in April 1995 and then soared to 148 yen in June 1998. The depreciation of the yen/appreciation of the dollar had two effects on Asian economies: first, those countries that pegged their currencies to the dollar now suffered payments deficits and deflationary tendencies; and second, the depreciated yen cut off foreign investment by Japan. Foreign investment fluctuates with the yen-dollar rate: when the yen goes down, foreign investment by Japan drops off, cutting off that important source of growth. The devaluation of the PRC renminbi (RMB) also played a part. The RMB/dollar rate has become enormously important in Asia, second only to the yen/dollar rate. At the beginning of 1994, the dollar was raised from 5.5 RMB to a de facto rate of 8.3 RMB, in conjunction with the elimination of some controls. This devaluation brought in its train an inflation spike of 24 percent in 1994, but inflation was quickly brought down in the next two years, and in fact became negative in two recent years, as the appreciating dollar brought on a mild deflation. These exchange rate changes were culpable in the crisis. Had there been a stable exchange rate system in place in Asia, Asia would not have had anything like the crisis that ensued.

"A freely floating exchange rate system puts itself at the mercy of speculators. "

4. Variations in the Dollar, Yen, and Euro

A major problem for Asia in the future is the volatility of the dollar-yen rate. If it were possible to look ahead to a stable dollar-yen rate, Asia would not have a basic problem with running its monetary policy. Or to put it more exactly, any problem it had would be of its own making. But when the two most important currency areas relevant to Asia each have price stability combined with huge exchange rate changes—these are *real* exchange rate changes—then this poses a major problem. It would be very much in the interest of Asia, and the rest of the world, if the dollar/yen rate could be fixed again, as it was between 1948 and the 1970s.

a. Exchange rates *can* be fixed

There are some who continue to say that you cannot fix exchange rates now, because capital movements have become too large and dominate exchange rates, so that the central banks cannot fix the rates. The vast sums involved in cross-border transactions are all based on exchange rate uncertainty. Trillions of dollars are committed in hedge fund operations, swamping ordinary transactions. With transactions running over $1.5 to $2 trillion dollars in daily turnover, what kind of central bank interventions can compete? The lesson, so it is said, is that you cannot fix exchange rates now because they will be swamped by these huge derivative transactions, the hedge funds and waves of speculation.

dollar); (4) direct the Bank of Japan and the European Central Bank to lock their currencies to the dollar; (5) form a monetary policy (or "open market") committee from the boards of the three central banks, to meet periodically to make decisions on monetary policy and expanding or contracting the joint assets of the combined banks; and (6) make provisions for the disposition of seigniorage.

I think this view is completely wrong. It makes capital movements the culprit. My view takes a leaf from Napoleon's comment to the effect that there are no bad soldiers, there are only bad officers. I believe there are no bad capital movements, only bad monetary and exchange rate systems. You do not see bad capital movements between New York and California or any other state within the US because exchange rates are securely locked. There were bad capital movements in the euro area before the middle of 1998, because exchange rates were uncertain. But after the middle of 1998, even before the euro had been introduced, when bilateral exchange rates were securely locked, speculative capital movements against the lira, mark, franc, peseta, and other currencies of the euro area became a thing of the past.

There were some observers—even economists—who said before the middle of 1998 that fixing exchange rates would create such speculation of one currency against another that it would go to a breakdown even before things get started. Yet none of it happened. The euro came into being with very little intervention, because the locking of exchange rates was completely credible, and because the mechanism for adjusting the balance of payments was well understood. Everybody understood that the national central banks would now follow a passive monetary policy appropriate for a fixed exchange rate system and that monetary aggregates would be under the control of a central authority, the European System of Central Banks, and its executive arm, the European Central Bank.

Again, I must emphasize that I mean a truly fixed exchange rate, not a pegged rate with an independent monetary policy. A pegged exchange rate will sooner or later come under attack from speculators, who perceive that there is no adjustment mechanism for the balance of payments and no real commitment to defend the rate in a crisis. Once an attack starts, a one-way option builds up in which speculators have nothing to lose and everything to gain by betting against the currency.

A freely floating exchange rate system puts itself at the mercy of speculators, including the huge multinational corporations many of whose liquid funds vastly exceed the entire money supplies of some countries. A gyrating exchange rate tends to overshoot its equilibrium in both directions. It is almost never the right policy to leave an exchange rate up to the vicissitudes of speculation. Even very large currency areas, such as the dollar and euro areas, have from time to time found it desirable to prevent overshooting of the exchange rate by intervention in the foreign exchange market.

It goes without saying that all countries cannot initiate a policy of fixed exchange rates. The United States cannot fix its exchange rate to the Mexican peso or the Canadian dollar. It would not give the US stability by fixing the currency to that of a small country. The US could, to be sure, fix to the Canadian dollar, but such a move would dominate Canadian monetary policy without giving any stability to the US . A big country cannot fix to a little country. It has to be the other way round.

b. Fixed versus pegged exchange rates—which is best for Asia?

Some countries have found stability by inflation targeting, with occasional intervention or management of the exchange rate, a feasible system. The advantage of inflation targeting is that monetary policy can choose its own inflation rate, independent of policy in any other currency area. This is still the policy of choice for the dollar, euro, and yen areas. But success depends on credibility of government policy, which depends on consistency and past history. A few areas that have succeeded in building up credibility have been Taipei,China; Singapore; and Chile.

The best system for a small country, however, may be a hard fixed exchange rate to a large and stable currency like the dollar or euro. It is easier for a small country to establish credibility with a transparent commitment to a hard fixed exchange rate than it is for a country to build up confidence with inflation targeting, especially if it has a past history of inflation. Argentina, for example, after decades of monetary instability, built a credible currency-board-like system and very quickly achieved stability. The same can be said for Hong Kong, China.[3] Stability in both cases has to be measured by the inflation rate of (in this case) the dollar area.[4]

A credible system of fixed exchange rates in Asia—a currency area for Asia—would be a step in the direction of better monetary arrangements. But a major barrier to that solution is the volatility of the dollar-yen rate. Hong Kong, China; the PRC; and Malaysia have fixed exchange rates with the dollar, but could not have fixed exchange rates in general unless the dollar-yen rate were also fixed. If that rate were fixed, the advantages of fixed exchange rates based on the dollar would be unquestionable.

Given the reality of the current situation, including the prospect of volatility of the dollar/yen rate, the desirability of fixed exchange rates with the dollar depends on an assessment of what US monetary policy is likely to be in the future. In looking over the history of US

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3 It should be noted that Argentina got into trouble with its currency board in the wake of the Mexican crisis in 1995 and the Brazilian devaluation of 1999, in both cases because of speculation that the currency board system would be changed or that the peso would be devalued. Similarly, Hong Kong, China's currency board came under attack when commitment to the rate of HK$7.8 by the Hong Kong Monetary Authority came into question during the Asian crisis. The inability to establish complete credibility of the exchange rate has invited discussion of the issue of dollarization as an alternative to the currency board system.

4 This is not to say that a nation's inflation rate that is fixed to (say) the dollar will get exactly the same rate of inflation as the US. For one thing, countries have different weights in their price indexes. For another, differential rates of productivity growth in the traded and nontraded goods industries can make real exchange rate changes necessary, and these will show up in differential inflation rates. For example, Hong Kong, China's inflation rate was consistently higher than that of the US after the currency board was established, partly because the entry rate undervalued Hong Kong, China's currency, but more importantly because Hong Kong, China's productivity growth rate in the internationally traded goods industries exceeded that in domestic industries, relative to the US, requiring an appreciation of real exchange rates. In the late 1990s, however, the situation was reversed and Hong Kong, China's inflation rate became less than the US inflation rate, even causing deflation in Hong Kong, China. The explanation for that shift was the information technology revolution in the US, coupled with the integration of Hong Kong, China with the PRC.

monetary policy, it needs to be recognized that the Federal Reserve System was only created in 1912. It is really the youngest of the central banks in all big countries. That is why Keynes said in the 1920s that Britain could not rely upon fixing to the dollar, because the Federal Reserve was “too inexperienced”: it would be pressured by special interests, and might not run a stable monetary policy. As it turned out, Keynes was right, because at the worst possible moment, in the early 1930s, the Federal Reserve shifted course from inflation targeting to the gold standard, bringing on the destructive deflation of the 1930s that sowed the seeds of World War II.

US monetary policy was unstable during the two world wars, the great depression of the 1930s, and the great inflation of the 1970s. It is a not a pretty record of stability! But in those periods, most other countries were also unstable and in many cases much more unstable than the US. Past experience has made current policy better. In the past two decades, monetary officials have learned from their earlier mistakes. The US has been lucky to have two outstanding back-to-back Federal Reserve chairmen in Paul Volcker and Alan Greenspan. My guess is that now the US has grown up to the task of maintaining a stable monetary policy: keeping its inflation rate under control and preventing outright deflation.

“At the present time, there does not seem much prospect for a single currency in Asia. ”

It needs to be said, however, that even the best monetary policy adopted by the US is not necessarily optimal for other countries that fix their currencies to the dollar. In the great wave of innovation associated with the new economy, growth in the United States has been exceptional, and because this growth has occurred in the traded-goods industries, it has meant that the real US exchange rate has to appreciate against those of its partners. Under fixed exchange rates, this would mean that the US inflation rate has to be higher than those of its partners in the same currency area. If the US therefore targets an inflation rate close to zero, its partners would have deflation inflicted on them. It is relevant to ask whether the US should not take into account the interests of its partners in selecting its inflation target, rather than looking at its own price level in isolation.

c. A currency-area view

Has US monetary policy been too tight in recent years? A case can be made that it has. One indication is that the dollar price of gold—always a good indicator of inflationary or deflationary expectations—has fallen 30 percent since 1995. A second indication is that the dollar has appreciated sharply against major foreign currencies, particularly the euro. A third indication is that countries with currencies fixed to the dollar through the entire period—Panama; the PRC; Hong Kong, China; and Argentina are good examples—have all experienced outright deflation in recent years. A prima facie case can be made, therefore, that US monetary policy has been too tight. It remains to be seen whether, as more countries enter the wider dollar area, the Federal Reserve Board will find it useful to adopt a wider currency-area view of inflation that takes into account the inflation rates of all the countries in the currency area.

The size of currency areas is very important. A large currency area has greater power to insulate itself from shocks than a small currency area, just as a large lake can absorb a meteor impact better than a small pond. That is why a big currency area has more "monetary power" than a small one. Other things being equal, a big country has a more stable currency and is much less subject to volatility than a small country. Even in comparing two countries, say, Germany and the US, with an equal degree of monetary stability, the dollar is more stable, because the US economy is much less subject to shocks than the German economy. The German economy was subject to the shock of the German reunification and the new spending transfers of more than $100 billion from West to East Germany. That fiscal shock upset the stability of the German economy, but the same shock would have had only about one third the effect on the US economy.

5. Prospects and Preconditions for a Single Asian Currency

What are the circumstances in Asia? The first important observation is the power configuration: three potential superpowers—Japan, the PRC, and India. Of course, if we consider the South East Asian area, India is not well into it, and India has up until recently stayed aloof from South Asian entanglements. But in the new century, India will become the most populous nation on earth and will have an important impact on the rest of Asia and the world economy. Having said that, however, I shall ignore for this discussion any consideration of a new role for India in Asia.

The power configuration is relevant, because it determines whether a currency arrangement is likely to be hegemonic. Whether or not Japan or the PRC (or India) is in a monetary arrangement makes all the difference in the world. In the same way, a monetary arrangement in the Mercosur countries would have to consider the implications of domination by the Brazilian colossus, and a North American monetary union would have to consider the domination of the United States.

a. A common currency? Not likely

Does Asia need a common currency? My answer is yes, it does need a common currency. But, it cannot have, in the near future, if ever, a single Asian currency. Here the European example is worth interpreting carefully.

Europe made an incredibly big step in the Delors report of 1989, when it made a plan for a single currency in Europe. This involved the abolition of national currencies. The Delors Committee could have said instead, we are going to create a parallel currency and use it for international purposes, and let the national currencies fall into disuse and fade quietly away. But they did not say that. They said replace. This was a big gamble at the time, because it seemed to be far ahead of European opinion on the subject or European willingness to give up that element of national sovereignty. The gamble paid off, however, because of the sense of urgency for monetary union created by German unification and fear that a reunified and independent Germany would recover its age-old tendency to dominate Europe. Europe could only take that leap because of an urgent political need.

At the present time, there does not seem much prospect for a single currency in Asia. Political integration has not proceeded far enough (and may never proceed that far). Nevertheless, it is useful to conceive of an Asian currency as an intellectual experiment. Suppose it were politically possible to create a single Asian currency; would it be good for Asia? This is an important question because if a single Asian currency would not improve conditions in Asia, there would be no point in moving in that direction by more politically feasible half-way measures.

Remember the indispensable conditions for a successful currency area. There must be agreement on the common inflation rate. Let us suppose that all Asian countries—or those that would participate in a single currency union if it were politically feasible—agree on a common inflation rate of 2–4 percent. They formulate a monetary policy along the lines described earlier, on the pattern of the euro area. It seems to me that such an arrangement would be highly desirable for Asia. Objections to it based on asymmetric shocks, immobility of labor, or differential growth rates fall to the ground, not so much because they do not create some problems, but because exchange rate changes are almost never the best way of accommodating them.

But if the countries involved did not agree that a single currency would be desirable on purely economic grounds, there would be no good argument for proceeding to, say, a fixed exchange rate currency area.

b. A parallel currency

Let us consider the idea of a parallel currency, which involves less of a political commitment. The idea of a parallel currency is that it could be used by all or most of the Asian countries. Countries could retain their own currency, but link it to the parallel currency in some fashion, and the parallel currency could be the trading currency for the Asian countries, in much the same way as a common language permits communication between areas with different local languages.

However, the problem with the parallel currency is, first of all, it requires initiative and leadership. One conclusion from the history of monetary union is that, in the past, monetary unions have almost always been hegemonic. Germany, for example, was unified but under the authority of Prussia, Italy under the authority of Piedmont, etc. Typically, there is a dominant power that wants monetary union and supplies the leadership.

In Asia, of course, Japan is in the best financial position to provide leadership. The other big country, the PRC, does not yet have a convertible currency. But Japan has three problems. One is the perceived instability of its banking system. The second is a monetary policy that seems to focus on 0–2 percent deflation, a rate of "inflation" that would be unacceptable to the rest of Asia. The third is a budgetary policy that has produced the biggest public debt in the world. Of course these problems of Japan's are correctable, and it would be in Japan's own interest to reverse its policy mix and stabilize the yen.

c. Some directions for Asia

Let me make some conclusions regarding Asia. First, does Asia need a common currency? My answer is yes, but it cannot at present have a single currency. Second, a parallel currency is possible, but requires initiative and leadership. Third—this is before we get into the common currency issue—Asia should set up a caucus of the Asian IMF members to strengthen its role in the IMF and plan for an Asian managing director at some point earlier in the future. Fourth, it should use the caucus to initiate and support a far-reaching reform of the international monetary system that would contribute to Asia's agenda and add two things: an international currency and regionalization of management. Fifth, it should set up a committee of the South East Asian Central Bank countries to study the possibility of an Asian parallel currency. Sixth, it should begin regular and mutual surveillance on convergence in these countries, a kind of informal Maastricht-like exercise. Seventh, it should inaugurate policies that would minimize exchange rate uncertainty, the big enemy, the Mecca of speculation. Eighth, it should work toward a currency area club or league based on a common anchor. Remember the experience of the Europeans. It would have been easy to create a fixed exchange rate system in Europe in 1970 because they already had one, more or less, based on the common anchor to the dollar. But it was very difficult after all the European currencies started to float and every country went its own way, with different interest rates. They all had different inflation rates after everything broke up into the chaos of floating exchange rates. For Asia, at least initially, the anchor would have to be the dollar. There will be no alternative to that at the beginning. And then, ninth, it should work toward an Asian "dollar" anchor based on the US dollar at the beginning, or the euro, or the yen or gold or the dollar. Tenth, and finally, it should set up an Asian Monetary Fund modeled on the original IMF Articles of Agreement providing for an anchored fixed exchange rate system, with the necessary differences having been taken into account.

7. International Monetary Reform Today

An Asian currency area has to be thought of in the context of the international monetary arrangements, which need reform. I think the first step toward the reform that is needed today is to improve the quality of the international exchange rate system. We have too many currency areas (zones of fixed exchange rates or monetary unions). The international monetary system would work better with fewer currency areas and less fluctuation in the exchange rates among the dollar, euro, and yen areas. These exchange rates are "public" rates because they alter importantly the levels of international indebtedness and therefore concern every country in the world. The dollar-euro and dollar-yen rates should be kept as stable as possible.

Second, there will be new currency areas and alliances. An alternative to joining one of the G-3 areas is to form regional groupings based on shared political and economic objectives. This is happening in Africa; in Latin America, there have been discussions about creating a Mercosur currency, or even a Latin dollar. Similar discussions have been taking place in South Asia.

The third factor is reform, or should we say, restoration of an international monetary system. For the disaster of the transition economies (because you cannot talk about the 1990s as a decade of anything less than complete disaster for economies, when only two or three of 50 economies have the same GDP level now as when the transition began), I place the blame partly on the currency confusion those countries met when they became free. It is also due to the difficulties and inept advice they have been getting from the international institutions. Instead of being supportive of stabilization policies based on hard fixed exchange rates, the institutions have promoted flexible exchange rates with no equivalent alternative monetary target. These countries should simply fix their currencies to another currency and use that as the anchor for their monetary stability. The creation of the euro zone should be a help in this direction. But with the euro fluctuating against the dollar, a euro-zone solution would be, at best, second best.

And then finally, let us consider the creation of a universal currency. Over most of recorded history the international monetary system has had the benefit of a universal currency based on gold, silver, or both metals. More recently, back in the days of Bretton Woods, the British Plan (also called the Keynes Plan) envisaged a world currency, a universal currency called "bancor," and the American plan (also called the White plan) envisaged a universal currency, called "unitas." In other words, the original planning at Bretton Woods made provisions for a world currency. However, it fell afoul of American interests. There is a nice passage in the diaries of (Lord) Lionel Robbins about how delegates were talking about the potential new world currency and then suddenly the Americans stopped talking about it, because they had decided it was not in US interests. Gold or the dollar would suffice in the postwar world.

The need nevertheless persisted, and persists to this day. An attempt to make up for the omission occurred in the 1960s with the creation of the SDR, a gold-guaranteed reserve asset that would have economized on gold. But in the 1970s, the gold guarantee was stripped away and it was transmogrified into a mere basket of 16, then five, and now four currencies: 39 percent dollars, 32 percent euros, 18 percent yen, and 11 percent pounds sterling.

A country now has the option of fixing its currency to the dollar, euro, or yen, or even going the full distance and dollarizing (or "euroizing" or "yenizing"). It could also fix to a basket of these currencies or to the SDR. The SDR is becoming a viable option as a unit of account for the world economy. The more countries adopt it as the anchor for their own currencies, the closer it would approximate a true international money, badly needed in the world economy. As Paul Volcker has put it, "A global economy needs a global currency."

Video Address by Mr. James Wolfenson

President, World Bank

Good morning. Let me say how grateful I am to have been invited by my friend Mr. Tadeo Chino to participate in this Poverty Forum and to recognize once again the strength of our partnership with the Asian Development Bank (ADB) and our enormous regard for both the leadership of Mr. Chino and for the steps that ADB is taking in combating and confronting the issues of growth and poverty in the Asian region. I am very happy to say that we have in the past been able to cooperate very strongly with ADB and look forward to doing so in the future. The ADB Forum and the Manila Social Forum that we had in Manila are examples of our continuing association; indeed today we will be publishing the proceedings of the Manila Social Forum in a form that will allow both the broader distribution of those ideas and a discussion of the proceedings themselves.

What I am impressed by most particularly, in terms of the approach that is being taken by ADB, is the focus that its management has brought to the aftermath of the Asian financial crisis. Being on the spot in Asia, they have the opportunity to look first hand at the issues of poverty alleviation and they have determined, as indeed have we, that it is not money alone that can deal with the questions of poverty: we already start with the issues of inequity in many of the countries in the region; the differences between the rich and the poor are increasing, not diminishing, in too many countries. I think we are united in the conclusion that trying to deal with the questions of poverty requires a comprehensive approach that must address the issues of strengthening governance, strengthening financial systems, and dealing with the evident questions of corruption that prevail in too many places in our world. Those structural issues are linked, of course, with the social issues, the issues of providing safety nets, of giving opportunities to more people, of better programs in education and health care; and of course all these are associated with the strengthening of infrastructure.

We are as concerned as ADB with the issues of changing demography. As we look at the question of poverty, we all know that two thirds of the people in poverty live in the Asian region—East Asia, South Asia, and Central Asia—and we know that the challenge for us in the context of development goals that has been agreed by the community of nations—to halve the percentage of world poverty by 2015—will only be met if we are successful in Asia. That is very clear just by the numbers, but Asia also reflects the other demographics, with greater concentrations of people coming in the next years, the next 25 years in which we will see 2 billion people added to our planet, moving us from 6 billion to 8 billion, with the largest number of those coming in Asia. And of course in addition to those 2 billion that are coming on to our planet, 2 billion of them will be moving into cities and towns.

So we have very, very special challenges that we have to face together: challenges of a comprehensive approach to development, challenges that recognize that we must first and foremost have growth; but in addition to growth, we must have not only financial resources, but must deal with the questions of structural and social issues on an equally urgent basis. This is the message which my friend Chino has been looking at. It is the basis of the discussion, which I know you will be having in this meeting. None of us here feels that we have the answer. We know that by dialogue with people who are interested in these concerns, we have a chance together at partnership to try and make a difference in what happens in terms of social equity, social justice, and poverty reduction. These issues are not just issues in economics. They are issues of individual people, of individual lives, of older people, of younger people, people who live and breathe and suffer and have joys like all of us. It is a human issue, but it is also an issue in a broader sense, not just of poverty but of peace. Unless we can deal with the question of poverty, there will be no peace on our planet in the next 25 years. So your discussions today are very important. I look forward to learning of your conclusions and your ideas, and I thank you very much for inviting me to say a few words at the beginning of this important meeting.

Address by Masood Ahmed

Deputy Director, Policy Development and Review Department, International Monetary Fund

I would like to take a few minutes and focus my remarks on where we are in the fight against poverty at the country level. From the comments that you have already heard, you know that there is a pretty broad-based consensus that the fight against poverty at the country level needs to be organized around country strategies that are comprehensive. They target pro-poor growth in both senses, e.g., target policies to spur growth which seek to influence the quality of growth so it's benefits accrue to the poor, and look at all the elements underpinning it. They are results-focused, with more emphasis on development outcomes than before. They are country-led, developed in participation and partnership with stakeholders in the countries and partners outside. I would like to spend two minutes on each of these elements, particularly focusing on how I think we can advance the agenda on each of these three areas in this coming week.

Two years ago or so, pro-poor growth was a nice slogan, but it was very tough to get a good definition of what people meant by it. This is a very exciting time, because if you look at what people think about pro-poor growth, at the factors in the field, a lot more substance is being put into the concept of pro-poor growth: trying to bring together traditional aspects of how to get the economic fundamentals in place, how to get the private sector investment climate in place, how the concept is linked to issues of governance and public expenditure management, and also to issues that are outside the traditional walls, like Amartya Sen's functioning capabilities framework. I think that we are now moving further in terms of looking at measures of pro-poor growth and trying to see how to marry these concepts together. I do not think we yet have a very coherent, fully integrated framework for pro-poor growth, but looking at some of the papers that are being given here, I am looking forward to the discussion that will take place.

Still on pro-poor growth, we are still pretty weak in figuring out how to get in place the elements that would generate sustained pro-poor growth. This is even more of an issue for a lot of countries in Africa than it is for Asia. In other words, we now have a better understanding of what those elements are, but I think the institutional, social underpinnings that will lead to those elements being in place is an area where we are still struggling collectively to learn how to use them.

Second, the focus on results. I see the focus on results as having two dimensions. One is a much stronger emphasis on effective use of resources: accountability, transparency, good governance, and better management of public resources. There are lots of examples—each of you knows better than I do—where money is simply wasted, so a strong focus is needed, a political focus, in developing countries and in industrial countries that are providing assistance, on getting much stronger, more transparent, accountable use of money. But there is another dimension of the focus on results that is in some way, I think, analytically much more challenging: we have to recognize that in a lot of areas the link between inputs and outcomes is not very well understood. In a lot of areas, the link between policy actions, expenditures, and outcomes is something we are still doing a lot more research on. So the focus on development outcomes is also a way of providing a feedback loop to revise the design of policies and the allocation of expenditures in a way that has the most impact on improving welfare. A huge effort is going on now in countries to try and develop the databases and the infrastructure to be able to monitor results and gather baseline data on things like the social welfare indicators, simple things like enrollment rates or mortality rates or access rates or service delivery surveys. There is a whole range of data, but there is a big rush to move the emphasis further along the spectrum toward outcomes.

The third point is, of course, the importance that poverty reduction efforts be country-led and participatory. And again I will make two points. One is that, precisely because we do not understand very well the link between inputs and outcomes, it is essential to bring into the process, both of design and of implementation, a broad spectrum of people who bring a different perspective on how they see the link between inputs and outcomes. So, if you are sitting in the center, in a finance ministry or planning ministry, you have one perspective on how inputs—whether they are resources or policies—affect development outcomes. But nongovernment organizations that are on the ground have a different perspective, representatives of poor communities have a different perspective, international institutions working with lots of different countries have yet another perspective. It is by bringing these perspectives together that we move toward an evidence-based approach to getting the maximum impact for the inputs that we can afford to put in. So I see the emphasis on participation as being partly the question of bringing in that broader perspective. But we are also struggling to see how to balance these different elements. At the end of the day, governments are still accountable in managing their policies. How do you do that in a way that reinforces the dynamic for participation within each country?

"It is important to bring into the process... a broad spectrum of people who bring a different perspective on how they see the link between inputs and outcomes."

Now, let me conclude by saying one word in the international dimension. A lot of our discussions are about how you support better poverty-targeted outcomes at the country level, but these actions have to be complemented by things that can be done right or wrong at the international level and that have a big impact. One of those is a discussion of how the international monetary and financial system affects the ability of countries to make a dent in their poverty profile. The Asian crisis is a perfect example of how the international and domestic aspects interlink in a way that demonstrates the impact of it. I think Professor Mundell's lecture also raised a number of these issues.

Now, we can go into the substance of those points, whether or not it agrees with those particular prescriptions or not. But that is not my point here. My point is that it is absolutely right to emphasize that the country-level fight has to be complemented at the international level by efforts to get the system in place that reduces the drag on country efforts to achieve poverty outcomes. The second dimension of that international effect is of course market access. It makes no sense at all to encourage countries to improve their productive capacity, but then to impede their efforts to actually use that productive capacity. A very interesting confluence of energy is taking place this year among academic institutions, international agencies, nongovernment organizations, and civil society, focusing on market access for the poorest countries, particularly as being an issue that now needs to be tackled after debt. I think it is a very good issue for us to deal with now, because without market access, some of the proceeds from national efforts to deal with poverty cannot be realized.

So I just wanted to say that from the point of view of the International Monetary Fund, both the national and international issues are important. Eighteen months ago, we replaced our old programs with a new approach that in fact, like those of many other agencies represented at this table, is using our concession assistance directly in support of these strategies that we are all now talking about as being the basis for moving forward.

Address by Jean-Claude Faure

Chairman, Development Assistance Committee, Organization for Economic Cooperation and Development

I feel very honored and pleased to be among you today. This Forum may indeed play a significant role—both to fully take stock of the status of the current debate on poverty reduction strategy in a globalizing world, to contribute to the clarification of issues and prospects, and to convince everyone of the timely opportunity we have to move forward together, in action.

These days, changing global dynamics are adding new dimensions to the poverty "problematique." To long-standing convictions that poverty relief must be centered on moral and humanitarian grounds, there is now an increasingly powerful incentive: enlightened mutual interest. The scope for strengthening human security, increasing global prosperity, and reducing social as well as environmental stresses will more and more turn on the extent to which poverty on a global scale can be vanquished.

Broader developments heighten the urgency of addressing poverty. Globalization holds great promise. But it also threatens to widen the divide between rich and poor and to increase the risk of a two-track world. Globalization will not deliver its potential benefits if it works for only a few, leaving the others still confronted with the risk of marginalization and of not integrating with the world economy.

The current conjuncture for confronting poverty is promising. There is new broad global commitment to halving the portion of people living in extreme poverty by 2015. Developing countries are establishing and implementing strategies to achieve this goal. The development community is putting together a coordinated and focused response, mustering the necessary political will and establishing essential frameworks and mechanisms for organizing a more concerted and effective assault on poverty.

The time is ripe to seize the opportunities at hand. It is essential to deliver on promises, convictions, and goals, following through with commitment, resources, and well-founded efforts. We must decisively move from vision to achievement.

What does this mean today for the donor community? In 1996, the Organization for European Cooperation and Development (OECD) Development Assistance Committee (DAC) strategy, *Shaping the XXIst Century: The Contribution of Development Co-operation*, set out a vision of development cooperation based on partnership to realize development strategies owned and led by developing countries' governments and civil societies. It also committed DAC Members to assist developing countries in achieving the International Development Goals, many of which address the key dimensions of poverty.

Faced with this challenge, and determined to work more effectively to reduce poverty, DAC members are currently developing a set of guidelines to help orient, concert, and improve their individual and collective efforts.

1. Coming to Terms with the Challenges of World Poverty

Coming to terms with the huge and complex challenges of world poverty calls for developing an understanding of its nature and of the most effective approaches to addressing it. Poverty is multidimensional, encompassing a range of different dimensions of deprivation and denoting people's inability to enjoy adequate social standards of human well-being. These dimensions of poverty cover several distinct aspects of human capability, including economic (income, livelihood, health, literacy); political (empowerment, democracy, human rights, voice); sociocultural (dignity, participation); and protective (insecurity, risk, vulnerability).

Causes of poverty vary widely from one country to another. History, geography, and governance, all key elements shaping developing patterns at the national level, have a formative impact on poverty.

Balanced attention to pro-poor growth and reduced inequality are needed. Reducing poverty calls for rapid, pro-poor economic growth based on efficient and competitive markets. There should be a balanced division of responsibilities between the State, the private sector, and civil society. Pro-poor growth, however, is not enough. Strong efforts are also needed to reduce asset and income inequalities. Inequality tends to slow the pace and lower the quality of growth and, in many instances, to undermine the effects of growth on poverty reduction. Development agencies should focus attention on these issues and help develop and strengthen coalitions supporting reforms to reduce inequalities.

Empowerment of the poor is decisive for achieving impact. Powerlessness, injustice, and exclusion from social participation accelerate, accentuate, and perpetuate poverty. Rights-based approaches to poverty reduction seek to strengthen the framework of norms and institutions that protect universal human rights, including children's and workers' rights, through open and effective political, economic, legal, and judiciary systems.

Higher quality and easily accessible social services continue, of course, to be core elements of effective poverty reduction strategies. Social service expenditures need to be coupled with incentives and opportunities to improve the quality and reach of essential public goods for poor people. Private sector involvement can help to improve management efficiency for some services, particularly water supply and sanitation.

Successful poverty reduction depends on sound analysis, assessment of policy effectiveness, and a common agenda among all development partners.

2. Forging Effective Poverty Reduction Partnerships

Second, forging effective poverty reduction partnerships is essential beyond the common view of poverty reduction strategies. The emphasis on working in partnership to reduce poverty calls for a comprehensive rethinking of development cooperation practices. Six principles should govern agency approaches and action in this regard:

- Partnership approaches, which facilitate and strengthen local ownership, should be the basis for all development assistance efforts.
- National ownership of poverty reduction strategies, including locally determined policies and priorities, is essential for development effectiveness and should be constantly respected and promoted in all interaction with partners.
- Agency support for national poverty reduction strategies should be based on a sound assessment of the merits, drawbacks, and tradeoffs of the chosen approach.
- The active participation of a range of partners and empowerment of the poor is of vital importance.
- Better coordination and long-term commitment is necessary to strengthen partnerships and impact.
- Development efforts should be monitored and evaluated with government partners and poor people themselves, in order to assess partnership performance and to secure and maintain pro-poor effects.

We have learned that sound and productive partnerships are based on trust, mutual accountability, and a shared commitment to the goals and objectives to be achieved. This is governance. Partners need to assess each other's performance—partner country performance, of course, but also development agency performance.

Marshalling all potential development partners will ensure ownership, sustainability, and effectiveness of strategies to combat poverty. Partnership means dialogue with and beyond governments. More partners and a broader range of partners should be engaged in the policy dialogue process accompanying efforts to develop and implement strategies. This includes civil society actors and the private sector.

Generally, resources should be allocated where there is greatest scope for reducing poverty. Dealing with underperforming countries calls for close collaboration with other bilateral and multilateral partners.

We in the aid provider community fully understand that reducing poverty is a deeply political process. Efforts to undertake pro-poor structural and policy reforms in partner countries often raise difficult political issues. In participating in development cooperation, agencies cannot ignore these tensions. Supporting government efforts to engage society in dialogue on development options and choices will enable agencies to understand better the local social and political dynamics.

We also know that aid coordination in the context of partnership is the joint responsibility of all partners, although it should be initiated and led by partner governments. Bilateral and multilateral agencies should undertake more disciplined and sustained efforts to work with one another with a view to assuring coherent messages and focusing on fundamental needs and collaboration opportunities. Closer collaboration with multilateral and regional institutions is key to leveraging development cooperation resources and impact.

3. Translating Objectives into More Effective Programs

It follows that success in reducing poverty will depend on agencies' translating their objectives into more effective programs, using partner countries' strategic frameworks, an appropriate mix of aid instruments, and applied best practices. Let me mention four points here. First, agency programs should, first and foremost, build on partner country institutions, policies, and national poverty reduction strategies. It should be the point of departure for allocating external assistance. In supporting, for instance, the Poverty Reduction Strategy Paper (PRSP) approach, which is relatively new and uncharted, agencies should ensure that it supports and does not duplicate or undermine indigenous efforts to develop poverty reduction strategies; that it tolerates differing formats and standards; that it accommodates often overstretched country capacity; that it allows time for local ownership to grow; and that it sets realistic targets, recognizing that poverty reduction cannot be achieved overnight.

"In all cases, strengthening partners' own capacities to reduce poverty should be an overriding objective for technical assistance."

Second, agencies need to sharpen the poverty reduction focus and impact of country programs. As regards impact on poverty, each instrument has its advantages and drawbacks, depending on the partner country situation. Among them, program aid opens the way to a continuing dialogue on pro-poor policies and sector support holds potential for shifting attention to poverty and inequality. But partner-led projects can also make a lasting impact on the livelihoods of beneficiaries. Projects that address poverty will have greater impact when they are embedded within a broader development framework, such as the national poverty reduction strategy. In all cases, strengthening partners' own capacities to reduce poverty should be an overriding objective for technical assistance. Technical cooperation has a continuing and fundamental role to play.

Third, agencies should consider, where appropriate, changing the way they act. They should consider how to address the systemic institutional change needed if the traditional donor-recipient country relationship is to be reconstructed. Agencies may reduce the burden created by multiple administrative and financial requirements and poor agency coordination of policies and activities. Efforts should focus on streamlining, simplifying, and harmonizing practices, procedures, and reporting requirements. We in the DAC have embarked on this exercise, which the multilateral banks, on their side, launched some time ago. Decentralizing staff resources and decision making to the field may, in that respect, help DAC Members to improve implementation. This argues strongly for due consideration to be given to increasing collaboration and sharing expertise and information among all agencies, or to relying more on local expertise.

Fourth—and this is essential—policy coherence across OECD/DAC governments matters. Success in reducing poverty requires coherent development cooperation policies as well as overall policy coherence across OECD member government policies. Better policy coherence can substantially augment agency efforts to help poorer countries reduce poverty. In fact, policies from other areas of DAC member governments, such as trade, investment, finance, and agriculture, may have far greater potential impact on reducing poverty in developing countries.

Policy coherence is a profoundly political challenge. It involves domestic constituencies and interests. A key step for establishing government wide commitment to policy coherence will be for governments to decide the level of emphasis to be given to international development concerns and objectives, and then for all parts of government to be consistent with this when formulating and implementing policies. This approach should encompass a wide range of policies, but OECD member countries should focus on six priority policy areas, where policy coherence can have a significant potential impact on poverty reduction, and where the likelihood that policy changes can be achieved is present. These include

- international trade and direct investment,
- agriculture and food security,
- global capital movements,
- natural resources and the environment,
- social issues, and
- governance and conflict.

There is a need for careful analysis of the role of each policy, its impact on poverty, and where within government a policy can be, and should be, be adjusted for enhanced coherence. The DAC checklist of questions on policy coordination processes can be a useful tool in promoting overall policy coherence. This checklist will be presented to OECD Ministers in May 2001, as a benchmark to guide public policies throughout the OECD.

In short, these guidelines and this checklist provide knowledge, sequence, and shared views and orientations to assist bilateral agencies as they work with partner countries, with one another, and with multilateral institutions, to ensure that that process in this new century is truly partner-driven and inclusive of all.

Today this forum provides a welcome opportunity to help us move on. So that, as a recent report puts it, “globalization may work for the poor.”

Thank you very much.

Address by Hafiz Pasha

Assistant Administrator and Director, Regional Bureau for Asia and the Pacific, United Nations Development Programme

Last September, the United Nations Millennium Assembly of more than 160 world leaders put ending poverty at the center of their goals for the next century—the foremost goal being to halve the proportion of people living in extreme poverty by 2015. At present, nearly one in five people (some 1.2 billion people) lives in extreme poverty, subsisting on the equivalent of less than a dollar a day. This number remains broadly unchanged from a decade ago. And while there has been enormous progress in some parts of the world, notably in Asia, the fact is that in more than 50 countries, mainly in Sub-Saharan Africa, per capita incomes are lower now than they were a decade ago (United Nations Conference on Trade and Development, *The LDC Report 2000*).

Poverty, however, is more than the deprivation of incomes. It is a denial of rights, of opportunities, of hope for the future. Poverty is reinforced and reflected in the fact that the poorest 20 percent of the global population is 14 times more likely to die in childhood than the richest 20 percent, and that 113 million primary school age children, the majority of them girls, are still denied an education.

For these reasons, the Millennium Declaration also set out a range of poverty targets for the next 15 years—from stemming the spread of HIV/AIDS, malaria, and tuberculosis; to cutting rates of infant and maternal mortality; and to increasing access to primary and secondary education, particularly for girls.

These targets now give the world a shared destination and a timetable for tackling global poverty. But we need a clearer vision and map of how to get there. And to get there, we must avoid past mistakes and learn from successful experiences. Take the case of East Asia and the Pacific, where, for instance, the proportion of extremely poor people has plummeted from 28 to 15 percent in just the last 10 years (World Bank, *World Development Report 2000/01*). In fact, continued improvements on this scale in Asia alone, where two thirds of the world's very poor people currently live, would have a significant impact on global poverty by 2015.

The challenge facing us now is to accelerate and widen this circle of successful poverty reduction, and if we understand and listen to the economic and political lessons of the past, they provide us with the key starting points:

- selecting, pacing, and sequencing policies capable of fostering equitable economic growth;
- establishing and increasing the efficiency, transparency, and accountability of institutions that manage economic reforms;
- fostering country ownership of the reform process;
- reducing national inequalities;
- ensuring that adequate resources are mobilized for poverty reduction; and
- harmonizing national poverty reduction strategies with more equitable global economic and financial regimes.

Let me expand on these points and in so doing present the views of the United Nations Development Programme (UNDP) on Poverty Reduction:

1. Widening the Circle of Successful Poverty Reduction

    a. Select, pace, and sequence appropriate macroeconomic policies that promote and sustain equitable growth

Typically, macroeconomic policies such as fiscal, monetary, and exchange-rate policies have been used as instruments to stabilize and adjust economies, and to lay the conditions for economic growth. The essential objective of stabilization policies is to manage inflation and the fiscal deficit. However, does this preoccupation with fiscal deficits lead to the adoption of macro policies that are pro-poor? We know from the experience of many countries that national budgets and essential poverty-related expenditures are often squeezed because reducing fiscal deficits and controlling inflation acquires a higher priority.

"The fact is that long-term dependence on external financing is not healthy. Poor countries need to refocus attention on domestic capital formation and credit provision."

Further, with the simultaneous liberalization of various sectors of economies, we have also witnessed crises and dislocations—and we have seen that it is the poor who bear the costliest burden of such adjustments. Take, for instance, the relation between trade and financial liberalization. The Asian financial crisis demonstrated clearly how trade liberalization policies in the context of financial liberalization could severely exacerbate poverty and inequality. In Indonesia, the severe devaluations of the rupiah meant that basic food and medicine became unaffordable and unavailable to a large majority of the poor.

What this has taught us is that the links between macroeconomic policies and poverty reduction are critical and must be developed, keeping in mind the country's specific development needs. The selection, pacing, and sequencing of macroeconomic policies is therefore extremely important if poverty reduction is truly the overarching objective.

And if poverty reduction is a priority, then assessing the impact of proposed reforms on poverty must be a priority too. Such impact assessments could ensure that where the proposed reforms have potential negative effects on poverty reduction, the reforms could be redesigned, sequenced differently, delayed, or even halted.

Recently, this objective of aligning the macroeconomic framework with a country's poverty reduction strategy has been established as the blueprint for a new international development initiative—the Poverty Reduction Strategy Paper (PRSP)—an initiative led by the World Bank and the International Monetary Fund for countries seeking debt relief or concessional finance from the International Development Association or the Poverty Reduction Growth Facility. In the next two years, 70 countries (including 10 in the Asian region) will prepare PRSPs.

However, a preliminary review of the first set of interim PRSPs indicates that the concern with fiscal deficits and inflation continues to be at the core of the macroeconomic framework being adopted. Although the PRSPs were to assess the impact of proposed reforms on poverty before they were undertaken (ex-ante assessments), this has not yet happened. Consequently, there is not much discussion on realistic policy choices and tradeoffs.

b. Establish and increase the efficiency, transparency, and accountability of institutions to manage macroeconomic reforms

For macroeconomic reforms to succeed, developing countries need effective and functioning institutions. Indeed, an important lesson of the crisis in Asia was the caution to policymakers that developing countries should not liberalize their capital accounts until their core economic and financial institutions are more mature. Building capacity for public sector management is thus critical, and a high priority should be placed on strengthening countries' macroeconomic institutions, especially the central banks and finance ministries, and on making such institutions more transparent and accountable to their citizens and parliaments.

c. Foster ownership of the reform process

Emphasis should also be placed on bringing the main elements of macroeconomic policies and tradeoffs into the public domain. This would allow a public discourse on the full consequences of these policies, including their social dimensions, and could help achieve a balance between economic and social priorities and enhance the acceptance of the chosen macroeconomic policies—even facilitate their implementation. Indeed, one reason why reforms have been derailed in some countries is the lack of ownership of the reform process. It is not sufficient to have governments and parliaments endorse policies. It is extremely important to build a domestic constituency for reform and bring in other voices and stakeholders, such as civil society groups, nongovernment organizations, and private sector actors, to inform the decision-making process.

d. Focus on inequality and distributive policy

In the past, policies to stimulate economic growth were considered adequate to meet poverty reduction targets. However, evidence shows that inequality is a major impediment to poverty reduction. Growth alone, in many countries, will not be sufficient to halve income poverty by 2015. In some very poor countries, too many people are too deeply poor. In some middle-income countries, initial inequality is too great. Inequality works against poverty reduction in two ways: it slows growth, and it increases the difficulty of channeling the benefits of growth to the poor. Recent studies have shown that countries with high inequality will need a rate of growth more than twice as high as that for countries with low inequality if they are to meet the benchmark target of halving the proportion of the population that is poor by 2015. In short, these results underscore the importance of addressing inequality as an obstacle to reducing poverty.

This reduction in inequality may be achieved through the redistributive empowerment of the poor through higher shares, access, and control of appropriate assets (such as land and education), institutions, technologies, and markets. Fiscal policies can be used to shift expenditures for poverty-related programs to lessen the degree of inequality in countries.

e. Ensure adequate resources for poverty reduction

In a fundamental sense, success in poverty reduction will depend on the availability of adequate resources to finance poverty-related expenditures. For the heavily indebted poor countries and the least developed countries, debt relief and concessional finance are not the answer, even though they are critical in the short term. We must also be vigilant about the use of additional lending as the principal means by which to finance poverty-related expenditures, especially since this can increase these countries' future indebtedness and debt service obligations.

Further, we must be cautious about international capital flows, especially portfolio flows. As the world learned after the recent shocks in Asia, the former Soviet Union, and much of Latin America, such money is fickle. Large inflows one year can be followed a year later by panic-driven outflows, wreaking a devastating effect on the economy and particularly on the poor. The fact is that long-term dependence on external financing is not healthy. Poor countries need to refocus attention on domestic capital formation and credit provision. Effectively, much more attention needs to be paid to encouraging domestic savings. This is a daunting task, especially for very poor countries with undiversified economies, but we cannot shy away from it. We need to explore innovative proposals for mobilizing domestic resources for poverty reduction, such as those advocated by the Peruvian economist Hernando de Soto, to legalize informal sector ownership as a means of giving the poor real assets against which they can raise capital.

"Developing countries as a whole would stand to gain as much as an extra $150B (three times the total flow of aid) if all developed countries tariffs were cut in half."

f. Harmonize national strategies for poverty reduction with the global context

In an increasingly interdependent and integrated world, national poverty reduction strategies must be harmonized with global trading and financial regimes. Asymmetries in the global trading regimes can impact significantly on countries' efforts to reduce poverty. Last year, for example, the price of the world's second most widely traded commodity, coffee, plunged nearly 50 percent, and other key products such as timber and coconut oil fell 40 percent or more, while oil prices soared. Oil-importing developing countries consequently suffered a double shock. These problems were exacerbated by the fact that most rich countries are still very reluctant to open their own markets, particularly in agriculture and textiles. Developing countries as a whole would stand to gain as much as an extra $150 billion (three times the total flow of aid) if all developed countries' tariffs were cut in half.

In developing countries, even those with a low exposure to international trade, the opportunities and risks of globalization can overwhelm rational decision making. Developing countries need a global strategy, not just a national one, and we need to ensure that the opportunities offered by globalization are harnessed by developing nations. In this context, we must encourage faster and more effective global technology flows to poor countries, and much better application of those technologies to real development needs. The most important of these are information and communication technologies (ICTs). Through strategic use of wireless communication, Internet, and other applications in areas from health care to education to service provision to business development, there is for the first time the real potential for very poor countries to leapfrog into a new dynamic path of economic development.

2. The Role of the United Nations and the United Nations Development Programme

As the developing countries' development agency, UNDP is taking the lead within the United Nations system in tackling the overarching target of halving world poverty. But given such a multifaceted challenge, we are also carefully rethinking our direct role in development. Where can we make the best and most effective contribution, drawing on our strengths while leveraging our comparatively limited resources to play a properly catalytic role in developing countries?

The answer lies in sharply narrowing our focus, moving out of lower-impact projects done better by others, building on our critical assets of developing country trust and expertise in the human development area. In this way, we can make a pivotal contribution to meeting the development targets, by undertaking the following:

- Helping stimulate debate at the global level on policy alternatives to create a more inclusive global economy; taking a more aggressive advocacy role to push for wider, deeper, and faster debt relief and trade access; and providing concrete support to developing countries to build their national capacities in this critical area by working with the World Trade Organization and other partners on initiatives like the Integrated Trade Framework.

- Drawing on the unmatched data and ideas contained in our global, subregional, and national *Human Development Reports* to help support a new *State of the World Report*, to be published annually by the Secretary General, which will detail and benchmark progress toward the Millennium Declaration development targets.
- Combining this information with our support to national poverty surveys to analyze trends and recommend key policy remedies to governments, and using that information to help them build capacity in critical areas, such as more accountable public resource management and direct assistance in drawing up national poverty strategies—the latter something more than 80 of our country offices around the world are already working on.
- Using this platform to expand our support and involvement in the PRSP process—but making sure that our role is to help keep country interests front and center, while bringing human development issues to the heart of the process; and where appropriate, offering alternative macroeconomic policies and scenarios, while constantly reviewing results from pioneering early initiatives.
- Ensuring that this support and analysis is used to help integrate related development issues, most notably empowerment of women and protection of the environment, which are much talked about in principle but in practice often sidelined at critical policy decision points.
- Engaging in direct promotion of human development, by helping governments create an enabling environment for the spread of new technologies like ICT.
- Promoting access to sustainable energy sources, something that not only benefits the environment but has a liberating impact on poor women by reducing the amount of time they are forced to spend foraging for firewood and other fuel.
- And last, but certainly not least, strengthening and expanding our democratic governance programs to increase participation of and protection for the poor at all levels of society, by helping governments establish human rights programs, strengthen parliamentary operations and oversight, and improve the policy environment for civil society and the media to boost accountability.

But to make this combination of cutting-edge advice and strategic advocacy successful, we need a critical ingredient: partnerships. That means working closely with our program countries, our partners in the United Nations Development Group, the World Bank, regional development banks, bilateral partners, regional and national policy institutions, civil society, and the private sector. Indeed, only by combining our collective energies, commitment, and resources can we hope to attain the Millennium Summit targets.

Address by Roger Ehrhardt

Director General, International Financial Institutions, Canadian International Development Agency

1. Introduction

As my title suggests, I do not have specific responsibility for development policy or for Asia programming within my organization, the Canadian International Development Agency. While I have previous experience in both of these areas, my current and most recent responsibilities have been with respect to multilateral development institutions, both the United Nations (UN) and international financial institutions.

In my remarks, I will thus take a somewhat broader approach to this topic, which I hope can provide some "added value" to the discussions of a poverty-reduction focus. I plan to organize my remarks around two broad themes: (i) opportunities created by the emerging international consensus and (ii) challenges of coherence.

2. The Opportunity from Consensus

It could be argued that we now have an historic opportunity, in that there is a clear consensus emerging on the "what" of development—that is, what are we trying to achieve—and at least the broad outlines of the "how"—how we can achieve it.

In terms of the "what," of course, there are the International Development Goals: a compilation by the Organization for European Cooperation and Development (OECD)/Development Assistance Committee (DAC) of some key targets that emerged from the Global UN conferences of the early 1990s. These have in a sense come full circle and have now been endorsed as the International Development Goals by the UN.

An overarching concept behind these goals (and indeed one of the goals) is the theme of poverty reduction. As we heard at our opening sessions on Monday (and will likely hear in this panel), nearly all development institutions, whether the World Bank, the Asian Development Bank (ADB), the United Nations Development Programme, or bilateral aid provider agencies, have endorsed the reduction of poverty as their fundamental priority. As we have also seen in discussions these last four days, it is not always clear what works, or how, but at least we are all moving toward a common goal. (As an aside, I would note that I am impressed by the broad approach of ADB to poverty reduction, with its three pillars of pro-poor economic growth, good governance, and social development).

In terms of the "how," I would highlight the broad acceptance of what have become known as the Comprehensive Development Framework principles. These are

- a long-term vision and strategy;
- enhanced country ownership, including participation of all segments of society;
- stronger partnership between government and all aid providers; and
- accountability for development results.

All of us in this room are well aware that these principles have been discussed in various ways for a number of years. As an example, I would refer you to the "partnership principles" in the DAC's *Shaping the 21st Century*. We must, however, acknowledge the important role that World Bank President Jim Wolfensohn has played in giving these principles the high profile needed to advance and sustain them.

3. The Challenge of Coherence

The second theme I would like to discuss could be called partnership or coordination; but I prefer the term coherence, the reason being that this broader concept can be addressed at a number of levels. This is also an issue that has not received sufficient attention in the sessions this week, at least not in those that I have been able to attend.

Because of where I sit within my organization, I will start the discussion of coherence at the level of shareholders. All of you in the room (except those who work in these institutions) are in one fashion or another shareholders or members of a broad range of multilateral institutions. Some, like me, may be involved in establishing government policy toward these organizations. In terms of coherence, this is an area where I believe there is much room for improvement. While we often spout rhetoric of having the multilateral institutions specialize—using words such as selectivity, focus, comparative advantage, or division of labor—our deeds seldom match our words. To be more specific, what we state as a broad policy thrust, we seem to lose sight of when it comes to our behavior at individual institutions. Instead of promoting selectivity and focus, we tend to want to make all institutions of which we are members be all things to all countries. We seem to want each institution to address all the key issues on the agenda. Let me give you two concrete examples:

First, during negotiations for the recent replenishment of the Asian Development Fund, which were completed in September of last year, donor members often raised the concept of the value added of ADB, and its need to focus. Yet in the Replenishment Report, which was based on what shareholders said, there is no sense of priority or focus. The list of issues that ADB is expected to address seems endless. One participant described the list as a Christmas tree, on which each donor added its favorite decoration. (As an aside, I would add that there are of course positive aspects of the replenishment report: two I would highlight are the decision to develop a performance-based allocation system, and the emphasis on improving working relations between ADB and the World Bank.)

A second (and broader) example is the issue of HIV/AIDS. There is no doubt that greater resources are required to address this issue in all regions of the world. And because of growing concern about the impact and spread of HIV/AIDS, all countries are calling for enhanced efforts. This concern has been translated into a call by shareholders and members of international institutions for them to do more—perhaps a logical position. But this position has tended to mean that each institution has developed its own expertise, its own policies, and its own programming on this issue. Is this potential overlap not a waste of scarce intellectual resources? Would it not be more sensible to suggest that the technical skills of the World Health Organization or the United Nations Children's Fund and the coordinating mechanism of United Nations Agency for AIDS be used to lead the programming, even if resources are being channeled through another international institution?

If we, as members of international institutions, believe that some sort of division of labor would improve developmental effectiveness, then we need to be serious about that approach. We need to come to some agreement among ourselves about what we should expect from various institutions. We have taken some tentative initial steps: for example, there seems to be a consensus that regional development banks are much better placed to address issues such as governance and regional integration, because of their greater understanding of the region; but we need to go beyond this consensus.

The second way in which we can address the question of coherence is to look at the institutions themselves. Is the plethora of international institutions that now exist willing to work with one another? I would suggest that unfortunately there are often battles over who will lead, about who best understands a country or a region, or over who has the requisite knowledge on a topic? As we have seen during this week, there is room for debate on which approaches are most effective, and there should be room for engagement in policy debates. But there are times when the debate is not about ideas, but about who will lead.

We also see institutions themselves consistently seeking to enhance their fields of competence. While I have noted above the tendency of aid providers to push all institutions in the same directions, many institutions are willing passengers on this ride; in fact, sometimes they are out in front. At a time when development resources from shareholders are scarce, institutions tend to seek out new fields or to go into new and trendy programming areas because they think that is where money will be available. There is an all too common trend of chasing aid resources. Sitting within a bilateral aid provider agency and having a role in overseeing our work with these institutions, I can attest that there is a seemingly endless string of requests to us to fund this new initiative at this institution or another initiative at a second institution.

"International institutions... should now seize the opportunity to better define their working relationships—to decide how they will work together."

International institutions (here I am referring to the broad range of them) should now seize the opportunity to better define their working relationships—to decide how they will work together. We have seen some positive signs: the World Bank and African Development Bank have negotiated a memorandum of understanding on how they will work together; and the World Bank and ADB are now beginning a similar process. Furthermore, heads of the multilateral development banks now meet on a regular basis to discuss issues and policies. And we have seen the development of a much better working relationship between the United Nations and the Bretton Woods institutions, perhaps best illustrated by their combined work on preparations for the Financing for Development Conference, scheduled to be held in early 2002.

In the end, what is required is that all international institutions put a little water into their wine: they must be willing to focus on partnership, with the country and with each other, not on leadership.

The third level of coherence is partner countries. The rhetoric emanating from the headquarters of international institutions is certainly more oriented toward working together than it was in the past. And we can find good examples where this focus on partnership is working well at the country level. But we still hear too often from our representatives in the field that there are still too many battles over turf, too little sharing of information, too much duplication of effort, and too many demands placed on the partner country. While we are all eager to address poverty reduction and to get a clearer picture of the poverty situation in a country, we each tend to want to do our own poverty assessment, and to prepare our own poverty strategies—all, of course, placing demands on local capacity—capacity that unfortunately is often quite limited.

With the broad acceptance of the Comprehensive Development Framework principles, and with the preparation of country documents based on these principles (the Poverty Reduction Strategy Papers [PRSPs] are a good example of such documents), we have the organizational devices to enable a more coherent and integrated aid provider approach at the country level. What is required to make this integrated approach happen is a commitment on the part of the international donor community to work within this framework, particularly beginning with the concept of country ownership. Aid provider organizations should also be willing to align their own programming with the priorities that come out of these processes. In specific terms, this alignment would mean that when a PRSP has been prepared by a country through a participatory process, the PRSP should be taken by the aid provider community as the starting point for preparation of its country programming documents.

In closing, let me apologize for taking a very broad approach to our topic for this session, perhaps an approach that was broader than expected. Nonetheless, I hope it will contribute to the discussions today and in the future. The challenge of reducing poverty is so great that we must become much better at working together, in support of a country's own efforts, if we hope to achieve success, if we hope to make progress toward the International Development Goals.

The United States Agency for International Development and Poverty Reduction[1]

Patricia Buckles

1. Introduction

The United States' foreign assistance program has always had either an implicit or explicit major poverty reduction objective. Currently, the extent of the United States Agency for International Development's (USAID's) commitment to poverty reduction is not always clearly visible to the development community, because it is an implied element of our more operationally focused strategic objectives, rather than a separate objective. These objectives are broad-based economic growth and agricultural development, democracy and good governance, human capacity building, population stabilization and human health, sustainable environmental protection, and humanitarian assistance. As a result, at present USAID does not have either an official policy paper or a policy statement on poverty reduction. Nor does its official strategic framework highlight any specific references to poverty or to "the poor" (Crosswell, 2000: 3). However, USAID shares and supports, and has been a major participant in framing, the vision and goal of poverty reduction of the Development Assistance Community of the Organisation for Economic Cooperation and Development.

While poverty reduction is germane to all of USAID's activities to promote sustainable development, the Agency makes a fundamental distinction between a direct poverty reduction strategy and its own sustainable development strategy. While USAID supports DAC's global vision of poverty reduction, it stresses that implementation strategies are likely to vary from aid provider to aid provider, and that such strategies must be sensitive to the critical characteristics of the host country. Given this complexity, and based on lessons learned, USAID takes a broader sustainable development approach to poverty reduction.

2. The Sustainable Development Approach to Poverty Reduction

This approach differs from a poverty reduction approach in terms of perspective. The "lens" of poverty reduction generally focuses either on "directly improving income distribution, [or providing goods and services to the poor]and [pays] relatively less attention to

[1] The subject is drawn from *Talking points for the Asia Pacific Forum on Poverty* (ADB 2000).

economic growth" (Crosswell, 2000: 3). In contrast, the lens of USAID's sustainable development approach views "broad-based, equitable economic growth" as the "most effective means of bringing poor, disadvantaged and marginalized groups into the mainstream of an expanding economy" (Sleeper, 2001).

The fact is that over 90 percent of global poverty is concentrated in low-income developing countries. According to one USAID policy background paper, "the incidence of poverty—the share of the total population that is poor—is estimated at 40 percent for South Asia, and over 45 percent for sub-Saharan Africa" (Crosswell, 2000: 6). This profile of global poverty indicates that "most of world's poor are poor because they live in the poorest regions and countries" (Crosswell, 2000: 8). In these instances, poverty reduction largely becomes a matter of overall country development.

Analysis by USAID indicates that "there is a *close correspondence between the dimensions of underdevelopment and the dimensions of poverty*" (Crosswell, 2000: 8 [emphasis in the original]). For USAID, then, the best solution to poverty reduction in these countries is "broad-based development progress." In this discussion, we exclude the middle-income countries and many of those making the transition from Communism (Crosswell, 2000: 8).

The least-developed countries are characterized by "low average incomes and low productivity, weak and unresponsive institutions, widespread food insecurity, low levels of health and education, vulnerability to crisis and conflict, inferior status of women, and other facets of underdevelopment" (Crosswell, 2000: 8). Our experience tells us these are problems best solved through sustainable development to address these needs, rather than isolated short-term intervention to compensate for their ill effects. So, for example, USAID believes that microcredit for the poor requires sustainable financial practices and the creation of strong supporting policy frameworks and not just an increase in available funds for assorted lending opportunities.

3. Lessons Learned

East Asia, excluding the People's Republic of China, is a good example of the effectiveness of poverty reduction through broad-based development progress. Between 1987 and 1998, East Asia experienced the largest decline in global poverty. We see the East Asian "miracles" of Indonesia, Thailand, Malaysia, and the Republic of Korea, while countries like the Philippines and Viet Nam have also made significant development progress during this same period (Crosswell, 2000: 8). As a result of development progress, "the incidence of poverty for East Asia fell from 24 percent in 1987 to 11 percent in 1998" (Crosswell, 2000: 8). This exceeds the targets set by DAC for poverty reduction in the short span of 11 years, and in the face of the East Asia financial crisis.

USAID is contributing to the region's recovery from its financial crisis. "The Accelerating Economic Recovery in Asia Initiative is a regional program designed by the Agency's Asia Near East Bureau, and is a good example of USAID's approach to poverty reduction"—an approach that "recognizes that an effective response must address both the underlying causes of the crisis and resultant social impacts, as well as take steps to ensure sustainability" (USAID, 1999).

USAID is committed to poverty reduction. In an effort to better communicate its position, more explicit references to "poverty" have been incorporated in its just-revised Agency Strategic Framework. However, there have been no changes in funding priorities, primarily because in the context of the poor countries described earlier, "there is little if any difference between a strategy for reducing poverty in poor countries and a strategy for promoting development in such countries" (USAID, 1999).

It should be evident that USAID's continued commitment to sustainable development in low-income countries is a commitment to poverty reduction. And conversely, USAID believes that aid provider and receptor countries need to assure that the poverty reduction strategies they support do not diminish the prospects of long-term sustainable poverty reduction through injudicious, unsustainable immediate attempts to compensate for the effects of poor policies, institutions, and practices.

Given this situation, while USAID appreciates the usefulness of targets, it believes that actual poverty reduction activities are unlikely to be amenable to rigid formulas and approaches.

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Fostering good governance in the fight to reduce poverty

A Conceptual Framework for Designing a Country Poverty Reduction Strategy

Ronald Duncan and Stephen J. Pollard

1. Introduction

The Poverty Reduction Strategy of the Asian Development Bank (ADB) was approved by the Board in November 1999. The strategy calls for the formulation of Country Operational Strategies "on the basis of the priorities emerging from the poverty analysis and the high level forum. The Strategy will provide the analysis and set out the areas of focus, including policy reforms and sector emphases. It will also take into account the comparative advantage of ADB and the programs of other agencies" (ADB 1999).

But how should ADB select priorities for assistance to member countries, while giving priority to the poverty reduction objective? Should ADB finance airports, roads, shipping, and other means for improving market and service access for the poor? Or should ADB invest in health clinics, schools, and other forms of human capital development? Or should ADB fund natural and rural development activities, development of small and medium enterprises (SMEs), and microfinance schemes to raise the incomes of the poor? According to Stiglitz (1998), "technical solutions (to development) were evidently not enough" and "an economy needs an institutional infrastructure." What are institutions and which ones should have priority?

Certainly, there is need for improving project selection. After a review of projects that are funded by international agencies and bilateral aid providers, the Development Assistance Committee of the Organisation for Economic Cooperation and Development (DAC, 2000) concluded:

> There is very little evidence that the projects have been particularly helpful, or effective, in reducing poverty. Studies of project experiences have few successes to report. As few as only one in five projects combating poverty can be characterized as highly targeted at the specific issues which in combination define the situation of the poor. Few project interventions are sustainable when donor funding ceases. Successful projects are hard to replicate.

How can ADB projects be better grounded within an overall country program, policy, and institutional framework that will assist in rapidly reducing poverty?

2. Poverty Analysis Before Strategy Design

Governments and aid providers have increasingly turned their attention and activities, and in some cases declared a total commitment, to poverty reduction. Some have published manuals (Aho, Lariviere, and Martin, 1998), guidelines (DAC, 2000), strategies (ADB, 2000), and handbooks (World Bank, 1993) in support of the provision of assistance in reducing poverty. An outcome of all of this activity has been a focus on what is now called poverty analysis. Such analysis is primarily concentrated on describing the poor within a society: estimating how many there are, and defining them in terms of location, occupation, gender, age, health, and access to assets, markets, and public services. There has been much less emphasis on gaining an understanding of why they are in this state and why they have poor access to income-earning assets such as land, credit, education, and health care, as well as poor access to markets.

However, the situation is changing and much more attention is being given to asking why the poor are not participating in economic growth. In many cases, development assistance is dealing with mass poverty, i.e., instances in which a large proportion of people is in absolute poverty or perilously close to it. In such cases, it seems that describing poverty in great detail should not have high priority; rather, the emphasis should be on understanding the constraints to the people contributing to economic growth. If most people are poor, it is clear that the most important resource of the economy, i.e., its people, is being underutilized. It also appears irrelevant in such cases to be debating whether the focus of development should be on promoting economic growth or on reducing poverty.

Approaching development in terms of asking why the poor are not being involved in the growth process is a clear break from the approach that dominated development assistance in the second half of the 20th century. To understand how thinking about development has changed, it is helpful to review briefly the recent changes that have taken place in the way that development theorists and practitioners have approached development assistance.

3. Recent Changes in Thinking about Development

During most of the latter half of the 20th century, the dominant view among development theorists and development assistance agencies was that people and countries were poor because the countries did not have sufficient capital. Therefore, it was argued, the path to economic growth and development was to transfer capital from the richer countries. Only recently has come a wider understanding that countries lack capital and are poor because they are very unfriendly places for capital (both physical and human capital). It is interesting, therefore, to trace how the thinking about the development process has changed over the past 50 years, both in terms of economic theory and in terms of practice within development agencies. The change has in fact been a two-way process, with practical experience being reflected in the development of theory, and theoretical developments being realized in changes in the forms of development assistance.

Early mainstream Western ideas about what was important in the economic growth process were dominated by what has become known as the Solow-Swan neoclassical model of growth (Solow, 1956). Briefly, this model assumes a single output, produced using labor and capital in a constant-returns-to-scale technology with diminishing, and eventually exhausted, marginal returns to each factor. The model predicts that long-run growth rates of per capita income will equal the (assumed) exogenous rate of technical progress. Changes in savings rates or government policies will affect the levels of steady-state output and capital stock but will have no long-run effect on the growth rate. If all countries experience the same rate of exogenous technical progress, they will all converge to a common growth rate over time. Countries with different savings behavior, institutions, cultural norms, government policies, and so on, may be expected to have different levels of steady-state income and different capital-labor ratios, but their long-run growth rates would all be anchored to the common rate of technical progress.

Thus, this model, which was developed with the industrial countries in mind, placed emphasis on physical capital, undifferentiated labor, and technical progress. In early empirical applications to high-income countries, accumulations of physical capital and labor accounted for only about 25 percent of historical growth. The balance ("residual") was attributed to technical change. There were arguments over whether the technical change was "embodied" in the physical capital or whether it was exogenous, "autonomous," or "disembodied."

This theory sat well with the prevailing approach to development assistance at a practical level, which was that countries were poor because they lacked physical capital to go with their abundant labor. Therefore, the principal role of development assistance was to transfer financial capital from the richer countries to the poorer countries, where it would be transformed into physical capital, largely in the form of public infrastructure. Technical change was to a large extent seen as being transferred while "embodied" in the physical capital. Thus, there were arguments over the appropriateness of the technology transferred in this way. This approach to development probably received support from the success of the Marshall Plan in the rapid recovery of Western Europe after the devastation of the Second World War. The Marshall Plan's success was essentially seen as the result of the successful transfer of capital to those countries.

The next major change in thinking about the process of economic growth can be seen to grow out of the work of Becker (1964). Becker argued that all labor was not the same, that it was differentiated through education, training, and improvements in health care, and that household decisions about these investments in labor could be thought of in an economic framework of human capital. The insights from Becker's household consumption model were soon picked up by the development assistance agencies in the form of projects on education and health care. Only later (Mankiw, Romer, and Weil, 1992) were the ideas captured in the economic growth literature by showing that the predictions of the neoclassical model attribute much less importance to the residual if the definition of capital is widened to include human capital.

In the late 1970s there was another major change in development thinking that seems to have grown out of two pieces of empirical research. First, Krueger and Bhagwati's study of the rapid growth of the four "East Asian Tigers" (see Krueger [1978]) highlighted the importance of policy, particularly openness to international trade and investment. The corollary to their research was that the import substitution policies that had been carried on by most if not all poor countries were not favorable to long-term economic growth.[1] There can be rapid income growth in the early stages of an import substitution strategy as the protected firms expand while capturing the domestic market. However, being internationally uncompetitive, when they saturate the domestic market, income growth slows as the protected firms are unable to export.

The second major jolt to development thinking came from the World Bank, where an evaluation of the Bank's completed projects showed that many of them were failures, particularly in the poorest countries in sub-Saharan Africa. The conclusion reached—most likely with the Krueger/Bhagwati research in mind—was that the projects were unsuccessful because the policy environment was unfavorable. Thus developed the concept of the Structural Adjustment Program and "conditionality," with the emphasis on changing the policy regime so that countries were more open to trade and investment, both internally and externally. The focus on "getting the prices/policies right" was expanded to include macroeconomic policies (which were the focus of the International Monetary Fund) as well as microeconomic policies (more the focus of the World Bank and the regional banks). Agreement on this approach to development assistance became known as the "Washington Consensus."

The focus of development assistance on policies was reflected in economic growth theory with the development of the so-called "endogenous" growth models in the late 1980s and early 1990s. In these models, technical change is endogenous, an idea that appealed because it could help explain how countries could keep growing at faster rates over long periods, rather than moving towards some static growth rate as in the neoclassical model. In the neoclassical model, an alternative to expanding the capital stock is to assume that there are externalities to capital that can spill over to the whole economy, increasing returns to scale, such as through "learning by doing" (Romer, 1986; Lucas, 1988) or research and development (Romer, 1990). For example, in the differentiated-inputs model of Romer (1990) and Grossman and Helpman (1991), growth is faster the larger the scale of the research and development sector. Another implication of external effects and increasing returns models is that these effects justify government intervention, and such permanent changes in government policy can have permanent effects on the growth rate.

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1 The popularity of import substitution policies can be traced to the early success of the heavy industry" policy of the former Soviet Union (and later the People's Republic of China)—especially during the 1930s when there was such a sharp contrast between the economic performance of the Soviet Union and that of the capitalist countries during the Great Depression—and later to the writings of Prebisch (1950) and Singer (1950), who saw the need for import substitution strategies to counter what they saw as the exploitation of the primary-producing poor countries by the industrialized countries.

While the focus on the policy environment dominated development assistance efforts in the 1980s and 1990s, changes in the paradigm were underway, stemming from North's (1973, 1990) early focus on the important institutions of an economy. North's work has been given a more practical flavor with the writings of Olson (1996, 2000) and de Soto (2000). The key idea of this work is that of the overriding importance for economic growth of the basic institutions—public and private, formal and informal, and economic, social, and political—that determine how an economy functions. In this literature, "institutions" have a particular definition, distinct from the common use that is indistinguishable from "organizations." Haggard (1999) describes the difference as follows:

> Institutions refer to the formal and informal rules and enforcement mechanisms that influence the behavior of organizations and individuals in society. They include constitutions, laws and regulations, and contracts, as well as trust, informal rules, and social norms. Organizations are collective social actors, usually characterized by hierarchical patterns of internal authority, that pursue common interests. Organizations operating in the public sphere include government bureaucracies, legislatures, political parties, unions, interest groups, NGOs [nongovernment institutions], and even firms in their political capacities (p. 30).

In particular, de Soto (2000) has shown that "getting the policies right" (the focus of the Structural Adjustment Programs) will be ineffective unless the institutions essential to the participation of all of an economy's income-earning assets (land, labor, capital, and natural resources) are in place. Referring mainly to land and other forms of fixed capital, he says:

> Most people cannot participate in an expanded market because they do not have access to a legal property rights system that represents their assets in a manner that makes them widely transferable and fungible, that allows them to be encumbered and permits their owners to be held accountable. So long as the assets of the majority are not properly documented and tracked by a property bureaucracy, they are invisible and sterile in the marketplace (pp. 210–211).

Institutions are essentially the sets of rules that govern how a society behaves in particular areas of activity. As North (1990) describes them, they range from taboos, customs, and traditions in what are called traditional societies to formal, written constitutions and laws governing economic, political, and social behavior in a more modern society. Institutions may be formal—such as a constitution or traffic laws—or they may be informal, such as voluntary codes of conduct of business or social groups. The set of rules making up an institution defines the incentives to which people will respond. According to North (1990) and Hayami and Ruttan (1971), institutions change as the transaction costs of behaving in certain ways change. Transaction costs can be seen to change as economies develop and technologies improve, and as political and social forces within a society change. So, for example, reductions in transport costs—of information or goods—can make certain behaviors more or less costly, and therefore lead to a new

"Institutions are essentially the sets of rules that govern how a society behaves in particular areas of activity."

form of institution. Or increased trust between individuals and groups can not only improve social cohesion but also lower the costs of transacting contracts.

North emphasized the cost of information in the development of institutions. The provision and communication of information is required to measure the attributes of a good or service in economic exchange and to define and protect the rights that are exchanged. The more costly the exchange and its enforcement, the higher the transaction costs, and the less likely the institution is to exist or to be effective.

North (1990), Olson (1996), and de Soto (2000) have stressed the overriding importance of property rights and contract enforcement in economic growth. Well-defined and secure property rights and impartial enforcement of contracts between parties are the basis for a market economy. If individual rights to factors (land, labor, or capital) are ill-defined in legislation and all contracts made between parties to an economic exchange are not impartially enforced by the judicial system—and therefore both property rights and contracts are not free from discretionary intervention by politicians and bureaucrats—then the costs of transactions and the costs of transformation in production will make economic activity infeasible or highly suboptimal. In such circumstances, people will be reluctant to invest in fixed assets. The only businesses that will exist will be those that are "footloose," i.e., easily shifted to another location. Or private economic activity will be undertaken only with some kind of government guarantee (such as joint ventures with government, where the government will likely bear the business risks involved; or where higher profits to cover the high transaction and transformation costs are assured, such as through some form of import protection). In such circumstances, the economic activity may be largely illegal and small scale, and bribery of government officials frequent, as de Soto (1989) has shown. People will also be unwilling to invest in education, or will do so only if they have prospects of moving to another country where they will be able to earn and retain an income that justifies their investment.

Olson (1996) and de Soto (2000) explain the large and growing gap in incomes between the rich countries and those poor countries where incomes have grown very slowly, if at all, as largely due to the absence of these basic institutions, not to the lack of capital, some inherent deficiency in work ethic, or some culturally determined behavior. Prior to its break-up, the former Soviet Union had the highest per capita level of education in the world, as measured in terms of the level of schooling reached, and the highest per capita level of plant and machinery. But it remained a poor country. What it lacked was the institutions that allow entrepreneurship and innovation to flourish through effective economic transformation and exchange.

Olson (1996) demonstrates the critical importance of secure property rights and impartial enforcement of contracts. He points out that if the key missing ingredient for development were capital, then the marginal productivity of capital would be higher in poor countries than in rich countries, and private capital would be trying to move from rich countries to poor. In fact, the movement is strongly in the other direction, as we see from estimates of "capital flight." Similarly, Olson argues that institutions in the rich countries must be the missing ingredient when an individual can migrate from a poor country to a high-income country and soon thereafter earn an income that is many times higher than in his or her home country, and as high as or higher than the average income in the host country. The plane flight does not change migrants' skills and willingness to work as much as it places them in a more friendly environment for their labor and capital (no doubt what applies to labor and capital also applies to technology).

de Soto (2000) has dramatically highlighted the lack of an effective system of private entitlement to land and other income-earning assets in poor countries, and how this inhibits the development of economic activity, particularly through inhibiting the creation of capital by the poor. He estimates that the total value of land and other assets "owned" by the poor in developing countries is around US$9.3 trillion, many times the value of foreign aid or foreign investment. Yet, without the possibility of efficient transfer of these assets, or the ability to use these assets as collateral in order to raise capital (securitization), the assets have little income-generating power. Only where there is an effective system of property law can the value of land or other assets be properly established, be easily bought and sold, or become collateral, so that the wealth can be mobilized in investment capital. Without such property rights, and the possibility of securitization of assets, there can never be an effective capital market.

"The single most important source of funds for new businesses in the United States is a mortgage on the entrepreneur's house." By contrast,

> The poor inhabitants of these nations [Third World and former communist countries]— five sixths of humanity—do have things, but they lack the process to represent their property and create capital. They have houses but not titles; crops but not deeds; businesses but not statutes of incorporation. It is the unavailability of these essential representations that explains why people who have adopted every other Western invention, from the paper clip to the nuclear reactor, have not been able to produce sufficient capital to make their domestic capitalism work (de Soto, 2000: 6–7).

Aron (2000) sums up the institutional constraints in poor countries as follows:

> When institutions are poorly defined or there are few formal institutions, economic activities are restricted to interpersonal exchanges. In such cases, repeat activities and cultural homogeneity facilitate self-enforcement. Transaction costs may be low in such an environment, but transformation costs are high because the economy operates at a very low level of specialization. Economic exchange also could operate at one remove, via social networks, but contracts are still constrained by kinship ties. It is clear, however, that firms or agents in an environment of weak institutions cannot engage in complex, long-term, and multiple-contract exchanges with effective enforcement as they do in industrial economies. A basic structure of property rights that encourages long-term contracting appears essential for the creation of capital markets and growth (p. 105).

While there are many countries where the poor own assets but have no exercisable property rights, there are circumstances where the poor do not have any access to potential income-earning assets such as land or even education. In these latter circumstances there has to be some form of asset redistribution or asset creation.

It is not easy for a country to make the substantial changes in institutions or asset redistribution that are necessary to allow the poor to participate in economic growth and development. The new institutions and land redistribution that established a basis for rapid income growth in Japan, Republic of Korea, and Taipei,China was imposed by external forces. In the People's Republic of China and Viet Nam, which experienced revolutions in agricultural productivity through the changeover from collectivization to individual land rights (leasehold) and the liberalization of agricultural markets, the transformations in institutions were introduced internally but were exceptional in their breadth and speed. As North and Olson have argued, changing the status quo may be very difficult or even impossible without such dramatic intervention, because the vested interests benefiting from the existing situation usually hold political power and therefore have no interest in change. The important question therefore is how to stimulate change in such circumstances.

The 1990s has seen a large degree of attention given by the development community to "governance." This focus grew out of the concerns of the World Bank and bilateral aid providers over corruption in the governments of borrowing countries and the desire by nonpolitical organizations like the World Bank to be publicly critical about corruption. As interest in governance has grown, the scope of its definition has broadened. Early on, concerns about governance were mainly focused on the accountability and transparency of government and the political process, and the effectiveness of the government's fiscal and monetary policies.

Following Burki and Perry (1998), Haggard (1999) defines governance as "the design of institutions and organizations for making and implementing collective decisions." Broadening the focus of governance from what may be thought of as "good government" to include the establishment and operation of the basic institutions for the operation of an economy may be helpful, in the sense that it places emphasis on these basic institutions. However, if the concept of governance becomes so all-embracing, it may be less helpful. It may be more useful to keep "good government" issues separate, while recognizing that the form of institutions will have an impact on the effectiveness of government.

Economic theorists are incorporating the role of institutions within the economic theory of growth, and there is burgeoning empirical research on the relationship between institutional development and economic growth (see Aron [2000] for a review). Development agencies are beginning to focus on institutional issues. But there is not yet a full commitment to the conclusions that are implicit in de Soto's work. In other words, if basic institutions for the creation of capital and full participation of the whole society in economic activity are not in place, investments in infrastructure, education, health care, economic reforms, or public sector reforms will not be effective, and are likely only to increase income inequality—favoring those who already have access to factor markets. Building roads and bridges or undertaking agricultural research will not increase incomes as much as they could as long as people do not have secure property rights to farm land; education and health improvement projects will not promote income growth for the poor unless there is the generation of capital with which the healthier and better-educated labor force can work; privatization of public enterprises will be less than fully effective if there are not secure property rights to land and enforcement of contracts; laying off public officials with redundancy packages could see them become the new entrepreneurial class, but won't if they cannot gain secure access to land and raise additional capital through securitization of their assets; and trade and investment policy reform will see disappointing results in the form of supply responses unless there is security of property rights and contracts and capital markets are developed so that traders can raise capital and hedge their commodity and currency risks.

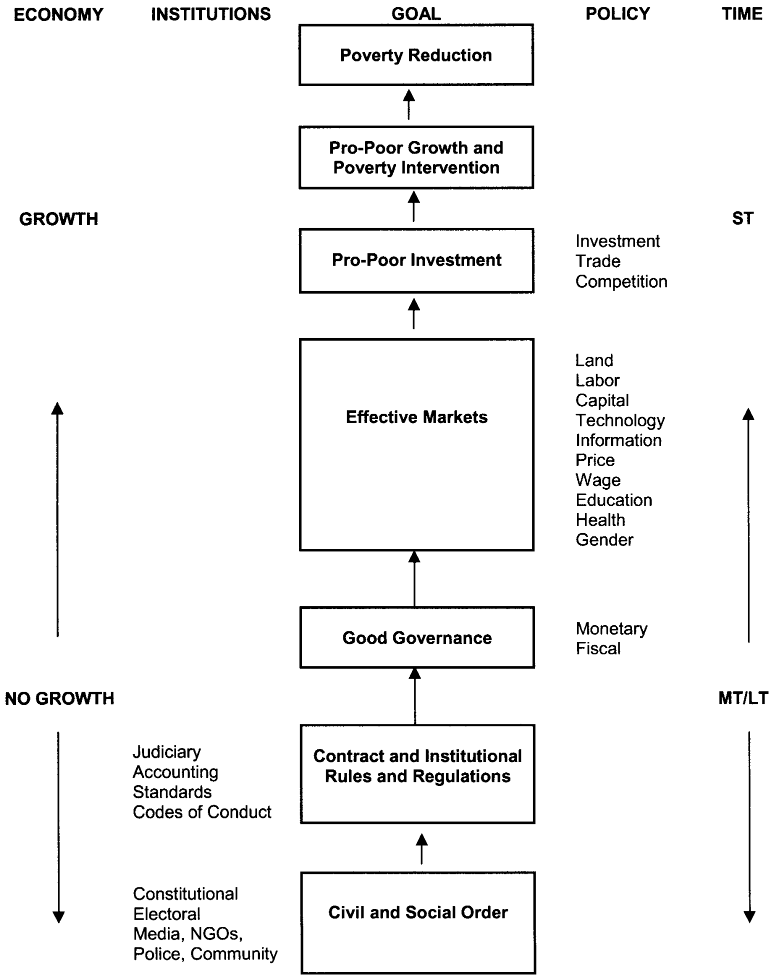
Therefore, in going about their business, particularly to ensure economic growth in which all will participate, development agencies have to undertake a fundamental reexamination of the prospects of success for their traditional forms of lending and aid. They have to examine whether there are appropriate institutions in place so that investments have a good chance of being successful. They also have to evaluate the possibilities for assisting the creation and redistribution of income-earning assets within a country so that the poor have the chance to participate more fully in the growth process. To carry out this evaluation, development assistance agencies have to be able to define more clearly the constraints impeding participation by the poor and place priorities on the removal of these constraints. We suggest below a framework within which to examine the constraints to the success of development lending. This approach can also provide a framework for the prioritization of assistance in a poverty reduction strategy.

4. A Conceptual Framework

Generally, where mass poverty persists, countries have experienced little or no economic growth. This lack of growth should not be surprising, since the country's most important resource, its people, is not able to generate much income. In some cases, there may be economic growth, but it is shared among a favored few. This is often the case where mineral or oil deposits are exploited in enclave activities. In these cases, forward and backward linkages within the economy are few. In other cases, a few favored industrial activities, operating under an umbrella of tariffs or some other form of government-guaranteed income support, may be generating high incomes for those involved in the activities. Again, the likely result is high and increasing income inequality. In all cases, the key question should be: why are the assets of most people unable to generate the levels of income that they generate in high-income countries?

Figure 9.1 provides a framework within which to think about the constraints on peoples' activities, and on the effectiveness of investment and aid, and thereby helps prioritize planned interventions in support of poverty reduction. Going from the top of the figure to the bottom is, in a sense, like peeling away the layers of covering to find out what is at the core. So the figure is designed to be read from the bottom up. The central goal of the

Figure 9.1. Conceptual Framework



Notes: LT = long term; MT = medium term; ST = short term.
Source: Author's research.

strategy is poverty reduction, and the objective of the exercise is to identify where, along the path from civil and social order to poverty reduction, the constraints to effective participation of people in the growth process lie. The assumption is that constraints have to be overcome from the bottom up.

To the immediate left of the central boxes or goals are listed the institutions that have to be in place and working effectively for the particular goal to be achieved. To the immediate right are policies that can be carried out effectively when that central goal has been achieved or policies that influence how well the goal is achieved. To the far right of the figure is noted the length of time that is expected to be needed to achieve those goals (short-term, medium-term, or long-term). To the far left of the figure is shown whether generally rising incomes can be expected, given institutional or other constraints. Economies not generating "quality" growth, i.e., growth in which most in society participate, are likely to have constraints at the bottom of the figure.

Working from the bottom of the figure to the top we see that without civil order there can be no economic development. Where civil and social order has not been established, it is likely that only intervention in the form of humanitarian aid can be helpful. Efforts to implement infrastructure or other investment projects in countries where a stable environment of civil order has not been established—as in several sub-Saharan Africa countries over recent years—has yielded a frustrating history of stop-start development assistance, with total failure of the assistance as the usual outcome. Important institutions that have to be in place for the maintenance of civil and social order are the police and the judiciary. As well, self-policing by the community—in the sense that there needs to be a degree of trust and concern for others—is also important in the maintenance of civil order. A constitution and a body of common law or custom will also be necessary to codify the rights of members of the society.

The next building block that has to be put into place comprises the institutions that form the basis for a market economy, i.e., property rights and impartial enforcement of contracts, as well as informal institutions such as codes of conduct. For these institutions to be effective, the judicial system will have to be working effectively, in particular without intervention by politicians or the bureaucracy. Trust within the society is also an important ingredient in the effective workings of property law and contracts. If there is not a substantial degree of trust between parties involved in contracts, the load on the judiciary in resolving contract disputes will make the system unworkable, i.e., the transaction costs will be too high for the institution to function.

The next building block is good governance. If the broader definition of governance were adopted, i.e., to include institutions and organizations as well as "good government" matters, there would be a single governance block. As noted earlier, it is a good idea to separate institutions and governance, as a separation forces a focus on the basic institutions necessary for a market economy to function well. To have good governance, there needs to be political stability. This stability will depend on the effectiveness of the electoral system and the constitution, as well as checks and balances that operate through the media and community groups, and perhaps supragovernment or supraparliamentary bodies that have power to monitor government behavior (such as administrative tribunals or an ombudsman). The main policies that will be affected by the state of governance are fiscal and monetary policy. These policies in turn will determine exchange rate policy and the inflation rate.

"One important issue in bringing about change will be to promote widespread 'ownership' of desirable reforms. "

If they are not already in place, establishing civil and social order, effective market institutions, and good governance will usually take a considerable length of time, and without these building blocks in place there will be no, or very limited, growth in incomes. Therefore, a poverty reduction strategy will have to give prior attention to what may be done in the short to medium term that may assist in bringing about desirable changes. To gain an understanding of any shortcomings in these areas, it will likely be necessary to undertake detailed cultural, social, and political economy studies to gain the required information about the society before recommending any action. One issue that will be important in bringing about change will be to find ways to promote widespread "ownership" of desirable reforms.

The next building block for effective development assistance is effective factor and output markets. Secure property rights and contract enforcement are the basis for effective factor and output markets; however, for effective markets there has to be effective regulation to ensure freedom of entry, and thereby avoid anticompetitive pricing and ensure provision of quality goods and services and health and safety standards. The development of factor markets that are open to participation by all, and do not discriminate in terms of gender, ethnicity, religion, etc., is fundamental to the exploitation of a country's comparative advantages and to promoting inclusive economic growth.

Secure individual title to land (whether through long-term lease or freehold) appears to be a prerequisite for the rapid growth of poor countries and their development into modern economic systems. Secure title to land is necessary for people to have confidence in making the fixed investments that lead to increased productivity. Without such security, private investments are likely to be confined to those having a government guarantee of some kind (such as a joint venture with government), or to "foot-loose" industries that will exit when there is a contract dispute, or to exploitative industries (such as "high grading" in mining or logging). As has been dramatically demonstrated in the People's Republic of China and Viet Nam in recent years, providing farmers with secure, long-term tenure to land has led to remarkable agricultural growth. The absence of such rights in many other countries provides clear counterexamples.

Secure, individual title to land is also the basic requirement for the development of a financial sector, since without land as security for loans, creditworthiness is difficult to establish. The result will be the locking up of assets and savings in poor countries that de Soto (2000) highlights.

As populations grow, secure access to land for agricultural purposes becomes a less likely avenue through which people can participate in the growth process. Good health and education (human capital) have become the main income-generating assets for most people in today's knowledge-driven world. Moreover, while land redistribution and secure rights to land may be able to play some role in increasing the access of the poor to income-earning assets, land redistribution is extremely difficult to achieve, while education can be much more easily achieved and an even more productive route to higher incomes. However, there will need to be secure title to land as the base for all productive agricultural, industrial, and services activities.

Provision of the opportunity for all to be educated and free of debilitating infections and disease will allow all in society to participate to the full in the labor market. For the labor market to be fully effective in mobilizing labor, there should be no discrimination on the basis of gender, ethnicity, religion, etc. Moreover, care should be taken to see that the public sector does not become a wage leader to the detriment of the private sector, which often happens when the economy is heavily dependent on aid and/or natural resource rents. Minimum wage legislation may be seen as essential as a social safety net; however, if the minimum wage exceeds the productivity level of unskilled labor, it will become an impediment to the employment of the poor.

"Change in the distribution of rights to land use may be even more difficult to achieve than change in institutions."

With these building blocks in place, investment should be effective in promoting economic growth, and particularly growth in which all can share, providing that policies directly affecting investment are not restrictive. Experience has shown that policies that place few restrictions on domestic and foreign investors and on trade within and between countries are favorable to growth. Moreover, openness to trade and investment will serve as an effective means of preventing monopolistic behavior by firms. However, there may still need to be legislation outlawing anticompetitive behavior. Competition policy should also provide for competitive access to natural monopolies in essential services such as power, water, and transport.

5. Conclusion

After more than four decades of development assistance and nearly 20 years of concentrated effort by international development agencies and individual country aid providers to encourage economic reforms in developing countries, the limits to development assistance have become much clearer. We now have a much better idea of what is absolutely necessary for success and what is important but secondary, and we have a much better idea of the appropriate prioritization and sequencing of economic reforms and forms of assistance in support of poverty reduction.

It is now abundantly clear that the paradigm that dominated development assistance activities for most of the past 40 years—that the main constraint to economic development was a shortage of capital—was unhelpful. Capital is scarce in developing countries, but it is scarce because the environment is not friendly toward capital, whether private or public capital. The poor investment environment led some to argue in favor of direct public sector investment. But it has also been learned at great cost that government activity in production is seldom an adequate substitute for private sector activity. In order to mobilize an economy's resources and to develop a flourishing private sector—one that can be a sound basis for raising the needed government revenue—the basic institutions of secure property rights, impartial enforcement of contracts, and internationally accepted codes of commercial conduct have to be in place. In turn, these institutions depend upon a legal and judicial system that is allowed to function without interference, and a government and bureaucracy operating in a transparent, accountable, and fully accessible manner.

Secure property rights and impartial enforcement of contracts are the basis for a market exchange economy and thus for all private sector activity, which is now recognized as the engine of growth and the main means of doing away with absolute poverty. But security of property rights and impartial enforcement of contracts, in the broadest sense of the State providing security for the income from one's labor, capital, and land, has even broader implications. It provides equality of opportunity for all and thus is protective of the rights of all individuals, regardless of gender, ethnicity, or religion.

Secure property rights for labor, ensuring freedom from discrimination, also ensures maximum flexibility in labor markets. On the one hand, firms should not be forced to pay wages that are not in line with the productivity of labor. On the other hand, labor should be rewarded for its productivity and provided the necessary scope to realize its potential through training. This approach will ensure that real wages are based on productivity, which in turn will maintain competitiveness in international markets.

While governments may be keen to implement these kinds of measures, it is clear that there will often be resistance from groups or individuals benefiting from the status quo. If these groups or individuals are in politically powerful positions, reforms may well be stifled. The major issue in these instances is how to bring about change from the status quo.

Demand for changes to institutions and policies can be fostered by actions that increase the value to the community of new institutions and policies. In particular, demand for more secure and impartially enforced property rights may be fostered by freeing up trade and investment, and by appropriate investment in human and physical capital. Freeing up trade and investment can raise the implicit rental value of land and future income streams from labor. Investment in physical infrastructure such as roads, ports, telecommunications, and essential services will also raise the implicit rental value of land and future labor incomes. Investment in a better-educated and healthier population will do likewise. Social mobilization through political parties, labor unions, and consumer groups can also help to bring about change through countervailing power. While change will usually be very difficult to achieve, it may be possible to take measures that will ease the constraints in the short run. For example, in the short run it may be possible to have regulations repealed that limit informal sector activity and therefore restrict income generation by the poor.

Change in the distribution of rights to land use may be even more difficult to achieve than change in institutions. But access to land may have become less important to improving the standard of living of people than previously. In an increasingly knowledge-driven world, education may be a more important income-earning asset and increasing access to education may be easier to achieve than access to land.

These measures should be seen as mutually reinforcing. Trade or investment reform without secure property rights and contracts will generate little response in the form of outward oriented, growth-enhancing investment. Similarly, public expenditure on education and health care or on physical infrastructure will yield little return without the presence of the institutions basic to private sector development. On the other hand, public sector reform in the form of public service cutbacks or privatization of state-owned enterprises will not promote demand for better economic institutions, but will only be effective if they already exist. Security of contracts requires an impartial judiciary, i.e., free from political and bureaucratic intervention. However, security of contracts also requires widespread trust to minimize contract disputes and the need for the courts to intermediate. Trust is an important outcome of the social capital of a country. Where the degree of trust is poor, contract disputes can be expected to be widespread and the transaction costs of contracts high.

Development assistance agencies can help countries move toward commitment to these measures through technical assistance that demonstrates the benefits of better institutions and policies and participatory discussion of the pros and cons of various measures and alternatives. Experience has also shown that high-level training of local people is very effective in leading to ownership of these growth-enhancing measures. For those countries where there is very little or no interest in undertaking these measures, such technical assistance and training may be the only worthwhile development assistance to provide until there is a change in the attitudes of those in power or of the community more broadly. Lack of ownership of reforms will only lead to their failure and often leads to unnecessary social hardship and tension, and thereby provides arguments for not making similar attempts in the future.

If the restrictions preventing the poor from participating fully in economic growth are removed, monetary and fiscal policies, and other policies such as trade and investment policies, should be much less discriminatory in their impacts. This removal of restrictions does not mean that all people will do equally well out of economic growth, as people will have different levels of access to assets. Moreover, there will still be a need for the government to try through its fiscal policy to ensure equal access to a basic level of essential services and to have in place redistribution policies that provide a safety net for people. The government's capacity to provide social security will ultimately depend on its taxation base. However, the government does have a degree of discretion in where it locates public investment. Therefore, it is able to discriminate in favor of areas that are disadvantaged in terms of transport or other infrastructure, education, and health care. However, the extent of discretion is limited by the trade-offs that will have to be made between promoting maximum use of the country's comparative advantage and assistance to disadvantaged areas.

ADB's approach to designing poverty reduction strategies should be derived from the fullest understanding of the development process and the appropriate role for development assistance, realizing that understanding of the process is continually improving. It is desirable to strive for agreement among the government, other multilateral agencies, and bilateral aid providers on the best strategy for achieving inclusive economic growth. Moreover, in order for any strategy to be effective, there will need to be broad ownership of the strategy within the country. However, it has to be recognized that it is unlikely that there will ever be full agreement with any strategy, as there will always be room for healthy debate.

At some point, however, ADB will have to decide on the country strategy that it believes should be followed and the role that it should play in the strategy, and work with the government on implementing its activities. Effective implementation is often much more difficult than the design of programs and policies. In large part, effective implementation will depend upon the effectiveness of the country's governance and its capacity to undertake and sustain programs. Judgments will therefore have to be made about the likelihood of success of the program. In some cases, the judgment may be that the likelihood of success is low, and therefore, ADB should restrict its activities in the country to technical assistance and information dissemination aimed at improving the environment for future action.

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E-Government: Enabling Asia-Pacific Governments and Citizens to do Public Business Differently?[1]

Clay Wescott

1. Introduction

E-government is the use of information and communication technology (ICT) to promote more efficient and cost-effective government, facilitate more convenient government services, allow greater public access to information, and make government more accountable to citizens.[2] E-government applications vary widely in the diverse Asia-Pacific region, which ranges in terms of population size from the People's Republic of China (PRC) to Nauru, and in terms of per capita GDP from Singapore to Nepal.

E-government is still only in its initial phase in most countries, and has played so far only a minor role in supporting public sector reform and poverty reduction. This paper begins with a brief review of the experience so far of e-government in supporting public sector reform and poverty reduction in other regions. It then gives some examples of adoption of e-government in the Asia-Pacific region, to see the extent to which the benefits observed in other regions have materialized here. It points out some reasons why the pace has been slower in the public sector than in the private sector (in Asia-Pacific and in general). It then gives examples of six stages of e-government, and reviews both the benefits and challenges of each stage, highlighting different processes of adoption in different types of jurisdictions. There follows a discussion of three cross-cutting challenges effecting all stages. Since a brief article such as this must be highly selective, the concluding section will sketch out directions for further research.

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1 The views expressed in this paper are the author's own, and do not represent those of ADB. Earlier versions were published as Wescott (2001a) and Wescott, Pizarro, and Schiavo-Campo (2001). This and other URLs cited were all accessed on 7 September, 2001.

2 Some define e-government more restrictively, making it the public sector equivalent of e-commerce, see World Bank (2001). Others take a broader approach; see Economist. 2000. This article takes the broader approach, to reflect the many benefits that can result from other ICT applications in the public sector. Major English dictionaries do not yet list the word "e-government" or the phrase "electronic government."

2. Principles Emerging from Global Experience

Analysts identify a number of potential benefits and pitfalls of adopting e-government. Heeks (2001) gives many examples of managerial reforms supported by ICT, including improving effectiveness and efficiency of personnel management, parts procurement, accounting, health care, and unemployment benefits claims. There are also examples of ICT supporting more effective state and local government, (e.g., Dow Jones Interactive, 2001; Brown, 2001), although Salazar (2001), Ranerup (2001), Benjamin (1998), and West (2001) point out that expected benefits are often blocked by managerial and technical difficulties and insufficient attention to the information needs of communities.[3] Kaboolian (1998) and Silcock (2001) are among the many arguing that the opportunities presented by ICT for improved administration, among other factors, are leading to a global convergence on a standard reform model; others such as Bellamy and Taylor (1998) argue that ITC is more likely to reinforce than to change embedded information and communication capabilities in governance institutions. Berman and Tettey (2001) maintain that in African bureaucratic settings with limited technical capacity, authoritarian decision making, and strong patron-client relations, ITC may fail to produce the hoped-for results, while another application can succeed in such an environment.

" ICT is a tool, potentially powerful yet essentially no different from a photocopier or a car. "

Dutton (1996) suggests that ICT-enabled reforms can yield many benefits, including lower administrative costs, faster and more accurate response to requests and queries (outside normal office hours as well), direct access to transaction or customer accounts held in different parts of government, and the ability to harvest more data from operational systems, thus increasing the quality of feedback to managers and policymakers. However, these systems can only deliver on their promise if different offices and people are willing to share information (Landsbergen and Wolken, 2001). Bardach (1998) found in a study of innovation awards given to government agencies in the United States, that a common characteristic was that the agencies used technology in innovative ways; for example, allowing citizens to handle common legal matters on-line. Gosling (1997) gives examples of the use of "smart cards" to allow access to an increasing range of government services—a kind of electronic one-stop shop. These could prevent fraud or misuse of public services and benefits, resulting in increased public confidence in welfare and taxation services.

Overall, several lessons can be drawn from global experience with e-government to date. First, ICT is a tool, potentially powerful yet essentially no different from a photocopier or a car, in the sense that user needs and requirements must come first and dictate whether and how the ICT tool should be used. For certain functions, pencil and paper, or a telephone,

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[3] A survey of 1,800 United States agencies (West, 2000) finds that e-government has fallen short of its potential.

or a face-to-face meeting, or a visit to the library is far more effective than computers or the Internet. This obvious point must be stressed because governments, consultants, or aid provider agencies often encourage computerizing everything in sight. Indeed, it could be argued that ICT innovation is now largely supply- and marketing-driven rather than dictated by the needs and requirements of the users. Thus, as for any tool, it is essential to assess a proposed ICT change realistically and compare the costs with the actual benefits expected from it.

Second, the ICT "techie" and the "public manager" should not work in isolation from one another. Improvements in public-sector effectiveness stem largely from better rules and procedures in the sector concerned. To apply advanced ICT to obsolete or inefficient rules and processes means in effect to computerize inefficiency. Doing the wrong thing faster is not progress. On the other hand, the absence of relevant ICT knowledge risks either costly mistakes or missed opportunities for dramatic service improvements.

Third, ICT cannot substitute for good public management and internal controls. When Algeria's state-owned banks introduced a computerized system, the result was not to improve the banking system, but to make more visible the inadequate accounting system and the frequency of manual errors (Korac-Kakabadse, Kouzmin, and Korac-Kakabadse, 2000). In this way, ICT can contribute to structural reforms, but is only part of the process.

Fourth, there are major risks of possible alteration or loss of records during migration from manual to electronic systems, and the chance that essential functions won't be performed while new systems experience teething problems. To minimize these risks, organizations can, among other things, maintain manual backup until the integrity of the electronic system is assured, ensure the capture/creation of reliable records to serve as evidence of accountable acts and transactions, safeguard the integrity and authenticity of all records within the regime for as long as they are required, and provide for the accessibility and updating of records (Pederson, 1998).

Fifth, the introduction of ICT can reduce corruption by better enforcing rules, reducing discretion of officials, and increasing transparency. Indeed, Heeks (1998) points out that officials may resist new ICT systems for fear of losing corrupt incomes. Yet, while ICT eliminates many opportunities for corruption for those who do not fully understand the new technology, it opens up new corruption vistas for those who understand the new systems well enough to manipulate them. In a sense, ICT permits an intergenerational shift in corruption and rent seeking.

Sixth, ICT can do little on its own to alleviate poverty. A well-known champion of ICT, Ted Turner, has stated, "...the poor don't have medicines, they're dying, and they don't have electricity. Bringing more computers to developing countries is not going to solve these problems."[4]

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4 From a speech by Ted Turner, October 2000. Bill Gates, Chairman of Microsoft, made a similar statement in his keynote speech at the COMDEX Conference, Las Vegas, November 2000.

Finally, even if one finds that ICT has helped managerial reforms to take hold, many of the shortcomings of such reforms are not affected. For example, Jones (2000) points out that it is not possible to measure precisely many of the outputs and outcomes of public services. Indicators may be vague and subjective, or based on nonuniform units of measurement, or influenced by external factors outside the control of the agency. It may be hard to find conclusive evidence that one department is performing better than another, since the outputs and outcomes produced are not readily comparable with one another (Wescott, 2001b). Laudon and Laudon (1998) note that e-government systems can address such problems in certain situations, for example, by helping to compile and analyze large databases of social security performance data. Yet Deleon and Green (2001) point out that even when conclusive evidence is provided to decision makers, it may be ignored due to the crush of everyday events.

3. Information and Communication Technology in the Asia-Pacific Region: The Six Stages of E-Government

The above caveats notwithstanding, there can be no doubt of e-government's potential to promote accountability, transparency, and participation; improve the efficiency and effectiveness of public-sector operations; widen access to public services; and disseminate information to the public and get feedback from relevant stakeholders and service users. Unfortunately, ICT's wonderful potential has hardly been tapped in most Asian and Pacific countries. Some jurisdictions, such as Singapore and Hong Kong, China are quite advanced in e-government, but they are the exceptions. In this section, we run through some of the uses of e-governance in the region. To organize the analysis, we consider the uses of e-governance in six possible stages, namely

- setting up an e-mail system and internal network,
- enabling interorganizational and public access to information,
- allowing two-way communication,
- allowing exchange of value,
- promoting digital democracy, and
- allowing joined-up government.

It is important to realize that not all governments or agencies will or should progress through all six stages. Nevertheless, the schema is a useful one for organizing our thinking about the development of e-government.

a. Stage 1: Setting up an e-mail system and internal network

Most governments in the region begin by setting up systems focusing mainly on internal processes, and the first networked application in many agencies typically supports basic administrative functions such as payroll and accounts. Adopting such systems can deliver important benefits, but can also carry considerable risks. On the benefit side, ICT can allow a significant reduction of information handling costs and compliance costs, with the savings coming from reduced labor costs and speeded-up and more accurate processing of tasks. For example, a personnel information system can routinely prepare separation documents for staff past the normal retirement age, helping to avoid the situation prevalent in many Asian and Pacific governments of staff working and being paid for many years past this age. A debt management system can also routinely bring up payments due, thus helping to avoid penalty fees and other problems.

Another type of stage-one system is e-mail. Although e-mail can reach outside of organizations via the Internet, most government organizations in the region use it mainly for internal messages. E-mail has many advantages over other systems and can greatly improve information sharing, coordination, and feedback. For example, e-mail can lead to an increase in lateral (and bottom-up) communication, because of its informality and because it does not need to be sent up and back down through the hierarchy and can be dispatched directly to the person concerned. However, the very ease of use also carries with it the risk of miscommunication, and sensitive and critical messages are still best given over the phone or in person (E-mail politics.com, 2001).

Different examples of internal systems are the Republic of Korea Supreme Prosecutor's Office and the Seoul District Prosecutor's Office, which in 2000 established computer crime investigation departments located in local prosecutors' offices nationwide. The innovation is aimed at effectively addressing offenses that are becoming more and more technological and tactical, and also at assisting investigation of corruption with modern computer techniques (Paek, 2000). In Pakistan, the entire tax department is being restructured, and ICT systems are being introduced, with the purpose of reducing contact between tax collectors and taxpayers (Maqbool, 2000).

A more complex type of stage-one system integrates all departments and functions across an organization with a single computer system, which can serve the particular needs of all the different departments. Such "enterprise resource planning" systems can help integrate financial data and standardize human resource information. These systems also enable more data (e.g., expense items) to be shared between different departments, thereby reducing the number of times data has to be collected (Koch, Slater, and Baatz, undated). For example, the Ministry of Finance and Planning of the Government of Sri Lanka is presently designing an integrated system along the lines envisioned by Parry (1997) and Parry and Harding (2001) in Figure 10.1.[5]

The ministry has a vision of rebuilding itself into a high-performing organization. It starts with the important advantage that recruitment has not been politicized, as in some other ministries and public agencies in Sri Lanka. The vision is in part determined by the permanent secretary's previous job in the Central Bank, which is about to implement a reorganization that will include a 50-percent cutback in staff. The ministry plans to set up a new

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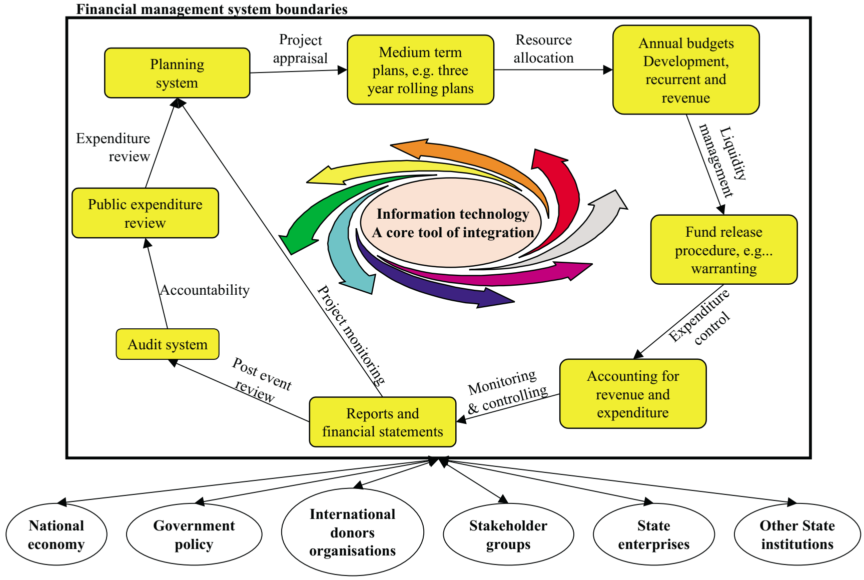
[5] Grateful acknowledgement is given for permission to use Figure 1 from a presentation prepared by the Deloitte & Touche Consulting Group, Singapore, for a workshop in March 1999 sponsored by the Asia-Pacific Development Information Program, United Nations Development Programme.

Figure 10.1 : Integrated Financial Management Model



Source: Parry (1997), Parry and Harding (2001).

implementation unit, which will be run according to private business practice, and will work with each government department to help it reorganize around the new systems being designed, thus avoiding the risks and expense of customizing software (as described later). It is envisioned that over the long term, the unit will grow larger and the ministry smaller. This model has been followed successfully in other countries by finance ministries that have moved to integrated financial management systems as a way to offer competitive compensation and an attractive working environment.

These systems may be integrated with the Internet (e-mail, messaging), electronic commerce, and workflow, and present opportunities to the public sector in the areas of financial management (treasury/cash management), human resource management (including payroll, records management and benefits administration), and facilities/resource management (including procurement, forecasting, and materials management). Although these systems were initially proprietary and client/server-based, the latest versions are increasingly Internet-based, allowing information to be accessed by anyone who needs it, and reducing training and other costs.

b. Stage 2: Enabling interorganizational and public access to information

The next stage is to enable better interorganizational and public access to information, and for this, the first step for an organization often involves developing systems that help to manage workflow. Workflow is a general term applied to the ability to move images, files, documents, etc., from workstation to workstation, using specific business rules for review, authorization, data entry, data editing, and task assignment. Business processes that are accomplished by moving paper can now be managed electronically, from the very beginning to final disposition, and the delays normally associated with hard-copy documents and manual processing can be minimized with workflow systems.

Promising ICT applications in Asian and Pacific public sector workflow systems include, among others, claims processing and management; bid and proposal routing and tracking; handling of customer service and complaints; grant and scholarship award, approval, and processing; and human resource recruitment and hiring. For example, the National Tax Service of the Republic of Korea recently introduced its Tax Integrated System. This is a computerized system that accumulates all tax-related information; as a result, unfair influence of tax officials in selecting taxpayers to be audited has been considerably reduced. In addition, manual assessment of 5 million cases on a yearly basis has been replaced by computer-assisted assessment, making face-to-face meetings between tax officials and taxpayers unnecessary (Han, 2000).

Governments are also enabling interorganizational and public access to information through the Internet. The most common form for this is a website with information organized by ministries or departments, rather than by services needed by citizens.[6] Some governments go even further. For example, in a bid to make transactions more transparent to the public, the Philippine Department of Budget and Management (DBM) has started posting on the Internet monthly details of all accounts payable and major budgetary releases for each government agency, along with the names of the contractors and the amount of payment they are supposed to receive. Through this scheme, private contractors can check the veracity of department officials' pronouncements against the DBM budgetary releases. The DBM also posts its budget on the Internet after its passage by Congress and approval by the President (Republic of the Philippines, 2000).[7]

In another example, the PRC Ministry of Agriculture had to cut its staff by 45 percent in 1997, forcing it to rethink its business processes and its use of ICT. The ministry now uses Intranets to prepare, review, approve, and publish documents online, thus reducing the demands on staff, and making the steps more transparent. The ministry's "infocenter" also pulls together large-scale databases on farm statistics. Furthermore, information kiosks have been introduced as a pilot in one province. Local governments are gathering and making available price data and other information at these kiosks to ensure that farmers are able to get the best price for their crops. The ministry is hoping to expand the kiosks to other provinces (Kalathil, 2001b).

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6 For example, The Government of Indonesia (Online). Available: <http://www.ri.go.id/>.

7 Another much-publicized success is the Open System of the Seoul Metropolitan Government, said to have increased transparency and reduced delays in obtaining licenses and permits. See Im and Jung (2001).

c. Stage 3: Allowing two-way communication

The next stage allows two-way communication between the government and the public, using ICT. The first step toward achieving this is to post one or more telephone/fax numbers/e-mail addresses on a website, and encourage the public to send in messages. There are many possibilities for initiating this communication process. For example, the Beijing city government's website allows visitors to select from categories such as government services, laws and regulations, a news center, links to other government departments, and an e-mail section. The latter asks citizens to "make suggestions about the capital's development, or criticize work you are dissatisfied with"; clicking on the appropriate link generates an e-mail addressed to the relevant office. Alternatively, users can join an electronic question-and-answer forum on issues such as how to move one's official residence to Beijing in order to work there (the response lists specific regulations and procedures [Kalathil, 2001a]).

ICT can facilitate communication even if the citizens are not directly using ICT. For example, the Computer-aided Administration of Registration Department (CARD) is one of the major success stories of e-government in the Indian state of Andhra Pradesh. About 214 registration offices have been completely computerized since April 1998, leading to registration of deeds in one hour and the issuance of encumbrance/valuation certificates in 15 minutes. This is an enormous improvement on the previous property valuation system, which, due to its opaqueness and time-consuming procedures like manual copying, indexing, and storage of paper documents , forced citizens to hire middlemen. As of February 2000, about 700,000 documents had been registered under CARD; there has also been a modest increase in revenue after factoring out the normal upward trend caused by a growing economy (World Bank, 2000).

In the Dhar district of Madhya Pradesh, another Indian state, citizens can get basic information and assistance on a range of issues such as, for example, broken hand pumps, through an Intranet kiosk linked to the district headquarters. Village committees contract management of the kiosks to local businesspersons, who recover costs through fees for services, including obtaining and filing official forms, publishing classified advertisements, and searching through a database for the right match for a prospective bride/groom. In addition, 34 high schools have kiosks linking them to local educational contents on the Intranet (Gyandoot, 2001).

E-government has also been successful in the Pacific island countries, although a realistic approach must be suited to their small size and limited administrative capacity. For example, a United Nations electronic meeting in January 1998 linked governments and NGOs in 10 Pacific island countries, and apart from a productive exchange, there was also a saving of about US$25,000 in travel costs and of travel time by busy officials. In another example, health workers with questions get quick, low-cost help over an electronic network (Ward and Spennemann, 2000; Soures, 1998).[8]

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[8] See UNDP (2001). Re Internet-based PACTOK system linking Fiji Islands, Samoa, and Vanuatu, See Ward and Spennemann (2000). For examples of health sector applications, see Soures (1998).

These examples point out important differences in the pattern of adoption up to this stage between middle- to upper-income governments on the one hand, and low-income governments on the other. The former are replacing existing processes with on-line service delivery to citizens, while the latter are building completely new communication links between citizens and governments where little or nothing existed before. (For example, in Hong Kong, China, an estimated 65 percent of amenable government services are available on-line, and 90 percent are expected to be enabled by the end of 2003 [Office of the e-Envoy, 2000].) Countries from both groups are also providing public access computers for citizens.

d. Stage 4: Allowing exchange of value

In the next stage, ICT supports the development of more flexible and convenient ways for citizens to conduct business with the government. The Singapore Government has developed on-line, round-the-clock facilities for transacting business such as welfare claims, tax assessments, visa applications, and license renewals. There are also many instances in the region of government-to-business transactions that take place on such systems. For example, the Philippine Customs Bureau has developed an on-line system for customs payments, processing of clearance documents, and releasing of shipments from customs control. A computer program called "Selectivity" categorizes shipments into high-, medium-, or low-risk transactions so that they can be coursed through appropriate examination procedures. All this has led to fast and secure transmission of payment details, and the time for reconciling of payments collected by banks and remittances to the National Treasury has been reduced from four months to a few days. These and other systems also minimize the chance of fraud and corruption arising from contact between business people, officials, and messengers (Parayno, 1999). The Thai Customs Department will eliminate all manual processing of import and export documentation in late 2001, thus increasing transparency and efficiency, and reducing opportunities for corruption (*Bangkok Post*, 2001); before, 26 separate documents were required for processing each export consignment.

" Civil society organizations have greatly increased their influence by using ICT. "

Another good example is the Republic of Korea where, from 2000 onwards, the purchase of commodities and all accounting transactions conducted between the Public Procurement Service (a central government organization responsible for procuring commodities and arranging contracts for construction projects involving government facilities), public organizations, and private supply firms has been via electronic data interchange (EDI). Starting from 2001, all other tasks that can be are being executed through the EDI system as well. In addition, cyber shopping is in operation for the procurement of office supplies, cultural products, and recycled goods, and there are plans to expand this. Computerization of contract data is underway, as is the use of automation, to simplify procedures and thus reduce the opportunities for officers to contact customers for illegal purposes. To help prevent prospective contractors from submitting false documents, databases are being set up for the prequalification and cost-accounting processes, and for storing information on supply firms; documents from contractors (including performance records) will be obtained using computer networks of relevant organizations instead of directly from contractors (Kang, 2000).

It is expected that Asian and Pacific governments will increasingly follow the example of other regions and set up electronic production networks, where, for example, information requests, license renewals, tax payments, and e-procurement are outsourced to public and private specialist organizations (Jones, 2001).[9] For instance, the Hong Kong, China government web portal is entirely financed and maintained by a private company, thereby reducing the cost and risk to the Government (Office of the e-Envoy, 2000). Governments are also expected to follow the lead of the private sector in creating partnerships with suppliers and customers, together with whom they can find ways to cut costs, improve quality, and share the benefits.

e. Stage 5: Promoting digital democracy

There are at least two important sets of ICT applications that can potentially support participatory and democratic processes in the region: applications that empower civil society organizations, and those that allow citizens to vote and otherwise express opinions over the Internet. ICT can also support self-organizing networks, which are said to be increasingly important in governing industrial democracies. In this view, government is only one of many interdependent actors in a policy network, and greater attention to network approaches can restore trust and confidence in policymaking (Kooiman, 1993; Kickert, Klign, and Koppejan, 1997). Open, bottom-up, participatory networks have shown their strength in the private sector in several cases of computer software development (Apache server, Linux, Perl, Oxford English Dictionary, etc.) and implementation (Napster and Gnutella distributed file-sharing systems). These build on notions of swarm intelligence, where a set of (mobile) agents can communicate directly or indirectly with each other by acting on their local environment and collectively carry out distributed problem solving (Bonabeau, Dorigo, and Theraulaz, 1999).

Organization for Economic Cooperation and Development (OECD) governments are in the early stages of exploring the use of ICT in supporting such interactive networks with citizens and other stakeholders, by providing information and opportunities for feedback via websites and e-mail. Some OECD governments have policy targets and guidelines for this, although the quantity, quality, ranges, and frequency of updating of information provided varies greatly. The majority of OECD governments are still at the pilot phase of e-consultation; some have launched their own electronic discussion groups (EDGs), while others participate in EDGs hosted by others. In a more extensive form of stakeholder involvement, a few OECD governments have tried to use ICT to support partnerships in which citizens actively shape policy options, but where government retains the responsibility for final decisions. In a related type of application, many OECD countries are using

[9] For an example of a leading provider, see www.ezgov.com.

Internet tools such as websites and e-mail lists for political campaigning, (OECD, 2001a) and some have set up password-protected websites through which citizens can vote (Election.com, 2000). The broader use of ICT by citizens is said to have various effects related to political participation and social capital, with some pushing towards moderate idealism, inclusiveness, and consensus, while others push in opposite directions (Drake, 2001). Since very few of these countries have made an effort to evaluate the quality of the information they provide, or the impact of e-consultation or e-participation, it is too early to say whether these new systems are having a significant impact on citizen access (OECD, 2001b).

In the Asian and Pacific region, civil society organizations have greatly increased their influence in recent years by using ICT. For example, an enterprising Bangladeshi approached the Grameen Bank, substituting a cellular phone for a cow as the object of business. A woman could borrow, say $200 from the Bank, purchase a handset and sell telephone services by going door to door to villagers, thereby making a living and thus paying off her loan. In two years' time, she managed to establish a partnership called Grameen Phone Limited and run a very successful commercial operation providing cellular services in both urban and rural Bangladesh (Friedman, 2000).[10]

In another example, in 2000, a Philippine nongovernement organization (NGO) gathered information on the alleged ownership of mansions by then President Joseph Estrada's mistresses from public-access computers in the Securities and Exchange Commission and anonymous tips received by e-mail, text messages, and phone calls. When traditional media outlets initially refused to run the story, the findings were publicized on the NGO's website (Coronel, 2000). Partly as a result of these findings, and of large demonstrations in Manila organized with the help of text messaging, websites, and e-mail lists, the President was forced to leave office. Interested civil society organizations also use ICT to combine forces, raise funds, and challenge international corporations and agencies. These challengers are diverse coalitions of NGOs, trade unions, extremists from the left and the right, and nationalists, and are organized in a loose, leaderless network, made possible by ICT, from which it is nearly impossible to identify a body to work out a negotiated solution (Institute of International Economics, 2001). This makes the work of these organizations more difficult, but also helps prevent the premature adoption of standards of so-called "best practice" that might instead be practices that protect the interests of particular organizations (Jones, 2001). At the same time, international bureaucracies can also use ICT to avoid troublesome protests by NGOs at their meetings. For example, the World Bank's Third Annual Conference on Development Economics in Europe in 2001 had originally been planned to take place in Barcelona, Spain, but protesters threatened to disrupt it, so the meeting went on line. A more sinister use of ICT helps terrorist groups in the region gain supporters, raise money and coordinate with like-minded organizations.[11]

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[10] This project was partially financed by the Asian Development Bank through a $16.7 million loan and $1.6 m. equity investment in 1997, ref. BAN 7143/1603.

[11] Re: "Tamil tigers" (Sri Lanka) see http://www.eelamweb.com/; on the "People's War" (Nepal), see http://www.maoist.org/ which has a Spanish language section of its site to facilitate interaction with like-minded organizations in Peru.

Some commentators have argued that the spread of ICT in authoritarian countries could empower civil society by increasing awareness of government corruption and of the success of democratic forces in other countries in improving participation, accountability, and protection of human rights. There are examples from the PRC, one of which was discussed earlier, on how ICT is being used to improve government efficiency and effectiveness, and to better inform and seek feedback from citizens. Indeed, Cheung (1997) points out that ICT-enabled managerial reforms in Hong Kong, China in the 1990s were motivated, in part, by the desire of the colonial administration to implant an effective bureaucracy to counter antidemocratic practices in the soon-to-be Special Administrative Region. However, so far there is little evidence in countries like the PRC and Cuba that ICT has played an important role in facilitating democratic policy reform (Drake, Kalathil, and Boas, 2000).

In the long term, digital democracy will come to some countries of the region in another form. Citizens will have the opportunity to benefit from ICT-enabled voting sites such as those in the US (Election.com, 2000) and under consideration in Japan (*Japan Times*, 2001). However, the pattern of adoption will often be very different from that in developed countries. In the last Philippine election, for example, the Election Commission placed useful voter information, such as voting booth locations and voting hours, on its website, but since most voters don't have Internet access, local radio stations offered as a service to take questions from citizens by telephone and search the website on their behalf.

f. Stage 6: Allowing joined-up government

In the sixth and last stage of e-government, there is both vertical and horizontal integration of service delivery. A web portal or smart card integrates information and services from various government agencies to help citizens and other stakeholders get seamless service without needing to know about the responsible government agency. Thus, users can obtain services across different geographic levels of government within the same functional area, and across different functions. As an example of the latter, a citizen could submit a change of address on her driving license, and the change would be automatically registered with the health, elections, and tax departments, thus avoiding the need for multiple filings (Layne and Lee, 2001). Citizens could also use these portals to make payments and other transactions, obtain a checklist of things to bring when applying for services in person, find answers to frequently asked questions and engage the services of relevant commercial enterprises. In the region, both Singapore and Hong Kong, China have state-of-the-art web portals (Government of Singapore, E-citizen, 2001), and in a recent worldwide study of e-government maturity, Singapore was ranked 2nd and Hong Kong 10th out of 22 countries surveyed (Accenture, 2001).[12] The government of Taipei,China has also implemented a "one-window" service, using both Intranet and Internet for tax administration, public

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[12] Government of Singapore. 2001. E-citizen (Online). Available: http://www.ecitizen.gov.sg/index_low.html. The Hong Kong portal provides access to 70 types of services from more than 20 government departments, see Government of Hong Kong Special Administrative Region. 2001. Electronic Service Delivery (Online). Available: <http://www.esd.gov.hk/eng/default.asp>

health and safety, and e-commerce (Kuo, 2001). Several Asian countries also have smart cards that help citizens get seamless health care service (Osborne, 2000).

An example in a less-developed setting is in the Indian state of Andhra Pradesh. Several projects connected to the state's portal have been launched for better service delivery to the citizens: the already mentioned CARD, Twin Cities Network And Services, Fully Automated Services of Transport department, Multi Purpose Household Survey, Andhra Pradesh State Wide Area Network, and the Secretariat Knowledge and Information Management Systems. Connectivity has already been established and is operational between Hyderabad and all district headquarters, plus two other major towns. This connectivity will be taken to the *mandal* (district) and village levels next year and is proposed to be optimally used by government departments and agencies to translate e-governance into reality. A video-conferencing facility between Hyderabad and 25 other cities/towns has been operational since January 1999 and will eventually be extended to all major departments (Government of Andhra Pradesh, 2001).[13]

4. Cross-cutting Issues Concerning ICT in the Asian and Pacific Region

E-government is expanding in the Asian and Pacific region, but has far to go to catch up with some industrialized countries, and also with applications in a number of leading businesses in the region itself. In this section we will look at how the implementation of ICT can be accelerated in the region and what are the lessons learned so far, i.e., how three cross-cutting problems that have a bearing on the speed and character of developments over the next few years can be avoided.

a. How to accelerate the implementation of ICT

There are many reasons why Asian and Pacific governments have fallen behind both private businesses and OECD governments in adopting ICT systems. These include

- higher costs of ICT introduction due to the scale of public organizations;
- the inertia of existing options and habits;
- the paper trail required for approval processing;
- concerns about security;
- confidentiality of information;
- obsolete regulations and laws;
- lack of understanding and computer skills;
- concern by authoritarian regimes over increased information flow and citizen participation;
- difficulties of carrying out organizational change; and
- the nature of public sector financing and procurement practices.

[13] Another Indian example is the Government of the city of Delhi, where forms are available for 22 different permits, certificates, licenses, registrations, and tax payments. Government of Delhi. 2001. Licenses and Certificates (Online). Available: http://delhigovt.nic.in/pinf/welcome.html.

The last two of these will be discussed in more detail.

To introduce ICT effectively, first of all, the ways organizations do business and the ways people do their jobs need to change. Such organizational changes may be more difficult in the public sector than in the private sector (OECD, 2001a). A typical sequence in an ICT project may start out by purchasing an off-the-shelf software package for, say, a new accounting or document management system. Then the agency discovers that the software does not support the way they currently do business. For example, the package may require inter- and intra-agency record sharing, which is not presently happening, or current practice may call for a paper trail for approval processing, or over-the-counter paper form filing, which the package won't support. Public agencies may have additional requirements that a package doesn't support, such as complex regulations and laws, and public sector officials might also have a lack of understanding and computer skills, and therefore may not comprehend, for example, that a computer firewall can serve much the same purpose as a padlock on a file cabinet.

At this point, two things can be done: change the way business is done to accommodate the software, which may mean taking some risks and shaking up important peoples' roles and responsibilities; or modifying the software to fit the way business is done, which will slow down the project, introduce dangerous bugs into the system, and make upgrading the software to the vendor's next release difficult, as customizations will need to be torn apart and rewritten to fit with the new version. Private companies are more likely to take the first route, while public organizations more likely to take the second, even though choosing the second route leads to delays, higher software costs and risks, and all too often a decision to abandon a project after large expenditures of time and money (Koch, Slater, and Baatz, undated).

" Computers and the Internet will be in every school, polytechnic, college, and university by the year 2003. "

Another important reason for relatively slow ICT adoption by governments concerns the nature of public sector financing and procurement practices. To ensure accountability, government agencies need to go through a lengthy process of securing funds, seeking competitive tenders, and awarding contracts. To prevent undue influence by any one official, many decisions along the way are made by committees, which can lead to compromises and an unclear focus. In addition, when acquisitions are finally made, the technology has often moved far beyond where it was when the project was first conceived; thus governments often install outdated systems. They also pay excessive prices, since new products may have come into the market during this period that can deliver the same ICT power for much less money. The difference between the outdated tender price and the market price is also an arbitrage opportunity for corrupt officials.

b. The lessons learned so far... and what to do to avoid problems

i. ICT and corruption in the region

It is frequently assumed that the introduction of a more advanced ICT system reduces opportunities for corruption. The reality is more complex. While ICT does sometimes facilitate combating corruption, it can also, for many reasons, have no effect at all or even provide for new corruption opportunities.

First, the introduction of ICT skills often underpins managerial reforms by helping to better measure performance, facilitate outsourcing and contestability of public functions, reduce transaction costs, better enforce rules, reduce discretion, and increase transparency. However, computerization may also lead to an "upskilling" of corruption by providing new sources of corrupt income for ICT professionals and removing opportunities from those without ICT skills.

Second, with computer systems regarded as all-powerful and omniscient, some staff may lose confidence and cease their corrupt behavior, while corrupt computer professionals may find that computerized systems in fact increase their corrupt income by reducing competition. Computerization of records also often closes down access to some staff members, but opens up access to others who operate the ICT systems. Depending on the relative integrity of these staff, corruption may increase or decrease. Data quality and the myth of computer omnipotence may also mean that some managers fail to institute controls on computerized systems, because they assume that ICT removes the opportunities for corruption. This is probably the most dangerous basis for corruption, since a lack of controls will be clearly evident to those in a position to take advantage of it (Heeks, 1998). Finally, although ICT advances, like other technological changes, can improve the productivity potential of government organizations, Olson (2000) points out that only the managers and staff of these organizations know the actual improvement in productivity. It is in the collective interest of managers that their superiors underestimate the productive potential of such advances, so that their organizations may then receive more resources than they need, which can then be used to increase the income or leisure of management or staff. This form of corruption was widely practiced in the centrally planned economies.

Corruption is rooted in the cultural, political, and economic circumstances of those involved. ICT does little to affect these root causes, and has a potential role, but one that is limited and forms only a part of a much larger picture: at the national level, political will, ethical watchdog agencies, proper incentives for honest officials, and effective punishment for the corrupt ones (Quah, 2000); at the agency level, combating corruption is most effective when ethical values are part of the core business of an organization, supporting other factors like leadership and customer service to maximize stakeholder interests (Larmour and Wolanin, 2001).

ii. ICT national and regional strategies

To ensure that diverse ICT capabilities are effectively harnessed, coherent strategies that seek to develop a user charges policy and provision for subsidized services must be established at the national and regional levels. Appropriate legislation and regulations are also required in areas such as editorial control over networked information, public access to information, privacy and data protection, and intellectual property rights. An ICT strategy can make a clear distinction between the providers of ICT infrastructure and the suppliers of information and services, and may also specify how ICT coordination is achieved (e.g., through a central agency or steering committee) and ICT resources are divided among departments. It can also assign responsibility for updating information and responding to citizen requests.

An example of a national strategy is the "information technology for all Indians by 2008" policy, which was initiated by the Prime Minister of India in 1998 in a bid to make India an ICT superpower and one of the world's largest generators and exporters of software within 10 years. As a first step, the high-powered National Task Force on Information Technology and Software Development was set up in May 1998. India's national information technology policy entails the creation of a government-wide information infrastructure that will simplify service delivery, reduce duplication, and improve the level and speed of service to the public. This will also provide the public (businesses and individuals) with the opportunity to send and receive, through electronic terminals, information that currently passes between them and the government on paper. The policy requires the government to encourage the establishment of Internet service providers to make available access to even the most remote locations in the country. The government must also collaborate with the private sector to put in place secure electronic fund transfer systems, which are critical to the successful implementation of electronic commerce, and direct service delivery to citizens. The policy has measurable, time-bound targets for, *inter alia*, increasing ICT awareness, education, access, and government budget allocations (Government of India, 2001).

To increase ICT accessibility, computers and the Internet will be made available in every school, polytechnic, college, and university, and in all public hospitals in the country, by the year 2003. Likewise, government processes and procedures will be reengineered to bring about several benefits like transparency at work, reduced constraints, increased efficiency and productivity, and reduced cost of service delivery. Projects will be integrated across departments to provide a single point of contact for the electronic delivery of services to citizens, and maximum transparency in governance will be ensured through citizens' charters for every government department and public body, which will be available over the Internet.

In another national example, the PRC launched a "Government Online" project in early 1999 to get most government agencies on line. The project is initially encouraging agencies to post online information on their functions, duties, organizational structure, and administrative procedures, making available government documents and archives, releasing their daily activities, and implementing an electronic filing system for documents. There are also plans for an online taxation system and online auctions to combat corruption in awarding government contracts (Kalathil, 2001a).

Another approach is to develop regional ICT strategies. The concern of the Association of Southeast Asian Nations (ASEAN) about ICT is demonstrated by its recently created e-ASEAN Task Force, which will develop a broad and comprehensive action plan for an ASEAN e-space and will create competencies within ASEAN to compete in the global information economy (ASEAN, 2001). The task force will also establish an ASEAN information infrastructure, for which it will examine the physical, legal, logistical, social, and economic infrastructure needed to create the basis for ASEAN's competitiveness in the 21st century.

Similarly, the Asia Pacific Economic Cooperation (APEC) forum recently launched a wide-ranging action agenda for the new economy, which outlines programs that will use advances in ICT to boost productivity, stimulate growth, and extend services to the community (APEC, 2001). The action agenda includes ways to promote the right policy environment and build capacity for a framework to strengthen markets, e-commerce, knowledge, and skills development, and provide affordable and more efficient access to communications and the Internet. APEC supports the development of distance learning capacity in the region and of ICT as a core competency for teaching and learning to prepare young people to meet global challenges. It also strongly supports the development of ICT to enable networks to extend health and medical services to a wider community and to address basic health issues.

iii. Convergence versus path-dependence

What is the evidence that systems of governance in the region are moving toward convergence, and that ICT has a role in this? The record is mixed. On the one hand, some elements, such as rules and procedures on public financial management, do seem to be converging, as a result of agreements reached with international organizations and competitive pressure to attract foreign investors with predictable regulations and taxes. Such agreements may constitute signing on to global standards of multilateral organizations such as the International Monetary Fund, the World Trade Organization, and the OECD, or they may come from regional organizations (Pacific Islands Forum Secretariat, 1997a, 1997b). ICT that supports accounting, tax administration, and banking regulation would help to support this convergence, but these and other reforms will be principally driven by other factors. For example, many governments in the region are implementing new freedom-of information legislation, and ICT can help to make this information accessible to citizens (Bhatia and Dreze, 1998),[14] but there is no evidence that ICT has been a factor in this apparent convergence of similar laws in the region. Moreover, as Hood (2000) has ob-

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[14] See also websites of Jouhou Koukai Shimin Center (Freedom of Information Citizen Center), Tokyo, Japan <http://www.jkcc.gr.jp/> and Office of the Official Information Commission, Bangkok Thailand http://www.oic.thaigov.go.th/eng/engmain.asp.

served, the convergence taking place does not extend to bureaucratic cultures, or features that link administration to citizens or politics. For instance, Japanese local government administrations tend to have much smaller workforces relative to population, but more extensive responsibilities and larger budgets, as compared to their counterparts in Western, developed countries. This is because of historical factors such as social structure and traditions of voluntarism and contracting out, and are not due to managerial factors such as greater workforce efficiency or more extensive use of ICT (Naschold and Daley, 1999).

Perhaps the clearest area of convergence is in the area of NGO activism, where groups are using ICT to gather information, coordinate the work of organizations in the region with global counterparts, and increase the effectiveness of challenges to governments. For example, in the Philippine case of the uncovering of the Estrada mansions, ICT helped in improving standards of investigative reporting, although the process was less straightforward than it might have been in Western countries. This pattern does not apply to every country; Kalathil's (2001a) findings on the PRC argue that ICT is unlikely to promote democratic policy reform by itself, although it could facilitate it once such reforms came into force as a result of other factors.

6. Conclusions

No observation on e-government can apply to all countries in such a diverse region. Yet most Asia-Pacific governments are only in the initial phases of adopting ICT to improve financial management information and reporting, streamline the delivery of government services, enhance communication with the citizenry, and serve as a catalyst for empowering citizens to interact with the government. As they move forward, they should always fit the new technology to user requirements and the real objectives of the activity; see to it that the new technology goes hand in hand with improved rules and processes; recognize that ICT cannot substitute for good public management and internal controls, nor will it eliminate corruption in the absence of other measures; protect data and systems integrity; and aim at an integrated strategy and avoid a piecemeal approach that can fit specific needs but makes for a chaotic and even dangerous system.

As e-government becomes more widespread in the region, one can expect a progression through the six stages discussed previously. However, not all governments or agencies will reach all the stages, and there will be much variety within a government, as various agencies progress through the stages at different times. Nevertheless, despite these various challenges and the different processes of adoption in different types of jurisdictions, countries in the region are achieving some of the same benefits reported by the OECD countries that have adopted such systems.

E-government practices tend to reflect existing structures and ongoing reform processes in each country in terms of quality of administration, citizen participation, and extent of corruption. As in developed countries, e-government has not been a primary driver for reform, although it has helped support reform processes. However, this could be only an interim finding, due to the early stage of adoption. For example, successful network management applications of ICT by citizens (including expatriates from regional countries) and NGOs has largely left out governments, preferring to confront them in the media or on the streets. Perhaps more inclusive networks could achieve greater results, and greater in-depth empirical research is also required.

On another point, several reasons were cited for slow adoption of ICT by governments in the region. More work is needed to better understand these and other factors and how to address them. Particular areas of the Asian and Pacific experience that haven't received enough attention here or elsewhere include the policy dialogue leading up to the adoption of e-government; the need for standards of data interchange and network security; the role of central units to push through e-government initiatives; the need for new laws on e-commerce, intellectual property protection, and privacy; and the low-risk appetite of governments. A study of the latter could look at the main risks of ICT adoption, estimate the likelihood of each one's occurring, propose mitigating measures, and gauge the effect of all this on ICT adoption.

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Legal Literacy and Poverty Reduction

Hamid Sharif

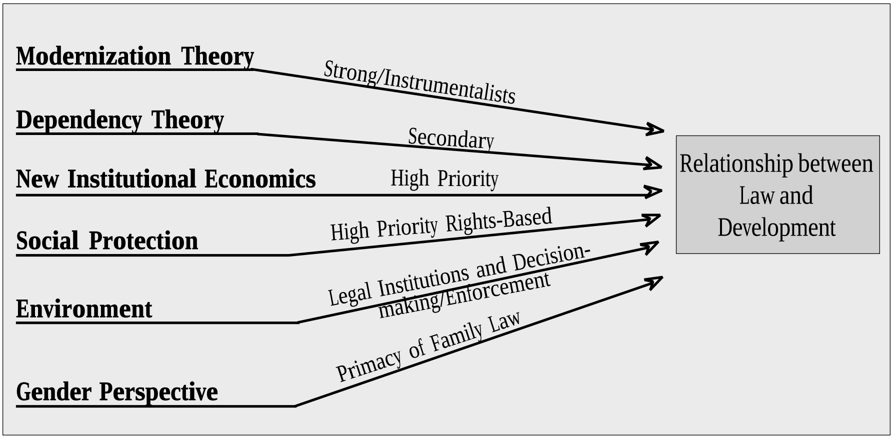
1. Theoretical Perspectives on Law and Development

I will start off with theoretical linkages between law and development. Despite all the slides you see on the board, very little in fact is known about the linkage between law, or the rule of law, and development. Wescott (2001) has referred to certain correlations between the rule of law and high income. The jury is still out regarding the robustness of this juxtaposition, especially with respect to the "causation" behind this correlation. What is important, however, is that when one considers the different theoretical perspectives from which people have approached the subject, there seems to be a convergence and an increasing recognition that law does play, or has the potential to play, some sort of a role. What exactly that role is differs across different perspectives.

If we consider the experience of the 1960s and the first law and development movement, which was out of steam by the mid-1970s, we see that this movement was basically an attempt, led mainly by the United Sates Agency for International Development, to try and create Western-style legal institutions in developing countries, in the hope that this would help economic development. The emergence of Western-style institutions in developing countries was seen as an indispensable progressive step to development. The movement itself was condemned for being egocentric and seeking to be a sort of intellectual imperialism.

Figure 11.1 illustrates the different theoretical perspectives on the relationship between law and development. In contrast to the first law and development movement, dependency theories view law as simply the outcome of political conflicts in any particular country, and therefore consider law to be secondary. These theories, nevertheless, recognize that the rule of law is important to achieve certain economic and social goals. If we move to the theoretical perspective of new institutional economics, we see an emphasis on shifting the focus to institutions, particularly legal institutions, and their ability to create predictability for impersonal exchange. Functional institutions fostering impersonal exchange are seen to be critical for reducing transaction costs and helping economic development. From this perspective, law and legal institutions are extremely important. Those who espouse welfare or social protection emphasize the importance of providing people with basic entitlements in order to promote development and poverty reduction. This perspective argues that there has to be a rights-based system, so that people have rights to a minimum standard of living and freedom to exercise basic liberties. The importance of law to that perspective is quite obvious.

Figure 11.1 Theoretical Perspectives



Source: Author.

Similarly, from an environmental perspective, it is important that decisions be made in a manner that includes all stakeholders. For this to occur, one must have lawmaking institutions that are inclusive and that allow maximum participation. Beyond this, one must have legal institutions that can enforce laws promulgated to protect the environment. This perspective, again, recognizes the importance of the role of law.

A feminist perspective also highlights the need to focus on appropriate and relevant laws affecting women. For example, a gender specialist in India stressed that there is no point talking about certain types of laws relating to rights at work, and so on, as mechanisms for improving the welfare and participation of women, if most women in developing countries stay at home and are mainly affected by family law.

This brief overview of various perspectives on the role of law in development shows that while there is no agreement on the exact relationship between law and development, there is increasing recognition of the relevance and potential role of law in economic and social development.

2. Law and Policy Reform: Creating a Pro-Poor Legal Framework

The Asian Development Bank (ADB) has taken a very pragmatic approach to the role of law in development. The organization's law and policy reform activities are centered on its governance program. Institutions are considered central to development, as is the role of the State (Figure 11.2). In that context, legal and judicial institutions have an important role to play. There are increasing expectations that the State will play a greater role in creating an environment for development. An essential part of creating such an environment is the creation of legal and judicial institutions that can underpin economic transactions and

Figure 11.2. Law and Policy Reform as Part of Governance

Law and Policy Reform

Governance

Poverty Reduction

- Role of the State
- Post-Washington Consensus
- Public and Private Institutions
- Pro-poor Legal and Regulatory Framework

Source: Author.

provide security for them. Beyond the courts and the formal legal system, evolution of public sector institutions that can interact with civil society and private sector organizations to foster development will be extremely important. As part of that effort, attention to creating pro-poor legal and regulatory frameworks will be crucial. Efforts in this area promise to be increasingly important for ADB.

The term "pro-poor legal framework" may seem a bit contrived and difficult to grasp, so I would like to illustrate it with examples from India. These examples are from a book entitled P*olicy and Legal Reform for the Poor in India* by Mr. N.C. Saxena, a former planning secretary. When I first read the book, I was quite impressed, but as a result of interaction with a delegate from India yesterday, I think even more highly of the book today. Mr. Saxena, I am told, is someone who, except for formal occasions, goes barefoot to his office. He reportedly is extremely particular about the use of public property, to the point that when he was told that his wife was using the office car, he promptly informed the police and had her arrested. She was ultimately convicted and fined. When a person of this caliber comes up with suggestions to improve governance, especially to help the poor, I think we have to take these seriously.

I would like to refer to three illustrations from Mr. Saxena's book, which bring out the importance of pro-poor legal frameworks. The first example relates to the importance of freedom-of-information laws. Mr. Saxena cites a case from the state of Rajasthan in India, where a local nongovernment organization (NGO) created an alliance of workers and peasants against corruption. The NGO successfully started to expose the corruption of local officials by getting hold of certain public records, which the lowly clerks at that time were making available to them. The use of public records stirred the senior bureaucrats involved in corruption. They protested the exposé, invoking certain provisions from the Indian Civil Service rules and the laws relating to state security, stating that any disclosure of this information would be detrimental to state interest. This is a classic example where the law, which may originally have been written to truly protect the State itself, can actually become an instrument against the public interest by preventing local NGOs from exposing corruption. Therefore, in thinking of legal frameworks that promote the interests of civil society, especially the poor (who suffer most from corruption), it is important to resist certain assumptions underlying "security of state" to ensure that these do not become tools in the hands of corrupt officials to thwart transparency.

Another example Mr. Saxena cites relates to food adulteration in India. Under Indian law, food found laced with “insects” is considered adulterated. Chilies are a basic ingredient in food. Worms sometimes germinate in chilies, but since according to the law, as interpreted by Indian courts, “worms” are not “insects,” the adulterators cannot be convicted under these particular laws. The laws further provide each of the implementing officers with a budget for taking samples of food. The inspector pays for every food sample taken. The daily budget is so low, however, that it allows for only a very limited number of samples. The adulteration laws are, therefore, largely ineffective in protecting the public, especially the poor who are likely to opt for the cheapest foods. These laws, and especially their implementation, need to be carefully reviewed to ensure that they actually protect the poor from the adverse effects of food adulteration.

A third example is where the State itself sometimes becomes the culprit. This example relates to minimum wage law in India. Despite the existing minimum wage law, during times of drought the state of Rajasthan resorts to what is known as a drought-relief minimum wage, which is well below the minimum wage stipulated in the law. Many people have petitioned the Supreme Court, which has ruled in favor of workers, stating that the minimum wage ought to be the same, whether the work is in a drought area or not. The state government has conceded that in these particular cases, the minimum wage for drought-relief work should be higher, as per the general minimum wage law. However, it has not always applied this to those who do not petition the court.

“ADB’s law and policy reform work is not a stand-alone activity...but is centered in its governance policy. ”

If pro-poor laws and policies are to have the effect intended, there has to be a change in attitude. When we refer to a pro-poor legal framework, we are talking about revisiting laws to make sure they will not be used as instruments to prevent the poor from getting the protection that the policy was meant to give them. We also have to ensure that implementation of laws is done in such a manner that the policy is actually achieved, that is, that the poor in fact benefit.

For ADB, its law and policy reform work is not a stand-alone activity. It is very much centered in its governance policy, which is mainstreamed in ADB operations.

There are three different policies that impact on ADB’s operations. First is the governance policy discussed earlier by Wescott (2001). Second is the private sector development policy, which basically seeks to create an enabling environment for the private sector to work, and for that to happen, there needs to be an appropriate legal and regulatory framework. ADB’s legal reform work, particularly on reform of commercial laws, insolvency laws, transaction laws, registration, etc., results from this analysis. The third part is ADB’s poverty reduction policy, which declares that poverty reduction is ADB’s overarching goal. In pursuit of this goal, we should now pay attention to the sort of detail that Mr. Saxena has referred to in his book, when we confer with our member countries in developing a legal and regulatory framework.

In the operations sector, specific legal issues arise in loans and technical assistance projects, which are addressed as part of ADB's law and policy reform work. I will just cite a few examples of such law and policy work. For example, in Pakistan, ADB has played a leading role in creating perhaps one of the most independent securities and exchange commissions in this region: it has not only functional independence, but also financial independence. As a result, there has been a marked improvement in governance in that particular institution and an impact on the market as well.

Social forestry projects in Pakistan and Bangladesh have sought to address poverty reduction in the communities living in and around the forest. Enunciating a new concept such as social forestry is one thing, but creating a conducive legal framework for such a policy is another matter. Often the legal framework for forestry is based on a poacher and gamekeeper model under which nobody is supposed to enter the forest, nobody is supposed to take nontimber products from the forest, and violators are to be punished. For social forestry to work, all of that has to change. Laws have to be changed so that the rights of communities to get nontimber forest products are fully recognized, and so that contractual arrangements are possible by which the poor can benefit from reforestation.

A very live and current issue, which ADB is examining in the context of another project in Pakistan, is that of bonded labor. There is ongoing debate about bonded labor laws and tenancy laws. These are apparently in conflict; different parties look at these laws differently. Now, again, if ADB proceeds with the project, these laws will have to be reconciled so that the minimum protection available to citizens under the bonded labor laws is made available to tenants as well. A legal framework must be developed that in fact protects tenants and gives them the protection of bonded labor laws.

The definition of poverty taken from ADB's Board document is "deprivation of essential assets and opportunities to which every human is entitled." When we look at assets, we are not simply looking at physical assets; we are also looking at legal rights and entitlements. It is this broader concept that will inform ADB's work.

I would like to discuss some themes and projects that ADB is sponsoring in support of its poverty reduction goals. An important aspect is access to justice. It is important to make sure that the legal entitlements, which in theory are granted to the poor in various laws, are real entitlements, known to the poor and enforceable in the courts. ADB is currently looking at access-to-justice issues in Pakistan. Since then, ADB has approved Loan Nos. 1897/1898/1899-PAK: Access to Justice Program (ADB, 2001a). It is working with the government toward a new freedom of information law. In other countries, it is assisting governments to create far greater access to legal information. Ongoing projects in the People's Republic of China, Pakistan, and Tajikistan will facilitate access to legal information.

Delays in court proceedings, which are a huge problem in South Asia and in many other countries, is another area of ADB's focus. ADB's proposed assistance to Pakistan for access to justice is looking at ways to reduce such delays. Access to justice is, however, viewed from a very broad context. It is not simply the formal legal system comprising the courts. Often, the administrative machinery and the use of administrative law are equally, if not more, important to ensuring the entitlements of the poor. This will need to be an important area of focus in the region. In addition, the whole area of alternative dispute resolution will also be of importance. Trying to create mechanisms that citizens can access outside of the formal court system (which tends to be very impersonal), will be a key to taking away the burden on the courts and providing the poor with inexpensive and speedy justice.

3. Legal Literacy and Pro-Poor Growth

Legal literacy or legal empowerment of the poor is the last point I would like to stress. Legal empowerment of the poor, from simple awareness of legal rights to the power to enforce them, is central to making pro-poor growth possible. This is well illustrated by a small study that was carried out under a larger regional project on legal literacy sponsored by ADB (ADB, 2001b). This particular study focused on land reform in the Philippines. Under a presidential decree, tillers of land were basically given the right to obtain up to 2 1/2 hectares of land from landlords, while the landlord's shareholding was supposed to be reduced to no more than 7 1/2 hectares. In some areas, quite a lot of legal literacy activity had taken place. The study compared areas with and without legal literacy, and the results were quite stunning.

The *barangay* (administrative village) officials themselves named barangays with legal literacy activities as those with the most successful agricultural reform. Box 11.3 highlights the findings from the study. The survey further showed that among respondents in barangays with legal literacy activities, tenancy was much lower and squatting was much higher, indicating that people had a far greater sense of ownership of land and were asserting their rights to land ownership rather than accepting their fate as tenants. The overall level of land ownership, the survey revealed, was almost equal in both areas; what was significant was the

Box 11.3. Findings of a Study on Legal Literacy

Official Philippine government data absent at the *barangay* (village) level; notwithstanding, Department of Agrarian Reform officials independently name barangays with legal literacy activities as those most successful.

Among respondents in barangays with legal literacy activities:

- Relationship to the land is different;
  - Tenancy levels lower, "squatting" higher
  - Levels of land ownership roughly equal
- Land much more likely to have been acquired through land reform;
- Quality of housing is higher;
- Levels of direct political protest are higher; and
- Legal literacy activity affects ordinary residents' land acquisition.

Source: ADB (2001b).

way in which people acquired ownership. In legal literacy areas, ownership was attained usually through agricultural reform and some NGO activities, whereas in areas with low legal literacy, ownership was attained mostly through inheritance.

The quality of housing was also much higher in those areas with legal literacy, indicating that people in these areas were able to spend more on essential goods like housing. The study also showed that there were far more direct political protests among those people who had been the beneficiaries of legal literacy activities, and participation in community activities was generally higher. In areas where legal literacy activity had taken place, even those residents who were not tenant farmers were affected in a positive way. Legal empowerment activities, ranging from awareness raising to assisting people to assert and enforce their rights, thus had a positive effect on the net resources that these people could acquire. More importantly, it gave them a heightened awareness of their rights as citizens.

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Operationalizing the Medium-Term Expenditure Framework in the Philippines: A Key to Reducing Poverty

Laura Pascua

1. Introduction

During the past two years, the Philippine Department of Budget and Management has seen how the budget management of a government can be a potent tool for growth and poverty reduction. Budget management enforces fiscal discipline, fosters macroeconomic stability, improves the portfolio of programs by rewarding more effective and efficient programs, and builds a culture of performance and accountability within the government bureaucracy.

During the past decade and a half, Philippine economic history has provided valuable lessons about what works for promoting growth and equality. The most telling fact is that the resumption of growth from 1985 to 1997 brought about (i) a steady decrease in the proportion of Filipinos living below the poverty line, from 41 percent down to 25 percent; (ii) the promotion of broad-based growth stemming from structural reforms; and (iii) improved provision of public social services, especially education. Compared with other countries in the region, significant involvement of the private sector and civil society in development efforts in the Philippines has increased the ability of government to reduce poverty through growth. For instance, the People's Republic of China (PRC) and Indonesia have comparable per capita income and experienced higher growth rates than the Philippines, but have similar or l higher levels of poverty.

Now that the Asian economic crisis is receding and a new Government with a fresh mandate has been installed in the Philippines, the challenge facing the country and its economic managers is how to sustain the country's poverty reduction achievements and revitalize economic growth enough to make a serious dent in poverty. In the budget fund, for instance, the past two years of pump-priming efforts to stimulate growth have contributed to an unsustainable budget deficit. The Government's economic managers believe that a medium-term expenditure framework (MTEF), to be explained in this paper, is the key to achieving fiscal discipline, more strategic prioritization of resources, and better operating efficiencies over the medium term.

This paper explains problems and weaknesses that the government hopes to address by installing the MTEF, also called a multi-year budgeting system. It also enumerates elements of the MTEF, explains anticipated benefits, and outlines how the Government has been setting them in place during the country's ongoing budgeting process. Lastly, this paper mentions achievements that have already been registered since the MTEF's initial installation.

2. Limitations of a One-Year Budgeting System

The problem with the Philippines' current one-year budgeting system is that it provides no mechanism for the Government to control its budget and expenditure beyond a two-year time horizon. It provides no systematic way of projecting or managing the expenditure requirements of ongoing and new programs of government agencies. In fact, the government often approves the funding of new projects, which start from very modest beginnings, only to find that these projects require huge outlays in subsequent years. At the agency level, a one-year budgeting system creates an incentive to understate first-year requirements. A one-year budgeting system also limits the ability of the budgeting agency and the agencies administering programs to deal with resource shortfalls, because within the one-year budgeting system, agencies try to resolve their fiscal problems exclusively by reducing expenditures while maintaining existing program commitments. A one-year budgeting system increases the need to manage the agencies' budgets on an input basis, controlling the number of personnel deployed and the expenditures on specific items. During periods of across-the-board budget cuts, under a single-year scheme, this control gives the agencies an incentive not to attain the target agreed to during the budget preparation period. A one-year budgeting system also makes it difficult to develop a system for projecting the budget implications of legislators' proposals for spending .

One benefit of a multi-year system is that it affords policymakers an understanding of how cuts adversely affect agency operations. A multi-year budgeting system also provides information about how fiscal problems—low revenue, high expenditure, and borrowing measures—can be resolved over a number of years.

3. A Pragmatic Budgeting System

The Philippine Government wants to set in place a three-year budgeting system that systematically maps the requirements of ongoing programs and proposed new projects on a three-year basis. Under this system, programs approved by Congress automatically carry over to the following year and become part of the baseline; they do not start from scratch every budget preparation period. This carrying over highlights to decision makers that the cumulative expenditure commitments of past years will have to be considered in setting overall expenditure levels.

Employees in the Department of Budget and Management like to compare this system to the budget analyst ledger system. Each budget analyst now has an annual ledger to manage the agency budget. Under the MTEF, the department has moved into multi-year ledgers for managing agency budgets. The MTEF ledger works as an annual system in which budget decisions on new programs and projects are made at every budget preparation session. However, the approval of projects is based on three-year fiscal scenarios, to ensure that projects financed for the next three years will be approved under the annual system and will be consistent with the baseline budgeting approach. Identified resources go first into the funding of existing programs, and only if there are excess funds will new proposals be accommodated. Decisions made under the annual budgeting system will flow into the following year's budget, becoming part of the baseline budget for that year and the starting point for formulating the new budget.

The new budgeting system is very pragmatic. With the approval of new projects and the expansion of programs one year at a time, the budgeting system recognizes the uncertain nature of fiscal resources and economic development. It ensures that next year's budget starts with an accounting for decisions made during the previous year. By providing agencies with a three-year baseline budget that is considered and decided upon with them during budget preparation, multi-year budgeting reduces uncertainty and fosters efficient and effective use of funds. Certainty about the availability of resources that the agency can draw upon in planning and programming its activities contributes to better operational and technical performance.

"The budget should embody the country's strategy for social and economic development."

The three-year baseline budget will comprise total budget ceilings that the agency must comply with and represents the entirety of funds available to them, unless they are able to negotiate with other agencies and reallocate resources. By focusing the agency's budget preparation strategically on the consideration of new projects and changes in the scope of programs, issuance of hard baseline budget ceilings paves the way for fiscal discipline and allocative efficiency. At the oversight level, development of three-year budgeting increases the knowledge and control of multi-year expenditure trends, and thus contributes to fiscal discipline.

Systematically projecting the multi-year requirements of past or pending decisions also indicates the availability of funds for new project proposals, indicates required savings and revenue measures, and fosters understanding of the implications of changes in the fiscal and resource scenario in a more rigorous and deliberate manner. What the Philippines has experienced in past years is that the baseline budget approach permits budgetary decisions made during a longer period of budget preparation, and allows more time for analysis and deliberation of new projects and program decisions. All told, the shift to an MTEF paves the way for achievement of three desirable outcomes in public expenditure management: fiscal discipline, strategic allocation of resources, and greater operational efficiencies at the oversight and agency level.

Successful experiences in other countries with multi-year budgeting systems illustrate the important elements for installing a working, well-functioning MTEF. After two years of budget preparation, the department has the basic for the MTEF in place. The budget should embody the country's strategy for social and economic development. It should not be merely a compilation of financial requirements for ongoing programs, new programs, and projects of the different agencies, but over time should enable the reallocation of resources toward what society needs and prioritizes.

In the past, plan updates had a three-year planning period. These updates have evolved to become a national consultative process that captures society's preferences and priorities. Aside from the usual agency representatives, the planning period involves multisectoral subcommittees composed of members of Congress, the private sector, academia, and civic society groups. At this level, subcommittees plan targets and strategies that are integrated into plans at the regional level. More concretely, individual departments link the plan to the budget by ensuring that national programs and new national projects included in the budget have been approved and included in medium-term public investment programs.

Several projects have been evaluated by the National Economic Development Authority and studies have been conducted to verify that the targets in the plan are met. Such checks are required as part of the MTEF process. In the symbiotic relationship between the plan and the budget, the budget reflects a constrained version of the plan and the Medium-Term Public Investment Program is refined regularly according to the budget. The plan is linked with the budget during this stage of MTEF installation through the classification and ranking of programs, activities, and projects.

This linkage is a prerequisite activity for including new projects and ongoing programs in the budget. Under this system, agency projects and programs are classified into three priority levels, high, medium, and low, in accordance with their link to plan results and agency mandates. High-priority activities are not only in accordance with the agency's mission, but also directly contribute to the attainment of the plan's outcome. Medium priority activities fulfill the agency mandate, although they contribute only indirectly to the plan results. Low-priority programs are those that the department wishes the agency to effect. These low-priority projects are better devolved to local government units or undertaken by the public sector. Through this approach, most programs and activities in the budget directly or indirectly contribute to the attainment of the plan.

4. Elements of a Medium-Term Fiscal Plan

Having a medium-term fiscal plan is important. First, it provides a framework and sets the direction for fiscal planning in terms of the formulation of expenditure, revenue, and borrowing programs. Second, it ensures the medium-term feasibility of the annual budget that is proposed to Congress. Third, it provides a systematic way of capturing the effect of macroeconomic changes in the fiscal program.

During the years after the financial crisis, which wreaked havoc on the resources of the Government, it became clear that an MTEF has to have very conservative revenue projections in order to work. There are two steps in formulating the budget: first, setting sector ceilings, and second, prioritizing different activities within the sector ceilings. This prioritization is a more strategic method of allocation, because it clearly delineates the tradeoff among competing needs and forces of prioritization for programs within resource constraints.

The fourth element of the MTEF is the use of medium-term estimates for the cost of ongoing and new projects to insure that new proposals can be financed over the entire medium term. Estimates also encourage savings measures within agencies and allow systematic adjustment of spending estimates in response to changes in parameters. An MTEF that starts from the baseline budget offers several advantages: it takes account of parameter changes and incorporates savings measures and new spending measures into the budget ceiling. The department has clear rules for updating these estimates and it follows these rules. At least annually, the department updates its rules in response to any changes in macro parameters, and then takes account of proposed expansions for existing projects. Circulars and manuals clearly explain to all concerned agencies how to update baseline and new program estimates.

The last element of the MTEF is program evaluation. This evaluation is actually a series of exercises conducted with the agencies, to distinguish low-priority programs and projects and to improve the effectiveness and strategy of programs and activities that are included in the budget. These exercises are yielding promising results. For example, the Department of Social Affairs and Development seems to lead the way in applying budget concepts and improving their programs and projects.

The Department of Education is also not only considering how to increase access to education; it is concentrating more on improving the quality of education, shifting further away from proposing additional school buildings or new teachers and emphasizing instead more critical inputs for education: textbooks, training, and better deployment.

The Commission on Higher Education is a Department of Education component that has taken advantage of the new budget system. Last year, in weeding out underperforming programs in state colleges, the Commission cancelled 90 courses in 86 private and government state colleges where the percentage of graduates passing exams for a license was less than 3 percent.

There are still many issues to resolve in the current MTEF: for instance, improving revenue estimation and working with the Commission on Audit for accounting and audit reforms. However, MTEF is a framework for managing the deficit and allowing the Government to allocate more resources to programs that demonstrate effectiveness in poverty reduction.

Mrs. Sarojini, a poverty reduction practitioner, has proposed as a budgeting strategy that funding be increased for programs that are meant for poor areas and poor groups, and to make certain that benefits flow exclusively to those identified groups. She also asks if there is any mechanism for bringing about this second way of budgeting. One goal of the government's budgeting reforms is to provide an enabling environment that frees more resources for programs that are pro-poor. The state of poverty in the Philippines is such that poverty remains a critical concern in the development plan.

In addition, budgeting reform aims to empower different agencies to improve their delivery of services. For example, the Department of Education, the Commission on Higher Education, and the Department of Labor have very innovative leaders at their helms. These departments are taking advantage of new systems that are in place to improve delivery of services and focus more on areas that need these services. The agencies are developing strategic mechanisms that will enable them to do more effectively the things that they are mandated to do.

5. The Importance of Governance

A representative from the Economic and Social Council for Asia and the Pacific mentioned at February's forum that the subject of governance is extremely important. However, the relationship between good governance and poverty reduction is inconclusive, judging from the experience of the past two decades in East Asia, Southeast Asia, and South Asia. Some countries, despite lacking elements of good governance such as transparency, lack of corruption, and accountability, have substantially reduced poverty. It is up to ADB to see whether policy growth can be advocated through good governance.

One problem in many countries is that responsibility has been devolved from the central level to the district level, the province level, or further down. A number of countries are facing the difficulties of human resource development at the grassroots level. These countries have worked to improve governance through legal provisions.

Such attempts have been partly successful in India, Indonesia, Nepal, and Thailand. However, the beginning of this millennium may see increased inefficiencies at the grassroots level, because these countries have not yet prepared fully by providing the required human resources training or basic infrastructure.

When researchers evaluate these attempts at human resource development in 2005, any shortcomings should not be attributed to a lack, on the part of government, of willingness to improve governance through decentralization. It is the international community's responsibility to provide training facilities and proper connectivity, so that this decentralization process can bear fruit at the end of those first experiments.

Role of civil society and the private sector in poverty reduction efforts

The Privatization of Poverty Alleviation

Mechai Viravaidya

There is a lot to say about poverty reduction. Privatization of poverty alleviation and the role of nongovernment organizations (NGOs) in poverty alleviation are two important aspects. This paper will concentrate on the first part: privatization of poverty alleviation.

But first, one other observation about poverty: Thailand recognized early that population was the major element in poverty alleviation. Today, the rate of population growth in Thailand is down to about 1 percent and there are fewer than two children per family. The Philippines has a much higher rate of population growth than Thailand does: 24 years ago, the two countries had the same population; today, the Philippines has a population of 74 million and Thailand has a population of about 61 million.

Over time, some key players in poverty alleviation have changed. In the past, there have been combinations of government, community, the poor themselves, NGOs, the civil society sector, and the business and corporate sectors. It is time to reduce the role of the first player, government, and increase the roles of the other players, most importantly the business and corporate sectors.

Certainly, government is still important. Thailand's Government is privatizing several government-owned enterprises: railways, air travel, land transportation, telephone service, and electricity service, all ventures in which the Government is involved. Thailand has about 70 government-owned enterprises. Thailand is privatizing those enterprises but not "the other end of the candle." In other words, Thailand is privatizing the business end but not the poverty alleviation end. Perhaps Thailand needs to burn the candle at both ends: make the Government smaller but smarter, and have it still play a major role of follow-up and support, letting others do more rather than having the Government try to do everything in poverty alleviation. Examples follow of poverty alleviation efforts through privatization in Southeast Asia, especially Thailand.

1. Poverty Alleviation: Applying the Right Medicine

Historically, poverty alleviation has not been too successful; actually, it has been unsuccessful. Practitioners have used the wrong doctor and the wrong medicine. In this health care analogy, poverty reduction efforts resemble the health care infrastructure of 100 years ago, in which patients were considered sick only if they were bleeding. Similarly, poverty alleviation efforts are a sort of economic triage, without identifying further who the poor are and what they do.

Today, in any city—Manila, Bangkok, or Jakarta, for example—some of the poor pick up garbage and sell it, then buy rice, raise chickens, or grow bananas, and sell this food. They are engaged in business. This business activity is the only way the poor can survive. Their situation is unlike that of some government officials who can sit, do nothing, and get paid. Whatever those officials do, they still get paid.

The poor are engaged in business, but they remain poor because they lack opportunities and business skills. In the past, the Thai government used the community development approach, sending out university graduates who worked for the Community Development Department or the Accelerated Rural Development Department. These well-meaning practitioners taught the poor to cut hair and prevent the incidence of lice, but the poor are still as poor as before because of the wrong doctor and wrong medicine.

It is time to use the right doctor: business people who know how to succeed in business. The right doctor facilitates income generation through business activity, rather than using the so-called community development approach. Getting more people involved doesn't mean that the Government does nothing. The Government does the wiser thing and involves more businesses, calling it the privatization of poverty alleviation, and in that way generates a lot more success.

In Thailand, the Population and Community Development Association, an NGO, works with the Government, the community, and (for the past 10 years) the business sector. It is a support player in poverty alleviation. This program's success in involving the business sector shows that the privatization of poverty alleviation does not mean getting rid of government. It means getting others to join with government.

Ten years ago, Thai business initiatives and rural development efforts focused on getting companies to participate in poverty alleviation. When Thailand relied on international or local aid providers, Thailand had only money and its own limited experience. By getting companies to join in, Thailand received not only money, but the knowledge and skill of the companies. These business initiatives began as efforts to get companies to participate by taking on a project or a village. Because the communities were very poor, the companies' efforts improved the well-being of these communities. The most important achievements were income generation, assistance in education, improvement in the environment, social development in the village, and support for local institutions.

2. Business Initiatives to Generate Income

Of these general activities, income-generating activities were the most successful. The success of these activities could mean that, in the future, foreign assistance could go directly from companies to villages, instead of funneling in through government departments. For example, imagine that Coca-Cola was given US$5 million in tax credits by the United States (US) government. This tax credit money, transferred directly from the company to a community in Southeast Asia, would be far more effective in alleviating poverty than would $5 million distributed through the US Agency for International Development and a government department.

There are four generic skills required in business: organization, production, financing, and marketing. Right now, these four skills are underdeveloped in most poor rural communities, but some villages are more successful than others because of differences in the level of these skills.

In a real-world example, a company selected a village, spent time with the villagers, and studied their livelihood activities. At that time, the villagers grew corn. Company representatives met with the farmers and analyzed how much farmers were putting in and how much they were getting out of growing corn. The company representatives proposed growing ornamental trees, which villagers could dig up and sell within six months. Farmers grew the trees. In the beginning, the plan was not so convincing. Farmers initially thought it would be much better to cut trees rather than farm them.

“ The villagers started selling seedlings to government departments. ”

Nonetheless, the farmers grew the trees. The plants were taken out and sold to nurseries, housing estates, and government departments. The poor were getting involved through a business enterprise, rather than through community development of the traditional sort. As a result, company representatives trained farmers to profit from growing trees, and income increased twenty-fold within three years.

Next, the villagers started selling seedlings to government departments. Bougainvillea was the first and easiest plant to start growing. These farmers recognized that income-generating activities were the key to their future well-being. Children were among the villagers who learned how to make money from tree planting. This venture was the beginning of a lesson in how to survive over the long term with a very limited education.

Another venture in a different village was initiated by a small bank. The first activity was not income generation but water management. The villagers involved in the activity had no clean drinking water and many babies were becoming sick; some were dying, as were some adults. The villagers, motivated by their need for clean water, used water pails and collected large amounts of rainwater from their roofs. The small bank also caused a government department to install a well for the villages. The villagers hadn't even known that this government department existed. The bank financed installation of the water supply system and villagers repaid the bank by putting money into a fund.

The small bank also had equity in a venture that made soybean oil for cooking. This venture trained villagers to grow and harvest the best beans. When the soybeans were ready, they were taken to the factory. Since the bank was providing the marketing expertise, the villagers had no problems. Next, after the villagers received training in animal farming, the bank provided them, again on credit, five cows per family. This venture continues today and the villagers have made good money. The bank doesn't make any money, but the amount of money they spend on these ventures is less than the entertainment budget for the board of directors of the bank.

Another company, Bangkok Glass, is a joint venture with German and Thai companies to make beer bottles. The company initiated a project in a village near the Cambodian border. A factory in the village needed to put a liquid onto the glass molds. Company representatives shifted production from Bangkok to the village. The product now is being made by hand in several villages on the Cambodian border and then exported to Germany.

It is difficult to imagine the government or an NGO undertaking such a venture. Business, however, has less fear of risk and can use its purchasing power to help the village in a straightforward transaction.

Bangkok Glass has also initiated a venture in which elderly people can earn an income. Elderly people no longer have to sit around like damaged cars at a police station. Some have been injured by land mines and cannot walk very well, yet through this venture they can make and sell brooms for sweeping up broken glass in the factories.

Inspired by the industriousness of the elderly broom makers, the 1,600 workers who live in nearby housing estates, or a total of approximately 20,000 people, decided to give their clothes to the poor. Although this altruism ensured that the poor were clothed, they remained poor. But in another venture, workers selected the three poorest families. These families were taken to a supermarket and a small department store. Instead of being given away for free, the clothes were sold by the three poorest families, who kept 30 percent of the proceeds. The remaining 70 percent went into a fund, which eventually became a local cooperative store. Today, this store sells the equivalent of more than US$1,000 dollars a month in merchandise. It began not as a charity or handout but as an effort to teach business skills. As a result, poor people realize that they can make money without land by buying and selling.

Another successful income-generating venture has been the school lunch program. In the beginning, the school lunch program was given money for only a month, and then families began growing their own vegetables. This program sent an important message: children had to work for their school lunch, and their mothers helped. Families also grew mushrooms and sold the mushrooms to generate household income. This innovative school lunch program has been running for 10 years with no outside funding; families can successfully run the program themselves. Through the school lunch program, the community has introduced scholarships, mostly for women. In Thailand, incidentally, the belief is that women should run the country. Men have ruined the country and the constitution should be changed so that women hold 50 percent of the seats in Parliament.

Another company, American Express, is working to promote products made of Thai silk, in particular, the use of Thai silk blankets on Thai Airways. These blankets are made in a village that is five hours from Bangkok. This venture is also researching the possibility of using Thai silk to make Scottish tartans and scarves for the Manchester United football team and other organizations. Thailand imports scotch from Scotland; why not export Thai silk tartans from Thailand to Scotland? It is a matter of marketing. The idea may not work, but then, who knows without testing it? If Thais can eat at McDonalds, then perhaps Westerners can use Thai silk for tartans and scarves at boarding schools.

3. Banking For the Rural Poor: "Vegetable Banks," Debt Swaps, and Labor as Collateral

Yet another innovative program is the vegetable bank. This program targeted the 30 poorest families in each village and used public land. Each person had the use of about 800 square meters of land, and used tanks made of concrete for watering the land. Farmers without surface water could pump water into a container for watering by hand. These farmers received three quarters of a factory worker's wage, and had fewer than 1,000 square meters to water by hand. This arrangement is very good for people who are chronically ill. An HIV-positive individual can work for an hour and a half in the morning and an hour and a half in the evening. He or she earns income, the work is therapeutic, and the farmer can grow vegetables for food and for income.

" Red jasmine rice is being sold at 10 times the regular price, making it the Rolls Royce of exported rice. "

A grandmother and a grandchild are among the direct beneficiaries of this program. The grandmother's daughter and the daughter's husband have died of AIDS, taking away the generation that was to have provided for the grandmother and granddaughter. Thanks to the program, the grandmother has income to care for her grandchildren.

The program uses land beside a railway line and is sponsored by a water company as well as the poor who live in a slum area near the city. These people grow vegetables and make very good money from it. This sort of program also exists in schools, where the children make money: half of the income is for school lunch and the other half is family income. Children make the equivalent of about P60 per day, yielding human capital improvements as well as money. Imagine a school in which children earn money as well as grades; the children work much harder. Many shops purchase these very clean vegetables.

All these programs aim to involve the poor in the marketplace. Charity is only a short-term solution; it loses its effectiveness over the long term.

Agricultural research offers another example of a successful poverty alleviation effort by business. The International Rice Research Institute and a major sponsor, the Petroleum Authority of Thailand, are working to develop and promote a new form of rice: red jasmine rice. Red jasmine rice is being sold at 10 times the regular price, making it the Rolls Royce of exported rice. The machinery is paid for by rent, and harvesting is done by hand as well as by machinery. The rice's taste has been well received: Australia is the first country to import it; France may be the second. This new rice variety is another product from which farmers can make money, receiving 70 percent of the sales price rather than the 20 percent they would get if they worked within the regular system with rice millers and middlemen. These farmers are part of the whole process and part-owners of the whole system, which Thais call social capitalism.

Many of these company-sponsored programs are income-generating activities and they have to repay the company's initial investment. The vegetable program repays the equivalent of about P12 per day from total earnings of P180 pesos per day: that is why the program is called the vegetable bank. It is a bit like an automated teller machine; customers can bring the money everyday.

Instead of building latrines because the Ministry of Health needs them, or going through merchants, some companies are training workers to build latrines and make money from the venture. Workers then have building skills. Behind the building site is the water tank and on the right is the latrine.

Another project gets people to raise funds for the village by planting trees. Let us say the project gives the villagers the equivalent of P10 per tree. Everyone in the village comes in and plants. At the end of the day villagers have P100,000 in the bank. This money is loaned out and administered by seven people who are elected. Everyone in the village feels that he or she helped bring the money into the community, so everyone watches over the money and nobody dares steal.

Some of the best examples have taken place over a period of 15 years, during which there has been a six-fold increase in the initial capital that was invested. Again, these projects do not just give out money, hiring people for the equivalent of P150 a day to plant trees, having them go home and exhausting the funds in the process. Rather, when the money is put into the villagers' own bank or fund, villagers know they own it, they take care of it, and capital formation takes place. At the end of the first year, bank representatives count the trees: for every living tree, it gives another P10; for every dead tree, it subtracts P20, so that there is an incentive to keep the trees alive. Anything that dies is replanted and the project continues for three years like this, so a total of perhaps P300,000 is accumulated. After three years, the trees can take care of themselves.

Another exemplary program is the debt-swap program for farmers. Thailand has one of the highest interest rates on the so-called "middleman market": in Bangkok: 3 percent per day. Multiplied by 365, that level of interest is too high for the poor to afford. Instead, under the labor-as-collateral loan program, the poor pay regular interest rates and labor is used as collateral. For a first-time loan, the borrower receives 75 days' worth of the minimum wage. This amount is to be returned in cash or, if it can't all be returned in cash, the borrower can return it in labor: poor farmers use their labor and their friends' labor to work off their debt by planting trees in national forests. The Government's Bank of Agriculture and Cooperatives agreed to the arrangement, which has been tried out for three years. Farmers were very happy about the program, because debt restructuring in Thailand helps mostly the rich and does little for the poor, who have no gold chains or other tangible valuables to use as collateral; until these labor-as-collateral programs began, the poor could not borrow. With them, the poor pay regular interest rates and their labor serves as security.

Now the bank is looking at the possibility of setting up subsidiaries to build roads for the Government and get paid in cash. That cash in part is returned to the bank. Again, the poor can borrow and repay using labor as collateral.

4. Rural Development "Grows Up" into Manufacturing

The last, most successful set of examples is in manufacturing. Thailand's manufacturing sector went through a process not unlike that of growing from child to younger person to older person. Initially, Thai businesses acquired land, dug canals, put in fruit trees, then borrowed money to build chicken pens, employing two people for every 10,000 chickens.

After 75 weeks, the project transformed itself from chicken farming to manufacturing. Villagers repaired the floor of the building and installed equipment for making Nike shoes—"from feather to leather." Villagers earn the equivalent of about P6,500 per month in the factory making shoes for export. The project has convinced many companies to move their operations away from Bangkok, hoping to stop urban migration that destroys the social fabric, traditions, and culture of the villages. Rather than taking people to machines, the project works to bring machines to people. The companies also offer scholarships and loan money so that villagers who cannot work in the factory can earn more money.

The factories in the Population and Community Development Association's Thai Business Initiative for Rural Development program make Nike, Roebuck, and Timberland shoes, Pierre Cardin fashions, Italian football shirts, and many other products that are available throughout the world. Many Thai women go abroad, buy these products, and bring them back, not realizing they are made in former chicken pens in Thailand. The factory is five or six hours from Bangkok and it is of very high quality. Next, a local cooperative is established. Workers own the factory, workers produce on contract for barter and other arrangements. Eighty-five percent of the people working in the factory are returnees from Bangkok. Now that there are jobs, they want to be in their home village.

Thomas Bata is the man who owns Bata, a company that employs people on a permanent basis. The Canadian government is now giving foreign assistance through Bata to do something similar to what was done with the chicken farm. This approach seems a very productive one. For instance, a worker in Bangkok makes an average 12 pairs of shoes per day; in the northeast, five hours from Bangkok, each worker makes 19 pairs per day. The workers in the Northeast realize more value from the program, too, in that they feel safer at home, the money goes to the family, agriculture is better than before, and the community is stronger.

These localized programs promote overall social, economic, and political development in Thailand. The people who benefit from these programs no longer sell their votes so easily to crooked politicians. In addition, individual workers have accepted a voluntary reduction in pay of the equivalent of about P12 per day; they put it into a fund, add to it, and receive three fruit trees to plant per week: 150 fruit trees per year. At five years maturity, fruits and graftings will earn them about P25,000 a month. Workers can then leave the factory, have children, set up a shop, and own equity in the factory. It seems likely that few would want to work in a factory from age 16 until age 50.

Soft Hearts and Hard Heads: The Private Sector's Centrality to Poverty Reduction

Christine Wallich

1. Introduction

"Private sector" and "poverty reduction" are two topics that seldom complement each other in people's minds. Recently, however, the Asian Development Bank (ADB) and other multilateral and bilateral development institutions[1] with an interest in poverty reduction have begun to look more closely at the relationship between poverty and the private sector. Increasingly, researchers of development are examining not only how the private sector contributes directly and indirectly to poverty reduction, but also concluding that it contributes significantly to poverty reduction. Two fundamental pillars must be in place for sustained poverty reduction: (i) creating a good investment climate—one that encourages the private sector to invest, create jobs, and improve productivity; and (ii) empowering and investing in poor people, so they can contribute to and participate in growth. This is achieved by providing or enabling access to health care, education, and social protection.

2. The Private Sector's Contribution to Poverty Reduction

The Asian experience shows that growth is a very powerful driver of poverty alleviation. And a healthy private sector, given the right enabling environment—a good investment climate—will be the key driver of growth, the first pillar of any poverty reduction strategy. The second pillar is the social sector investments that enable the poor to take advantage of the opportunities in a growing economy.

[1] An International Financial Institutions (IFI) Working Group on Poverty and the Private Sector, chaired by ADB, was convened to articulate the linkage between the private sector and poverty reduction and put these themes in the public domain. The Working Group consisted of the German Investment and Development Company, Export Development Corporation (Canada), Industrial Fund for Developing Countries (Denmark), Export Risk Guarantee Organization (Switzerland), the European Bank for Reconstruction and Development, the European Investment Bank, and the International Finance Corporation. It has agreed on the proposed agenda and developed an inventory of recent IFI work on poverty and the private sector. Its medium-term work program centers on identifying priority areas, disseminating and communicating best practices in integrating pro-poor programs into private sector investments, and developing mechanisms for monitoring progress on implementing the agreed agenda.

Across countries, differences in investment climate have led to contrasting growth performances. And across countries, the impact of growth on poverty reduction has also varied enormously. In India, for example, the same growth rate has reduced poverty in some states (e.g., Kerala) by 6 times as much as in others (e.g., Bihar). One reason for this is differences in education opportunities and levels of health spending, which allow poor people to take advantage of opportunities in a growing economy. Another is governance. Corruption invariably hurts the poor, and poverty has fallen less in those states where governance and the rule of law are weak. This emphasizes, again, the importance of the twin pillars—a congenial private sector-led growth/investment climate, and social investments enabling the poor to participate in growth.

This paper focuses on a few of the ways that the private sector can affect poverty reduction. It touches on (i) sustainable job creation; (ii) introducing private infrastructure to create fiscal space; (iii) pro-poor infrastructure via creative concession design; (iv) corporate social responsibility; and (v) privatization strategies incorporating equity and distributional impacts. The discussion is intended to illustrate the diverse and sometimes unexpected means by which the private sector can have an impact on poverty.

3. Sustainable Job Creation

Some statistics attest just how much the private sector contributes to poverty reduction through growth, which brings employment and generates incomes.

- Private firms are the biggest source of job creation in the developing world, creating up to 87 jobs for every 1 job created in the public sector over the last decade. In the future, job creation in the public sector will decline even more, especially given fiscal constraints and the widespread recognition of the lower efficiency of state-owned enterprises (IFC, 2000)
- The private sector, through the employment it creates, offers a powerful path out of poverty to those at the bottom of the economic ladder. A recent survey found that 89 percent of those escaping poverty found a livelihood in the private sector (58 percent in the informal private sector, and 31 percent in the formal private sector). Only 11 percent found a livelihood in the public sector (IFC, 2000).
- Countries with a higher share of private investment grow faster, create more jobs, and therefore reduce poverty faster, given the impact of growth on poverty reduction. Countries where public investment dominates grow more slowly. To illustrate, Asian countries growing at 5 percent or more per year had a far higher share of private investment (63 percent of total investment) than slow growers (countries growing at 3 percent or less per year), where private investment was less important.

4. Private Infrastructure and Creating Fiscal Space

With growing demands on government, in industrialized and developing countries alike, for welfare-enhancing services, and without a similar strengthening of revenue capacity, there is a strong case for prioritizing public expenditures, and ensuring that scarce budget resources do not finance those activities which could be financed equally well by the private sector.

When the private sector finances what was previously a budgetary outlay, room is made in government budgets for those expenditures that really do need public support—notably social expenditures. In this way, the private sector contributes to poverty reduction *indirectly*. The "fiscal space" argument is a complex one: Freeing up budgetary resources does not automatically guarantee that they will be used for high-priority social expenditures: at the very least, agreement on public expenditure priorities and close oversight and monitoring of the expenditures would help ensure that these indirect impacts materialize.

In addition to freeing up resources, private infrastructure is important in meeting the requirements for basic services delivery. With Asia's population growing at 60 million each year, and with increasing industrialization, urbanization, and growth, demand for infrastructure will increase rapidly. Public budgets cannot possibly provide this, so private capital will have to fill the gap. The challenge: to ensure that the poor do not get squeezed out.

a. Filling the infrastructure gap: The key to reducing poverty

In India, studies show that infant mortality rates in villages with electricity are half those in villages without power. Access to clean and reliable water vastly reduces debilitating disease: in India alone, more than 500,000 children under the age of three die each year from waterborne diseases. Without clean water, the health care system fights a futile battle against disease. Reliable energy frees time for gainful livelihood activities the unproductive time spent gathering fuel, provides light and heat for schools, and allows children to do homework after dark and improve their education. Roads and telecommunications provide easier and cheaper access to markets and put remote villages in touch with health care and education services. If private sector solutions can expand access further, the poverty benefits will be palpable. The public sector has traditionally provided infrastructure in most developing countries, investing as much as 8 percent of GDP in Asia. Yet, the traditional "public monopoly" approach has failed the poor. Study after study shows that the poor have limited access and get low-quality services:

- Close to 1 billion people in developing countries lack adequate access to clean water; 2 billion lack adequate sanitation; and electricity has yet to reach 2 billion people worldwide. Ironically, when the public utility fails them, poor people face very costly alternatives to obtain essential services. Evidence shows that the price of water purchased from informal vendors can be 20 times higher than the price of piped water. And poor people pay up to 10 times more for paraffin used in kerosene lamps than they would for grid-supplied power. These facts tell us that affordability, or ability to pay, is often not the issue—access is. This is confirmed by surveys of poor households, which invariably show that there is "willingness to pay" for these services.

- In addition, public infrastructure is often inefficient and costly. Losses due to subsidized prices, theft, and inefficiency eat up 10 percent of all developing country fiscal revenues: For example, the losses of Pakistan's largest power company, KESC, are almost equivalent to the country's total public spending on social services, more than 1.7 times total expenditure on education, and five times total expenditure on health care—but only 47 percent of the population is connected to the grid. And the price subsidies are invariably regressive: higher-income households consume most of the subsidized services—power, water, and transport—provided by state monopolies, effectively disenfranchising the poor.

b. Changing role of government.

As a result, in many developing countries throughout the world, governments are reexamining their role in the provision of basic services, and are becoming facilitators and regulators of private providers rather than being providers themselves. Nonetheless, there are real fears that commercialization and privatization mean higher prices and less access for the poor. But is this always so? Maybe not.

Restoring weak public utilities to health—i.e., commercializing them, and often later privatizing them—is the key to expanding access to new users, including the poor. Financially unviable utilities have no resources for new investment, system expansion, or upgrading service. They cannot expand service to new poor areas, or undertake much-needed rural electrification programs. Their inefficient operations push prices up as they try to recover their costs from a small, or shrinking, revenue base.

Thus, fundamental changes to make the utilities operate along commercial—and often private sector—lines are a "must" to improve the situation for the poor. An example helps illustrate the compelling need for such reforms: in the 1990s, when ADB began supporting sector reforms in Bangladesh, power shortages were an almost daily occurrence; outages took place on 335 out of 365 days each year. Power supply was erratic, produced by old power stations with no funds for maintenance, let alone expansion. Power theft was rampant, and the utilities received payment for less than half of the power they produced. Worst of all, only 15 percent of Bangladesh's population had excess to electric power.

Reforms consisted of unbundling the main utility into three separate "businesses" —generation, transmission and distribution—and introducing financial autonomy and commercial accounting, billing, and management, into each of these new businesses, in order to turn the utility around. With these reforms, for the first time in history, good governance and accountability were introduced in the utility. Reforms led to the dismissal of the old management, whose rewards had previously been based on "civil service" considerations such as permanent employment and seniority, and hiring of professional managers. With better management and improved operations, 80 percent of the power shortages have been eliminated, new connections now reach 25 percent of the population instead of 15 percent, service has improved, and collections in some areas are at an all-time high (90 percent of billing). While system losses remain a problem, and there is still a long way to go in Bangladesh, these reforms represent an important beginning and demonstrate the importance of commercial/private sector orientation in infrastructure.

5. Infrastructure and the Poor: Creative Concession Design

There is growing recognition that the creative design of concessions can make infrastructure services more accessible to the poor. For example, designing infrastructure concessions to include "public service obligations" (PSOs), which are explicitly supported by the budget, is getting increasing attention as a way to make services more available to the poor, often at lower prices than those they currently pay. (It is important to distinguish budget-financed PSOs, delivered through the private utility, from PSOs that the utility itself is obligated to finance, typically through cross-subsidies. The latter are not recommended: since there are limits to such cross-subsidies, such PSOs are often not sustainable and maintaining them will cause financial losses in the utility.)

For example, the concessions privatizing the loss-making Buenos Aires Metro and Sao Paolo's bus system were awarded with the "public service obligation" to keep loss-making lines to poorer urban areas in operation and to continue unprofitable nighttime service. The concessionaire also had to agree to slower-than planned phasing of layoffs. These "PSOs" were far from costless; in fact, their cost exceeded the revenues expected from the concession in the initial years. The concession was therefore awarded to the bidder requiring the smallest subsidy, over the fewest years. The Government was much better off (as were the poor), since the "minimum subsidy" (the public sector's contribution to the public-private partnership) was far less than the transport system's expected future losses.

"Some development agencies are exploring 'corporate responsibility partnerships' with the private sector."

In Chile, concessions for profitable urban power franchises include a PSO requirement to expand into rural areas. Private power companies have bid to provide these services, again on a least cost (smallest subsidy) basis, with remarkable improvements for poor areas: 76 percent of Chile's population is now connected to the grid.

In Peru, public-private partnerships for rural telecommunications services will connect 5,000 towns and give Internet access to 554 district capitals by 2003. Private telecommunications operators bid for the minimum subsidy to provide rural phone service. Early pilot projects show that the private investment mobilized is twice the subsidy provided, and is far less costly (i.e., more efficient) than public provision would be.

In yet another example, privatization was seen as the only solution for Manila's water and sewerage system, which had left 40 percent of the population unserved, had losses equivalent to over 62 percent of revenues, and provided erratic supply. Sewerage covered only 7 percent of the population. A transparent bidding process included a PSO to bring slum households into the utility's catchment area. The winning bidder for the western half of the metropolitan area—Lyonnaise des Eaux, supported by ADB's Private Sector Department—is now providing water connections to slum communities that previously relied on far more expensive, unreliable, and unsafe water from informal vendors. Thanks to creative design and public-private partnership, close to 68,000 poor households have become paying customers with access to cheaper and safe water (see following article).[2]

Another lesson from this experience: the poor can, and do, pay. Maynilad, the private utility, has raised water tariffs since privatization. However, these higher tariffs are still far lower than what slum residents paid to middlemen for water that was unsafe and unreliable. Household surveys conducted two years after Maynilad took over confirm both "ability to pay" and customer satisfaction levels.

6. Corporate Social Responsibility

Corporate social responsibility (sometimes referred to as responsible corporate citizenship) is increasingly being explored as a way for the private sector to make a contribution to poverty reduction. The hypothesis is that private companies can have an impact on poor people through the way they do business: how they deal with social issues, labor, environmental issues, health and safety, corruption, and the local economy. Calls for social responsibility on the part of the private sector have been gaining volume in recent years. A lot of these are coming from nongovernment organizations and from the grassroots in a provocative way; however, managers are also increasingly taking a long-term view and seeing corporate responsibility and community relations as important ingredients of reputational risk. The development benefits are an added benefit.

A project supported by ADB's Private Sector Department in Sri Lanka offers an interesting example. AES, a private power company, allocates 5 percent of its annual in-country profits to community development and social projects that benefit the poor. Another example from the Philippines: private companies contribute 1 percent of pretax profits to Philippine Business for Social Progress, a social development foundation that funds community and poverty programs. However, as with PSOs, there are limits to what can be expected. Private firms are not charities or development agencies, and their willingness to contribute through such mechanisms will relate to the economic benefits the firm derives from them—not development needs.

Some development agencies (e.g., Britain's Department for International Development and the International Finance Corporation) are exploring "corporate responsibility partnerships" with the private sector, which use public funding to subsidize and support a private company's

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2 In water, telecommunications, and power, the initial capital cost of connection can be quite high, and special financing mechanisms typically are needed to ensure that the poor can afford the connection (as distinct from the cost of recurrent service). Such schemes are sometimes organized by the utility; in some countries, microcredit nongovernment organizations have financed such schemes.

socially focused program, and make infrastructure services more available and affordable to the poor. In Guinea, for example, a private water utility was contracted to provide water in major towns and cities. Concerned about a large tariff increase, donors subsidized a share of the private operator's costs while the water tariff was gradually raised until it covered costs. This arrangement enabled the water utility to extend the system, enabling the poorer, marginal areas to be connected to the water grid; and also made the service more affordable to the poor.

In the Philippines and Bangladesh, private rural electric cooperatives receive subsidies from aid providers based on the achievement of specific performance targets, such as reducing system losses, increasing sales, meeting customer connections targets, improving collection rates, and repaying loans. In Thailand, a major hotel chain receives donor grants to expand its in-house training program for hotel service and catering to include street workers and others emerging from rehabilitation centers, training them for future livelihood.

7. Privatization Strategies that Consider Distributional Impacts

When governments privatize state-owned companies, whether these are utilities, manufacturing companies, or banks, the manner of their sale can have distributional consequences. Some countries have explicitly factored distributional considerations into their privatization programs. In the 1990's, Bolivia privatized six major sectors. The revenues from privatization were shared with the population at large. The rationale was that nationally owned assets had been created with the people's taxes in the first place, and when those assets were eventually sold, the revenues should be returned to the people. In Poland, 20 percent of shares in privatized enterprises were reserved for employees, many of whom lost their jobs. Sharing the benefits of privatization with the public helped to create public support for the privatization process and "democratized" the distribution of wealth as well. It is early days in Asia for this type of privatization, but the issue is also relevant. Both IBRA (Indonesia's bank restructuring agency) and Thailand's new asset management company now own many companies that they must restructure and dispose of. Whether governments sell through initial public offerings, through a state investment company, to a local management team, or to employees (or a combination of all of these) will affect different income groups differently.

8. Conclusion

In sum, there are strong links between private sector development and poverty reduction, and the private sector can and does contribute to poverty alleviation. It does so by delivering growth—the first pillar of poverty reduction—and creating the jobs and livelihoods that are a stepping stone out of poverty for many poor households. Creative approaches to delivering infrastructure services, socially aware approaches to business, privatization that considers the social context: these are all possible ways to contribute. They need only our imagination and soft hearts—but hard heads—to get them going.

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Working Together With The Private Sector: Better Access to Water for Marginalized Communities

Lisette Provencher

1. Introduction

The private sector can make a substantial contribution toward reducing poverty and providing services to low-income communities. Lyonnaise des Eaux is involved mainly in four businesses: energy, water, waste services, and communication. Lyonnaise des Eaux is an international operator of water and wastewater systems, serving more than 110 million customers worldwide in places like Atlanta, Buenos Aires, Casablanca (Morocco), Jakarta, Macao, Metro Manila, and Sydney.

Usually, when a private company talks about serving poor areas, the question is why. These areas have very low income, which usually comes from informal activities. The illiteracy rate is high, there are no property titles, urbanization is nonexistent, and the poor are often ignored by public utilities. Lyonnaise des Eaux cares about this somewhat neglected demographic sector because the company's work is linked to public service. The services provided by the company are an added value to the municipality. It is part of Lyonnaise des Eaux's contractual commitment to serve 100 percent of its customers.

2. Low-income Areas: A Growing Market for Urban Services

From a business point of view, low-income areas are a growing market. In cities like Dhaka or Karachi, for example, the company serves the poor as well as the rich. In some cases, the company would lose 40 percent to 50 percent of its customers if it ignored the poor.

Many years ago, Lyonnaise des Eaux started to work on the specific issue of providing service to poor communities. The company has developed an operational methodology and has shared this know-how with its partners by publishing a manual. A dedicated task force has been working on this topic, developing new experiences and disseminating the information. Most of all, the company has developed strategic partnerships with the public and with civil society, often through community-based organizations and nongovernment organization (NGOs).

Lyonnaise des Eaux's know-how is based on field experience in various countries; however, there are no ready-made solutions. Many ideas, when put together, can bring the solution needed for a specific situation. This ongoing process still needs to be enriched with more experience.

3. Two Examples of Water Provision for Marginalized Communities

By way of example, this paper focuses on two cases: El Alto, Bolivia, and Manila, Philippines. In El Alto, a partnership was established at the beginning of the concession between Lyonnaise des Eaux, the Swedish International Development Agency, and the World Bank.

The project in El Alto was based on five principles as well as on a partnership with a public institution and user rights. The aim was to decrease the cost of services. The project also had to respond to community demand, not only for services but also for other components: education, training, and monitoring. The community had the choice to participate in all steps of the project, which began by identifying an area, signing an agreement, then offering community training for construction, operation, and maintenance, depending on the level of participation that the community wanted.

At the beginning of 1997, a 25-year international tender commenced for the concession of water and wastewater in Metro Manila. The Philippine government split the service area into two zones: the western zone was awarded to Maynilad Water Services and the eastern zone was awarded to Manila Water Company. Maynilad Water Services is a consortium formed by Benpres Holding Corporation and Suez Lyonnaise des Eaux. Benpres, a Filipino company, invests in public businesses such as broadcasting, telephone, energy, and infrastructure.

As part of the concession agreement, Maynilad must extend its services within a given time frame. These service areas are not covered by the existing water network. People in these areas used to take their water from public faucets, water vendors, illegal connections, shallow wells, rainwater, and other sources. It was initially thought that the installation of additional public faucets would provide coverage of this service area, but when the Bayan Tubig program started in early 1999, it became very clear that people did not want public faucets; they wanted individual connections. Anyone visiting these areas can easily see how difficult it was going to be to install individual connections: there were no property titles, no open space to run pipes, and direct connections to the houses were often a problem.

The solution came from the customers themselves. They were paying 15 pesos per hour for whatever was supplied and supplying their remaining needs from water vendors, shallow wells, and rainwater. Altogether, a family was spending more than $20 per month for its water. The solution they proposed to meet their community needs was to construct an underground water line.

The program has been implemented, thanks to the support of *barangay* (administrative village) leaders and associations. For technical reasons, the company could not proceed with the groundwater line, so it routed an aboveground galvanized pipe to a battery of meters. From this battery of meters, the individual connections snaked out to houses. The idea to use galvanized aboveground pipes and to group the meters was in fact taken from Manila's electric company, which groups its electric meters the same way. Now the customers have a standard rate: 2 pesos (4 cents) per cubic meter for the first 10 cubic meters.

To facilitate the implementation of the project, Maynilad has dropped some of the previous requirements, namely those related to property titles. The 4,000-peso connection fee is spread over 6 to 12 months without interest. As of now, some 410,000 customers benefit from this program and Maynilad plans to add 100,000 more customers by year's end.

Public-private Partnership in Infrastructure and Poverty Reduction: The Public-Private Infrastructure Advisory Facility Experience

Russell Muir

Eleven years ago in Warsaw, the Polish Government embarked on its privatization program. The then-minister of privatization called a group of private-sector people together and stated, “Last year Poland stood on the edge of a precipice. This year we have taken a giant step away from the edge.” Privatizing its national industries was not an easy road for Poland, but Poland has indeed made a remarkable recovery.

1. Infrastructure and Growth

There is a very clear link between infrastructure and growth. In particular, the quality of a country’s infrastructure has a significant impact on individual productivity, the cost and competitiveness of its enterprises, the level and efficiency of investment in the economy, overall employment, and export earnings. There is a clear and immediate link between infrastructure and the living standard achieved, particularly for the poorest sector of the population. Increased access to communications technology, for instance, can put remote villages in touch with markets and health services. Reliable access to energy can reduce the amount of unproductive time that people spend looking for fuel. Reliable sources of light can make it possible for children to do homework in the evenings, thereby improving their education. In addition, transport facilities can provide easier and cheaper ways to get goods to market. Lastly, in water and waste management, the most immediate impact of good quality, reliable water is to reduce the incidence of debilitating diseases. In India alone, where the Public-Private Infrastructure Advisory Facility (PPIAF) has been working, more than 500,000 children under the age of three years die every year from water-borne diseases as a result of poor quality water.

The traditional approach to infrastructure provision has often failed to deliver needed services or has had only a limited impact on the poorest members of society. Developing countries have invested about 4 percent of national output in infrastructure, about $250 million annually, but worldwide 1 billion people lack adequate access to clean water and about 2 billion lack sanitation and electric power. The real problem in the traditional approach stems from the failure of public monopolies, which have delivered only limited access and poor service to the poorest. Higher-income households often consume the subsidized services—power, water, and transport—provided by state monopolies, effectively disenfranchising the poor.

At a recent meeting in East Africa, a number of governments and nongovernmental organizations (NGOs) noted that less than 2 percent of the population in eastern and southern Africa's rural sectors have access to electric power. Even in urban areas, only 6 percent have access to the grid. South America offers a different example. In Chile, where the private sector has been allowed to compete and provide services on a least-cost (subsidy) basis, the country has seen remarkable improvement in the provision of electric power to poor and rural areas: about 76 percent of the population is now plugged into the grid.

If the poor are not provided with services through the main channels, they face very costly alternatives to obtain basic services. Evidence shows, for example, that the price paid by the poor to purchase water from informal vendors can be 20 times as high as the price for piped water.

The promise of private involvement is the focus of PPIAF. In particular, it concentrates on how to link privately provided basic services to poverty alleviation efforts. Throughout the world, including developing countries, governments are re-examining their role in the provision of infrastructure services and are becoming facilitators and regulators rather than providers of those services . Where privatization of utilities is done properly, private involvement can increase access to management expertise and capital. Competition either *in* the market or *for* the market can lead to more innovation, reduced cost, and enhanced consumer responsiveness. Over the past decade, private sector investment in infrastructure projects has increased twelve-fold. The bulk of that increase has been in telecommunications and power, followed by investments in water and sewage management. The latter is an area in which researchers are now seeing a stronger interest from private sector investors.

2. PPIAF: Providing Support to Increase Private Involvement in Infrastructure

PPIAF, established in 1999, is chartered to help developing countries reduce poverty and achieve sustainable development by facilitating private involvement in infrastructure services. Its donors include the Asian Development Bank, Canada, France, Germany, Japan, the Netherlands, Norway, Sweden, Switzerland, the United Kingdom, the United Nations Development Programme, and the World Bank Group.[1] PPIAF's essential focus is to channel technical assistance to governments in developing countries on strategies and measures to tap the full potential of private involvement in infrastructure. It approves grant funds in the amount of about $17 million per year to provide technical assistance to governments. It also identifies, disseminates, and promotes best practices on matters related to private involvement in infrastructure in developing countries.

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[1] This list reflects the donor group as of 2002.

PPIAF's activities cover five principal areas:

- *Infrastructure development strategies:* Outputs such as country framework reports, technical reports, and diagnostic reviews, intended to guide governments on options for expanding private sector involvement in infrastructure. Includes national, subnational and sectoral studies within a country.
- *Consensus building:* Outputs such as in-country workshops and seminars aimed at building consensus among stakeholders for appropriate policy, regulatory, and institutional reforms.
- *Policy, regulatory, and institutional reforms:* Outputs such as technical studies that provide advice on the design and implementation of specific reforms.
- *Capacity building:* Outputs such as regulatory training and forums, aimed at building capacity in the design and execution of private infrastructure arrangements and in the regulation of private service providers.
- *Global best practice:* Outputs such as international and regional conferences and case studies that focus on the identification, promotion, and dissemination of best practice to the international community in general, rather than to a specific country.

Since its launch in 1999,[2] PPIAF has approved over $44 million in grants for 197 activities in 65 developing countries.[3] In the East Asia region, PPIAF has approved 37 activities and for the South Asia region, 28 activities.

PPIAF has helped several countries develop infrastructure strategies, including country framework reports for India, the Philippines, Viet Nam, Cambodia, Nepal, and Bangladesh. An example of PPIAF support for capacity building is the creation of the South Asia Forum for Infrastructure Regulation (SAFIR), which provides training on infrastructure regulation and reform for regional regulators. PPIAF also supports consensus-building initiatives such as the development of a communications strategy to promote rural power sector reform in the Philippines.

As part of the dissemination of best practice, PPIAF sponsored a conference in London in 2000 which looked specifically at how pro-poor solutions could be built into private sector decisions. Specific considerations identified at the conference included early attention to market structures; avoiding exclusivity in service provision that unnecessarily squeezes out would-be private sector providers; the importance and greater efficiency of small-scale solutions to the problems of delivering basic services to the poor; the need for flexibility in design standards; and, importantly, the early involvement of NGOs and local community groups to make sure that private services provided are in line with community needs.

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2 The figures cited here are as of 2002.

3 For an example , in Lagos, Nigeria, PPIAF provides consultants who study the country's legal and regulatory regime for a large water concession.

Paths Out of Poverty

Guy Pfeffermann

1. Introduction

During the past decade, the number of persons living in absolute poverty has remained constant worldwide: about 1.2 billion people. The incidence of absolute poverty has decreased in East Asia and China and has increased almost everywhere else. While the number of very poor people has stayed constant, the population of these countries has increased by about 1 billion. Therefore, the number of persons who are not poor has also increased in every region, except in the former socialist countries of Europe and Central Asia. However, in sub-Saharan Africa the number of nonpoor people has increased substantially. There are 1 billion more nonpoor people in the developing world today than there were ten years ago. These people may never have been poor and were born out of poverty—or, and this is the focus of this paper—they somehow crossed the poverty line. The question, then, is how people escape poverty

Surveys of households and individuals over time, unfortunately very few in number, show a lot of economic mobility, up and down, in developing countries. One survey, done in Venezuela, looks at people who did cross the poverty line: poverty escapists. Most poverty escapists escaped poverty by finding a job in the private sector, the formal sector, the informal sector, or the public sector. Other people escaped poverty by having a member of their family find a job. Finding a job is clearly one way by which people escape poverty.

2. The Private Sector: Employment and Services to Reduce Poverty

Where are the jobs? The jobs created are overwhelmingly in the private sector. The reason job creation resides mainly in the private sector is that governments are heavily in debt and cannot afford new hiring. In the years to come, this pattern is likely to be even more pronounced than it is now.

The term “private firms” spans a range of businesses: informal, underground, small, medium, large, local, and foreign firms, in all economic sectors—farming, commerce, and infrastructure. Lyonnaise des Eaux, for example, is involved in manufacturing, mining, services, and anything else one can think of. This paper takes the broadest definition of private: private is anything that is not part of the government or government-owned.

These firms generate jobs, which in turn generate salaries and wages. Very importantly, they also broaden people's choices. An interesting literature is burgeoning about poor people as a market. For example, Unilever in India has a sales force of tens of thousands who have gone into poor areas of towns and villages selling very small packages of soap and other products. Per unit of soap, consumers pay less than they would at present for lesser quality products; therefore, Unilever's sales force allows the poor to increase their purchasing power, saving a little money to buy something else.

The private sector also provides services. A conceptual framework, known as a stakeholder framework, assesses development impact. The rest of society is also very important, e.g., the government; links are in the form of taxes. Private firms are the main source of taxes that the government uses to pay for hospitals and social safety nets. If proper surveys were available, women only, or both men and women, below a certain income level could be studied as one of the categories. The International Finance Corporation is at present testing the stakeholder framework at the moment in order to apply real numbers to this concept. The Board of Directors at the World Bank and the Committee on Development Effectiveness discussed and endorsed the stakeholder framework as a way in which to think about creating jobs and broadening choices. Now it is just a matter of resources to continue applying this framework.

" Corruption topped the list of very serious obstacles to doing business in East Asia. "

One interesting correlation between growth and private investment can be illustrated by studying three kinds of countries: those that have grown slowly over the past 30 to 40 years, those that are average performers, and those with economies that develop very fast and reduce poverty rapidly, like the Republic of Korea. Remember that in 1960 the Republic of Korea exported human-hair wigs and was poorer than Africa is today. Looking at public investment and private investment as a percentage of GDP, economists have observed that faster economic growth stimulates more private investment. The causality works in the other direction as well.

3. Fostering Private Sector Development

How then can governments encourage private firms? The World Bank has carried out a couple of surveys of the business environment: one third were small businesses, one third were medium-sized businesses, and the remaining third were large businesses. The survey assessed these businesses' situations, and particularly their relationship with government. Businesses in East Asia were studied in 1999 and 2000. These businesses ranked from 1 to 4 the seriousness of various obstacles to doing business: 1 means the obstacle is not at all a problem; 2, a very minor problem; 3, a moderate problem; and 4, a very serious problem.

Thirty-one percent of East Asian respondents indicated the presence of very serious obstacles to doing business. Corruption topped the list of very serious problems. Businesses, not researchers, were identifying this problem. The information appears in an unweighted average of East Asian countries. In a weighted average, the People's Republic of China would overwhelm the picture and it would look slightly different.

Political instability or uncertainty was listed as the second most serious problem. This points to the importance of good macroeconomic policies.

Third, street crime, theft, and/or disorder were identified by nearly a third of the firms as a very serious obstacle to business and as a problem that international aid agencies have not previously addressed. This type of crime might be a very worthwhile area to address. Organized crime, inflation, difficulties in obtaining financing, exchange rates, and other issues also appeared on the list of very serious problems.

This list and similar lists for other countries could serve as a very useful starting point for policy loans directed at improving the business environment and the institutions that really are anti-poor, in the sense that they cripple employment formation. Economists largely agree that a lot of jobs need to be created for new entrants into the labor force. Existing jobs also need to be upgraded. This upgrade can only happen if the business environment improves.

In conclusion, private firms are the only sustainable long-term engines of growth and job creation. It is like having just one engine in a car. If it is a bad engine, the car goes slowly. If it is a good engine, the car goes faster. It is worth looking after the engine, changing the oil, and doing whatever else is necessary to make it work well. Bilateral and multilateral aid agencies need to pay much more attention to the linkage between poverty reduction and private firms. Without this linkage, countries are not going to reduce poverty very rapidly.

A Finance Model For Small Entrepreneurs: The Planters Bank Experience

Jesus Tambunting

1. Introduction

Planters Development Bank, or Plantersbank (PDB), has been deeply involved with small and medium-sized enterprises (SMEs) for four decades. As in most other countries, SMEs make up an important sector of the Philippine economy: they account for about 90 percent of business firms in the country, they contribute about 25 percent of the Philippines' gross national product, and they provide jobs for about half the labor force.

SMEs are regarded as a lead sector in stimulating economic development, particularly in the countryside, and as a poverty alleviation tool. Yet, although SMEs are important, banks avoid lending to them because they are viewed as risky, costly, and difficult.

Plantersbank has a long history of promoting SMEs, and the bank's experience in this field provides a useful model for other institutions that are seeking a successful formula for SME financing. The bank has overcome many inherent limitations by learning to improvise and develop practical solutions that have effectively surmounted the difficulties inherent in SME financing.

During the past 40 years, the bank has successfully financed more than 15,000 small- and medium-scale projects. This experience has shown that, if handled properly, lending to SMEs can be a rewarding and profitable undertaking. While lending to SMEs, the bank's returns on equity and assets have consistently been better than the average for commercial banks during the two decades prior to the onset of the Asian financial crisis in the late 1990s.

The institution's successful lending to SMEs has gained recognition from various institutions worldwide, and has paved the way for three foreign financial institutions—the Asian Development Bank (ADB), the Nederlandse Financierings–Maatschappij Voor Ontwikkelingslanden N.V. (FMO) or Netherlands Development Finance Company, and most recently, the World Bank through the International Finance Corporation (IFC)—to make investments in the bank. Today, these three institutional partners own up to 40 percent of Plantersbank, and the partnerships with them have brought Plantersbank into close cooperation with national and international government agencies involved in assisting SMEs. The Dutch Government has joined hands with Plantersbank in the establishment of the PDB-FMO Development Center. This company has been responsible for helping set up an SME lending desk in North Yemen and Pakistan, as well as the establishment of a Bankers Training Center in Viet Nam. This same company has been involved in training bankers and investment advisors from Africa, Asia, the Middle East, the Mekong Region, and the Pacific islands. These training programs cover the various aspects of lending to SMEs, from project development to project evaluation, project supervision, and remedial management.

2. The Ingredients of Success

What are the ingredients for the success of Plantersbank in the SME field? First and most important, the bank is primarily committed to providing finance for SMEs. Whereas most banks have an SME lending desk, at Plantersbank the entire organization is focused on SMEs. This allows the bank to understand the unique features, needs, and practices of SMEs. Consequently, Plantersbank has been able to adapt its organization, processes, products, and services to the dynamics of the SME market. Adaptability gives the bank the necessary agility to react rapidly to threats and opportunities, to make fast decisions, and to move cohesively.

Second, the bank is profit driven. During its early years, it took advantage of government subsidies and incentives available to private development banks, such as tax exemptions and lower reserve requirements. While it regards lending to SMEs as a business opportunity, the bank never loses sight of its need to make a profit in order to stay in business. This bottom-line orientation forces the bank to be flexible, adaptable, and able to improvise. It charges interest rates high enough to cover the higher overhead and supervisory cost of lending to smaller accounts, and the higher rates are accepted by the market because of the value-added services the bank provides in addition to financing. The bank makes extensive use of rediscounting facilities and inexpensive funds from government and multilateral funding agencies to keep its interest rates on loans at competitive levels while meeting the long-term financial needs of SME clients.

Third, the bank manages its credit risk using innovative methods. Lending officers have learned to use surrogate indicators of credit risk whenever the borrower's accounting records prove tedious or difficult to reconstruct, or the information needed to evaluate a project too costly to acquire. The bank has a diversified loan portfolio, with loans to SMEs in various industries, including larger accounts and short-term credit. Risk is also reduced by continued bank lending to service the financial needs of SME clients that have matured and grown and could easily avail themselves of the credit facilities of bigger commercial banks. The bank counters the inherent weaknesses of the SME sector by requiring guarantees and collateral to cover its credit exposure. Such guarantees and collateral also serve as a mechanism to instill financial discipline by establishing adequate disincentives for loan defaults.

Fourth, the bank maintains a long-term orientation and developmental perspective. It views its relationship with clients as a long-term partnership and focuses on elements that build value for clients as well as for bank shareholders. In addition to financial assistance, Plantersbank provides nonfinancial services such as management counseling and bringing clients together with prospective markets and suitable business partners. It is not uncommon for a bank officer to be regarded as a financial advisor by a client, and bank officers sometimes assist in the reconstruction of the client's records, preparation of project feasibility studies, and evaluation of investment options.

Finally, Plantersbank capitalizes on its identified strengths by keeping its operations simple and focused on what it does best. The bank has a customer-oriented culture and organizes its functions in a way that fosters responsiveness and effectiveness in catering to the needs of the SME market. It encourages its employees to know their clients well, and to interact and develop good working relations with them. Although this approach invariably entails additional costs for the bank, the familiarity with prospective projects and borrowers themselves is advantageous over time, because it reduces the cost of monitoring and supervision in the long run.

3. A Formula for 40 Years of Small Enterprise Financing

Plantersbank's formula can thus be summed up as follows: commitment and focus to its defined market, which is the SMEs; profit consciousness to ensure sustainability in its operations; innovative approaches in credit risk management; a long-term developmental orientation; and simplification of operations, while remaining focused on what it does best.

Forty years of successful experience in SME finance has made Plantersbank a recognized leader in this field. In addition, a new venture makes use of the Internet in its efforts to assist SME financing. In June 2000, Plantersbank launched PDB SME Solutions Inc., a joint venture with IFC and Silicon Valley-based e-Vicor, to provide SMEs with web-based business solutions that help them manage their services better, expand their markets, and compete globally. The bank will continue its pioneering approach in building the institutional capabilities of its e-commerce company, to help SMEs develop and grow in the 21st century, and to realize its vision of becoming one of the best-managed banks in the Philippines.

Using Assets and Partnerships to Address Rural Poverty

Bruce Moore

1. Access to Assets

Poverty is the daily challenge of 800 million people struggling to meet their basic food requirements. Sixty percent are rural people who live in environmentally sensitive areas of low productivity. Vast numbers are landless or near-landless. Those numbers are continuing to rise as the landless are joined by those being displaced due to processes such as privatization of common property land, expansion of commercial agriculture, and ethnic conflicts over land. In 1960, the top 20 percent of the world's population had incomes 30 times as high as the poorest 20 percent. Today, the gap is 60 times.

For both rural and urban households, the food security challenge is growing as the poverty gap widens, both within and between nations. As the gap in access to productive resources grows, it becomes a growing threat to household food security, environmental sustainability, and international peace. It is a dramatic indicator of imbalances that contribute to a culture of exclusion that denies the poor access to opportunities for development.

It is ironic that those who are food producers, largely farm laborers, are among those most vulnerable to food insecurity. For the rural poor, secure access to land provides the most realistic opportunity for rural people to improve their livelihoods and develop assets that can reduce their vulnerabilities.

Secure access to assets determines the incentives and opportunities for the rural poor to

- ensure their household food security,
- earn income by producing marketable surpluses,
- accumulate capital and assets,
- access financial services,
- invest in alternative income-generating strategies,
- use their own labor to sustain the natural resource base;
- build reserves to cope with drought and preserve their assets during periods of agricultural stress, and
- transfer assets to reduce intergenerational poverty.

However, in their quest for food security, the rural poor often have little choice but to use their limited resources extensively. Their negligible natural and capital assets compel them to adopt survival strategies with short time horizons. They become excluded from productive opportunities by ill-defined or nonexistent property rights, limited access to financial services and markets, inadequate security against natural disasters, lack of education and training, and lack of participation in decision making. Understandably, when property rights are lacking or insecure, farmers cannot be sure they will receive benefits and thereby lack incentives to make investments for the longer term.

Lack of secure access to land puts the future food security and livelihood of rural people at risk. However, the vicious cycle that links hunger and poverty to agriculture and land can be broken, in large measure by ensuring that the rural poor gain secure access to land, water, credit, technology, and training. Pro-poor policies and people-centered investments to gain and maintain access to land, water, forests, and fisheries can improve livelihood systems and widen food security and employment options for the rural poor.

Interactions between poverty, food security, and resource rights are starting to bring about a refocusing of national and international agendas on a broadening of land tenure as well as the resource rights of fishers and coastal communities, forest dwellers, pastoralists, and other traditional resource users.

2. From Parallel Actions to a Common Agenda

This paper examines an innovative coalition of civil society, governmental, and intergovernmental organizations whose mandate is specifically focused on the needs of the rural poor. It describes the origins, vision, and activities of the Popular Coalition to Eradicate Hunger and Poverty. While this paper is based on the experience of the Popular Coalition, the underlying knowledge can inform other organizations, regardless of their sectoral interests, about the modalities that can contribute to harnessing the energies of different actors into a coordinated mechanism for reducing poverty. The lessons learned are transferable to academic, business community, civil society, aid provider, government, and intergovernmental efforts to forge pro-poor collaborations.

a. Lessons from experience

The history of poverty reduction strategies has shown that both government-led development without the active support of civil society, and civil society movements without the institutional and enabling support of government, have both failed. The experience of the 1990s has confirmed that active participation by communities in the planning and implementation of development policies and programs is an essential prerequisite for sustainable human development and poverty reduction. The record of official development assistance affirms that sustainability requires the empowerment of people as agents of their own development. These lessons point to the need for revitalized alliances linking governments to their civil society organizations, coupled with the moral and financial persuasion of the international community.

International institutions with a mandate to foster development often lack the necessary community involvement. At the same time, civil society organizations often lack access to the levers of decision making and policy setting that directly affect their livelihood systems.

In a global marketplace that is often beyond any one nation's regulatory control, national governments are struggling to fulfill their responsibilities to establish legislation and serve the well-being of their citizens. The dramatic rise in the number and nature of civil society organizations reflects the growing demand by the public to participate in setting policies and in designing the programs and services of governments. There is rising public concern about social justice, equity, and livelihood opportunities for the poor and marginalized.

b. Searching for a common agenda and a commitment

Over the past 25 years, international leaders and heads of state have searched for a common global agenda through a well-known series of summits. Each summit, from the Stockholm Conference on the Environment in 1972 to the World Food Summit in 1996, examined a pending crisis: the environment, development, energy, population, and food. Of the many conclusions drawn at these conclaves, the one of most significance is that there are no separate crises: they are all one and the same. An analysis of summit declarations finds that the single most common cause and effect is poverty.

"Summit declarations consistently name poverty... as the most important and widespread cause and effect of any crisis."

Summit declarations consistently name poverty, resulting from unequal access to and use of natural resources, as the most important and widespread cause and effect of any crisis. If the protocols were blended into one international plan, there would be a call for equitable distribution of wealth, access by the poor to productive resources, sufficient participation by the poor in decisions that affect their daily lives, and reform of macroeconomic policies that adversely affect the poor.

A review of these protocols reveals the recurring description of the poor as lacking assets, being vulnerable to agricultural and economic shocks, lacking capacity (training and knowledge) to participate in decision making that affects their livelihoods, and suffering from an intergenerational sense of being powerless to change their condition. This continuing situation casts grave doubts on the political commitments behind summit outcomes such as "the right to development" and similar adjurations to put people at the center of the development process. Putting these global agreements into action is a need of the highest order.

Despite these convincing reasons, few countries have undertaken major agrarian reform measures. In many countries, the political and economic difficulties associated with agrarian reform have been formidable, and efforts to implement pro-poor policies are often met with substantive political and economic obstacles. For example, even in countries committed to improving access to land and security of tenure, implementation is often slow, delayed, or manipulated by vested interests and the landed class. In other cases, a lack of beneficiary participation has limited the impact and sustainability of reform efforts. The challenge to implementing agrarian reform is rooted in political courage to make pro-poor decisions, however difficult that may be.

Even in the face of these failures, several factors are converging to produce more favorable enabling conditions: the increasing efforts of civil society, the rise of democratic institutions, and increased awareness of the political consequences of neglecting poverty. There are also indications that economic liberalization and institutional reform may be reducing or eliminating distortions that have historically favored the powerful. For the rural poor, these indications may mean greater access to land, assuming that government policies and market conditions will eliminate subsidies that have favored large-scale farmers. Land taxes can be a further incentive, by making the practice of holding land for speculative purposes more costly. However, commitments require action.

c. Local actions are necessary, but not sufficient

The past has shown that approaching poverty through narrow interventions, as a means to initiate broader policy dialogue and institutional reform, is generally not successful. It has also been recognized that the work of civil society, governments, and intergovernmental organizations has most often been parallel but separate, because of historical events that have created cleavages that continue to be difficult to bridge.

New partnerships need to be built on a foundation consisting of information sharing, dialogue involving affected groups, consensus building, and collaborative formulation of policy. New pro-poor partnerships benefit from joint pilot projects that can help to build new ways of work and better target existing resources to the poor.

Clearly, systemic policy and regulatory frameworks that prevent the poor from building assets, both physical and human, have a critical bearing on the social fabric of societies and on overall economic development. From the standpoint of the poor, past failures of trickle-down economics must give way to bottom-up participation. For vast numbers of rural poor, empowerment means securing resource rights and fostering direct participation in the integrated planning and management of land, water, and common property. Resource management strategies in the past tended to neglect social, economic, and institutional factors and concentrated almost exclusively on technical aspects. Urban and periurban poverty strategies have also aimed for a "technical fix." Today, rural decision makers are beginning to understand interactions between poverty, land rights, and sustainable use of natural resources. Expansion of this understanding has, in recent years, resulted in a gradual refocusing of national and international agendas on revival of agrarian reform.

Globalization is changing the old adage of "Think Globally, Act Locally" to "Act Locally and Globally." The challenges of poverty and their threat to peace, security, and the environment require advocacy and action from the local to the international level. Two key tools for engagement of a broad coalition of cross-sectoral interests are knowledge and capacity building. It is here that the Popular Coalition is innovative. The Popular Coalition recognizes that effective multi-stakeholder alliances begin with understanding the programs of all partners. This is because the real value of a coalition is in adding knowledge and capacity to its partners, capturing opportunities for synergy, establishing new ways of collaboration between diverse partners, and influencing one another to incorporate into their organizations improvements that arise through coalition analysis, demonstration projects, and action research.

Formation of the Popular Coalition has widened the space for dialogue involving civil society, governmental, and intergovernmental organizations. For the Popular Coalition, this also means influence at the highest levels of the United Nations system. The terms of reference of the United Nations Administrative Coordinating Committee on Food Security and Rural Development include a mandate to support the program of action of The Popular Coalition to Eradicate Hunger and Poverty. Accordingly, the Popular Coalition can support and link work of community-based organizations in local decision making with influence at the highest international levels.

d. From parallel actions to a common strategy

Frequently, civil society organizations, governments, intergovernmental and international financial institutions, and United Nations agencies are pursuing what seem to be parallel paths and objectives.

The 1995 Conference on Hunger and Poverty, sponsored by the International Fund for Agricultural Development, brought together a diverse group of stakeholders, including bilateral agencies, civil society organizations, government officials, intergovernmental organizations, international financial institutions, and nongovernment organizations (NGOs). It produced a consolidated analysis of the constraints on sustainable human development. It called for urgent action to revive agrarian reform on national and international agendas. The organizations made a commitment to form a coalition of equals that would unite their common concerns into one agenda to empower the rural poor through improved access to productive assets. They determined that the Popular Coalition should give particular emphasis to the experience of civil society in gaining resource rights and participating in decision making.

The Popular Coalition established itself as a distinct mechanism with separate governance by a Coalition Executive Council comprised of seven regional civil society/NGO networks and five intergovernmental partners. Seven civil society representatives are selected by their peers and represent the African, Asia/Pacific, Caribbean, European, Latin American, Middle East, North African, and North American regions. Intergovernmental partners are the International Fund for Agricultural Development, which serves as the international focal point; the Food and Agriculture Organization; the World Food Program; the World Bank; and the European Commission. While these are the current governors, coalition partners include additional civil society and intergovernmental organizations.

The Popular Coalition aims to build strategic and innovative alliances among these diverse development organizations in order to empower the rural poor through improved access to assets and effective participation in decision making affecting their livelihood systems.

The Popular Coalition is not a new organization, but it is a new mechanism. Some key lessons from its establishment, which time is proving to have been essential to its current strategic and operational progress, are that

- the stakeholders initially came together to share their analysis of the problematic;
- their analysis evolved a common perspective on conditions and strategies for action;
- this common perspective revealed that required policy and institutional reforms and actions were beyond the spheres and specialties of any one stakeholder; and
- the resulting coalition needed to be a neutral space where dialogue and differences could be negotiated, with a flexible framework for engagement.

It should be noted that the Popular Coalition is not an extension of any one of its partners. This helps keep any partner from regarding it as something it is helping another organization to do. Instead, as a distinct mechanism, its roles and responsibilities are those of its owners, i.e., each and every partner.

The strength of the Popular Coalition comes from the different spheres of influence of its partners, which range from community-based organizations to international institutions and United Nations agencies. It has significant capacity to make a difference by melding the existing policies and resources of its partners into coherent and well-targeted country programs. The vision is for the partners to incorporate the successes and lessons learned from initiatives that are jointly undertaken through the Popular Coalition into their own organizations.

e. Forming alliances committed to pro-poor choices

While a generalization, it is all too frequently true that poverty, like agrarian reform, is seen to be a technical matter. However poverty, like agrarian reform, is about sustainable development. Sustainable human development is essentially about people and the way they organize their social, economic, and political systems to make critical decisions on who has the right to use which resources or access which employment opportunities, in which ways, for how long, and for which purposes.

Accordingly, overcoming poverty is primarily about changing inequitable relationships. First, it aims to change relationships obstructing the poor from acquiring assets. Second, it aims to change the current culture of exclusion so that the poor gain access to opportunities, such as education and training, credit, technology, markets, other productive services, and income-earning possibilities. Third, it aims for the poor to be active participants in the development of government policies and programs affecting their communities and livelihoods.

However, obstacles facing the poor, such as resource rights of the land-poor, touch on fundamental inequities. Much cultivated, fertile land is held by a small number of powerful landowners and elites. It follows that tenurial security and property rights can reduce landholding inequalities, prevent rural conflicts, contribute to improved food security, and increase incomes of the rural poor. Secure access to land can catalyze practices of sustainable resource use and soil management, including combating desertification.

Today, poverty reduction, expressed in rural areas as agrarian reform, is returning to the agenda based on a recognition of its importance to economic, social, and political stability. Asset ownership by the poor is increasingly recognized as being essential to sustained and broad-based economic growth. Worldwide, social justice and equity are becoming common values, and good governance and political stability are being accepted as prerequisites to economic growth and the eradication of poverty.

The Popular Coalition's program of action is informed by three key lessons from the past:

- a broad-based and comprehensive approach to pro-poor reform involves consensus building and policy dialogue;
- political sensitivities to powerful vested interests will require that the viability of proposed approaches be effectively demonstrated before policymakers will consider adopting reform on the scale needed to meaningfully reduce poverty; and
- community organizations need to be strengthened in order to become effective interlocutors with government in policy development and program delivery.

f. Instruments for common action

From the experience of the Popular Coalition, a first instrument for common action has been formation of a knowledge network to capture lessons learned from the practical work of civil society. The Popular Coalition Agrarian Reform Network (ARNet) equips communities attempting to address a particular issue with experience from those who have overcome similar constraints elsewhere. This knowledge strengthens policy dialogue between civil society organizations and their governments. Further knowledge also results from forums and studies on emerging resource access methodologies undertaken by a cross-section of coalition partners.

The Popular Coalition also supports the replication and scaling up of successful initiatives as a way of demonstrating the benefits of incorporating these experiences and underlying principles into public policies and programs. Through the Coalition, international, regional, national, and grassroots organizations are gaining from one other's knowledge, and collaborating to promote successful practices, policies, and innovative institutional arrangements linking civil society and government.

The second instrument of the Popular Coalition is the Community Empowerment Facility, which supports local groups in building their own institutional and analytical capacity.

Communities will become better equipped to place their particular issues on the agenda with their civic and political officials. The Community Empowerment Facility

- strengthens the negotiating ability of the poor, especially women and indigenous peoples, to achieve secure access to land, including common property, water, and associated support services;
- facilitates community participation in policy dialogue and representation in local governance;
- builds on traditional organizations and community practices;
- strengthens people's organizations in solidarity with others;
- supports policy and institutional reforms;
- facilitates conflict resolution processes;
- replicates and scales up pro-poor models; and
- disseminates best practices and lessons learned.

The Popular Coalition's third instrument, a program to popularize agrarian reform, recognizes the need for wider political space. The aim is to place issues in the public domain, in both south and north. The goal is to build consensus among many stakeholders on policies and strategies for implementation.

g. Lessons arising from the formation of the popular coalition

A confluence of factors contributed to the commitment to form The Popular Coalition, to actively participate in its implementation, and to jointly solicit required resources. The primary enabling processes and understandings include the following:

- open debate and process of stakeholder analysis of the problematic/problems involved;
- full participation by all stakeholders in establishing a vision for an international conference to examine issues;
- emergence of a common perspective on constraints to eradicating hunger and poverty;
- a consensus view of strategic policy and institutional reforms required for action;
- a common program of specific actions in contrast to a goal of broad-based institutional collaboration;
- an understanding that necessary actions require the joint efforts of civil society, governments, and international-level organizations;
- recognition that a critical combination of complementary capacities, spheres of influence, resources, and networking necessary to engage diverse constituencies was not feasible by any one stakeholder on its own;
- a need for neutral, flexible space for dialogue and action that would enhance the views of each partner organization, but would respect rights and orientation of each, would not reflect a dominance by any one partner, and would also not commit all partners to the outcome of debate on each and every issue or subject;
- a commitment to strengthen civil society, especially community-based organizations, because civil society experience too often remains localized and thereby does not get replicated, scaled-up, analyzed, and incorporated into public policies, and conversely,

local communities often lack access to information, remain inadequately prepared, and are consulted only on an occasional basis, such as during project preparation after overarching policies have been determined;

- the need to mobilize political will based on a broad-based public understanding of the issues involved; and
- an appreciation and mutual acceptance of mandates of partners, on the basis of which it was decided to establish, not a new organization but a coalition based on exchanging knowledge, building capacity, and supporting innovation and action research that is aimed at transferring lessons learned to its partners for incorporation into their policies and programs, in order to strengthen their mandates to eradicate hunger and poverty.

Today, the way forward is framed by globalization. It is important to recognize that, although markets can distribute goods and services, they cannot address the issues of social justice, equity, and opportunity for the poor. It is here that civil society, governmental, and intergovernmental organizations need to build wider common space for engaging in public issues of development, especially eradication of hunger and poverty. Developing new ways of work is often difficult, especially where NGOs have aggressively mobilized to change government policies. In some cases the first step is to overcome a past where the term nongovernment was seen to be the same as anti-government. Building trust among civil society, governmental, and intergovernmental organizations is a first step.

Special topics

Targeted poverty reduction mechanisms:

- Labor markets
- Gender
- Resettlement

Poverty Alleviation, Employment and Labor Market: Lessons from the Asian Experience and Policies

Rizwanul Islam

1. Introduction

The record of poverty alleviation in Asia seems better than that of other developing regions like Africa and Latin America. During the 1990s, Asia was the only developing region where the incidence of poverty (defined as the percentage of people living on less than US$1 per day) registered a substantial decline. Despite this achievement, however, there is very little room for complacency. Asia still remains home to over two thirds of the world's poor. And within Asia, there is a wide variation in the progress made in reducing poverty. While some countries in East Asia and Southeast Asia have achieved impressive reductions in poverty, the performance of the South Asian countries has been rather modest. Furthermore, the recent economic crisis shows how fragile some of the gains in poverty reduction can be. Sustained reduction in poverty, therefore, needs to remain a live issue on the Asian development agenda.

The diversity of the Asian experience with respect to poverty reduction enables one to draw useful lessons from that experience. One lesson is the importance of employment and labor market outcomes. As income is an important aspect of poverty, and as productive employment is a key determinant of income, one way of defining pro-poor growth is in terms of the employment outcome of growth. It could therefore be argued that decent and productive employment is one of the best routes out of poverty. One of the main purposes of this paper is to point out the role that employment and the labor market have played in reducing poverty in Asia. It also highlights policies and programs that are required to strengthen the contribution of labor market outcomes to the objective of poverty reduction.

2. Employment, the Labor Market, and Poverty

While there is no easy answer to the question of how poverty can be alleviated, various studies now provide a fairly strong indication about the role of overall economic growth in alleviating poverty. In Asia, for example, the countries that achieved notable success in poverty alleviation (viz., the People's Republic of China (PRC), Indonesia, the Republic of Korea, Malaysia, and Thailand) are also the ones that attained high rates of gross domestic product (GDP) growth. It must be noted, however, that a high rate of economic growth is only a necessary condition, not a sufficient criterion in itself, for reducing poverty. The nature and content of output growth is extremely important for achieving this goal.

For growth to contribute to poverty alleviation, output growth must translate into incomes of the poor. For those who are employed as wage laborers and salaried workers, the quantity of employment and the rate of remuneration are crucial. For those who are self-employed, productivity and returns are important; these in turn are influenced by a host of factors, e.g., technology, inputs used, and prices of inputs and outputs. Employment is, thus, the key link between output growth and poverty alleviation. Monitoring and analysis of the growth/employment/poverty nexus is, therefore, crucial in the fight to reduce poverty.

The role that employment plays in poverty alleviation is indicated by the contrasting experiences (at least up to 1996) between the more successful countries of East Asia and Southeast Asia, and the less successful ones of South Asia. In the former, high output growth was accompanied by employment growth at high rates, which in turn led to labor market tightening and increases in rates of remuneration. Countries of South Asia were less successful in achieving such employment-augmenting growth, and also less successful in reducing poverty.

The International Labor Organisation's (ILO's) *World Employment Report for 1996/97* (ILO, 1996) mentions that between 1986 and 1993, in the countries of East Asia and Southeast Asia (with the sole exception of Indonesia), employment grew at more than 3% per year, while in countries like India and Pakistan, employment performance was weaker. The contrast is sharper for employment in manufacturing (Table 20.1). During 1986–1992,

Table 20.1. Growth and Elasticity of Employment in Manufacturing in Selected Countries of Asia

Country	1975- 1980	1981- 1985	1986- 1992
Bangladesh			3.07
China, People's Rep. of			5.00
India	4.26 (0.68)	-1.18	1.41 (0.20)
Indonesia	6.42 (0.33)	12.45 (0.76)	8.00 (0.66)
Korea, Rep. of	7.96 (0.53)	3.55 (0.36)	3.70 (0.30)
Malaysia	10.27 (0.67)	-0.82	11.20 (0.84)
Pakistan	0.08 (0.01)	1.78 (0.21)	1.54 (0.20)
The Philippines	14.14 (3.66)	-7.49 (0.21)	6.47 (0.20)
Thailand	4.01 (0.61)	3.29 (0.68)	3.76 (0.38)

Note: Blank cells = not available. Figures in parentheses represent elasticity of employment with respect to output growth.
Sources: The figure for Bangladesh (referring to the period 1985–86 to 1995–96) was calculated from data available in Bangladesh Bureau of Statistics (1997). The figure for the People's Republic of China represents the period 1986–90, and has been calculated from data in Government of China (1999). The rest of the figures are from ILO (1996).

in countries like Indonesia, Malaysia, the Philippines, and Thailand, growth in manufacturing employment was much higher than in India and Pakistan. The same is true of 1975–1980. During the early 1980s, a recession in Malaysia and the Philippines led to declines in manufacturing employment; but these countries were able to reverse that trend with very high rates of growth after 1985. Such high rates of growth in manufacturing employment enabled countries like Indonesia, Malaysia, the Philippines, and Thailand to achieve significant structural shifts in employment (in varying degrees), which in turn led to a tightening of the labor market and a rise in real wages, thus aiding the process of poverty reduction.

Another aspect of the labor market that is important for poverty reduction is the growth of real wages for workers. As the economies of many Asian countries remain predominantly rural/agrarian, and as agricultural laborers often constitute a large proportion of the poor in rural areas, the real wages of such workers are extremely important to their levels of living. On the other hand, as an agrarian economy undergoes structural transformation and the surplus/underemployed labor moves out of agriculture into the modern (primarily manufacturing) sector, wage rates in the latter will also be important in achieving poverty reduction. In addition, a large number of the poor could be engaged in rural nonfarm activities and in a variety of activities in the urban informal sector. Wage rates and earnings in such activities can be important determinants of poverty.

Unfortunately, it is difficult to establish the linkage between poverty and real wages mentioned above, for a variety of reasons. First, in developing countries where traditional institutions and practices remain, it is difficult to conceptualize and quantify wages (especially because of the practice of paying wages in kind). Second, large segments of these economies are often not covered by a systematic practice of collecting data on wages. What is thus available is usually fragmentary, not standardized, and hence, often not comparable. It may, however, be possible to have some idea about broad trends and provide at least a heuristic argument on the linkage between poverty and real wages.

Data presented in Table 20.2, although rather dated, can help reveal differences in the growth of real wages between countries that attained an impressive reduction in poverty and those where poverty reduction was rather modest. Both Indonesia (during the 1970s and 1980s) and the Republic of Korea (starting from the 1960s) achieved high rates of real wage growth in manufacturing as well as agriculture. The record of poverty reduction was also impressive in both countries (though at different levels). Growth in real wages in agriculture was also high in Malaysia (although the growth of the manufacturing wage was not so high), another country where the incidence of poverty declined sharply. Thailand is the other Southeast Asian country that achieved a very substantial reduction in poverty. Although there are no data on the agricultural wage for that country, data on the manufacturing wage rate indicates the importance of this variable in reducing poverty. At the other extreme lie Bangladesh and Sri Lanka, where real wage rates in agriculture actually declined. In India, the growth rates of real wages were rather modest, in both agriculture and manufacturing. It is also well known that the record of poverty alleviation in these last three countries is much less impressive than in the East Asian and Southeast Asian countries.

Table 20.2. Growth Rates of Real Wages in Agriculture and Manufacturing in Selected Asian Countries
(percentage per year)

Country	Growth or agricultural wages		Growth of manufacturing wages	
	period	growth rate	period	growth rate
Bangladesh	1960–1991	-0.73	1967–1989	-1.05
India	1960–1990	1.82	1963–1990	1.74
Indonesia	1976–1988	3.74	1970–1991	5.52
Korea, Republic of	1960–1978	7.06	1966–1991	9.09
Malaysia	1971–1992	3.96	1968–1992	2.18
Pakistan	1970–1992	2.94	1963–1988	4.89
Philippines	1960–1977	-1.10	1963–1991	0.89
Sri Lanka	1980–1990	-1.06	1966–1990	1.03
Thailand			1970–1990	3.00

Note: Blank cells = not available.
Source: World Bank (1995).

The impact of real wages on the incidence of poverty is further illustrated by the experience of the countries affected by the recent economic crisis in Asia. Data presented in Table 20.3 show that real wage rates declined in all five countries that were seriously affected by that crisis. In the extreme case of Indonesia, the crisis caused a reversal of several impressive labor market gains made by the country before the economic crisis (viz., reduction in the degree of underemployment and in the extent of dependence on the informal sector, and high rates of real wage growth). While underemployment and the dependence on the informal sector increased, real wage rates also declined sharply in all sectors. As a result, the impressive achievements made in reducing poverty were reversed. Indeed, the incidence of poverty appears to have doubled during the crisis period (ILO, 1999). In other countries as well (especially the Republic of Korea and Thailand), declines in real wages and increases in unemployment were reflected in increases in poverty (Lee, 1998).

Table 20.3. Growth of Real Wages in Southeast Asian Countries before and during the Economic Crisis

Country	Percentage change in real wages		
	1996	1997	1998
Indonesia	10.8	8.7	-41.0
Republic of Korea	6.8	2.4	-9.3
Malaysia	2.1	3.3	-1.1
The Philippines	-2.0	-1.1	-2.0
Thailand	2.3	1.4	-7.1

Source: World Bank (1995).

While recognizing the centrality of employment in making economic growth pro poor, it is necessary to add that employment is not a sufficient condition for achieving the goal of poverty reduction. Clearly, there are many who are employed yet are still poor (especially in the developing world). In any effort at poverty alleviation, it would be important to address the issue of the so called "working poor," because work alone does not guarantee an escape from poverty.

Who are the working poor? There is often a tendency to equate them with those working in the informal sector. This notion, however, is not borne out by facts. Two points are worth making in this regard. First, informal sector activities can be quite heterogeneous; many of them provide returns/incomes above poverty thresholds. It is, therefore, important to locate who the poor are within the informal sector. Second, many of the poor may be in activities that are not classified as informal sector but can be said to belong to the "informal economy," defined in a broad way. Examples of such people include marginal farmers, farm workers, those working in petty nonfarm activities (self-employed or wage workers), and so on. They are "employed" in some sense; but the incomes of many of them are below poverty thresholds.

What can be done to raise the incomes of such working poor? One line of reasoning is as follows. If an economy can get onto a high-growth path, and through appropriate macro and sectoral policies make this growth sufficiently employment intensive, an adequate amount of productive employment will be created so as to gradually absorb all the working poor into such jobs as will lift them out of poverty. Indeed, this is the path followed by the East Asian countries that have been successful in alleviating poverty. And as mentioned earlier, policies can be geared toward achieving such employment-intensive growth paths. It must be recognized, however, that in many of the developing countries characterized by a high incidence of poverty, such high growth rates are not in sight. While efforts need to continue for implementing an employment-intensive, high-growth strategy, additional interventions will be needed to address the situation of the working poor.

What kind of interventions can help the working poor raise their incomes? The answer(s) to this question depend on the reasons for their low incomes, which, in turn, vary depending on the type of activity, geographic location, etc. It is necessary, therefore, to take stock of the knowledge base in this area (and undertake additional work if warranted). Some of the factors for low productivity, low returns, and low wages include type of market, demand for the products, relative prices of inputs and outputs, marketing arrangements, technology, bargaining power, and so on. Direct interventions in these areas are important from the point of view of addressing the problems of the working poor.

3. Direct Interventions for Poverty Alleviation

Although a high rate of economic growth is essential for poverty alleviation on a sustained basis, it has not been possible for many developing countries to achieve such rapid growth. On the other hand, many of these countries are also characterized by a high incidence of poverty. If they were to wait for poverty alleviation through the normal process of economic growth, they would perhaps have to wait for several more decades. The conditions necessary for the benefits of growth to trickle down to the poor are also often absent from developing countries. In such circumstances, special measures and directly targeted programs help in speeding up the process of poverty alleviation.

The special measures for poverty alleviation can be of two types: (i) programs for employment and income generation and (ii) measures for social welfare. In fact, these two categories of programs can be linked to the two broad types of basic human needs. One part of the basic needs—the one consisting of food, clothing, and shelter—is met mainly through one's individual (or private) income and consumption. Programs of employment and income generation are designed mainly with the aim of contributing to the satisfaction of such "private basic needs." On the other hand, an important component of basic needs—e.g., education and health care—often cannot be satisfied through increases in individual income alone. Social welfare programs can be important in meeting those needs. Such programs are often not targeted at the poor, but to the extent they are designed to cover specific areas, e.g., slum areas in cities or villages in backward regions, the poor are likely to benefit more.

Employment and income generation can be advanced by either self-help or wage employment programs. Self-employment programs usually target the poor and assist them in undertaking income-generating activities by providing them with microcredit. In some cases, credit is accompanied by assistance in skill training, marketing, etc. The wage employment programs create employment by using labor-intensive methods in constructing infrastructure.

A large number of programs of both types can be found in Asia, especially in South Asia. In assessing the effectiveness of such programs in poverty alleviation, it would be necessary to seek answers to three questions:

- How successful have the programs been in targeting the poor?
- How effective have they been in raising the incomes of the poor? and
- What has been the coverage of such programs in relation to the overall magnitude of poverty in various countries?

The following discussion, based on the experience of Asian countries, attempts to answer these three questions. Table 4 presents basic information on programs in some Asian countries.

a. Reaching the target groups

The success achieved by various poverty alleviation programs in reaching the target groups varies considerably. While there are successful programs, there are also programs that are not so successful, and in which large numbers of the beneficiaries are not poor. For example, in Bangladesh, credit and other assistance programs of the Grameen Bank and the Bangladesh Rural Advancement Committee (BRAC) are available only to the poor (defined as landless and/or near landless). But there are other programs that have not attained similar success in reaching the poor (Alam, 1989; Hossain, 1984; Masum, 1996). A recent evaluation (Masum, 1996) points out that even in the case of programs that have succeeded in reaching the poor, it is the "not so poor" who have benefited more.

India's Integrated Rural Development Program (IRDP) also faces this criticism: the program's performance has been rather disappointing, even in backward and remote areas of the country. One evaluation shows that in 1992/1993, 22 percent of the beneficiaries were

Table 20.4. Direct Interventions for Poverty Alleviation: Some facts on Selected Programs in Selected Asian Countries

A. Self-Employment Programs

Country	Program	Implemented by	Target Group(s)	Mode of Assistance
Bangladesh	1 Credit from Grameen Bank	Bank	Households owning less than 0.5 acre of cultivable land or assets worth one acre of medium quality land	Microcredit without collateral (conditional upon group formation)
	2 BRAC Rural Development Program	NGO	The landless and the poor	Credit and other necessary support (including training)
	3 PROSHIKA Employment and Income-Generating Program	NGO	The landless, small and marginal farmers, fishermen and destitute women	Credit, skill and management training, technical and marketing support
	4 BRDB Production and Employment Program	Government	Landless and assetless	Credit and training for self-employment
People's Republic of China	Program for funding poor “collectives”	Local Government	Groups of women in poor farm households	Low-interest credit
India	Integrated Rural Development Program	Government	Small and marginal farmers, agricultural laborers, and rural artisans below the poverty line. At least 50% are to be drawn from Scheduled Castes and Scheduled Tribes and 40% from women.	Bank credit along with subsidy

Table 20.4. Direct Interventions for Poverty Alleviation: Some facts on Selected Programs in Selected Asian Countries (continued)

A. Self-Employment Programs

Country	Program	Implemented by	Target Group(s)	Mode of Assistance
Indonesia	Income-generating project for marginal farmers	Government	Small and marginal farmers; landless families with an annual household income of less than the value of 320 kg. of rice per head	Credit without collateral (through Bank Rakyat Indonesia) and training for income-generating activities
Nepal	Small farmer development Program	Government Bank	Small farmers (less than 0.5 ha of land or annual per capita income of less than Rs. 2,500 at 1987/88 prices,	Credit and other support
	Intensive banking project	Commercial Bank	Rural poor	Credit
	Credit for rural women	Commercial Bank	Rural poor women	Credit
	Rural development bank	Government Central Bank	Poorest women in remote areas	Credit

Table 20.4. Direct Interventions for Poverty Alleviation: Some facts on Selected Programs in Selected Asian Countries (continued)

A. Self-Employment Programs

Country	Program	Implemented by	Target Group(s)	Mode of Assistance
Philippines	Microcredit program	Government and NGO	Microentrepreneurs and self-help groups engaged in microbusiness	Credit through NGOs
	Credit program for the poorest of the poor	‘Do’	Poorest of the poor in 25 priority provinces	Credit for the poorest 75 percent of those below the poverty line
	Self-employment assistance Program	Government	Unemployed and under employed household heads, disadvantaged women, out-of-school youth, and persons with disabilities below the poverty line	Integrated package of social welfare services including collateral and interest-free credit
	Programs for promotion of rural employment through self-employment and entrepreneurship development	Government and NGO	Landless and assetless rural workers, especially unemployed plantation workers, marginal farmers, fishermen, and home-based cottage industry workers	Credit, entrepreneurship development training, and consultancy services
	Women Workers’ Employment and Entrepreneurship Development Program	Government and NGO	Women’s group	Credit, training

Table 20.4. Direct Interventions for Poverty Alleviation: Some facts on Selected Programs in Selected Asian Countries (concluded)

B. Wage-Employment Programs

Country	Program	Implemented by	Target Group(s)	Mode of Assistance
Bangladesh	Food for works–now multisectoral rural development Program	Government	Underemployed rural labourers, extreme poor	Short-term seasonal employment; wages in terms of food
	Rural Maintenance Program	Government with NGO financial assistance	Poor women	Regular employment; skill training to aid self-employment
	Vulnerable Group Development Program	Government	Extremely poor assetless groups	Food as wages, skill training, and credit
India	Jawahar Rozgar Yojana	Government	Poor in areas with weak infrastructure	Wage employment at notified minimum wages; aimed at durable asset building
People's Republic of China	Food-for-Work Program	Government	Poor in areas with weak infrastructure	Wage employment to the poor
Philippines	Community Employment and Development Program	Government (monitored by NGOs)	Rural poor	Wage employment

Notes: BRAC = Bangladesh Rural Advancement Committee; BRDB = Bangladesh Rural Development Board; ha = hectares NGO = nongovernment organization.
Source: Thamarajakshi (1997) and ILO-SAAT (1996).

close to the poverty line while another 4 percent did not even meet the criteria for inclusion in the program (Thamarajakshi, 1997). In the PRC, loans from the credit program for poor “collectives” often went to nonpoor collectives and households. The experience of the PRESEED program in the Philippines was similar (Thamarajakshi, 1997). In Sri Lanka, middle- and higher-income people benefited most from the self-employment programs of the 1980s (Senanayake et al., 1989). However, not much is known about the performance of the more recent poverty alleviation programs of that country.

In the case of wage employment programs, it has been generally assumed, the problem of reaching the target groups is less serious, as they can employ wage rates as a mechanism for self-targeting. More specifically, it was thought that if the wage rate in the special programs were kept at the level of market wages or at the levels offered in comparable work within agriculture, only the poor (and those without any alternative employment opportunity) would be offering themselves for such jobs. In reality, however, the performance of the wage employment programs in this respect has also been rather mixed.

A well-known example of wage employment programs targeted at the poor is the “employment guarantee scheme” in the Indian state of Maharashtra; there is a good deal of debate regarding its targeting success. While a number of evaluations point to the success of the program, a recent study (Gaiha, 1996) casts some doubt. Using panel survey data from two villages of Maharashtra, this study shows that most of the project beneficiaries in 1979 had incomes above the poverty line. The situation continued during the next decade, and in 1989, the proportion of nonpoor beneficiaries was even higher than in 1979.

“Jawahar Rojgar Yojana” is another wage employment program that is being implemented throughout India. But one study shows that in 1992, as many as 57 percent of the program participants were above the poverty line, and another 25 percent were quite close to that level. Only 5 percent belonged to the poorest of the poor.

In Bangladesh, the “food for work” program has been going on for many years now. Recently, it has been transformed into a multisectoral rural development program, with the basic objective of poverty alleviation. While the food for work program had no reputation for success in targeting, not much is known about the performance of its new version. Another wage employment program is the “vulnerable group development program,” which targets destitute women. This program is known for its success in reaching the target group. Another successful program is the “rural maintenance program,” which also targets poor women (Masum, 1996).

In the wake of the Asian economic crisis and its adverse effects on employment, almost all the crisis-affected countries implemented public works programs as a means of employing and providing safety nets to the poor. One common problem faced by most of them was that of targeting. The self-targeting mechanism was unsuccessful in most cases because wages were set at too high a level for self-targeting to work.[1]

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1 This information came from country studies presented at an international seminar in Tokyo.

b. Impact on the incomes of the poor

The impact of the direct employment programs with respect to the incomes of the poor also shows considerable variation. Two major programs in Bangladesh, the Grameen Bank and BRAC, stand out as having a positive impact on the incomes of the poor. An early evaluation of the former (Hossain, 1984) shows that the beneficiary households were able to raise their incomes by 33 percent within less than three years. Another study (Alam, 1989) shows that the beneficiaries of various poverty alleviation programs (including the Grameen Bank) have also raised their incomes significantly. A recent evaluation shows that income and consumption of the beneficiaries of government and nongovernment organization (NGO) programs have increased. The experiences of the Grameen Bank and BRAC show that the probability for improvement in household consumption and welfare is considerably higher in cases where women rather than men obtain the credit and undertake income-generating activities. This phenomenon occurs because women spend their earnings more prudently for the welfare of their families (Masum, 1996).

The wage employment programs of Bangladesh have also made useful contributions in raising the incomes of the poor. Despite some limitations, the food for work program has provided much-needed employment and income-earning opportunities to the poor during lean periods of agricultural activity. This program played an especially valuable role in the years when Bangladesh was hit by natural calamities. Likewise, the rural maintenance program and the vulnerable group development program made notable contributions in raising the incomes of destitute women (Masum, 1996).

On the other hand, there has been considerable debate about the effectiveness of India's IRDP in raising the incomes of the poor. Although some evaluations say that 30 percent to 40 percent of the beneficiaries have been able to cross the poverty line, others claim that this figure is much too high. Indeed, an earlier study (Rath 1985) maintains that seven years after the introduction of IRDP, only about 3 percent of the beneficiaries had crossed the poverty line. One recent study (Thamarajakshi, 1996) argues that the credit provided by the IRDP is lower than the investment needed for generating sufficient income to cross the poverty line. This study further points out that of the government subsidy that was supposed to have been provided along with the credit fund, the beneficiaries received 20 percent less than government accounts said they did. The above point implies that a large amount of money, which the beneficiaries should have received as subsidies, simply cannot be accounted for.

There is also a good deal of debate concerning the success of India's wage employment programs. One evaluation of the Jawahar Rojgar Yojana says that in selected villages, 36 percent of the people were interested in jobs; but in 1990/1991, only 14 percent of them got work. While the poor needed at least 100 days of work per person, what they actually got was 16 days per person. Moreover, the share of wages in the program's total cost was only 20 percent to 50 percent, although it should have been at least 60 percent. The Maharashtra employment guarantee scheme, however, has a better reputation for raising the incomes of the poor. While complaining of mistargeting, Gaiha (1996) points out that this program indeed raised poor people's incomes.

In the absence of in-depth evaluations of the recent employment programs in the East Asian and Southeast Asian countries that were affected by economic crisis, it is difficult to say anything confidently about their effectiveness in maintaining or augmenting the incomes of the poor (or those in danger of falling back into poverty); their problems in reaching their target groups have already been mentioned. Despite such problems, however, the programs appear to have demonstrated their potential in providing safety nets during periods of economic crisis.

c. Coverage of the programs

Except in India, the coverage of the self-employment programs compared to the number of poor in the respective countries seems rather limited. In Bangladesh, for example, the Grameen Bank and all other NGOs together cover approximately 3 million borrowers. The largest government program, run by the Bangladesh Rural Development Board, has reached only a little more than 100,000 borrowers. Assuming one borrower per household, six members per household, and 40 percent of the 120 million people living below the poverty line (18 million is 15 percent of the 120 million poor), it is clear that the programs mentioned above covered a little more than a third of the poor in that country. In comparison, the coverage of the wage employment programs is much broader: the food for work program covers the entire country, and the vulnerable group development program is implemented in all local administrative regions, although the number of beneficiaries of the latter is higher in the distressed regions.

Among the recent programs, the public works programs in Indonesia in 1998 covered all Indonesian provinces. In the Republic of Korea, such programs covered over 70 percent of the unemployed. The programs in the Philippines and Thailand were also quite large in terms of the number of people covered. In comparison, the coverage of the self-employment and microcredit programs was more limited (Betcherman and Islam, 2000).

Mention of the limitations of direct programs for poverty alleviation does not mean to deny the important contributions made by them, especially in situations where poverty is acute, growth is sluggish, or economies are in recession due to economic crisis. Indeed, in countries with acute and widespread poverty as well as severe constraints on boosting output growth, there is a definite place for direct interventions for poverty alleviation. With more careful targeting, program design, and program implementation, interventions can be more effective in achieving their desired objectives.

4. Employment and Labor Market Policies for Poverty Alleviation[2]

In the literature on poverty alleviation as well as among development practitioners, it is possible to find two broad strands representing two different approaches to the problem.

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[2] Parts of this section, especially sections 4c, 4d, and the discussion on the informal sector, draw on Rodgers (1995).

One of these maintains the importance of interventions aimed at bringing about structural changes in economic organization that could contribute to poverty alleviation through a redistribution of productive assets in favor of the poor. A variant of this approach focuses on the need to reorient macroeconomic and sectoral policies with a view to facilitating pro-poor, employment-intensive economic growth, thereby making possible a broad-based sharing of its benefits. The second approach is to implement policies and programs directly aimed at the poor. Advocates of the latter usually are skeptical of the feasibility and practicability of reorienting development strategies through redistributive measures, and consider direct interventions to be a surer way of reducing poverty.

While there are merits in both approaches, in order to achieve a faster and more sustained rate of poverty reduction, it is essential to adopt an integrated program, because the two approaches can complement each other effectively. For example, since the benefits of a reoriented development strategy with a conducive macroeconomic policy environment may take time to reach the poor, direct programs can provide them with much-needed interim support. This issue can be important, especially in situations of acute poverty, which often get aggravated by external shocks, causing crisis situations. Direct programs can also help bring about necessary enhancements in the capabilities of the poor. However, it may often be difficult to reach all (or even most) poor people through such programs. More important, major changes in policies are often required in order to ensure that direct programs achieve their objectives fully. Indeed, programs aimed at raising the productivity and incomes of the poor have the best chance of success when they are implemented within a macro policy environment conducive to their operation. The two approaches should, therefore, be adopted and applied in such a manner as to derive the maximum benefit from their complementarity.

Keeping the above in view, the rest of this section enumerates policy reforms in a few areas that could contribute to the objective of poverty reduction: greater pro-poor orientation in macroeconomic and sectoral policies as well as in public investment programs, promotion of productive employment in sectors where the poor could benefit, improved labor market regulations, reduced vulnerability in the labor market, and enhancement of the capabilities of the poor through human resource development.

a. Macroeconomic policies and public investment programs

Macroeconomic policies can affect the levels of income and living conditions of the poor by changing any of the following: (i) access to productive assets (e.g., land, equipment and machinery, knowledge and information); (ii) returns on productive assets; (iii) employment opportunities; and (iv) access to social services (e.g., education and health care). These in turn can influence the quality of the labor supply. Indeed, there are studies (Islam, 1990; Khan 1997) showing that appropriate policies in the areas of trade, exchange rates, taxation, credit, subsidies, and pricing have played an important role in alleviating poverty in Asia. The process of formulating such policies, therefore, needs to be more sensitive to their potential impact, either on the labor market or directly. Likewise, public investment programs can also be given a greater pro-poor orientation by factoring in the potential impact on poverty (through the creation of jobs for the poor, for example) in the allocation of such investment.

b. Promotion of productive employment for the poor

i. The informal sector

While the informal sector is heterogeneous, not only in terms of the type of activities, but also in terms of their productivity and returns, it is true that a large number of the so called "working poor" are engaged there. Many of these poor people are self-employed; and their low income could be due to a variety of factors, e.g., limited access to finance and productive assets due to their initial poverty, or low levels of education and skills. A large number of them are in exploitative or coercive external economic relationships (e.g., with the suppliers of assets, inputs, or credit, or with purchasers of output). Policies and action to fight against their poverty will need to be based on a clear understanding of such varied factors.

There is, understandably, a degree of anxiety to put an end to the poverty of such people, who work hard and yet are unable to generate enough income for a decent living. And the ultimate goal in that context is seen as the progressive integration of the informal sector into the formal economy, together with the application of the protective measures articulated in international labor standards. It is important, however, to remain aware of the difficulty of applying universal labor standards, both because of the difficulty of enforcement and because of the inability of many informal producers to comply. Furthermore, it is essential to remember that the emergence of the informal sector is itself due to the poverty of those for whom the alternative could have been even more acute poverty in the absence of alternative opportunities for income and livelihood. Seen that way, the informal sector, even in its present form, perhaps provides the poor with some cushion.[3] An ILO study summarizes the situation as follows:

> Analysis of the constraints imposed upon the informal sector by existing institutional, legal and regulatory structures suggest[s] that, while it is important to provide basic social protection to informal sector producers and workers, it would be unrealistic to try to immediately apply to them all the existing labor legislation. Most informal sector producers are unable to comply with such regulatory structures, and such a move would only cause them to retreat further into the hidden economy, thus depriving the labor market of a vital source of employment. However, if action in the informal sector is to contribute to reducing poverty it is essential to ensure that at least minimum levels of income and protection be attained (Rodgers, 1995: 41).

It is thus clear that in order to achieve the goal of reducing poverty in the informal sector, action will be needed on the normative as well as the developmental front. On the latter, interventions will have to focus on access to capital, skills, technology, and markets. While a fund of useful experience exists, based on work in these areas by government agencies, NGOs, and multilateral agencies, what is important is to look for means of action through which such work can be replicated on a larger scale in order to have a significant impact on overall levels of poverty

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[3] Indeed, an ILO instrument, Employment Policy (Supplementary Provisions) Recommendation No. 169, 1984, does recognize the need to maintain the employment-creating potential of the sector.

ii. The rural economy

A large number of the rural poor in Asia are engaged in agriculture (including fishing and livestock raising) either as wage laborers or as marginal farmers and self-employed. Interventions needed to alleviate their poverty should include both policies and programs to raise productivity in such activities and labor market interventions, such as wage protection through legislation, increasing the negotiating power of the poor by promoting organization.

It needs to be noted, however, that a sustained reduction of rural poverty hinges critically on the growth of a productive and dynamic nonfarm sector. Experience in Asia and elsewhere shows that rural nonfarm activities can be of two broad types: first, activities where the rural poor turn as a desperate measure to eke out a living when there is very little alternative; and second, activities (often strongly linked to agriculture) where productivity and wages are no lower than in agriculture and that have a dynamic growth potential.[4] Promoting the latter type of activities can make a significant contribution to the goal of poverty reduction.

In formulating strategies for reducing rural poverty through the promotion of nonfarm activities, it is essential to take note of the two broad types mentioned above and identify the major constraints that hinder the growth of the second type. By now, a number of studies on this topic are available, indicating that while capital is an important constraint, infrastructure (e.g., roads, transport, electricity, education and skills of workers, and access to markets for inputs as well as outputs) are also critical. Policies and action to promote rural nonfarm activities with the goal of poverty alleviation should take this into account. However, as in the case of the urban informal sector, means to undertake large-scale programs will have to be found.

c. Infrastructure and labor-based approaches [5]

The critical importance of infrastructure in catalyzing development is well known. Also, as mentioned above, by opening up and linking hitherto isolated rural areas, roads and improved transport can play a critical role in facilitating the growth of poverty-reducing nonfarm activities. There are at least two more reasons for providing particular attention to investment in this sector (from the point of view of poverty reduction). The first relates to the weight of this sector in a typical developing country economy. According to a World Bank report (World Bank, 1994), some 20 percent of total investment and 40–60 percent of public investment are allocated to infrastructure in developing countries. Second, given the range of technological options that are available for this sector, it is possible to use investments here as a means of generating much-needed employment for the poor. At the same time, carefully planned infrastructure can help the growth of economic activities that would benefit the poor. That can often be done without compromising on quality and cost

[4] There is a large body of literature on this topic. For studies on Asia, one could refer to, for example, Islam (1984, 1987) and Shand (1986).

[5] For a good discussion of how public works and credit programs can be more effective antipoverty measures, see Lipton (1998).

effectiveness. In fact, labor-based approaches could also be applied in urban situations where they would contribute simultaneously to an improvement in the living conditions of the urban poor and in the urban environment. Upgrading urban slums (through clearing and paving of roads or improving drainage), and management of solid wastes are examples of such activities.

While the approach outlined above is often taken as synonymous with public works programs, experience (especially with ILO's programs in this field) shows that it is possible to involve the private sector and communities in executing the infrastructure schemes. It is also possible to introduce elements of core labor standards (e.g., those relating to forced and child labor, nondiscrimination, wages, safety requirements) in their execution. Thus, although many experiences with public works programs have been rather disappointing, that need not be an argument against such an approach. Rather, that should be an argument for devising and implementing programs that can more successfully contribute to poverty reduction. Indeed, evaluations show that with good program design, especially that based on decentralized planning and community involvement, and effective implementation, labor-based approaches in infrastructure can make valuable contributions to the goal of poverty reduction.

d. Labor market regulations

Regulation of contractual relations in employment can cover a variety of aspects like wages, other terms and conditions such as those relating to the basis of wage calculation, type and duration of contract, the right to negotiate terms and conditions, etc. While some of them may be applied only (or mainly) in the formal sector (which usually accounts for only a small part of the economy in developing countries, and where poverty is less) and as such may not be directly concerned with poverty, there are aspects that are potentially important in action against poverty. This is particularly true of regulation of wage setting, although it must be mentioned that the relationship between minimum wages and poverty may not be so obvious. Whether the potential role of minimum wages in reducing poverty can be realized depends on several factors, including the extent of coverage, the extent of compliance, the indirect effects of minimum wages on overall labor demand, and effects on labor productivity. For minimum wages to be effective in action against poverty, they have to be widely applied and complied with.

Regulations relating to other aspects of the labor market, such as employment security and forms of contractual arrangements (especially measures designed to put an end to exploitative practices), can also contribute to the fight against poverty. But in order to be effective, they also need to be applied widely.

e. Human resource development

Investments in education and training are a potentially powerful instrument for raising the productivity and earnings of the poor. Improving the human capital base of the poor through the spread of literacy and basic education enhances their capabilities in several ways. In the rural economy, improved educational levels have been shown to raise productivity in peasant agriculture through enhancing the willingness to innovate and the capacity to absorb information about new techniques of production. More generally, it also enhances the capacity to respond to market opportunities in both farm and nonfarm rural activities, and offers an access route to training and, through this, to better jobs. In the urban economy, improved access to further education and training for the poor is a key escape route from poverty to more skilled and better paying jobs. Training is also an important component of support services provided to raise productivity and incomes in the informal sector.

The above view of the role of human resource development in poverty alleviation suggests that policy interventions are required at several levels. At the macro level, policies should ensure that adequate provisions are made for expenditures in education and training and that these are allocated equitably. It is particularly important to ensure universal access to good basic education, since this is most beneficial from the standpoint of poverty alleviation. At the meso level, policy interventions should ensure that school fees and other cost recovery measures do not prevent access by the poor to education and training. Positive measures to promote greater school enrollment and attendance by the poor will also often be required. At the same time, labor market interventions may often be required to remove barriers to the access of the poor to training opportunities. Finally, direct interventions at the micro level will also be required to provide training to upgrade production among the poor in peasant agriculture and the urban informal sector. Such targeted interventions also serve to promote new income-generating activities among the poor.

It needs to be noted, however, that vocational and technical training in formal institutions benefits a relatively small proportion of the labor force: those who may find jobs in the formal sector. In order to make a real contribution to the objective of poverty reduction, training systems must be geared to the tasks of imparting and upgrading skills for the informal sector and rural nonfarm activities of the type that can raise the productivity and incomes of the poor.

f. Reducing labor market vulnerability

To the extent that poverty is due to labor market outcomes, vulnerability in the labor market should be an immediate target issue for policy and action to reduce poverty. Vulnerability in the labor market can be related to a variety of factors, such as age, gender, ethnic group, or household status. While all these factors are important and need to be addressed, this paper is focusing only on gender-related vulnerability.

Women face a disadvantageous situation in the labor market, due to lack of control over assets, competing domestic and labor-market demands on their time, lack of access to training, and discrimination. Different types of interventions will be needed to address these factors. For example, fundamental legal and institutional reforms may be required in many countries to provide women with access to control over certain types of assets. Further, the problem of discrimination will have to be addressed through legislative action, combined with monitoring of compliance as well as awareness raising.

Legislative action will need to be supplemented by developmental action to bring about a greater degree of empowerment of women, especially through increased access to skill and entrepreneurship training, technology, and markets, as well as credit. For certain groups that are especially vulnerable to exploitative practices (like home-based workers), additional interventions aimed at strengthening their bargaining power, such as the promotion of organizations, will be required.

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Gender Dimensions of Poverty in Pakistan: An Examination Based on Household Survey Data

Rehana Siddiqui

1. Introduction

The role of females, as productive agents, is becoming critical in a rapidly changing global economic scenario. However, there is a need to improve the quality of the female labor force, to provide legislative support to ensure equality of opportunity and rewards between males and females, and to involve females more actively and effectively in development activity and the process of decision making.

In general, females are less educated, have less access to health facilities, less control of assets, less access to social security, less access to financial resources, and less earning capacity. These characteristics are blamed for the higher incidence of poverty among females. Recent empirical literature emphasizes that in the post-structural adjustment period, the slowdown in economic activity has also resulted in the feminization of poverty in the developing countries. For example, Khan (1999) found an increasing trend toward the feminization of agricultural labor[1] and the feminization of poverty[2] in the post-adjustment period. But the study by Brown (1992) argues that employment is a key factor in determining females' empowerment and some aspects of economic reforms may lead to improvement in the labor market in the long run. Other studies also report mixed results. A review of these studies reveals that the overall effect of structural adjustment programs is difficult to measure, as it varies across countries, sectors, and individuals.

Female poverty has long-term implications for the educational attainment and financial status of the current and future generation (Todaro 2000). Lower status, a discriminatory environment, and gender-based violence affect women's productivity in the household and the marketplace, their reproductive health, and their sexual well-being.[3] According to

[1] Some studies reveal that poverty is pushing male laborers to migrate from rural areas. They go to city and town to seek work as daily wage earners, and women are increasingly left to carry on agricultural activities. Since men's daily work has become precarious, women's agricultural work has become central and crucial for the survival of the family. Women are becoming factually the heads of households, bearing much more of the burden of agricultural work now than before.

[2] Women have limited access to financial and natural resources, and to training to run their businesses successfully. Often, they cannot travel as freely as men and are also deprived of assets. They are at a disadvantage when competing with men who have greater access to markets and new technology.

[3] For example, Heise et al. (1994) show that gender-based violence creates a health hazard that results in a total of 58 million disability-adjusted-life-years' (DALYs) loss to women in the age group 15–44 years. For details of DALYs, see World Bank (1993).

Heyzer and Sen (1994), “Women are seen as having to balance several roles in coping with poverty and having to devise numerous survival strategies. Hence, in the generation of economic opportunities for the poor, there is need to target resources to women.”

The last two decades’ development efforts saw an emphasis on poverty alleviation programs in developing countries, with the support of the national governments and bilateral and multilateral institutions. The emphasis of these programs has been to reach the most vulnerable groups of the society, particularly females. The *World Development Report* (World Bank, 1990) recommended a two-pronged strategy for poverty alleviation: first, promote employment opportunities, profitability, and efficiency through a market-based approach to resource allocation. Second, enable the poor to take advantage of new opportunities through better human capital formation. However, despite the recognition of problem and solutions, most countries, including Pakistan, have experienced a return of poverty in the decade of the 1990s.

In Pakistan, females now make up almost 50 percent of the total population, but their involvement in market production is low for two reasons: first, the female labor force participation rate is low; and second, their contribution to national income is underestimated. Females’ involvement in productive activities is low due to a number of factors like limited access to productive inputs, lower investment in human capital, discrimination in the labor market, underestimation of their contribution, and other social and cultural factors. Social and cultural indicators show that the burden of females in managing everyday life has increased in recent years.

Appendix Table 21.A1 shows that gender-based development indicators and gender empowerment measures vary across countries in South Asia. For Pakistan, both indicators are below the average for South Asian countries. This confirms the view that Pakistani females play a limited role in economic development, and their access to social services and in decision making within and outside the household is limited, relative to females in other countries of the region.

Economic empowerment is critical in order to empower females socially at the domestic level and to create opportunities for their success. When females control their livelihood, the whole family benefits. Studies have shown that when females have control over their own income or over household income, more money is spent on food and on children’s education and health. If the degree of involvement of females in day-to-day decision making is used as a measure of female empowerment, then the highest percentage of females that is ever consulted about the purchase of food is only 71.2 percent; only 51 percent of them are major buyers of food. (see Table 21.A2). Less than 70 percent of these females are consulted about the number of children they will bear or their education and marriage, and less than 20 percent about purchasing an asset.

Given this scenario, what can we say about the gender dimension of poverty in Pakistan, in terms of socioeconomic indicators and in terms of income/expenditure? The objective of this study is to explore this issue by keeping in view its various dimensions and complexity.

In section 2, the gender ratio, i.e., females as a percentage of males for various socioeconomic indicators, is discussed, starting with the gender ratios for population structure, education and health care, and labor market indicators, including gender discrimination in the labor market. This discussion will help clarify the gender differences in income and expenditures of individuals and households. The methodology to estimate poverty indicators is given in section 3, and the results based on this methodology are discussed in section 4. Conclusions for the study are drawn in section 5.

2. Socioeconomic Indicators

a. Population

Table 21.1 shows that the female population as a percentage of total population has increased over time and that the increase is highest in the age group 30–59 years. The sex ratio of the population in this economically active age group increased from 77 in 1951 to 92 in 1998. Similarly, Table 2 shows that the male-female composition of the total population changed drastically during 1981–1998. The overall gender ratio increased from 0.90 in 1981 to 0.92 in 1998, implying an overall increase in female population, mainly due to the rise in gender ratio in the rural areas. In fact, in urban areas, the gender ratio declined. The reasons for the decline could be a higher male population growth rate in urban areas, and/or the migration of males from rural to urban areas. The change in the gender ratio across age groups and over time shows significant changes in the population structure in Pakistan. These changes should be taken into consideration when policies are formulated for the provision of health care and education services and other infrastructure, particularly for Pakistan's female population.

Table 21.1. Gender Ratio Over Time

Years	Population			Sex Ratio by Age Group			
	Total	Urban	Rural	0-14 years	15-29 years	30-59 years	60+ years
1951	85.9	78.6	87.2	89.9	86.9	77.0	83.9
1961	86.8	79.6	88.9	89.3	88.5	83.8	75.0
1972	87.5	83.8	88.8	89.6	88.6	85.0	70.7
1981	90.5	89.0	92.0	94.7	88.8	90.0	75.0
1998	92.5	93.0	94.3	96.0	93.9	91.7	90.3

Source: Government of Pakistan (1999).

b. Education

Though it is still far behind those of most developing countries, the literacy rate shown by the data is rising in Pakistan. According to the population census of 1998, the overall literacy rate in Pakistan was 45 percent, but the female literacy rate was only 32.6 percent. Table 3 shows that the number of literate females increased from 0.8 million in 1961 to 11.4 million in 1998, an average growth rate of 7.2 percent per year. The growth rate for male literacy was 5.1 percent per year. However, the overall literacy rate in Pakistan is still lower than that of other countries in the region. The reasons could be limited access and

Table 21.2. Female Population and Gender Ratios by Age
(population in millions)

Age Groups (in years)	Pakistan				Urban				Rural			
	1981		1998		1981		1998		1981		1998	
	FP	GR	FP	GR	FP	GR	FP	GR	FP	GR	FP	GR
All ages	40.0	0.90	61.2	0.93	29.0	0.89	20.0	0.92	11.0	0.92	41.2	0.94
0–4	6.6	1.03	9.1	0.96	4.8	1.05	2.7	1.0	1.8	0.97	6.5	0.95
5–9	6.5	0.93	9.6	0.92	4.8	0.93	2.9	0.97	1.7	0.93	6.7	0.90
10–14	5.1	0.85	7.8	0.90	3.6	0.83	2.7	0.96	1.5	0.89	5.2	0.89
15–19	3.7	0.85	6.4	0.95	2.5	0.85	2.3	0.96	1.2	0.86	4.1	0.94
20–24	3.0	0.91	5.7	0.99	2.1	0.95	2.0	0.91	0.95	0.82	3.8	1.06
25–29	2.7	0.90	4.6	0.93	1.9	0.93	1.6	0.79	0.78	0.82	3.0	1.03
30–34	2.3	0.98	3.8	0.87	1.7	0.98	1.3	0.72	0.63	0.84	2.5	0.97
35–39	2.1	0.95	2.9	0.87	1.5	1.00	1.0	0.77	0.61	0.91	1.8	0.94
40–44	2.0	1.0	2.8	0.98	1.5	1.05	0.96	0.87	0.53	0.87	1.8	1.05
45–49	1.5	0.91	2.2	0.96	1.1	0.96	0.71	0.88	0.39	0.80	1.5	1.00
50–54	1.4	0.81	1.9	0.90	1.0	0.84	0.62	0.88	0.34	0.73	1.3	0.90
55–59	0.8	0.88	1.3	0.86	0.59	0.93	0.39	0.83	0.18	0.75	0.86	0.88
60–64	0.9	0.71	1.2	0.86	0.72	0.72	0.36	0.86	0.22	0.68	0.85	0.86
65–69	0.4	0.78	0.7	0.82	0.35	0.80	0.20	0.83	0.10	0.72	0.48	0.82
70–74	0.5	0.71	0.6	0.82	0.39	0.71	0.16	0.81	0.11	0.72	0.45	0.82
75+	0.6	0.75	0.7	0.84	0.48	0.75	0.17	0.85	0.12	0.76	0.52	0.84

Note: FP = female population (in millions); GR = gender ratio defined as female population as a percentage of male population.
Source: Government of Pakistan (Various Issues[b]:—1999/2000).

Table 21.3. Literate Population (10 years and above) by Gender in Pakistan
(in millions)

Years	Females	Males	Gender ratio (women/men [%])
1961	0.8	3.6	22.22
1972	2.3	7.0	32.86
1982	4.3	10.5	40.95
1992–93	8.1	19.7	41.11
1996–97	11.4	23.7	48.10

Source: Government of Pakistan (1999).

availability of educational institutions, particularly in rural areas where the majority of the population lives; gender discrimination in the labor market; and other social and cultural factors.

The increase in educational infrastructure or the removal of supply-side constraints can play an important role in raising the literacy and education of the population. It is well known that the government provision for the social sectors has been very low. In fact, the recent pressure to reduce the fiscal deficit has affected public resource availability for the social sectors. Females are expected to suffer more than males, as they depend significantly on public support. Table 21.4 shows that the supply of schools exclusively for girls increased at a higher rate then that for boys. This has resulted in a reduction of the gender gap in the supply of infrastructure for females, as the ratio of female to male schools almost doubled from 1974/1975 to 1999/2000. The reduction in the gap was higher at the primary and middle levels of schooling.

Table 21.4. Supply of Schooling by Gender in Pakistan

Years	Primary Schools		Middle Schools		High Schools		Colleges	
	Women (nos.)	Gender Ratio	Women (nos.)	Gender Ratio	Women (nos.)	Gender Ratio	Women (nos.)	Gender Ratio
1974/75	15,678	43.5	1,266	36.7	911	39.8	96	36.2
1980/81	18,595	45.8	1,412	36.4	1,055	39.7	119	37.9
1985/86	22,441	41.0	1,893	43.4	1,420	40.0	158	48.9
1990/91	31,124	37.5	3,446	64.8	2,395	36.6	222	56.9
1996/97	46,691	44.8	6,425	78.6	3,367	47.8	296	59.0
1999/00	76,000	80.4	11,100	80.4	5,400	62.1	309	64.4

Source: Government of Pakistan (1999); Government of Pakistan, (Various Issues[b]:1999/2000).

Along with the supply of schooling, the availability of teachers, particularly female teachers given the sociocultural norms, is important. Table 21.5 shows that the number of female teachers increased over time, but the increase in teachers was not as rapid as the increase in the number of schools. The gender ratio, i.e., female teachers as a percentage of male teachers, increased from 51 percent in 1974/1975 to only 58.4 percent in 1999/2000. The biggest increase in the ratio was for middle schools, where the number of female teachers exceeded the number of male teachers in 1999/2000. The ratio increased from 41.7 in 1974/1975 to 109.8 in 1999/2000. The increase in the number of teachers is also important for the purpose of generating female employment; socially and culturally, medicine and teaching are the preferred occupations for females. The rise in employment opportunities in these sectors could provide a motivation for investment in female education.

Table 21.5. Availability of Teachers and the Gender Ratio

Years	Primary Schools		Middle Schools		High Schools		Colleges		Universities	
	Females	Gender Ratio	Females	Gender Ratio	Females	Gender Ratio	Females (nos.)	Gender Ratio	Females (nos.)	Gender Ratio
1974/75	42.4	51.0	12.8	41.7	15.3	42.7	3120	34.1	330	15.5
1980/81	48.7	48.1	15.2	41.1	20.2	44.2	4009	34.2	395	14.2
1985/86	57.2	46.4	17.2	43.1	24.9	43.9	5762	41.9	541	16.9
1990/91	92.7	50.1	32.0	61.4	43.9	40.4	8184	47.7	640	15.6
1996/97	112.0	53.1	39.0	84.8	53.0	49.1	10725	48.7	919	21.7
1999/00	137.9	58.4	50.3	109.8	80.4	56.0	11901	50.8	837	20.6

Source: Government of Pakistan (1999); Government of Pakistan, (Various Issues [b]:1999/2000).

We have seen that the supply side of schooling infrastructure has increased significantly during the past 25 years. How has the demand side responded? The trend in enrollment can reflect the demand side. Table 21.6 shows that female enrollment increased at a higher rate at all levels of education, reducing the gender gap. Surprisingly, the increase was larger at higher levels of education.

Among the provinces, Sindh province reports the highest literacy rate, which is mainly due to the high literacy rate in urban Sindh, particularly Karachi. The literacy rate in rural Balochistan is reported to be less than 10 percent, whereas in urban areas it is around 35.4 percent. Punjab has the second highest literacy rate. Interestingly, female literacy in rural Punjab is almost double the literacy rate for females in rural Sindh, and almost four times higher than the literacy rates for females in rural Balochistan. Similarly, urban-rural differences in male literacy rates across provinces are quite large.

Table 21.6. Enrollment in Educational Institutions
(in '000)

Years	Primary Schools		Middle Schools		High Schools		Colleges		Universities	
	Girls	Gender Ratio	Girls	Gender Ratio	Girls	Gender Ratio	Girls	Gender Ratio	Girls (nos.)	Gender Ratio
1974/75	1430	40.4	279	30.4	100	27.6	66	35.4	1500	7.5
1980/81	1782	48.3	359	34.1	130	34.3	96	41.7	7113	20.0
1985/86	2365	50.0	516	37.0	177	36.1	140	42.7	8801	17.2
1990/91	3675	51.3	842	42.6	285	39.6	230	48.3	11667	23.2
1996/97	6156	66.6	1357	57.3	520	52.1	355	64.9	25050	37.5
1999/00	8679	74.1	1882	68.1	775	67.0	376	64.5	25469	38.5

Source: Government of Pakistan (1999); Government of Pakistan, (Various Issues[b]: 1999/2000).

The proportion of Pakistani females with primary education has increased in both urban areas (by 23 percent) and rural areas (by 8 percent). The proportion of females with higher levels of education was constant in rural areas, but increased substantially in urban areas. This increase shows that the demand for education is rising sharply among the female population. However, the pattern differs significantly across regions.

A closely linked result is the output of the educational sector. Assuming that the percentage of students who pass measures the output at different levels of education, we see that pass percentage among females at the "Matric" (after 10 years of schooling) and at the intermediate level (after 12 years of schooling), is higher than that of males (see Table 21.A3). The table also shows that over time, the performance of female students has improved, implying less waste of the resources invested in female education.

c. Health care

Better health care for females, along with education, increases their health, their own productivity in the market, and the productivity of current and future generations. At present, the health care status of Pakistanis, particularly females, is not very satisfactory. According to the *Human Development Report* (UNDP, 1999), female life expectancy in Pakistan is 65.1 years—higher than the Pakistani male life expectancy of 62.9 years, but lower than the female life expectancy in most developing countries. Similarly, maternal mortality and infant mortality rates are relatively high in Pakistan. A combination of factors—lower expenditure on health care and lower availability of health care personnel—may be responsible for this unsatisfactory health care status.

During the past 50 years, public expenditure on health care has remained consistently low, i.e., less than 1 percent of gross domestic product. However, the change in availability of health care personnel is positive and significant. The number of registered midwives increased from 7,078 in 1984 to 22,401 in 1999, and the number of female health visitors rose from 1,374 in 1984 to 5,299 in 1999. Since the supply of health care personnel—female doctors, nurses, and midwives—has increased over time, the life expectancy of females has increased at a slightly higher rate than that for males (Table 21.7). Despite a rapid rise in the number of health facilities, high morbidity and high mortality characterize the health profile of women in Pakistan. The major causes are malnutrition and pregnancy-

Table 21.7. Life Expectancy at Birth by Gender

Years	Females	Males
1981	57.7	57.5
1986	60.1	59.9
1991	62.1	62.0
1996	64.6	63.9

Source: Government of Pakistan (Various Issues [b]—1999/2000).

related problems. In the 1990s, pregnancy-related problems occurred because only 19 percent of childbirths were attended by trained medical personnel. The remaining 81 percent were handled by untrained *dais* (64 percent) and relatives (17 percent). Only 10 percent of deliveries in rural areas and 43 percent in urban areas are handled by trained medical staff.

The prevalence of anemia is another indicator of health status. Table 21.8 shows that a higher proportion of females in the reproductive age group, i.e., 15–44 years, is anemic than the proportion of males in the same age group. The reason could be discrimination in the nutrition and eating practices of females as compared to males. Furthermore, despite this improvement, the prevalence of malnutrition is high among the female population (see Table A4). In order to tackle these health problems, there is a need to create awareness regarding health-related issues and to improve the supply of health care facilities and their accessibility to women.[4] Community participation and female involvement in health care programs may be helpful in this regard.

Table 21.8. Anemia among Population by Gender (1990–1994)

Age Group (years)	Urban				Rural			
	Men		Women		Men		Women	
	Severe	Moderate	Severe	Moderate	Severe	Moderate	Severe	Moderate
Up to 1	-	68.3	-	38.0	6.5	59.5	3.3	60.4
1–2	10.9	62.8	10.3	68.8	6.3	68.1	10.9	69.4
2–3	3.5	79.1	5.9	71.0	12.0	66.1	12.0	65.4
3–4	5.6	40.6	12.5	52.1	7.4	53.3	3.3	48.6
4–5	2.9	32.2	4.8	49.2	2.6	53.8	6.0	44.2
5–14	0.7	32.5	0.9	40.0	3.2	41.5	4.0	42.7
15–24	0.3	15.3	1.7	33.1	1.2	24.6	4.6	37.5
25–44	0.4	8.7	3.5	37.1	1.9	19.5	7.2	37.3
45–64	1.4	17.3	1.0	24.2	2.3	26.8	3.5	32.9
65+	-	27.3	-	26.1	3.0	27.8	3.3	31.4

Source: Government of Pakistan (1999).

d. Labor force participation

An increase in human capital formation has productivity-enhancing and poverty-reducing effects. The rise in human capital for females raises productivity within the household and has welfare implications in the intergenerational context. Table 21.9 reveals that the female

[4] Health-related data, particularly for women, are sketchy. Therefore, improvements in data collection are also needed.

labor force participation rate increased from 13.2 percent in 1993/1994 to 13.9 percent in 1997/1998. The increase is notably higher in rural areas. The table also reveals an increasing feminization of the labor force: working females as a percentage of working males increased from 19.1 in 1993/1994 to 19.7 in 1996/1997.

Table 21.9. Refined Activity Rate: Pakistan and Provinces

	1993- 94				1997- 98			
	Both	Male	Female	Gender Ratio	Both	Male	Female	Gender Ratio
Pakistan	42.4	69.2	13.2	19.1	43.9	70.5	13.9	19.7
Rural	44.6	71.3	15.9	22.3	46.4	73.4	17.4	23.7
Urban	37.5	64.9	7.3	11.2	37.7	65.2	7.4	11.4
Balochistan	40.6	70.1	5.1	7.3	40.8	69.4	6.2	8.9
Rural	41.4	71.9	5.0	7.0	42.4	71.5	6.9	9.7
Urban	36.4	61.2	5.8	9.5	33.5	59.9	2.9	4.8
NWFP	38.1	64.4	11.0	17.1	37.0	63.8	9.6	15.1
Rural	38.6	64.7	12.2	18.9	37.5	64.4	10.5	16.3
Urban	35.7	64.1	4.4	6.9	34.4	61.0	5.2	8.5
Punjab	43.9	69.8	16.6	23.8	46.3	72.7	18.2	25.0
Rural	46.3	71.5	19.8	27.7	49.5	75.2	22.4	29.8
Urban	38.3	65.7	8.7	13.2	39.8	67.7	9.6	14.2
Sindh	40.7	70.1	6.2	8.8	39.8	68.8	6.2	9.0
Rural	44.7	75.6	6.6	8.7	45.4	76.5	8.2	10.7
Urban	36.5	64.0	5.8	9.1	35.1	62.3	4.6	7.4

Source: Government of Pakistan (Various issues [c] 1993/94, 1997/98).

Despite a rise in the inflow of females into the labor market, the female labor force participation rate is very low. The biggest increase in the gender ratio of the labor participation rate occurred in Punjab. However, the larger female labor force has resulted in a higher unemployment rate among females, which increased sharply from 1.68 percent in 1982/83 to 18.1 percent in 1997/98; this is relative to the increase in the overall unemployment rate from 3.94 percent in 1982/83 to 6.9 percent in 1997/1998. This sharp rise in unemployment has important implications for employment generation for females, particularly given the slowdown in economic activity and the rise in poverty in recent years.

Furthermore, the employment status, industrial composition, and occupational composition of the labor force and a comparison between the labor in urban and rural areas yields interesting results. The percentage of males who were self-employed and employees of others increased over time. For females, unpaid family helper is the largest category of employment. Thus, the adverse labor market situation for females is indicated not just by the rise in unemployment, but also by the categorization of more than 50 percent of the workers as unpaid family helpers (Table 10). Given the very small fraction of educated employed females and the adverse economic conditions at present, it is difficult to say whether the increase in education alone can improve the employment status of females and reduce poverty among them.

Employment distribution by industrial group shows that a majority of working females is absorbed into the agriculture, community service, and manufacturing sectors. Agriculture remained the main sector employing females from 1984–1997; however, the second larg-

Table 21.10. Trend in Employment Status
(percentage)

	Employers	Self-Employed	Unpaid Family Helpers	Employees	Total
Females					
1990/91	0.24	15.3	57.3	27.1	100
1993/94	0.21	15.6	60.1	24.1	100
1996/97	0.30	12.6	54.1	33.0	100
Males					
1990/91	1.89	46.1	16.4	35.6	100
1993/94	1.16	46.3	17.6	35.0	100
1996/97	1.19	46.8	15.1	37.0	100
Gender Ratio					
1990/91	12.7	33.2	349.4	76.1	100
1993/94	18.1	33.7	341.5	68.9	100
1996/97	25.2	26.9	358.3	89.2	100

Source: Government of Pakistan, Labour Force Survey (Various Issues[c]).

est sector employing women in the 1980s was manufacturing; in the 1990s it was community services (see Table 21.A5). The shift from manufacturing to community services could be due to a decline in industrial activity in the country. The share of female workers in the construction sector is small though rising consistently, but the share of females working in construction in urban areas has remained stagnant, whereas in rural areas it has gone up. The number of women employed in financial institutions increased during the 1980s, but declined in the 1990s. Wholesale and retail trade is employing a growing fraction of working females.

In the occupational categories, 88 percent of workers in 1996/1997 were employed as production workers in the manufacturing sector and 12 percent as nonproduction workers. The percentage of female production workers, at 96.85 percent, is higher than that of male production workers, 86.91 percent. These trends indicate gender differences in manufacturing employment, in overall participation of females as well as in occupational categories and mode of employment. Lower female participation and fewer females in wage employment appear to be characteristics of employment in manufacturing. The percentage of female employment reported in national statistics is low: In a survey of factories all over Pakistan, Hafeez (1989) found the proportion of female workers in manufacturing industries to be 8 percent, against 92 percent male workers.

The study also shows that the highest percentage of workers is employed in the textile industry, followed by food, beverages, chemicals, and fabricated metal products. For female labor, the highest percentage of female workers is employed in textiles (45.8 percent), followed by chemicals (41.35 percent). Over the period 1987–1992, the share of female workers in the textile industry declined to 32.4 percent, and the share of female workers in chemical industries increased to 47.61 percent. Wood and wood products employed the lowest percentage of females (0.03 percent and 0.05 percent, respectively) from 1987–1992. The distribution of male workers follows the same pattern as that of the total labor force, but that of female workers follows a different pattern.

e. Gender discrimination

Gender discrimination is a universal phenomenon, but its form and awareness vary across countries. Therefore, it is not possible to quantify fully the extent of gender discrimination. In the literature, it is assumed that females are a higher fraction of the poor and vulnerable population. Poverty among females could be a result of poverty of opportunity, i.e., poverty as reduced access to education, health, and the labor market. The discussion in previous sections shows that educational attainment, health status, and labor market participation of females are lower relative to males. Yet the gap is declining, which may help to reduce income/expenditure poverty among females. However, another reason for feminization of poverty could be gender discrimination in the labor market.

The issue is important for a country like Pakistan, where females, though involved in productive activities, do not have access even to their own earnings. For example, Behrman and Zhang (1995) conducted an in-depth study of gender issues and employment for Asian countries. The study reports that gender segregation is highest in Pakistan, the Philippines, and Turkey, mainly due to the high concentration of females in the agricultural sector. Furthermore, recent research shows that the rising unemployment rate among males and females, the concentration of females in low-paying jobs, and gender discrimination may affect the performance of females in the labor market.

Some studies, based on Pakistani data, show that gender discrimination is quite significant in Pakistan. For example, Siddiqui and Siddiqui (1998) decompose the earnings differential in terms of differences in personal characteristics and differences in the labor market. The results show that after adjusting for differences in individual characteristics, discrimination accounts for about 20 percent of the earnings differential. Interestingly, the study reveals that wages of highly educated females are a little higher than those of males. This wage difference is also indicated by a positive wage difference for professional workers, implying that education could contribute significantly to lowering gender discrimination in Pakistan. However, the residual approach, applied in the study, to estimating discrimination does not take into account the feedback from labor-market discrimination to differences in individual characteristics. For example, discrimination in the labor market may discourage investment in females, resulting in lower educational attainment and limited occupational choice for them.

In order to estimate gender discrimination, the methodology developed by Cotton (1988) is applied. He estimates earning functions for male and female workers, and then decomposes the differences in male-female earnings into the effect of differences in characteristics and discrimination in the labor market. The model is specified as

$$\text{Ln}\,(Y^M) - \text{Ln}\,(Y^F) = f\,(X(i)^M - f\,(X(i)^F \qquad (1)$$

$$\text{Ln}\,(Y^M) - \text{Ln}\,(Y^F) = B^M\,[(X(i)^M - f\,(X(i)^F\,] + \text{Ln}\,(D+1) \qquad (2)$$

or

$$\text{Ln}\,(Y^M) - \text{Ln}\,(Y^F) = B^F\,[(X(i)^M - f\,(X(i)^F\,] + \text{Ln}\,(D+1) \qquad (3)$$

Where: Y^M represents male earnings, Y^F is female earnings, $X(i)^M$ is a vector of charactersitics of male vectors, $X(i)^F$ is a vector of characteristics of female workers, and D represents the level of discrimination in the labor market.

The first equation represents the earnings differential as a function of differences in the earning function. The second and third equations decompose earnings into differences due to characteristics of and discrimination in the labor market, based on the weights of respective male and female earning function estimates.

According to the Household Integrated Economic Survey (HIES) for 1996/1997 (Government of Pakistan, Various Issues[a]:1997), in Pakistan females as heads of household earn 50 percent less than males; as secondary workers, they earn 34 percent less. Surprisingly, wage differences for heads of household are higher in urban areas, whereas for secondary earners the difference is higher in rural areas. Since a higher proportion of secondary earners is female, the overall difference in wages is higher in rural areas. The reason could be low human capital among females, lower enumeration of female participation in the labor market, and higher gender discrimination in rural areas.

Based on the selected sample of wage employees, the earning functions are estimated for males and females in Table 21.11, which reports the estimated earning functions for the period 1993/1994 and 1996/1997. These functions are adjusted for industrial, occupational, and regional differences. Based on these results, it can be argued that differences in individual characteristics can be important determinants of the differential in male-female earnings. However, at least 55 percent of the earnings differential was a result of discrimination in the labor market. Estimates for the year 1996/1997 show that the differences in the coefficients have increased. When the index of discrimination is computed, a rise in range of variation is shown, but on average the value is 0.547, implying that labor market gender discrimination for wage employees did not change between 1993/1994 and 1996/1997.

As indicated earlier, the objective is to examine the gender dimension of poverty in Pakistan. So far, we have seen that gender differences in education, health, and labor market discrimi-

Table 21.11. Estimated Earning Functions

	1996/97		1993/94	
	Males	Females	Males	Females
Constant	7.975	6.606	5.527	5.830
Schooling	0.045	0.119	0.056	0.089
Age	0.092	0.075	0.086	0.034
Age-squ.	-0.0009	-0.0008	-0.0009	-0.0004
Adj. R-Squ	0.339	0.486	0.369	0.409
N	11,380	866	12,454	889

Note: Adj. R-Squ. = Adjusted R-Squared; Age-squ. = Age-squared; N =Number of Observations. For 1996/1997, the earning functions are estimated by the author. For 1993/1994, the earning function estimates are taken from Siddiqui and Siddiqui (1998). The gap between male and female earnings was 0.43 in 1993/1994 and 0.40 in 1996/1997.

Source: Author's estimates for 1996/1997; for 1993/1994, see Siddiqui and Siddiqui (1998).

nation are quite significant. This shows that poverty of opportunity among females is high. In order to complete the analysis, income/expenditure poverty among females and males is now compared.

3. Measures of and Methods for Measuring Poverty.

In order to examine the gender dimensions of income/expenditure poverty, it is necessary to decompose the data on the basis of gender. For household level analysis, this is difficult, unless the households can be divided on the basis of some gender characteristic. As with most studies, the data of the HIES for 1996/1997 (latest available) is divided on the basis of the sex of the head of household (Government of Pakistan 1997). We can see from Table 21.12 that the number of female-headed households has increased over time, from 6.23 percent in 1990/1991 to 8.00 percent in 1996/1997. The HIES 1996/1997 contains information about 18,956 households, 6,156 households from urban areas and 12,890 households from rural areas. Table 21.13 shows that, if the unit of measurement is the household and we assume the poverty line to be less than or equal to a monthly income of Rs2,500/-, then about 58 percent of female-headed households in rural areas are below the poverty line. The corresponding percentage for urban areas is 28.1. Similarly, the ratio of male-headed households below the poverty line is 48.7 percent in rural areas and 19 percent in urban areas. Thus, it is important to see how the rise in female-headed households can be helpful in explaining female poverty. This may have significant social and cultural implications, particularly with reference to poverty alleviation strategies.

Table 21.12. Distribution of Households by Gender of the Head of Household

Years/Areas 1990/91	Total Number of Households	Percentage of Households by Head of Household	
		Females	Males
All areas	16,509	6.23	93.77
Urban	4,785	5.35	94.65
Rural	11,724	6.62	93.38
1992/93			
All areas	17,808	7.90	92.10
Urban	5,219	7.20	92.80
Rural	12,589	8.10	91.90
1993/94			
All areas	18,023	7.43	92.57
Urban	5,521	6.88	93.12
Rural	12,772	7.65	92.35
1996/97			
All areas	18,956	8.00	92.00
Urban	6,156	7.00	93.00
Rural	12,890	8.00	92.00

Source: Government of Pakistan, Household Integrated Household Survey (Various Issues).

Table 21.13. Distribution of Gender Among Heads of Household by Income Group

Monthly Income Groups	Urban		Rural	
	Male Headed	Female Headed	Male Headed	Female Headed
Up to 1000	1.19	0.29	4.66	0.80
1001-1500	2.25	0.32	10.55	1.27
1501-2000	5.51	0.52	15.03	1.21
2001-2500	8.76	0.80	14.70	1.18
Total	17.71	1.93	44.94	4.46
2501-3000	8.41	0.47	10.96	1.01
3001-3500	8.29	0.46	8.33	0.63
3501-4000	8.44	0.60	6.93	0.43
4001-5000	13.23	0.96	7.55	0.45
5001-6000	8.80	0.42	4.34	0.30
Total	47.17	2.91	38.11	2.84
6001 +	28.24	2.05	9.30	0.35
Total	93.12	6.88	92.35	7.65

Source: Estimated from Household Integrated Household Survey data for 1996/97.

Before estimating poverty measures, one needs to decide about four critical issues: choice of poverty indicator, determination of a poverty line, unit of analysis, and equivalence scale (for details, see Atkinson [1991]):

- First, the choice of poverty indicator depends on the objective of the study. Income may overstate poverty if it is not sufficient to buy necessary goods. If time-dependent, then a discount factor may have to be applied. However, Atkinson suggests that in terms of measuring buying capacity, expenditure is a better measure. Thus, the emphasis is on a poverty measure based on expenditure.
- Second, the determination of a poverty line is of critical importance, as a slight change in the assumed income/expenditure sufficient to meet basic necessities may change the results of poverty measurement significantly. Furthermore, for a meaningful comparison over time, it may be important to adjust income/expenditure for changes in prices. In this study, the poverty line estimates for the year 1993/1994, reported in UNDP (1999), are used and adjusted for changes in prices between 1993/1994 and 1996/1997. The estimates are reported in the next section.
- The third issue is the choice of a unit of measurement. Should it be based on common spending, dependence, or blood/marital relationship? Ignoring the issue may misrepresent the extent and nature of poverty. For example, ownership of a house by a couple may not mean equal access. This analysis was conducted on a per person basis and ignores intra-household inequality, which is difficult to capture unless purposive surveys are conducted.
- A fourth issue outlined by Atkinson is the choice of equivalent scale. According to Atkinson, "... a country that gives a high priority to the needs of children, and provides generous family support, may score well if [the] equivalence scale treats children as close to adults, but much less well on another scale." In this study, households are not adjusted for any variation in household member age composition.

Utilizing the HIES 1996/1997 (Government of Pakistan, 1997), different poverty measures are estimated for urban and rural areas separately, as set out below.

In order to examine the gender dimensions of poverty, the standard poverty measures are applied, i.e., head-count ratio, income (expenditure gap), and Foster-Greer-Thorbecke (FGT) index. These measures are defined as follows:

a. Head-count measure

This is most the commonly used measure. It gives the proportion of the population with a standard of living below the poverty line. But it does not tell us how poor the poor are. It will not change if the poor become poorer.

$$P(1) = q/n * 100$$

Where P (1) = head-count ratio
q= number of persons below poverty line.
n= total number of persons.

b. Poverty-Gap Index

The measure is defined as

$$P(2) = 1/q\ S\ (Z-y(i))/Z$$

Where P(2) = income gap ratio
Z = the poverty line.
y(i)= income of the i^{th} person below poverty line

This measure determines the depth of poverty but ignores its severity.

c. Foster-Greer-Thorbecke Index

This index also measures the severity of poverty. It is defined as

$$P(3) = 1/n\ S_q\ [(Z-y(i))/Z]^a$$

Where P(3) = FGT index

If a equals 0, the measure is the same as the head-count ratio. For a equal to 1, the measure is the same as the income-gap measure. The measure depends on the poverty gap, i.e., Z-y(i)/Z, and on the choice of a. In general, the value of a is 2.

4. Results—Poverty Estimates

Table 21.14 shows that, in Pakistan, the Gini coefficient increased from 0.369 in 1984/1985 to 0.400 in 1996/1997. Furthermore, the share of the highest income group relative to the lowest income group increased, showing the widening of the income gap and rising poverty.[5] How has this affected the distribution of the poor in male- and female-headed households? These issues are analyzed in this section.

The poverty estimates based on the per capita expenditure data for the individual household heads, by gender, are reported in Table 21.15. The poverty line for 1993/1994 estimates was assumed to be equal to Rs309.00. Since the price index increased by 39 percent from 1993/1994 to 1996/1997, Rs431.96 are assumed to buy the same commodity bundle in 1996/1997. Based on price-adjusted poverty line estimates, poverty indicators are estimated. Table 15 shows that poverty has increased substantially in the rural areas of Pakistan. Based on the head-count ratio, the percentage of population below the poverty line increased from 25.3 percent in 1993/1994 to 37.4 in 1996/1997 among male-headed households in rural areas. Similarly, poverty increased from 26.3 percent in 1993/1994 to 38.5 percent in 1996/1997 among female-headed households. This suggeests that the rise in poverty was almost similar among the male- and female-headed households. However, in urban areas there was a decline in poverty based on head-count ratio in both male- and female-headed households.

However, the poverty gap ratio shows increases in the depth of poverty in rural areas, particularly among male-headed households. The depth of poverty, for both males and females, has declined in urban areas. The FGT index shows that in rural areas the severity of poverty, both for male- and female-headed households, has increased. Thus, the incidence and severity of poverty is higher among female-headed households in the rural areas. Furthermore, the change in the FGT index between 1993/1994 and 1996/1997, was –0.56 for females and –0.04 for males, showing a reduction in the severity of female poverty in urban areas. But in rural areas, the FGT Index for males and females increased. For rural females, the index increased from 1.40 in 1993/1994 to 1.90 in 1996/1997. For males, it increased from 1.20 in 1993/1994 to 2.33 in 1996/1997. This indicates a rise in intensity of poverty in rural areas of Pakistan.

Table 21.14. Gini Coefficient and Distribution of Income

Years	Gini Coefficient	Household Income Shares			Ratio (highest to lowest)
		Lowest 20 percent	Middle 60 percent	Highest 20 percent	
1984/85	0.369	7.3	47.7	45.0	6.2
1985/86	0.355	7.6	48.4	44.0	5.8
1986/87	0.346	7.9	48.5	43.6	5.5
1987/88	0.348	8.0	45.3	43.7	5.5
1990/91	0.407	5.7	45.0	49.3	8.6
1992/93	0.410	6.2	45.6	48.2	7.8
1993/94	0.400	6.5	46.3	47.2	7.3
1996/97	0.400	7.0	43.6	49.4	7.1

Note: Gini coefficient =measure of income inequality; for details see Todaro (2000).
Source: Government of Pakistan, Various Issues[b]:(1999/2000).

5 For details on the poverty situation in Pakistan, see Amjad and Kemal (1997), Iqbal (1994), Kemal (1994), and Kemal, Siddiqui, and Siddiqui (2000).

Table 21.15. Gender-Based Poverty Measures in Pakistan
(by area)

	HIES 1996/97		UNDP: HIES 1993/94	
	Males	Females	Males	Females
P(1): Head-Count Ratio				
Urban	25.6	19.7	27.3	21.0
Rural	37.4	38.5	25.3	26.3
P(2): Poverty-Gap Ratio				
Urban	19.47	19.55	19.8	24.6
Rural	20.51	19.88	17.6	19.2
P(3): FGT-Index				
Urban	1.46	1.14	1.60	1.70
Rural	2.33	1.90	1.20	1.40

Note: HIES = Household Integrated Economic Survey (Government of Pakistan, 1992); FGT = Foster-Greer-Thorbecke index.
Source: Government of Pakistan (Various Issues[a]:1996/1997)=Author's estimates; For 1993/1994, see UNDP (1999a).

Thus, it can be seen that area decomposition is important in examining the gender dimensions of poverty. Other characteristics of heads of households like age, marital status and education may give us more insights into the issue of the gender dimensions of poverty. These issues will be examined in future research.

5. Conclusions

During the past 15 years, the ratio of females to males in Pakistan's population has increased, but no significant achievements have been made to improve females' quality of life or improve their contribution to economic development. Female labor force participation rates, literacy rates, and access to credit and health care facilities, though rising, are still very low. This study shows that

- Despite rapid expansion in the health care and education infrastructure, the status of human resources is lower in Pakistan than in other developing countries in the region.
- The literacy rate increased for males and females and the gender gap has decreased over time. In fact, females outperform males in most fields of education.
- Access to health care services improved substantially as a result of increasing the number of health care personnel and facilities; efficient utilization of existing services; and improvements in the involvement of women in providing health care services, particularly for pregnancy-related health problems.
- The female labor force participation rate increased, but the rise in female unemployment is much sharper than for males.
- The female workers are concentrated in agriculture, services (domestic), and (small scale) manufacturing industries. Similarly, farming, industrial production, and community services are the main occupational categories. This implies that industrial and occupational choices are limited for females.

- Gender discrimination in the labor market has not changed significantly over time.
- Poverty among rural males and females, in terms of head count, incidence, and severity, increased between 1993/1994 and 1996/1997. However, the urban labor market shows some positive trends, while the severity of poverty increased in rural areas.

Thus, in order to reduce poverty in Pakistan, explicit recognition of the role of gender is needed. An explicit recognition of the significance of gender-related issues by policymakers started with publication of the Sixth Five Year Plan. However, the performance of the Five Year Plans is far below target in terms of female literacy, access to health care facilities, access to credit, and access to job markets.

In view of this dismal but improving performance, it can be seen that Pakistan needs to take drastic steps to involve females effectively in the growth process. The rate of return on education and experience show that improvement in human capital formation (education and learning) can be important in increasing women's economic involvement and achieving a reduction in gender-based poverty that has intergenerational impact.

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Appendix

Table 21.A1. Indicators of Gender Status in South Asia

Countries	Gender Related Development Indicator (GDI)	Gender Empowerment Measure (GEM)
Bangladesh	0.428	0.304
Bhutan	0.444	
India	0.525	0.24
Maldives	0.711	0.342
Nepal	0.441	
Pakistan	0.472	0.176
Sri Lanka	0.712	0.321
South Asia (weighted average)	0.511	0.236

Source: MHDC (2000).

Table 21.A2. Indicators of Women Empowerment (percentage)

Decision	Consulted	Major Decision Maker
Purchase of Food	71.2	51.2
Number of Children	65.1	15.6
Schooling of Children	53.3	17.3
Marriage of Children	51.5	6.8
Major Household Purchases	16.5	4.6
Women's Work Outside Home	38.5	14.5
Sale and Purchase of Livestock	20.8	4.6

Source: Sathar and Kazi (1997).

Table 21.A3. Performance in the Education Sector

Level of Education	1985			1996		
	Women	Men	Gender Ratio	Women	Men	Gender Ratio
A. Matrix						
i) Arts (numbers in '000)						
Appeared	132	110	120.0	277	369	75.1
Passed	69	43	161.0	154	133	115.8
Percentage Passed	52.3	39.1	134.0	55.6	36.0	154.4
ii) Science (numbers in '000)						
Appeared	43	173	24.0	92	417	22.1
Passed	32	88	36.4	72	255	28.2
Percentage Passed	74.4	50.9	146.2	78.3	61.1	128.2
B. Intermediate Examination						
i) Arts (numbers in '000)						
Appeared	63	161	39.1	186	228	81.6
Passed	24	45	53.3	69	70	98.6
Percent Passed	38.1	28.0	136.1	37.1	30.7	120.8
ii) Pre Engineering (numbers in '000)						
Appeared	1.7	52.3	3.3	7.3	78.6	9.3
Passed	0.9	20.2	4.5	5.1	31.6	16.1
Percent Passed	52.9	38.6	137.1	70.0	40.2	174.1
iii) Pre Medical (numbers in '000)						
Appeared	12.1	33.1	36.6	36.9	86.1	42.9
Passed	5.7	10.1	56.4	24.3	47.8	50.8
Percent Passed	47.1	30.5	154.4	65.9	55.5	18.7

Source: Government of Pakistan (1999).

Table 21.A4. Malnutrition among Children by Gender (1990- 1994)

Area/ Gender	Malnutrition of Children Under Five Years			Severe Nature of Malnutrition Among Children		
	Under weight (low weight for age)	Stunted (height for age)	Wasted (weight for height)	Under weight (low weight for age)	Stunted (height for age)	Wasted (weight for height)
All areas						
Boys	39.8	36.0	13.9	11.9	15.4	1.7
Girls	40.5	36.6	13.7	16.1	17.5	2.0
Both	40.1	36.3	13.8	14.1	16.4	1.8
Urban areas						
Boys	33.5	30.2	12.8	8.7	12.0	1.5
Girls	35.6	34.1	13.1	13.7	13.9	2.0
Both	34.5	33.1	13.0	11.2	13.0	1.8
Rural areas						
Boys	42.0	12.8	15.7	15.3	17.5	3.8
Girls	41.6	13.1	14.7	18.3	19.4	3.7
Both	41.8	13.0	15.2	16.8	18.4	3.8

Source: Government of Pakistan (1999).

Table 21.A5. Percentage Distribution of Employed Female Labor Force by Industry

	1984- 85	1985- 86	1986- 87	1987- 88	1990- 91	1991- 92	1992- 93	1993- 94
All Pakistan								
Total (millions)	1.22	2.77	3.79	3.37	3.76	4.48	6.83	7.24
Agriculture	75.13	78.36	76.06	72.27	73.97	68.79	69.52	72.37
Mining & Quarrying				0.09		0.07		
Manufacturing	11.40	9.45	11.29	13.31	13.33	14.29	10.85	9.83
Electricity, Gas & Water	0.10		0.0		0.08	0.07	0.07	0.07
Construction	0.31	0.29	0.30	0.69	1.27	0.83	0.93	1.10
Wholesale & Retail Trade	1.45	1.56	1.29	2.32	3.10	3.40	2.93	2.75
Financial, Insurance, Real Estate	0.31	0.39		0.26	0.56	0.35	0.43	0.55
Financial, Insurance Real Estate	0.31	0.10	0.15	0.34	0.24	0.14	0.07	0.07
Community, Social & Personal Service	10.88	9.65	10.83	10.56	15.40	11.86	14.99	13.26
Others	0.10			0.17		0.07	0.14	

Table 21.A5. Percentage Distribution of Employed Female Labor Force by Industry (continued)

	1984- 85	1985- 86	1986- 87	1987- 88	1990- 91	1991- 92	1992- 93	1993- 94
Rural								
Total (millions)	1.24	2.46	3.32	2.86	3.05	3.66	5.84	6.29
Agriculture	85.73	86.70	85.84	83.27	78.08	79.47	81.43	83.47
Mining & Quarrying	–	–	–	0.10	–	0.08	–	–
Manufacturing	8.59	7.91	7.34	10.52	10.47	10.81	8.35	7.10
Electricity, Gas & Water	–	–	0.09	–	0.10	0.08	0.09	0.08
Construction	0.24	0.22	0.26	0.70	1.27	0.91	0.85	1.05
Wholesale & Retail Trade	0.73	0.99	0.70	1.50	2.25	2.74	1.70	1.69
Transport, Storage and Communication	0.24	0.11	–	–	0.29	0.17	0.26	0.32
Financial, Insurance Real Estate	–	–	–	0.10	–	–	–	–
Community, Social & Personal Service	4.35	4.18	5.77	3.71	18.98	14.21	17.89	15.56
Others	0.12	–	–	0.20	–	0.08	0.17	–

Table 21.A5. Percentage Distribution of Employed Female Labor Force by Industry (continued)

	1984- 85	1985- 86	1986- 87	1987- 88	1990- 91	1991- 92	1992- 93	1993- 94
Urban								
Total (mln)	0.36	0.31	0.49	0.50	0.71	0.77	1.06	1.02
Agriculture	10.87	13.79	12.50	6.59	14.29	14.64	7.93	8.37
Mining & Quarrying	–	–	–	0.60	–	–	–	–
Manufacturing	2.90	22.41	36.93	29.94	26.05	32.22		25.58
Electricity, Gas & Water	0.73	–	–	–	0.42	–	0.44	0.47
Construction	0.73	1.72	0.57	1.20	1.26	0.42	1.32	1.430
Wholesale & Retail Trade	6.52	6.03	5.11	7.19	6.30	6.70	9.25	8.84
Transport, Storage and Communication		0.73	2.59	–	1.80	1.68	1.26	1.32
Financial, Insurance Real Estate	2.17	0.86	1.14	1.80	0.84	0.84	0.44	0.47
Community, Social & Personal Service	49.28	53.59	43.75	51.50	48.74	43.10	55.51	53.49
Others	–	–	–	–	–	0.42	0.44	–

Table 21.A5. Percentage Distribution of Employed Female Labor Force by Industry
(continued)

	1984- 85	1985- 86	1986- 87	1987- 88	1990- 91	1991- 92	1992- 93	1993- 94
Rural								
Total (percentage)	71.42	71.85	70.71	71.81	69.42	70.38	70.12	71.60
Agriculture	64.25	68.72	61.39	65.01	61.40	61.08	60.32	62.47
Mining & Quarrying	0.17	0.33	0.26	0.21	0.17	0.27	0.07	0.11
Manufacturing	9.61	8.61	9.37	8.01	7.68	7.41	6.57	5.79
Electricity, Gas & Water	0.43	0.26	0.46	0.46	0.63	0.50	0.65	0.72
Construction	5.80	4.95	6.91	6.94	7.55	7.21	8.21	7.54
Wholesale & Retail Trade	7.13	6.72	8.47	7.69	8.69	9.50	9.11	8.79
Transport, Storage and Communication	3.83	3.49	4.20	3.99	4.25	4.80	4.48	4.25
Financial, Insurance, Real Estate	0.26	0.25	0.21	0.22	0.38	0.33	0.32	0.31
Community, Social & Personal Service	7.89	6.59	8.47	7.41	9.18	8.88	10.17	10.00
Others	0.62	0.08	0.23	0.10	0.06	0.05	0.13	0.03

Table 21.A5. Percentage Distribution of Employed Female Labor Force by Industry (concluded)

	1984- 85	1985- 86	1986- 87	1987- 88	1990- 91	1991- 92	1992- 93	1993- 94
Urban								
Total (percentage)	28.58	28.15	29.29	28.19	30.58	29.62	29.88	28.39
Agriculture	7.20	6.53	5.94	5.98	7.03	6.15	5.61	5.32
Mining & Quarrying	0.23	0.20	0.28	0.04	0.19	0.32	0.23	0.08
Manufacturing	24.67	26.17	26.59	24.37	22.04	22.72	21.10	20.86
Electricity, Gas & Water	1.55	1.39	1.73	1.20	1.65	1.85	1.71	1.77
Construction	7.05	7.96	6.81	7.63	7.03	7.38	7.20	7.13
Wholesale & Retail Trade	26.30	27.36	26.28	27.22	28.36	27.18	28.84	28.85
Transport, Storage and Communication	10.46	8.43	10.50	9.35	9.73	10.14	10.78	9.36
Financial, Insurance, Real Estate	2.60	3.05	2.44	2.13	2.36	2.13	2.37	2.35
Community, Social & Personal Service	19.09	18.84	19.08	21.92	21.51	22.01	21.80	24.20
Others	0.85	0.08	0.43	0.16	0.08	0.12	0.35	0.12

Note: Blank cells = no data available.
Source: Government of Pakistan (Various Issues [c]).

Poverty and Gender in India: Issues for Concern

Enakshi Ganguly Thukral

> Human poverty is more than income poverty; it is the denial of choices and opportunities for living a tolerable life...
>
> —UNDP (1997)

> In the past decade the number of women living in poverty has increased disproportionately to the number of men, particularly in the developing countries. While poverty affects households as a whole, because of the gender division of labor and responsibilities for household welfare, women bear a disproportionate burden, attempting to manage household consumption and production under conditions of increasing scarcity.
>
> —*Beijing Platform for Action*, 1995

1. Introduction

More than 1 billion people in the world today, almost half of them women, live in unacceptable conditions of poverty, mostly in the developing countries. Poverty has various causes, including structural ones. Poverty is a complex, multidimensional problem, with origins in both the national and international domains. Globalization of the world's economy and the deepening interdependence among nations present challenges and opportunities for sustained economic growth and development, as well as risks and uncertainties for the future of the world economy.

In the early 1950s, nearly half of India's population was living in poverty. Since then, poverty has been declining, though slowly, and today vast disparities between and within India's 28 states persist. With a gross national product (GNP) per capita of US$440 in 1999, India continues to have the highest concentration of poverty of any country, accounting for almost one third of those with an income of less than one dollar a day. More than 360 million people—about 36 percent of the population—live below the official poverty line; seventy-five percent of these live in the rural areas.

It is estimated that women and children account for 73 percent of those below the poverty line. At the same time, the ratio of females to males in India is 933:1,000. Increased female labor force participation, particularly among the lowest-income households, is the single most important coping strategy of poor households. This trend makes female-headed households and poor women in general a distinct poverty group (Barrett and Beardmore, 2000).

Even while we say that 36 percent of the people are below the poverty line, it must be remembered that identification of persons on the basis of a narrow definition of poverty based only on income, in a population that works predominantly outside the formal sector, is problematic. For instance, where income fluctuates from day to day, as it does for a vast majority of the Indian population, a single static poverty line is an inappropriate indicator of vulnerability. Another important problem in identifying the poor in India using the official poverty line is that the line is defined at an absolutely low level of income, corresponding to the expenditure required to purchase a minimum of calories. It is in no way an indicator of purchasing power to provide for a minimum decent standard of living (Swaminathan, 2001).

Gender is central to how societies assign roles, responsibilities, resources, and rights between women and men. Allocation, distribution, utilization, and control of resources are thus incumbent upon gender relations embedded in both ideology and practice. Gender analyses do not merely focus on women, but also look at the ways in which men and women interact with each other and the gendered nature of their roles, relations, and control over resources. Unfortunately, even today in most parts of the world there exist gender biases that disadvantage women. Therefore, it is sometimes inevitable that gender justice becomes synonymous with the rights of women and any discussion on gender and poverty in essence becomes a discussion on women and poverty. This is because, as with all other issues, women and men experience poverty in different ways.

If we accept the definition of poverty as the denial of choices and opportunities for a better life, then feminization of poverty is less a question of whether more men than women are poor than of the severity of poverty and the greater hardship women face in lifting themselves and their children out of poverty. The wide range of biases in society—among them unequal opportunities in education, employment, and asset ownership—mean that women have fewer opportunities. Poverty accentuates gender gaps, and when adversity strikes, it is women who often are most vulnerable (UNDP, 1997: 64). This increased vulnerability is most visible in cases of disaster, conflict, or involuntary resettlement.

Despite these generalities, it is important to recognize that women are not a homogeneous group, nor is the concept of gender static. Gender varies across cultural, geographical, and historical contexts. It is contingent upon factors such as age, class, and tribe. Also, the position of women in society is not static. It shifts in response to and also affects the economic, social, political, cultural, and environmental situation of the community. This diversity is often visible in intergenerational differences: processes of globalization have increased the pace of change to such an extent that significant changes are now being felt from one generation to the next.

Starting with discrimination against the girl-child, even before she is born, the life of the average Indian woman is one of deprivation in every sphere. The overall status of women in an Indian family is lower than that of men. The girl-child gets less nutrition, health care, and education: a lesser childhood than the boy-child. She becomes a woman while still young, often missing out on adolescence and moving into early motherhood—quickly, and often at a young age. She has no say in any of these crucial events of her life, although they adversely affect her growth and development.

Intrahousehold inequalities and discrimination therefore determine the status of women and the "extent of poverty" in which women live. In addition, the socioeconomic status of the woman's family and community also determine her vulnerability in the larger society. For example, in tribal societies in India that have a very high incidence of income poverty, women enjoy higher social status than their counterparts in other social groups. However, because of the overall socioeconomic position of tribal groups in the larger society, they become more vulnerable to discrimination and violence perpetrated by those belonging to other groups, especially non-tribal groups. This vulnerability is examined in some detail later in the paper.

Another factor affecting the status of women in India is their region of origin, i.e., the place where they are born. Two girls born in similar low-income-poverty families in Kerala and Bihar are likely to enjoy different life opportunities in terms of access to nutrition or education.

The root of gender inequality, reflected in the higher incidence of poverty among women in India, is social and economic, not constitutional. The Constitution is firmly grounded in principles of liberty, fraternity, equality, and justice. Women's rights to equality and freedom from discrimination are defined as justifiable fundamental rights. The Constitution explicitly clarifies that affirmative action programs for women are not incompatible with the principle of nondiscrimination on grounds of sex. "The Constitution does not merely pay lip service to an abstract notion of equality. It reflects a substantive understanding of practical dimensions of freedom and equality for women" (Menon-Sen and Kumar, 2001: 10). However, implementation of constitutional provisions that are meant to empower women are often implemented by persons from the very socioeconomic backgrounds that perpetuate the inequity.

2. A Look at Indian Women Today in Statistics

Here are some glimpses of the status that women in India today. On the positive side, India has the world's largest number of professionally qualified women. India has more working women than any other country in the world. This group includes female workers at all levels of skill, from surgeons and airline pilots to bus conductors and manual laborers. India has more women nationally certified as doctors, surgeons, scientists, and professors than the United States. Over the past decade, India has had five international beauty queens. And yet, on average, women in India are socially, politically, economically, and even demographically weaker than men. Women in India gained suffrage in 1950 and women hold 8 percent of Parliamentary seats; however, women hold less than 6 percent of Cabinet positions, less than 4 percent of positions in High Courts and the Supreme Court, and less than 3 percent of government administrator and manager positions.

Men outnumber women in India, unlike the demographic profiles of most other countries. In 1991, there were only 933 women for every 1,000 men. Nobel Laureate Amartya Sen noted that India with its population of 1 billion has to account for some 32 million "missing women." Given the enormous progress India has made in health care and nutrition for its women and children, one would expect a steady decline in the number of these missing women. But the reverse has happened. The female-to-male ratio has become smaller in the past 100 years. In India,18 percent more girls than boys die before their fifth birthday.

More than 60 percent of women are chronically poor, and the figure would probably be higher if intrahousehold discrepancies in poverty levels were measured. For most women, their low status and lack of education limits them to a life of housework and agricultural labor. Although women in India "work," sometimes twice as hard and long as their male counterparts, their economic contributions often remain invisible and unrecognized. Ninety six percent of women work in the informal and unorganized sector. In spite of legal provisions, women continue to receive lower wages than men. The Government's new Targeted Public Distribution System is pushing many more women into food insecurity because it is making the safety net of the poorest poor harder to access. Women face legal discrimination in land and property rights. Most women do not own property in their own names, and are denied inheritance of parental property. If they inherit property, most cannot exercise control over it.

Maternal and infant mortality rates in India are high: 407 out of every 100,000 women and 70 out of every 1,000 infants die during childbirth. These high numbers of deaths are due in part to the small share of births attended by a medical professional (only 42 percent). The great majority of births occur at home with the assistance of a traditional birth attendant. The high rate of maternal mortality is the result of inadequate prenatal care, delivery in unsafe conditions with inadequate facilities, and insufficient postnatal care. Severe anemia is responsible for 9.2 percent of maternal deaths in India. Eighty-eight percent of pregnant women between the ages of 15 and 48 suffer from anemia, probably among the highest incidences in any country in the world.

Sixty-one percent of girls are not enrolled in school. Of those who are enrolled, 59 percent drop out before completing grade five. Only 38 percent of women enroll in secondary school (grade 6). Only 54 percent of women can be considered literate (compared to 76 percent of men). Women are frequently subjected to violence both within and outside the family. Police records show that a woman is molested every 26 minutes somewhere in the country, a rape occurs every 34 minutes, and an incident of sexual harassment takes place every 43 minutes. On average, every 43 minutes a woman is kidnapped and every 93 minutes one is killed. A large number of rural households are now de facto female-headed (about 25 percent) due to widowhood, desertion, or male migration, especially in the hilly and less developed areas.

3. A Report Card on Gender Development and Empowerment in India

In the Gender Development Index (GDI) of the 2000 *Human Development Report* (UNDP, 2000), India is ranked 108th out of 174 countries. The Human Development Index (HDI) measures the average achievement of a country in terms of the extent to which people lead a long and healthy life, are educated and knowledgeable, and enjoy a decent standard of living.

> The GDI *genders* the HDI through measuring the unequal achievement of women and men on the basis of [the] same indicators. Thus the greater the gender disparity in basic capabilities, the lower a country's GDI as compared to its HDI. The Gender Empowerment Measure (GEM) is concerned with the opportunities available to women vis-à-vis men in participation in the economic and political life of the country. Together these three indices show that while a country may appear to have achieved a high level of human development, women in the country may still suffer from discrimination in building their capabilities to gain access to economic and political opportunities (Mahbub ul Haq Development Centre, 2000: 41)

Clearly the HDI, GDI, and GEM ranks for various countries are not all the same, and higher scores in HDI and GDI do not necessarily mean that there is also gender empowerment. On the one hand, while Bangladesh has very low HDI and GDI scores, it has a GEM value of 0.3, which is relatively high compared to its other scores. Norway, on the other hand, has the same HDI and GDI values, yet ranks higher in GEM than in GDI. The United States improved its GDI ranking in HDR 2000, but in the previous year, its GEM ranking slipped, (from 8 to 13), as did Canada's (from 4 to 8). Australia and Sweden have overtaken the United States and Canada in gender empowerment (UNDP, 2000). While Sri Lanka has GDI and HDI values of over 0.7 (above the world average) and GEM values over 0.3, India's HDI, GDI, and GEM scores are 0.55, 0.53, and 0.24 respectively: slightly higher than the South Asian average, but much lower than the world average and the average for developing countries (over 0.6). It is important to accept that composite indices such as GDI and GEM cannot be taken as complete measures of gender equality and gender empowerment. Security, mobility, dignity, access to resources, and autonomy cannot be measured by proxy measures, but they can be important in drawing the attention of policymakers and analysts to gendered effects of development and change (Mahbub ul Haq Development Centre, 2000: 41).The Office of the Census Commissioner, Government of India (Registrar General and Census Commissioner,1991) evaluated the status of Indian women in 1991 using the following variables: female literacy rate, percentage of female workers in secondary and tertiary sectors, sex ratio, percentage of females in urban areas, and female mean age at marriage.[1] Out of the 452 districts in India for which these data were available, only 37 districts showed that women had attained high levels of status. In another 57 districts, women's status was measured as intermediate. Over 358 districts scored poorly on the gender equity scale, indicating that the status of women in these districts is low. When one looks at GDI scores across states, one sees vast differences between Kerala and other states, with Kerala scoring much higher. Kerala's success in social development, particularly given its relatively low per capita income, is largely due to its expansion in literacy, especially its female literacy, which is 88 percent according to the 2001 Census. This is significantly higher than the national average and comparable to many developed nations of the world. (Registrar General and Census Commissioner, 2001).

Table 22.1. Comparing Indicators of Human Development, 1999

Country	GDI Rank	Value	GEM Rank	Value	HDI Rank	Value
Canada	1	0.928	4	0.742	1	0.932
Norway	2	0.927	1	0.810	2	0.927
United State	3	0.926	8	0.708	3	0.927
Sri Lanka	76	0.712	80	0.321	90	0.721
India	112	0.525	95	0.240	132	0.545
Pakistan	116	0.472	101	0.176	138	0.508
Bangladesh	123	0.428	83	0.304	150	0.440
South Asia		0.511		0.241		0.53
World		0.700				0.706

Notes: GDI = gender development index; GEM = gender empowerment measure; HDI = human development index. Blank cells = not available.
Source: UNDP 1999, quoting figures of 1997. UNDP's HDR for 2000 did not have the GEM figures for India and Pakistan.

a. The sex ratio: India's "missing" women and girls

In India there are 927 girls and women for every 1,000 men and boys, while in the United Kingdom, the total is 1,170 to 1,000. Worldwide, there are 43 million more men and boys than women and girls. According to Amartya Sen, there are 32 million missing females in India. (Menon-Sen and Shiva Kumar, 2001:11). Since the turn of the 19th century, the ratio of males to females in India has risen. This trend is in contrast to the situation in most countries, where the survival chances of females have improved with increasing economic growth and declining overall mortality. In India, excess female mortality persists up to the age of 30, which has an impact on the female ratio and is a symptom of bias against females.

> "Since women typically have a survival advantage in the older age groups, even in India, this relationship suggests that the decline of the female-male ratio in the 30-plus age group is partly attributable to the mortality decline effect... This does not mean that the decline in the female-male ratio in India is some kind of "natural" phenomenon, reflecting little more than the decline of mortality. Indeed, in other regions of the world, the decline of mortality in the twentieth century has usually gone hand in hand with an *increase* in [the] female-male ratio, reflecting sustained improvement in the survival chances of females relative to males" (Dreze and Sen, 1995: 152–153).

There are wide disparities in rates of female fertility and mortality across states, across districts, within states, and between rural and urban areas. Substantially higher levels of female infant and adult mortality and higher ratios of men to women are reported in the northern states of Bihar, Madhya Pradesh, Rajasthan, and Uttar Pradesh compared with

[1] Figures on the mean age at marriage used data from 1981.

southern states. Orissa, one of the poorest states in terms of income, has 971 women for every 1,000 men. These figures reflect the marked social and demographic contrasts between the "Hindi belt" and the rest of India. In the most developed states of Punjab and Haryana, there are more women than men (the ratio is 882 men per 1,000 women in Punjab State, and 865/1,000 in Haryana). Of the 62 districts having the lowest ratio of men to women, 10 are in Punjab. The southern state of Kerala has achieved female fertility and mortality levels approaching those of industrialized countries and comparable to those of Europe.

The regional pattern of female-male ratios is consistent with what is known of gender relations in different parts of the country. The northwestern parts of the country, for instance, are notorious for highly unequal gender relations. Symptoms of this inequality include the continued practice of female seclusion, very low female labor force participation rates, a large gender gap in literacy rates, extremely restricted female property rights, a strong preference for boys in fertility decisions, neglect of female children, and a drastic separation of married women from the natal family (Dreze and Sen, 1995: 142).

The main reason for the disparity in the number of men and women is the preference for sons. Daughters are generally considered a net economic liability: they often require a dowry, they leave their natal homes after marriage, and their labor is undervalued. The result is a strong preference for sons. In its most extreme form, this preference leads to female infanticide, and more recently, to sex-selective abortion. The preference for sons is readily apparent in the relative neglect of female children, who are weaned earlier than males, receive smaller quantities of less nutritious food and less medical care, and are more likely to be removed from school at a young age. Female infanticide contributes to India's anomalous sex ratio. However, Dreze and Sen (1995) argue that it is not female infanticide but the practice of preferential treatment of boys and neglect of female children in intra-household allocation of health care, nutrition, and related needs that causes the higher incidence of female infant and juvenile mortality.

Female infant mortality rates (IMRs) are also higher. According to 1998 estimates, 70 of every 1,000 Indian children born die in their first year; the rate for females is 72, however, and that for males is 70. Rates vary systematically across rural and urban areas. In rural India, the overall infant mortality rates are higher at 79 per 1,000 live births, and the rate for females is 77, while the rate for males is 76. In urban India, infant mortality rates are lower, averaging 49 deaths per 1,000 live births. Here, too, female IMRs are higher, at 45 deaths per 1,000 births compared to 42 for males.

Since 1995, there have been some changes in the IMRs for the country. That year, the average incidence was 74 per 1,000 live births. In 1995, the female IMR was 76 and the male IMR was 73. In rural India in 1995, the overall IMR was 80, with 82 for females and 80 for males. However, in the urban areas, the female IMR (47) was a little lower than the male IMR (49) that year. By 1998, the position was reversed, as outlined above (NIPCCD, 1998: 77). Obviously, increasing urbanization has had its own effects.

In spite of progress in lowering mortality rates of young children over the past two decades, over 30 percent of all deaths in India occur among children under five. Despite their innate biological advantages, more girls than boys die. During the past decade, the gap between the mortality rates of young girls and boys widened.

This inequitable treatment, which causes higher rates of female child mortality, continues into women's adult lives. Women eat after men. Even during pregnancy, the diet of many Indian women is inadequate. A high proportion of women receive no medical treatment for illness and many use home remedies or traditional healers. Men are more likely to receive modern medical and institutional care.

b. Educational status

Education opens the doors to empowerment and opportunity. No poverty alleviation measure can be sustainable without this input. Lack of information and knowledge perpetuates poverty. The female disadvantage in India is evident in education. Female literacy rates are connected with population stabilization, declining infant mortality, increased enrollment of children in school, and better access to health care. Although significant gains have been made in female literacy since independence and the benefits of educating females are widely recognized, population growth has meant that there are more illiterate females today than a decade ago. According to the 1991 census, only 39 percent of Indian females above age seven are literate, compared with 64 percent of males. In some northern states, the percentage of literate females is as low as 21 percent to 26 percent. It is estimated that 44.7 percent of children in the 6–14 age group are out of school. Of all children enrolled, 54 percent drop out of school before completing elementary education. While the dropout rate is 51 percent for boys, it is 59 percent for girls.

A variety of socioeconomic factors is responsible for women's lower educational attainment: direct cost, the need for female labor, the low expected return, and social restrictions. For the majority of girls from poor rural families, going to school is an impossible dream. In poor families, both girls and boys begin to help with household chores from a very early age, but as they grow older the burden shifts more and more onto the girls.

When resources are limited, families prefer to "invest" in educating boys, not girls, as girls will be married and sent off to another family. Investing in girls is "like watering the neighbor's plant," as an old saying goes.

Moving out of the depths of poverty becomes harder without the education and skills necessary for accessing better opportunities. Thus, women in India find themselves pushed more and more into the unorganized and informal sectors of work, which have lower wages and less secure working conditions.

Because women's educational levels and improvements in their health status are closely linked, increasing females' access to education is the key to improving their health.

c. Health status

Poverty underlies the poor health status of most of the Indian population, and women represent a disproportionate share of the poor. Women's relatively low status (particularly in the north) and the risks associated with reproduction exacerbate what is already an unfavorable overall health situation.

Reliable and disaggregated statistics on health are difficult to come by, and this difficulty is acute regarding women's health. Official health records are not comprehensive or up-to-date, and so-called "female health conditions" are not considered health problems, either by health care professionals or by women themselves. Reproductive health problems fall into the realm of "private and unspoken diseases," leading to a culture of silence. Consequently, most diseases go unreported. The fact that a majority of health care professionals in rural areas are men adds to the hesitation to seek medical help. The social distance between women and the health care service center or provider because of gender, caste, or class is even greater than the geographic distance, which itself is a deterrent.

Millions of women simply lack the freedom to go out and seek medical help. According to the second National Family Health Survey, (International Institute for Population Sciences, 1998–1999), only 52 percent of women in India are ever consulted on decisions about their own health.

When children fall sick, the likelihood that medical help will be sought for boys is greater than for girls. This difference is often as great as 10 percent. The health status of the girl-child is evident in higher malnutrition levels. Poverty is a major contributing factor to the ill health and malnutrition of women because of traditional values. Whatever food is available tends to be distributed disproportionately between females and males. Even in households that have enough, women are disadvantaged in terms of food consumption because of traditional notions of what food girls must not eat or that women must eat last. Early marriages and repeated pregnancies further disadvantage them. In rural Punjab, 21 percent of girls in poor families suffer severe malnutrition compared to 3 percent of boys in the same families. Indeed, poor boys are better fed than rich girls (UNDP, 1995). A study in the Delhi slums revealed that 40 percent to 50 percent of the female infants below the age of one year were malnourished. And in female children in the age group 5–9, the rate of malnutrition increased to 70 percent (Mahbub ul Haq Development Centre, 2000: 127). Child malnutrition depends not so much on income or food availability as on the health care available to children and women. Income poverty explains only about 10 percent of the variation in child malnutrition (Mahbub ul Haq Development Centre, 2000).

Life expectancy is often used as an indicator of a country's levels of health. Given the complexity of underlying factors, it is not just a quantitative measure of health, but also an indicator of quality of life: ability to access food, services, and a decent standard of living. At the same time, lifespan clearly does not depend on income levels alone, because countries with lower per capita income than India, such as Mongolia, Tajikistan, and Viet Nam, can expect their women to live longer. For a majority of Indian states (with the exception of Kerala or Punjab, where life expectancy approaches age 71), life for the average woman ends at about age 60 (life expectancy to age 60.3). While in Kerala a woman can expect to live to be 75 years old, in Madhya Pradesh her life expectancy is 57 years, and in Orissa it is 58 years (Menon-Sen and Shiva Kumar, 2001: 21).

The average Indian woman is 100 times more likely to die of maternity-related causes than is a woman in the industrialized world. About 15 percent of pregnant women in India develop life-threatening complications (Mahbub ul Haq Development Centre, 2000: 127). Maternal mortality in India, estimated at 407 maternal deaths per 100,000 live births, results primarily from infection, hemorrhage, eclampsia, obstructed labor, abortion, and anemia. Lack of appropriate care during pregnancy and childbirth, especially the inadequacy of services for detecting and managing complications, explains most maternal deaths.

Efforts to deliver antenatal services to women are hindered by the prevailing attitudes toward pregnancy: pregnancy is not generally considered a condition that requires special treatment. Pregnant women receive little (if any) additional food and often no medical attention, even when complications arise. In rural areas, over 80 percent of deliveries occur at home, assisted by older household women and traditional birth attendants *(dais).* The unhygienic conditions in which rural deliveries usually occur often lead to infection in mothers and newborns. Infection and excessive bleeding are the largest causes of maternal deaths.

"Pregnancy is not generally considered a condition requiring that requires special treatment."

Reliable data on mortality and morbidity in pregnancy are scarce, and for female morbidity in general, they are almost nonexistent. The limited studies available report high morbidity and malnutrition among girls and women. Emerging evidence indicates that the prevalence of reproductive tract infections is considerably higher than previous figures suggested, and that the spread of HIV/AIDS is a concern. Iron-deficiency anemia is widespread among Indian girls and women and affects 50 percent to 90 percent of pregnant women.

Female mortality and morbidity rates are linked to overall fertility levels in India: 3.4 children per woman. Childbirth closely follows marriage, which tends to occur at a young age: 30 percent of Indian females between the ages of 15 and 19 are married. Childbearing during adolescence poses significantly greater health risks than it does during the peak reproductive years and contributes to high rates of population growth. Indian women also tend to have closely spaced pregnancies. Some 37 percent of births occur within two years of the previous birth, endangering both the health of the mother and the survival of the infant and older siblings.

The work that women perform influences their health status. Women in India, especially in agricultural areas, are expected to perform a variety of strenuous tasks within the household, on family lands, and, in some regions, for wages. These occupations often have serious consequences for undernourished females, including adolescents, whose bone structure is not yet fully developed and who may be required to carry heavy loads or to adopt unnatural postures for prolonged periods. Another problem is exposure to heavy smoke from kitchen fires, which causes a variety of respiratory difficulties. Women are also susceptible to unusually high rates of physical assault such as rape, burning, and beating.

A complex array of medical systems is practiced throughout India, including several traditional text-based medical systems and modern allopathic medicine. *Ayurveda*, the classical Hindu system, is concerned with an individual's total health. Today, ayurvedic practitioners often utilize not only natural remedies but also allopathic treatments. Other medical systems in use include *Unani*, favored by Muslims, and homeopathy. Women find these medical treatments much more accessible, affordable, and socially acceptable than Western style medicine.

Women frequently turn to traditional practitioners and quacks for abortions; the procedures used are usually unsafe and may lead to infections and other complications. Women may also consult these practitioners for help in dealing with infertility, which is almost always deemed the woman's problem. Since Indian women's main role—over which they have no control or choice—is deemed to be reproductive, infertility is considered a disaster in Indian society.

Under the new economic policies of the Government and the impact of globalization, privatization of the health care sector is being encouraged. Health care services that were formerly free are now being to charged for. Needless to say, women, who in any case are the last to get the benefits of health care, are going to be further marginalized.

The poor health of Indian women is a concern, both for the individual woman and family and for the nation. A mother's poor health affects children, who will be India's next generation of productive citizens. It reduces productivity, not only at the household level, but also in the informal and formal economic sectors. Improving women's health is integral to social and economic development. In addition, it is economically efficient, since interventions to improve women's reproductive health are among the most cost-effective in the long run.

d. Women and work

Financial independence, leading to economic empowerment, is one important step toward women's empowerment. Unfortunately, because of the invisibility and nonrecognition of women's work and its contribution to the economy, women continue to be unempowered. The vast majority of women work from dawn to dusk; ironically, women work long hours, but their work is not recognized as work at all. They are the primary caregivers in the home; often they are major contributors to the market as well. Even though they may be working longer hours than men, their work is seen as falling into the realm of caring, nurturing, and household duties, not into the realm of "economic" activity.

> Statistics on work force participation rates continue to show low figures for women workers. For instance, in 1997, 22 percent of women in rural India were recorded as nonworkers. National data collection agencies recognize that there is a serious underestimation of women's contributions. The National Sample Survey calculates that as many as 17 percent of rural women and 6 percent of urban women are incorrectly recorded as "nonworkers" (Menon–Sen and Shiva Kumar, 2001: 51).

In India, women reported as nonworkers in the census are found to be spending up to four hours per day picking, sowing, grazing cattle, or threshing; or working as domestic servants for as many as 8–10 hours per day (Jain and Chand, 2000).

> The *Shramshakti* report refers to several studies that show that women work for longer hours... The Report observes that unpaid work done by married women outside the home varies from 6.13 hours to 7.53 hours per day, in some cases increasing to 10 hours per day. Apart from domestic duties, women engaged in agricultural operations work an average 12 hours per day doing farm work and caring for cattle (Mahbub ul Haq Development Centre, 2000: 54).

Such is their socialization that women themselves fail to recognize their own contribution, as does the rest of society. So deep-rooted is this perception that, in a survey, even the enumerators assumed that women did not work (Human Development in South Asia, 2000: 56).

> Events which force women into the labor market often come as shocks to the family system. Such "shocks" include ritual celebrations, the most expensive of which are marriages, which require dowries. The most calamitous event is the loss of a major income earner. Greater still are the impacts created by illness of a major earner. Coping with the costs associated with the illness often requires women to join the labor force or take on a second job. Where this is impossible, the most common nonlabor response is through disposal of household assets or credit, the latter creating a household debt which further strains the resources of the family. A negative circular pattern of ill health leading to indebtedness leading to the loss of assets and further impoverishment can have a devastating impact on households (Barrett and Beardmore, 2000).

Impelled by poverty, increasing male unemployment, and increased job opportunities as a result of globalization, more women are entering the paid work force. According to the World Bank (1999), women constitute 32 percent of the labor force.

Because of their lack of access to education and skill training opportunities, many women are forced into either the daily wage market or the informal sector. Only 15 percent of women are in the formal sector. Outside the agricultural sector, women are concentrated within a limited number of sectors, mostly service and poorly paid manufacturing jobs. In India, only 15.4 percent of formal sector manufacturing employees are women, although the actual number would be much higher if home-based subcontracting, for which there are no numbers, were taken into account (Mahbub ul Haq Development Centre, 2000).

Although urban-educated, affluent women are keen to avail themselves of the opportunities that have come with globalization, current trends in the economy and the problem of women's illiteracy have pushed more women into the informal sector. Downsizing as part of liberalization policies has increased the amount of low-paying, home-based, subcontracted work, most of it being done by women. In India, 96 percent of economically active women work in the informal sector. Because of their lack of mobility (and therefore lack of information about the market), the pressures of domestic work, or cultural norms, women find themselves in the informal sector. The conditions of work in the informal sector and the terms of labor are usually exploitative. Although some women may earn a good living in the informal sector, the majority face long working hours with low returns. Because there is little legislation concerning working conditions, safety, or enforcement of existing legislation, there is no protection against exploitation.

Even though India has laws mandating equal wages for equal work, women continue to be paid less. In fact, gender-specific inequalities in appointment, pay, and job security are as widespread as harassment at the work place. In rural India, women get paid 60 percent or less than men for the same work, while women's pay in urban areas may approach 80 percent of men's. However, equal pay for equal work remains an illusion. Maternity and other benefits are denied to women in the unorganized sector, which is where they are largely concentrated.

While some enter the informal market to earn additional income, many enter it in desperation. The most vulnerable are those who are the sole or primary income earners; they enter the informal market in the absence of any other option. These women lack capital, access to institutional credit on easy terms, skills, and outlets for technology and marketing. Their minimal incomes reinforce their poverty and make them even easier victims for exploitation. A woman's labor is the main input, but other household labor (including child labor) is often used. Women carry a double burden: they work at home and work for a living, yet seldom have control over the money they earn. Thus, working does not bring financial independence.

" For women, there is a gap between legal rights, ownership, and control."

Beginning in childhood, most rural women fulfill multiple productive functions in addition to bearing children and performing household labor. Ironically, recent agricultural innovations have not benefited rural women, who still perform primarily manual labor. The strenuous physical tasks allocated to Indian women, combined with limited food intake, exacerbate malnutrition. Productive responsibilities are hardest on childbearing women, who typically work until late in their pregnancies without needed rest or additional food. New mothers resume work before they have fully recovered from childbirth and have their children in relatively close succession, resulting in a cycle of maternal depletion that saps their physical strength and undermines their ability to function effectively.

While poverty tends to exacerbate a woman's lot, it may result in better treatment of female infants and children at the lowest socioeconomic levels, where females are valued as productive workers. The gap between male and female children in feeding and care is often less in very poor families than in wealthier households. However, these girls are under pressure to begin earning at very young ages. They may be taken to work in the fields alongside laboring parents or may participate in home-based enterprises, with adverse consequences for their health and physical growth.

e. Resourcelessness

> The land is not ours, the forest is not ours, the water is not ours—what then is ours? They either belong to the government or to men. What do we get when all these are taken away?
>
> —Basanti Bai, a displaced woman from the Bargi Dam area of Madhya Pradesh

India is not resource poor, but its women are. Effective rights to property, especially land, are of critical importance to women's economic and social empowerment in India. "The path to achieving those rights, however, is strewn with obstacles: legal, social, administrative and ideological" (Agarwal, 1997: 44). Even when laws give property rights to women, they are seldom exercised due to social and ideological pressures.

Although women are dependent on land, forest, water, and other natural resources for themselves and their families, and may therefore have users' rights or informal rights over these resources, they seldom have legal rights or control over them. There are also vast gaps between women's legal rights to property and their actual ownership of it, and between ownership and control.

Legal rights to land, property, and housing broadly mean security of tenure: the right to own, lease, rent, mortgage, or dwell on property and in housing; and the right not to be forcibly evicted. Access to land, property, and housing means that a person can use land, property, or housing (i.e., they have usufruct rights), but may not have the legal right to do so. Usufruct rights may be informal concessions granted to the users by the community or family. Control over land, property, and housing can have multiple meanings, such as the ability to decide on how these resources are to be used and disposed of. Legal ownership may not necessarily bestow control. Gender inequality in access to and control over economic and natural resources is widespread across the globe. In patriarchal and patrilineal societies, land and property are passed from male family head to male heir. In most parts of India, as in other parts of Africa and Asia, women may have use rights over the land and forest, but are rarely allowed to inherit the land they use.

Although there is strong male resistance within the family to women's right to property, women themselves often assume that they have no rights, or they relinquish their inheritance to their brothers. If women do not relinquish their claims, male relatives may file court cases, forge wills, and even resort to violence. Emphasis on female seclusion, or *parda*, and women's everyday lack of mobility reduces their access to judicial, administrative, and economic institutions. Moreover, government functionaries, themselves products of the same social milieu, obstruct the implementation of any laws that would favor women. Prevailing biases affect the recording of women's shares, court judgements, and the government's land distribution under land reform or resettlement schemes.

The gender gap between legal right and actual ownership is matched by the gap between ownership and effective managerial control. Even in traditionally matrilineal societies, such as the Nayars in Kerala or the Khasis and Garos tribes in Meghlaya, actual control over land and property is vested with the males, because they make decisions regarding use, transfer, and sale. Patrilocal marriages in distant villages make supervision and control difficult.

Women do see themselves as having rights over their marital property, but here too is a gap between legal rights, ownership, and control. Property is assumed to pass on through the male lineage. Widows assume ownership only until such time as their sons who are minors can inherit; widows are unable to assume control. In other words, widows see themselves and are seen by society as mere custodians of their sons' property and not owners of what is their own by marriage. The male members too resist transfer of ownership to the widows.

Ecological degradation, change in land use patterns due to pressures from the market economy, and large-scale acquisition of land for development and industrialization, leading to displacement, are fast taking a toll on women's already fragile status with respect to land and property.

With the increasing momentum toward the market economy, farmers are pushed into cash crop production, in which unregulated use of pesticides and water, leading to salinization and overexploitation of ground water reserves, slowly reduces soil productivity, as is happening in Punjab today. Also, farmers are shifting away from food crop production for subsistence consumption to production for export.

Another feature of this kind of unregulated export production is that institutional credit has been curtailed under the structural adjustment programs, and increasingly farmers are borrowing from private creditors. This increased reliance on private creditors has created a situation in which a substantial number of poor farmers are pauperized and forced to sell their lands and assets. This trend becomes evident when one examines the situation of farmers in Punjab and the suicides of cotton farmers in Andhra Pradesh. These problems are too well publicized to be ignored (Patnaik, 2001).

Loss of land and other assets forces the family, especially women and children, into wage labor. There is also the danger of their being trafficked into prostitution; by now the link between poverty, loss of assets, and trafficking is fairly well established.

The situation becomes particularly difficult under circumstances of acquisition and transfer, as is happening on a large scale today. Because women do not hold titles to land and property, they are not seen as persons who have rights to compensation or alternative land. The policies reinforce these gender biases, as do the people implementing the projects.

Persons who are resource-poor are voiceless and can be oppressed, which is what happens with women. Even in the face of extreme violence and torture, they are unable to leave and seek other options. So the cycle of poverty and violence continues.

f. Food insecurity

Today, India has a food surplus. Last year, wheat production was nearly 75 million tons (the second largest wheat crop in the world) and rice production reached 90 million tons. This agricultural yield is more than what India needs to feed a whole nation of people and keep them healthy. However, more than 500 million people continue to be undernourished, because with structural adjustment programs, there is a much greater thrust toward exports and cash returns. The government has decided to export its stocks at subsidized rates and cut back on the Public Distribution System (PDS). In 1997, the government introduced the Targeted PDS Policy, whereby households were demarcated on the basis of income criteria into Below Poverty Line and Above Poverty Line. The two categories are treated differently in terms of quantities and prices. This demarcation of categories has led to the exclusion of millions of people from their former food security net, placing them at risk for becoming undernourished.

If 70 percent of a population is food-insecure, then a policy that targets 36 percent of the population is one that abandons any attempt to provide food security to the general population (Swaminathan, 2001). Of course, there is also the issue of distribution of this limited food supply. In a society in which women eat last and least, the lack of a policy that focuses on food security for the general population, a lack of natural resources, and women's insecure status in the labor market has only exacerbated women's food insecurity.

g. Poverty and violence

Violence traps women in a condition of poverty, of fear of poverty, and/or of fear of violent situations. Violence against women knows no geographical, cultural, or linguistic boundaries, and affects all women without regard to their level of income. However, for many women, poverty adds another dimension to the pain and suffering they experience as a result of violence. Poverty limits choices and access to the means of protecting and freeing oneself from violence. It also means more barriers to using services and programs that can help. The discrimination faced by women in society limits their opportunities and options, creating additional barriers that prevent low-income women from leaving an abusive situation. They simply do not have the options that women with more money have. Women are almost always less well off financially after they leave a marriage. Those who already live on a low income can expect to live in even more dire poverty.

Between 1980 and 1990 there was an increase of nearly 74 percent in crimes against women, with rape, molestation, and torture by husbands and in-laws showing the highest rate of growth. The National Crime Records Bureau reported in 1998 that the growth rate of crimes against women would be higher than the population growth rate by 2010. This increase means that progressively greater numbers of women are becoming victims. Although the larger numbers are interpreted by some as a sign that more women are coming forward to report cases and break the silence, the picture is nonetheless disturbing. The rate of crimes against women (number of crimes per 100,000 population) was 13.5 in 1998. If this rate is calculated per 100,000 female population, it doubles to 28.1. “This rate does not appear alarming[;] at first sight [it] may be viewed with caution[,] as [a] sizeable number of crimes against women go unreported due to [the] social stigma attached to them" (NCRB, 1998). The percentage distribution of various crimes against women during 1998 was: torture (31.5%), molestation (23.6%), rape (11.4%), trafficking (6.6%), sexual harassment (6.2%), dowry deaths (2.7%), and kidnapping and abduction (2.5%).

With globalization and increasing privatization, there has been a great deal of "downsizing" in labor and a movement toward less labor-intensive, more skilled, and more cost-efficient methods of production. Rising unemployment among men and the resultant loss in self-esteem and income has resulted in their venting frustration and anger onto women and children, making women more vulnerable to abuse and violence.

The Indian social system, with its caste barriers, has pushed certain sectors down to abysmal depths of poverty, making them victims of oppression and violence. Recognizing this problem, the Government has passed laws for the protection of Scheduled Castes and Scheduled Tribes against atrocities by other groups. Of the total population in the country, 16.48 percent is Scheduled Castes and 8.08 percent is Scheduled Tribes. While the trend in crimes against the Scheduled Castes and Tribes shows a decline between 1996 and 1998 from 1.2 percent to 1.0 percent, it is well documented that women belonging to marginalized sectors of society are the worst victims of caste/class conflicts. Of all the crimes committed against Scheduled Castes and Tribes, the most frequent is rape. It constitutes 15 percent of offences in the case of Scheduled Castes and 28 percent in the case of Scheduled Tribes.

The attitude towards Scheduled Caste women was exemplified by a statement of the Madhya Pradesh state home minister in response to the repeated rape of an 18-year-old Scheduled Caste girl by the same person. When the legislative assembly reacted strongly to the incident, the minister replied that the girl would be twice compensated according to the law that compensates an member of a Scheduled Caste or Tribe when raped by a non-Scheduled Caste or Tribe person!

There are other forms of violence that "contribute" to the feminization of poverty. But there are no absolute statistics available for these.

i. Witch-hunting

No statistics are available, but the incidence of witch-hunting is common. Women are branded as witches for any untoward incident affecting the rich and the powerful. There seem to be no logical reasons why and how women are declared witches. Poor single women living by themselves or those unable to bear children have been victims. There is also a connection between property and land rights and women. Women who own land and property, especially if they are single or widowed, are declared witches, burned, beaten, stoned, and sometimes brutally killed so that men can take over their property.

ii. Trafficking

Estimates suggest that more than 2 million women participate in commercial sex work, and that 25 percent of the women are less than 18 years old. At least 25,000 children are engaged in prostitution in the major metropolitan cities: Bangalore, Delhi, Hyderabad, Madras, and Mumbai (Government of India, 1991). According to some sources, 500,000 girl children younger than 18 years old are victims of trafficking in India. (UNIFEM, 1998).

It is noteworthy that 61 percent of commercial sex workers in India belong to Scheduled Castes, underprivileged classes, and Scheduled Tribes (UNIFEM, 1998).

Those who are trafficked are poor women and children. Key target groups are poor women who migrate to urban areas in search of jobs; women and girls who are unmarried, divorced, separated, or widowed; ethnic minorities; persons who have low levels of education or are illiterate; girls and women from communities where commercial sex work is legitimized; women from disrupted families; persons who lack awareness of their rights; and women and children of varying ages ranging from babies to women in their 70s (UNIFEM, 1998).

g. Urbanization and poverty

Over 27 percent of the Indian population lives in urban areas. The rate of urban poverty was lower than the rate of rural poverty by at least six percentage points in the 1970s and early 1980s. At present, it is on a par with or marginally below rural poverty (Kundu, 2001). The rate of unemployment in urban areas is higher than that in rural areas, for both males and females. It has been asserted that gender differences in the incidence of poverty in urban areas are more intense than those in the rural areas (Barrett and Beardmore, 2000).

Economic differentials between the urban and rural poor have thus narrowed down, which does not necessarily imply that the rural “record” has improved. It may also mean that the indicators for well-being in urban regions are an area of concern. Urban centers are fast expanding, taking over more farmlands and making them part of the cities and towns in India. This fast pace of urbanization is affecting women, too, in two ways: landlessness and informal sector employment.

Push factors in the villages—landlessness, ecological degradation, crop failure, loss of livelihood, food insecurity, and other factors—are causing people to migrate to the cities. Women, too, are coming in and settling down as informal dwellers in the city slums. They are referred to as illegal squatters and encroachers, and they have few or no rights. They live in precarious conditions, sometimes in hazardous locations near the railway lines or on the banks of sewage drains that carry the city’s waste. These conditions are common in Calcutta and used to be widespread in Delhi, until the recent eviction of such dwellers.

As the cities become more overcrowded, expand into the surrounding rural areas, and take up all the neighboring lands, they displace the locals from their lands and livelihood. These displaced people often continue to live in the very same place, becoming part of the urban center and being pushed into new "urban lives" for which they are unprepared. Examples from the "urban villages" of Delhi show that there is very little change in the economic status of the women. Although when evicted, they may receive a sudden inflow of cash as compensation, the men, especially the younger ones, stop working and fall into bad habits such as alcoholism, drug abuse, and irresponsible spending on consumer goods. There is also an increase in domestic violence. Many women, their money all spent, are back in the cycle of poverty and the rural social support system they once had is no longer available.

A life for women in these slums is a double-edged sword. Many of these women treasure the "freedom" and mobility that they may not have traditionally enjoyed in rural villages, yet they no longer have access to the natural resource base that they had before. Slum life also means insecurity of tenure and an absence of sanitation and water. A lack of toilets is a major problem. In the villages, women could use the open fields. In the cities, with no alternatives available, they are forced to squat wherever they can. Women and girls have been found to be most vulnerable to abuse during this activity. The lack of sanitation and water and the living in hazardous conditions, with the added pressures of earning a livelihood, definitely affects the health of the women. However, social attitudes toward women's health in urban areas remain largely unchanged. Women are still held back by the culture of silence. Conversely, for those who have been able to break the barriers, access to education and health care may become physically easier, although not always affordable.

While in the villages, women may have not have had ownership rights, but many had usufruct rights. In the urban squatter settlements, where no one has rights or security of tenure, women are the worst off. If evicted, women are least likely to be entitled to any compensation.

Box 22.1. All Issues are Women's Issues and Women's Issues are Everyone's Issues...

Addressing gender and poverty in India would mean

- Linkage of economic growth to an expansion of opportunities for women;
- Stronger gender focus in planning and implementation;
- Amelioration of intrahousehold imbalances;
- Amelioration of regional gender imbalances;
- Availability of inputs for the health care, education, and empowerment of all women;
- Recognition and documentation of the contributions of women to the economy;
- The right of women to own, access, and control land and property;
- True participation of women by empowering them to do so, thereby moving beyond "tokenism"; and
- Gender equality as a people's issue, not the exclusive concern of women.

Source: Author.

The lack of security of tenure also means that women are forced to work with none of the earlier social support mechanisms available to them for child care and community networks. With no skills, they are forced into the informal and unorganized sector, once again making them more susceptible to violence and abuse.

Urbanization also brings with it the pressures of consumerism, placing greater stress on financial resources while compromising the basic needs of health care and education for children.

4. Conclusion

Globally, women are impoverished; feminization of poverty is not peculiar to India. India has made strides toward bridging the gender gap, but still has a long way to go before women can take control of their own lives. A large section of India's population lives in poverty, and women are the poorest of the poor. As some women walk the ramp and win beauty titles, one wonders if the beauty queen's face really is the face of the Indian woman today. In fact, beauty contests exemplify the commodification of women in India today, as well as the entry of market forces that push more women into greater poverty and distress. It is crucial that all policies and "poverty alleviation" measures have a strong gender focus so that the feminization of poverty is not institutionalized (Box 22.1).

A note of caution is warranted at this point. Gender as a jargon is being incorporated loosely into all development language, with little attention to the detailing of measures that would ensure gender sensitivity in planning and implementation. As some feminists would say, gender sensitivity cannot be the salt and pepper that gets sprinkled onto food as an add-on. Indeed, it must not be merely the *achar* or pickle that is added to the menu for taste. Gender sensitivity, indeed women's concerns given the current status of women in India, must be integral to all planning and implementation processes. It is therefore crucial that intra-household imbalances are addressed.

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Risks Assessment and Management in Involuntary Resettlement

Michael Cernea

1. The Impoverishment Risks and Reconstruction Model

This paper describes an operational tool for preparing and monitoring projects involving resettlement: the Impoverishment Risks and Reconstruction (IRR) model. As the Asian Development Bank (ADB) moves toward a broader understanding of poverty reduction and of the relationship of resettlement risks to poverty, the standard concepts and methods are no longer sufficient and need to be refined. The IRR tool for analysis and planning described below enables staff working on resettlement operations to focus from the outset on the poverty issues that are at the heart of involuntary resettlement. It does not add new tasks on top of the existing ones in resettlement. Instead, it saves effort and increases effectiveness by, first, moving risk discovery upstream in project preparation, and second, focusing early upon risk reduction and mitigation actions.

The IRR model has been widely discussed and supported in the recent development literature as an effective approach to social risk management. It is increasingly applied in the practice of development projects.[1] Focus on impoverishment risk was explicitly recommended in ADB's *Handbook on Resettlement: A Guide to Good Practice* (ADB, 1998: 61). The present description operationalizes the IRR's content, explains in detail how to use it, and clarifies its place vis-à-vis current ADB policies. The IRR model is fully consistent with other current approaches to poverty reduction and resettlement used in ADB's analytical and planning work.

The key attribute of this tool's effectiveness is its focus on "prevention first." It identifies socioeconomic risks before they become reality. Thus, it guides the user toward pre-empting or mitigating these risks, and helps safeguard the interests of risk-exposed people by matching counteractions to identified risks.

Involuntary population displacement results from the imperative need to build modern industrial and transportation infrastructure, expand power generation and irrigation, implement urban renewal, and enhance social services such as schools, hospitals, and water supplies. Increases in population density, land scarcity, and growing socioeconomic needs make resettlement a continuous, albeit undesirable, companion of development.

1 See, for example Cernea (1997); and Malapert (1999); in particular, see Cernea and McDowell (2000).

Forced resettlement carries severe risks of impoverishing the uprooted people, many of whom are very poor even before displacement. Social research and project outcomes demonstrate that involuntary resettlement operations tend to cause the "de-capitalization" of resettlers, who lose capital in all its forms: natural capital, man-made capital, human capital, and social capital. Therefore, the main socioeconomic concerns in resettlement operations revolve around reducing the impoverishment risks and restoring resettlers' livelihoods.

All ADB policies converge on the fundamental objective of reducing poverty and promoting growth and development. Three of ADB's most important policies guide the efforts to minimize resettlement occurrence and, when resettlement is unavoidable, to carry out impoverishment-free reestablishment. These policies are: the policy on involuntary resettlement (ADB, 1995), the recently adopted Strategy for Fighting Poverty (ADB, 1999), and the social protection policy (ADB, 2001).[2] Very important among these, ADB's strategy for fighting poverty calls for "using new tools to make antipoverty operations more effective" (ADB, 1999). The use of the IRR framework in resettlement is part of this "retooling for poverty reduction."

a. Fighting poverty has two sides

Fighting poverty has two sides: reducing the poverty that already exists, and preventing the onset of new causes of impoverishment. Development projects themselves are not free from risks and adverse impacts. Risks of impoverishment regularly surface in development projects that require some involuntary resettlement. If project preparation and implementation fail to identify these risks in a timely manner and prevent them from becoming reality, severe problems in resettlement operations do occur. This correlation is why the objectives of poverty reduction and social protection strategies must be translated into project provisions that are geared against the emerging, adverse impacts and risks of impoverishment.

b. Improving resettlement plans through risk assessments

Two reviews of ADB experiences in implementing its resettlement policy and procedures carried out in 2000 (ADB, 2000; Head and Cernea, 2000) found the policy sound and effective. Performance in resettlement operations is gradually improving. However, many difficulties still exist in targeting risk-mitigation activities precisely and in safeguarding the risk-exposed population segments against adverse impacts. The use of the IRR methodology is apt to improve the content and targeting of resettlement plans. Practical experiences show that land acquisition needs, relocation requirements, and the duration of relocations (temporary or permanent) are not the same for various affected groups. Analytical and planning tools must be sharp and flexible to lead to differentiated responses to nonuniform risks. Regular risk analysis upstream in the project cycle, starting at the initial social assessment, is therefore indispensable. It should result in (i) better tailoring of the content of

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2 ADB defines social protection as follows: "Social protection is the set of policies and programs designed to promote efficient and effective labor markets to protect individuals from the risks inherent in earning a living either from small-scale agriculture or the labor market, and to provide a floor of support to individuals when market-based approaches for supporting themselves fail." (From Ortiz, 1999)

resettlement plans and (ii) the direct commitment of borrowing agencies to the formulation of specific risk-reduction measures before ADB's fact-finding missions take place. Adequate times for carrying out such analysis during the project cycle will be indicated further, within the scope of ADB's General Guidelines on Operational Procedures (ADB, 1997a) and Initial Social Assessment (ADB, 1997b).

c. Methods for analyzing impoverishment risks during project preparation

As a framework for risk management, the IRR model has a dual emphasis: first, on risks to be prevented or mitigated and second, on reconstruction measures to be implemented. In studies for project feasibility and preparation, the IRR framework in turn performs two basic functions: a diagnostic and predictive function, to anticipate risks in resettlement and assess their nature and their expected intensity; and a problem resolution and planning function, to guide the incorporation of measures matching each main risk, either for prevention or mitigation.

The IRR as an analytical tool embodies the central idea of ADB's definition of poverty, which reflects the condition of involuntary resettlers: "Poverty is a deprivation of essential assets and opportunities to which every human is entitled" (ADB, 1999). In this sense, the IRR tool identifies impoverishment not only in terms of income, but also in terms of employment opportunities, health care, nutrition, food security, common assets, education, shelter, or social capital.

The IRR framework synthesizes results from the knowledge of past processes, which saves considerable time and effort in feasibility work by not demanding general risk analysis to start anew in each project "from square one," but rather by ex ante offering a well-tested starting point. The matrix of eight basic risks is, in light of historical experience, predictable in most resettlement situations: landlessness, joblessness, homelessness, marginalization, increased morbidity and mortality, food insecurity, loss of access to common property, and social (community) disarticulation. Each of these risks is briefly discussed in the next section.

Applying this IRR matrix to the circumstances of each project has several cognitive advantages:

- It ensures, most importantly, that no single major risk to resettlers is overlooked in feasibility analysis, only to surface later during implementation and cause "surprises";
- It organizes data collection and structures the thinking process for project design via pre-identified variables; and
- It helps to distinguish the different intensity of each risk (high risk from low risk, in the given project context) rather than treating all risks uniformly.

Advance consideration of risks facilitates the mobilization of proportionate resources for the highest risk or for the risks affecting larger numbers of people, while allocating less to risks with lower likelihood or intensity in each context. In practice, this differential approach may vastly increase project effectiveness and rationalize resource allocation.[3] Such upstream risk analysis may also conclude that in some projects one or another of the risks highlighted by the IRR framework is not likely to occur in a given project, or it can reveal some locally specific risks that are not part of the basic matrix but need to be addressed.

2. Eight Risks

Each of these risks is briefly presented below. This section will show how the IRR framework turns the risks matrix on its head and derives counterrisk strategies that match each of these basic risks with targeted project provisions.

- *Landlessness*. Expropriation of land removes the main foundation on which many people build productive systems, commercial activities, and livelihoods. Often land is lost forever, sometimes it is partially replaced, and seldom is it fully replaced or fully compensated. This is the main form of decapitalization and pauperization of the people who are displaced. Both natural and man-made capital is lost.
- *Joblessness*. Loss of wage employment occurs both in rural and urban displacement. People losing jobs may be landless agricultural laborers, service workers, or artisans. The unemployment or underemployment among resettlers may linger long after physical relocation. Creating new jobs for them is difficult: it requires substantial investment, new creative approaches, and more reliance upon sharing project benefits with the resettlers.
- *Homelessness*. Loss of housing and shelter may be only temporary for many people, but for some it remains a chronic condition and is felt as loss of identity and cultural impoverishment. If neighboring households belonging to the same kinship group get scattered, loss of dwelling may have consequences for family cohesion and mutual help patterns. Group relocation of related people and neighbors is therefore preferable to dispersed relocation.
- *Marginalization*. Marginalization occurs when relocated families lose economic power and slide down toward lower socioeconomic positions: middle-income farm households become small landholders; small shopkeepers and craftspeople lose their businesses and fall below poverty thresholds, and so on.
- *Increased morbidity and mortality*. Vulnerability of the poorest people to illness is increased by forced relocation, because relocation tends to be associated with increased stress, psychological trauma, and the outbreak of parasitic and vector-borne diseases. Serious decreases in health levels result from unsafe water supply and sewage systems that spread epidemic infections, diarrhea, dysentery, etc.

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[3] One example highlights the advantage of recognizing differential risk intensities instead of applying mechanically the same standards to all affected subgroups. In a project in the People's Republic of China, the staff felt that a rigid interpretation of resettlement plans and uniform treatment of all groups would demand unnecessary levels of detail across the board, take excessive time, and add little value to the project. In that project, about 12 households required house and land relocation; 750 households lost land permanently, but not their houses; and some 1,600 households temporarily lost access to part of their land. Rather than uniformly collecting the same amount of data for all these different subgroups, an approach that recognized the differences in risk intensity and in the households' risk exposure proved appropriate to save time and resources, yet still addressed everybody's needs.

- *Food insecurity*. Forced uprooting diminishes self-sufficiency, dismantles local arrangements for food supply, and thus increases the risk that people will fall into chronic food insecurity. This is defined as calorie-protein intake levels below the minimum necessary for normal growth and work.
- *Loss of access to common property*. Poor farmers, particularly those without assets, suffer a loss of access to the common property goods belonging to communities that are relocated: forests, water bodies, grazing lands, etc. This represents a form of income loss and livelihood deterioration that is typically overlooked by planners and therefore usually uncompensated.
- *Social disarticulation*. The dismantling of community structures, social organizations, local associations, etc., is a massive loss of social capital. Many informal and formal networks get dispersed. Such disarticulation undermines livelihoods in ways usually not recognized and not measured by planners, and causes impoverishment through disempowerment.

These risks affect various categories of people differently: rural and urban communities, tribal and nontribal groups, children and the elderly, or (in river-based projects) upstream and downstream populations. Research finds that women suffer the impacts of displacement more severely than men. Host populations are also subjected to additional risks, resulting from increased population densities at relocation sites and a more intense competition for resources.

The extent and intensity of each of these risks in a contemplated project area must be assessed at the start of project preparation, however preliminary this assessment may be. The first responsibility for carrying it out rests with the borrowing agency and its consultants. Then the IRR model provides the organizing "scaffolding" or matrix for such an assessment. As preparation advances, the initial assessments are refined, verified, filled in. At the time of the initial social assessment (see ADB [1998: OP Section 50/OP]), a documented image of the expected resettlement component should emerge, together with the initial assessment of institutional capacity and financing arrangements for carrying it out. But most important is to start developing, from this initial stage, the risk reduction responses and the positive project provisions for reconstructing resettlers' livelihoods.

Like ADB, other major development agencies also place risk management at the forefront of their conceptual apparatus and operations. The World Bank's *World Development Report 2000/2001* (World Bank, 2000) devotes a special section to methods for addressing risks. It emphasizes three concepts: "risk prevention," which involves measures to be implemented before potential risks become reality; "risk mitigation," which involves measures to reduce risks that cannot fully be prevented and diminish their adverse impacts; and "risk coping," which involves measures to overcome the adverse effects of risks after these effects appear. In the case of resettlement, all these aspects are covered by the IRR model, through the way it guides risk reversal and postrelocation reconstruction.

3. Risk Reversals and Reconstruction

In resettlement, risk management measures can and must be taken at different moments, both before and after the risk occurs. Operationally, this means taking measures before project start (ex ante), during project implementation, and often even after project completion. Before displacement actually begins, the social and economic risks of impoverishment are only impending. But if preventive counteractions are not initiated, these potential hazards become actual, dire impoverishment processes. Counteractions to those risks that can be only reduced but not eliminated should continue through mitigation during and after project execution as well.

The internal logic of the IRR as an analytical and planning tool prescribes that overcoming impoverishment requires attacking the risks early on. In the same way as its risk analysis deconstructs the multifaceted displacement processes into distinct risks, the IRR also deconstructs risk reversal and reconstruction into sets of activities tailored to match the risks identified in the model. The IRR approach calls for constructive, pro-poor support activities able to lead

- from landlessness to land-based resettlement,
- from joblessness to reemployment,
- from homelessness to house reconstruction,
- from marginalization to social inclusion,
- from increased morbidity to improved health care,
- from food insecurity to adequate nutrition,
- from loss of access to restoration of community assets and services, and
- from social disarticulation to rebuilding of networks and communities.

These strategic orientations for reconstruction indicate that the IRR model is more than a predictor of inescapable pauperization: it maps the way for restoring the livelihoods of the displaced. As with other models, planners can manipulate the components of the IRR model: being warned, they can act to modify the outcomes of these inherent risks through a project design that is informed of, and responsive to, the risks highlighted by the model. Understanding the linkages among the correlated risks of resettlement enables project designers to capture synergies and adopt measures that address more than one risk at a time.

4. Risk Reduction through Policy Measures

Beyond measures at the project level, however, there are also policy measures to reduce resettlement risks: for instance, reforming economic policies that keep the costs of energy too low, encouraging overconsumption, and tolerating waste, thus leading to more dams or thermal plants, with resulting displacement risks. This suggests that the risks of resettlement can also be diminished through better demand-management policies. Ultimately, the interlocked risks inherent in displacement can be controlled most effectively when governments adopt broad national policies for risk reversals and safety nets. Single means—i.e., cash compensation alone—cannot respond to all risks. Asset compensation alone is not a substitute for the absence of multidimensional risk-reduction strategies.

The effective way of planning for risk reduction at the project level is to include the IRR model in the resettlement plan. The structure of a project's resettlement plan becomes systematic and comprehensive when it explicitly includes the set of reconstruction components listed above. Of course, the resettlement plan needs to contain other elements as well, such as institutional arrangements for organizing the resettlement process, the timetable for implementing it, cost calculations, financial allocations, monitoring provisions, etc. But the core content of the resettlement plan is the actions to counter the risks and rebuild the income-generating activities of the resettlers. Several such specific types of activities are considered below.

Ex ante risk management and maximum safeguarding are achieved when displacements are avoided altogether. Avoidance must be the first response to these risks, whenever possible. Recognizing risks and their financial implications up-front is often a powerful stimulus to search for an alternative that will eliminate the need for displacement completely or cut down its size. This is technically possible, for instance, by changing the site of a projected dam, or by rerouting a highway around (rather than through) a dense human settlement. Many other technical options can be found through creative search.

5. Specific Steps for Risk Management

How to start applying the IRR analysis? The use of the IRR tool should begin with the carrying out of a preliminary assessment at the project site of how the eight general risks vary in the particular local context. The specific configurations of displacement risks can be determined for each important population group. The information necessary for this determination can be derived from the population census and asset census for the areas to be condemned or only partially affected. Differences in risk incidence among different segments of the population will stand out immediately.

Further, during full-scale project preparation, socioeconomic surveys at the household level and consultations with affected people will reveal how the affected people themselves perceive these risks. Such consultations will possibly identify other risks as well. Promoting participatory methods in risk identification and assessment can be very useful in developing workable options for risk management and can stimulate constructive activities among resettlers for coping with risk. The design of the project must not only incorporate the counterrisk activities but also make sure that the financing of these activities in the project budget is adequate. During project implementation, the IRR model can structure and focus the monitoring work upon risk reduction (see further discussion below).

Previous experience in projects assisted by ADB and other agencies, as well as impact evaluation research, offers an inventory of risk-reduction measures that can be matched to, and targeted against, each of the common risks in resettlement. Several examples are given below; these serve only as illustrations, because the "arsenal" of such measures is much richer than can be detailed here.

a. Land-based resettlement to prevent landlessness

- Create land reserves by pooling land available on land markets (this is best achieved when land pooling starts, before displacement begins).
- Bring new lands into cultivation (e.g., terrace steep hilly lands, as is done often under projects in the People's Republic of China).
- Introduce land ceilings and reallocation in newly irrigated areas.

b. House reconstruction to prevent homelessness

- Allocate homestead plots on newly created village platforms or in urban residential areas, instead of merely handing out cash compensation for houses.
- Facilitate resettlers' access to house/construction materials.
- Avoid "temporary colonies" for resettlers; help them move directly to new permanent housing.
- Package compensation for lost dwellings with housing grants and long-term credit facilities for home improvement.

c. Re-employment to mitigate joblessness

The loss of jobs is one of the highest risks, hard to prevent and mitigate given the high investment cost of new job creation. Making employment promotion provisions part of the resettlement plan can considerably help increase employment options.

- Exploit maximally the employment openings created through the construction of the new project. Introduce in tender documents the requirement that contractors of project works recruit a high proportion of their labor force locally from among project-affected families and adjacent project areas, rather than bringing all their labor from faraway areas.[4]
- In cash-scarce areas, help recapitalize the dispossessed through employment in private sector service activities that tend to grow rapidly in "boom-towns" and areas surrounding the project.
- Stimulate self-employment by providing incentives to resettlers to rebuild their houses with space allowance for income-generating activities, such as food stalls, rental rooms, small workshops, etc.
- Offer structured training in new skills to resettlers, combined with on-the-job training and preferential post-training hire within the project.

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[4] Currently, this valuable opportunity for increasing the incomes of those displaced is underused in many projects. The ADB-financed Kali Gandaki hydroenergy project in Nepal is a positive example to the contrary: it has maximized employment opportunities for the seriously project-affected families by concluding explicit agreements with the main project contractors for hiring and training them. This has increased (with priority) the incomes of those affected, lifting them above pre-project levels and enabling affected people to save and invest in reconstruction activities.

d. Rebuilding communities and social networks

Options to protect social networks and reduce resettlers' risks of losing social capital are multiple and can be activated through sensitive social planning, starting from the initial stages of project preparation.

- Provide information to prospective resettlers early on about resettlement alternatives, possible sites, timetables, etc. Find, with their participation, the most adequate options available.
- Encourage self-organization among resettlers to effect the physical relocation with mutual help and reduced disruptions.
- Plan for group-based relocation as much as possible, to allow the re-creation at the arrival sites of group structures similar to those in the departure areas; such groups can be kin-units, extended families, neighborhoods, ethnic groups, etc.
- Provide incentives for group activities and collective action for rebuilding community services (and even individual dwellings) at the arrival site.
- Diminish the powerlessness of resettlers: empower associational structures among resettlers primarily for taking over self-administration responsibilities at the new sites.

Comparable activities to address specific risks, in addition to the above illustrations, can be included in the resettlement plan for the other elements in the IRR framework. The challenge in preventing/reducing impoverishment risks is to develop a vast spectrum of local solutions that make best use of opportunities in a given project area.

6. Financial Resources for Risk Reduction

Success in risk mitigation and reversal also depends on the amount of financing resources allocated for counterrisk activities. The IRR tool enables project designers and implementers to evaluate costs more realistically, activity by activity. Resource allocation for the resettlement plan must not only count on the project's financial inputs as outlays for reducing risks, but also facilitate planning for using project-generated outputs as an additional resource for restoring resettlers' livelihoods. When the implementation of reconstruction strategies continues after the project's completion, resettlers should share in the benefits generated by the project for which they were displaced. These additional resources must complement the up-front allocations for resettlement, and they must be earmarked for this purpose from project outset.

Among the most effective measures for enabling resettlers to share in the project's benefits are

- Promoting aquaculture development in projects that create reservoirs and legally granting priority access to those resettled around the reservoir to benefit from aquaculture opportunities. Similar options are available for duck-raising schemes on reservoir shores.
- Promoting additional income-generating activities related to productive resources created by the project, enabling resettlers to share in them.

- Supporting, through policy decision, the allocation of a small percentage of benefits resulting from the new projects for the continuous sustainable development of the resettlers' new areas (e.g., a percentage—as little as 0.01%—of the proceeds from power generation and selling).

The potential to rechannel project benefits to resettlers remains unused in many projects. This is both inequitable and unjustified. Often, such potential is overlooked because of trivial, not structural, reasons: lack of commitment and concern on the part of project decision makers, poor methodologies of economic and financial analysis at the project planning level, poorly designed resettlement components, and a lack of creativity and inventiveness in using resources available to the project. Such aspects can be addressed at the project design stage.

However, such apparently trivial reasons sometimes also have deeper roots: the absence of national policies and of legally compelling regulations that would make it mandatory to deliberately provide access to the project's stream of benefits for those displaced. National policies for making benefit sharing a standard will always reach further and deeper than discrete, project-specific initiatives to promote such approaches. Such aspects of risk reduction also need to be addressed through policy dialogues and sectoral strategies.

7. Monitoring Risk Management

Risk reduction during resettlement implementation must be monitored continuously. The purpose of systematic risk monitoring is threefold:

- To ascertain whether mitigating measures included in projects are implemented on the ground;
- To measure the actual impact of mitigation actions, conclude whether they accomplish the desired effects, and inform project managers in a prompt, ongoing manner; and
- To identify any local unanticipated risks or adverse effects that may appear during project implementation and recommend containment.

The absence of a monitoring capacity diminishes the positive outcomes that projects can achieve and allows negative impacts to accumulate. This is why institutionalized monitoring capacity is crucial, and must always be created in development projects that cause displacement risks. In large-scale projects, it is desirable to have a special monitoring unit inside the project and an independent international panel as an outside body. (For example, such panels are included currently in projects in the People's Republic of China, the Lao People's Democratic Republic, and Nepal.).[5]

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[5] In the Kali Gandaki hydropower project in Nepal, although the resettlement component is relatively limited, such an internal monitoring unit was created as part of the project's setup and was enabled to carry out several risk-focused studies. The international panel of experts for this project has, among other things, guided the work of the project's monitoring unit.

The IRR model can help structure the monitoring work along the same key risk variables considered when the IRR was used in project design. Monitoring units in projects with resettlement can simplify their research by deconstructing the risk pattern and carrying out the monitoring and evaluation studies on a risk-by-risk basis. Rather than devoting a monitoring study to all risks at once, analysis is sharper when it zeroes in on each distinct impoverishment risk individually: for instance, a monitoring study on mitigating land loss, a second monitoring health risk mitigation effectiveness, and a third on reemployment measures and further employment opportunities. This kind of analysis equips managers and supervision teams with updated and timely findings on how one or another dimension of postdisplacement reconstruction is evolving.

If monitoring ascertains that risk-reversal results are not as expected, project managers can and must expeditiously intervene with additional corrective measures. At project start, it is desirable to articulate a monitoring research strategy for the monitoring unit so as to make sure that over the project's duration, all key risks are covered in sequence. Repeat studies and surveys must be scheduled when needed. Such monitoring produces focused findings, immediately helpful for targeting better implementation and reconstruction efforts.

One important responsibility of monitoring units is to assess the coping strategies developed by affected people themselves to overcome risks. Positive experiences can thus be revealed and disseminated, and additional support can be channeled where resettlers' own coping strategies are found to need such support.

Social and economic risks are an inevitable fact of life. But the mitigation of risks that are created by development projects, such as the risks of impoverishing displaced people, is incumbent primarily on the governments and agencies that initiate the project and must be addressed with all available means. This responsibility makes risk management a project improvement tool and a constant characteristic of social development. Using the IRR tool systematically, along with the other analytical tools, increases the effectiveness of risk management.

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Country studies

Poverty in Asia and the Pacific :

- India (Kerala state)
- Nepal
- Mekong River Basin
- Pacific Islands

Poverty Reduction through Decentralization- Lessons from the Experience of Kerala State in India

S.M.Vijayanand

1. Assessment of Poverty in Kerala

a. Introduction

Kerala is a relatively small state located at the southern tip of India. Table 24.1 summarizes the salient features of Kerala's development compared with that of India as a whole.

Table 24.1. Features of Development in Kerala Compared to India

	India	Kerala
1. Area	3,287,263 km^2	38,863 km^2
2. Population	846.3 Million	29.1 Million
a) Male	439.2 Million	14.3 Million
b) Female	407.0 Million	14.8 Million
3. Sex Ratio	927/1,000	1,036/1,000
4. Density of population	274/ km^2	749/ km^2
5. Literacy		
a) Male	64.13%	93.62%
b) Female	39.29%	86.17%
c) Total	52.21%	89.81%
6. Life Expectancy		
a) Male	60 years	70 years
b) Female	62 years	72 years
7. Infant Mortality	74	13
8. Population below Poverty line	36.3 %	28.4 %
9. Per capita income	Rs14,682	Rs17,756

Source: Various years, National Sample Survey (NSS)

Kerala's development achievement has often been held up as a model and an object lesson to countries having relatively low economic development. It is hailed for its equity and is cited as an example of what mass mobilization and public action can achieve when a responsive democratic government is in place. The widespread provisioning of health care and educational services has spearheaded the achievement of all-around human development.

Kerala has achieved commendable success in attaining good coverage of basic minimum services. Its universal public distribution system provides good food security; its social security systems, in the form of pensions to vulnerable groups and welfare funds for various types of laborers, are also reasonably widespread. These have prevented abject poverty. Thus, from the point of view of capabilities as well as entitlements, Kerala appears to have performed better than other Indian states in tackling the problem of poverty.

For nearly two decades after the landmark study by the Centre for Development Studies, Trivandrum (1975), brought out the peculiarities of Kerala's development process, the accent had been on analyzing the various aspects of the Kerala model and their contributions to social and human development in spite of lagging economic development. However, in the last few years, attention is being focused on the sustainability of Kerala's development experience, and in this context, there is increasing emphasis on the state's persistent poverty and on identifying its causes and delineating its features.

Kerala's recent initiatives in democratic decentralization have brought to the fore issues related to poverty and the role of different tiers of local government in poverty reduction. As participatory micro-level planning is being institutionalized, the need for capturing clear and sharp data on poverty and the question of a socially acceptable method for identifying the poor have assumed importance. It has opened up possibilities for perceiving poverty in its multidimensional character and formulating a strategy for multipronged attack. In this context, assessment of poverty at the local level can no longer be through vague and crude measures; such assessment must be transparent, comprehensive, and simple, reflecting the perceptions of the people along with those of the experts.

b. Traditional poverty assessment

As in the rest of the country, the quinquennial National Sample Survey (NSS) data have been used to identify the extent of poverty in Kerala state with respect to percentage of people below the poverty line. Based on this assessment, central government funds for various antipoverty programs are released to the state. The figures are summarized in Table 24.2.

Table 24.2. Percentage of Families Below the Poverty Line

Year	Rural	Urban	Total	All-India Figure	All-India Rank (least poverty)
1973–74	59.19	62.74	59.79	54.88	21
1977–78	51.48	55.52	52.22	51.32	12
1983–84	39.03	45.68	40.42	44.48	16
1987–88	29.10	40.33	31.79	38.86	10
1993–94	25.76	24.55	25.43	35.97	7

Source: National Sample Survey (various years).

Over a period of two decades, these figures show that Kerala has achieved the greatest decline in poverty levels (–55.08%), next only to Punjab (–60.54%). Moreover, its relative standing among the states has improved significantly, to seventh position from a low of 21st. This achievement despite low economic growth further validates Kerala's human development focus.

c. Other measures related to poverty assessment

K. P. Kannan (2000) has highlighted Kerala's human development achievements compared to those of other Asian countries. Using the United Nations Development Programme methodology (index of survival deprivation; deprivation of education; and deprivation in economic provisioning with respect to safe water, health services and undernourished children), the Human Poverty Index (HPI) for Kerala is 0.15, whereas it is 36.7 for the whole country. Similarly, the Human Development Index (1995) (index of life expectancy, educational attainment, and income) for Kerala has been calculated as 0.628, whereas it is only 0.451 for the whole country. The HDI and HPI values for Kerala and some Asian countries, as shown in Table 24.3, make an interesting comparison.

Table 24.3. Human Poverty Index and Human Development Index Values for Kerala and Selected Asian Countries

Country/State	HDI Value (1995)	HPI Value (1996)
Kerala	0.628	15.0
India	0.451	36.7
Sri Lanka	0.716	20.7
Thailand	0.838	11.7
Malaysia	0.834	
Indonesia	0.679	20.8
People's Republic of China	0.650	17.5

Blank cells = not available.
Source: Calculated based on National Sample Survey data.

Hirway and Dev (2000) have quoted Capability Poverty Measures (index of percentages of undernourished children, women with noninstitutional deliveries, and female illiteracy [CPM-1 using the stunting concept, CPM-2 using the wasting concept]). The position of Kerala is given in Table 24.4.

In only two states, Kerala and Tamil Nadu, are CPM results better than income poverty findings. Hirway and Dev (2000) have also constructed Human Development Measures: HDM-1 to measure capabilities and opportunities at the micro level and HDM-2 to measure capabilities and opportunities at the micro level. The details regarding Kerala are given in Tables 24.5 and 24.6.

Table 24.4. Comparison of Capability Poverty Measures in Kerala an India

Years	Primary Schools		Middle Schools		High Schools		Colleges	
	Women (nos.)	Gender Ratio	Women (nos.)	Gender Ratio	Women (nos.)	Gender Ratio	Women (nos.)	Gender Ratio
1974/75	15,678	43.5	1,266	36.7	911	39.8	96	36.2
1980/81	18,595	45.8	1,412	36.4	1,055	39.7	119	37.9
1985/86	22,441	41.0	1,893	43.4	1,420	40.0	158	48.9
1990/91	31,124	37.5	3,446	64.8	2,395	36.6	222	56.9
1996/97	46,691	44.8	6,425	78.6	3,367	47.8	296	59.0
1999/00	76,000	80.4	11,100	80.4	5,400	62.1	309	64.4

Note: CPM-1 uses stunting concept; CPM-2 uses wasting concept.
Source: Hirway and Dev (2000).

Table 24.5. Human Development Measures for Kerala at the Macro Level

Income & Poverty Index	0.642 (1)[a]	
Education Index	0.909 (1)	
Health Index	0.951 (1)	HDM-1 0.636 (1)
Housing Index	0.089 (13)	
Participation Index	0.587 (1)	

Notes: HDM-1 = Human development measures, macro level. [a] The all-India rank is shown in parentheses.
Source: Hirway and Dev (2000).

Table 24.6. Human Development Measures for Kerala at the Micro Level

Ecology & environment index	1.000 (1)[a]	
Basic Services Index	0.646 (3)	
Regional disparity index	0.954 (3)	HDM-2 0.807 (2)
Patriarchy Index	0.626 (2)	

Notes: HDM-2 = Human development measures, micro level. [a] The all-India rank is shown in brackets.
Source: Hirway and Dev (2000).

These measures point to the positive features of Kerala's development experience , with its focus on health care, education, and other public services and the historical bridging of the gender gap. These measures, except for HDM-2, give Kerala the top position in the country in respect of quality of life and human development.

d. Below-poverty-line surveys

While the flow of central government funds for poverty alleviation is based on National Sample Survey (NSS) data interpretation, activities are formulated and funds spent at the state level according to periodic surveys of Below Poverty Line (BPL) families.

With the advent of the strategy of direct attack on poverty at the national level, the Government of India directed Kerala state to survey households to identify BPL families based on an income cutoff limit known as the poverty line. This income limit is calculated on the basis of the income required to maintain a minimum quality of life, particularly in terms of caloric value of food consumption. Surveys were done in 1985, 1992 and 1997. For the 1997 survey, the income limit was fixed at Rs3,930/- per capita per year. The results of the surveys are summarized in Tables 24.7 to 24.9.

Table 24.7. Percentage of Families in Kerala Below the Poverty Line

Year of Survey	Percentage of BPL Population
1985	27
1992	36
1997	30

Note: BPL = below the poverty line.
Source: Below-poverty-line family surveys (various years).

Table 24.8. Families Below the Poverty Line in Kerala By Occupation Group (percentage)

Year of Survey	Agricultural Labor	Nonagricultural Labor	Rural Artisans
1985	33.4	27.5	5.7
1992	40.8	34.5	4.9
1997	34.4	2.4	2.7

Source: Below-poverty-line family surveys (various years).

e. Qualitative assessment by experts

Interaction with academic experts, local government leaders, representatives of the poor and key practitioners reveals the following points about the prevalence of poverty in Kerala.

- More important than drawing the poverty line with precision is the identification of layers of poverty, consisting of the decrepit poor, the very poor and the marginal poor. A prioritization of BPL families based on severity of poverty is needed, enabling formulation of separate strategies ranging from direct benefits support to facilitation of self-help.
- There are several groups that are left out of the Kerala model, but that are still very poor and deserve special support. They include tribal people, traditional fishermen, Scheduled Castes, and groups of people employed in certain declining traditional industries like coir, cashew production, handloom stone-crushing, etc. There is persistent poverty in these groups.
- The number of practically landless poor is very high in Kerala. Since land reform was implemented more than a generation ago, the homesteads given to nearly 300,000 families have now been partitioned or sold off and a large number of the poor have nothing more than their house plots. Thus, the conventional strategy of improving land productivity would not be of much direct benefit to these poor.

Table 24.9. Tentative Results of 1997 Survey of Poverty in Kerala (totals and percentages)

A. Priority Groups

Woman-headed families	340,742 (19.77)
Allotment of Surplus Land	41,271 (2.39)
Liberated Bonded-labor Families	18,257 (1.05)
Physically handicapped	
• Fully handicapped	47,495 people (0.5)
• Partially handicapped	54,832 (0.7)
Illiterate	765,066 (9.41)

B. Access to Minimum Needs

Landless Families	128,68 (7.47)
Families With Less Than 25 Cents of Land	1,34 7,810 (70.83)
Families With No Habitable House	917,816 (53.25)
Families Without a Safe Drinking Water Source within 300 Meters	49,717 (2.88)
Families Without Sanitary Latrines	805,604 (46.74)
Families Without Electricity	1,033,528 (59.96)

C. Income Group Classification

Less than Rs5,000 per family per year	240,321 (13.94)
Rs5,001 to Rs10,000	726,282 (42.14)
Rs10,000 to Rs15,000	564,335 (32.74)
Above Rs15,000	192,618 (11.18)

Note: Figures in parentheses are percentages.
Source: Kerala State below poverty line family survey, 1997.

- The phenomenon of the educated poor is peculiar to Kerala. A large number of the poor have completed a high school education and passed the school final examination. But in the competitive job market they get left out. Wage employment is of no use to them, most of them lack the entrepreneurial talent for self-employment, and they are not skilled enough for the job market. Capacity building for this group is a major challenge.
- The declining labor opportunities in agriculture and the shrinkage of government job prospects has further complicated the poverty situation.
- The quality of the results of the twin strategies behind Kerala's development success—health care and education—is on the decline, particularly in the public sector. This has placed a heavy burden on the poor and has important ramifications in determining an antipoverty strategy.

Thus, there is widespread agreement that the prevalence of poverty in Kerala has certain peculiar characteristics, making it difficult to eradicate through conventional strategies. The almost paradoxical persistence of poverty side by side with high human development indicators has convinced experts that the time is ripe for a rounded appreciation of the various factors contributing to poverty and its manifestations, so that effective measures can be initiated against them.

2. Decentralization and Its Implications for Poverty Reduction

a. Introduction

Kerala has embarked on a trajectory of rapid decentralization. The state has moved ahead at a good pace, with the transfer not only of functions and responsibilities, but also the authority to carry them out, along with resources, both human and financial. Kerala had not achieved significant decentralized development in the past, but since the passage of the 73rd and 74th Constitutional Amendment, it has carried out certain pioneering reforms worthy of attention and study. The reforms fundamentally decentralized governance, particularly in the developmental field. They constitute an earnest attempt to set up genuine institutions of local self-government, as envisaged in the Constitution.

A special feature of the Kerala experiment is the clarity of vision that informs the whole process. This is very rare in government-led reform processes. The vision guiding Kerala's decentralization is best encapsulated in the words of the Committee on Decentralization of Powers (popularly known as the Sen Committee), which is reproduced below:

Local Self-Government is essentially the empowerment of the people by giving them not only the voice, but the power of choice as well in order to shape the development which they feel is appropriate to their situation. It implies maximum decentralization of powers to enable the elected bodies to function as autonomous units with adequate power, authority and resources to discharge the basic responsibility of bringing about "economic development and social justice". It is not enough to formally transfer powers and responsibilities to the local self-government institutions (LSGIs). They have to be vested with the authority to exercise them in full, which requires concordant changes not only in the appropriate rules, manuals, government orders and circulars governing development administration, but also in the conventions, practices and even, the value premises of the governmental agencies. Decentralization does not mean just deconcentration where a subordinate is allowed to act on behalf of the superior without any real transfer of authority, or delegation where powers are formally conferred on a subordinate without any real transfer of authority. It implies devolution where real power and authority are transferred to enable autonomous functioning with the defined areas.

Decentralisation in its true sense would be democratic decentralisation. With the constitutional recognition accorded to Grama sabhas [constituency meetings] and Wards Committees, the necessary condition for genuine participatory democracy has been created. The greater the involvement of these people's bodies and the more effective their functioning, the fuller would be the realization of the objectives of LSGIs. So power should flow through the elected bodies and [their] members to the people and should not be blocked at any level, as power ultimately belongs to the people and it is only legitimate that it is handed over to them.

Thus LSGIs would facilitate exercise of legitimate and legal authority by the people and the elected bodies. It should put an end to the various extra-constitutional power centres influencing the development process at the grass roots level. Often power is seen, felt and recognized by its abuse; at times arbitrary, discretionary exercise of power is found attractive. Power denotes separation and distance from the powerless and is distinguished by typical symbols and trappings. It is not this "power" that is to be transferred to the LSGIs. It is the power to build capabilities, increase production, reduce inequalities and promote harmony that is to be vested in them a facilitative power as development is basically enhancing the capabilities of people and enlarging their choices.

And the transfer of power has to be more in the vertically downward direction than in the horizontally sideways direction. In other words, the powers of the State to bring about development are to be handed over to the LSGIs and not just the powers now exercised by the functionaries of the State at the corresponding level. Horizontally, the power to decide what to be done, how to be done, and the priorities of doing, will move to the elected institutions. The officials will retain their professional power to advise but they have to act as per the decisions of the elected bodies. The role of the departments henceforth would be, not to take decisions by themselves, but to help the people to take decisions and then carry them out. Their professional role would expand while their administrative role would shrink.

Decentralisation is a process and cannot be achieved in one stroke. It has to undergo a continuous process of redefining, adapting and adjusting. So it is essential to closely monitor the working of the new system and to take measures to improve it as and when required.

Every step made in the process, every policy decision taken in the matter and every system designed and every procedure prescribed, attempts to translate this vision into practice. That has been the mission of the decentralization initiative.

b. The objectives of decentralization

The Kerala economy had been facing severe problems since the mid-1970s. The much acclaimed Kerala model of development, aimed at bringing about human development, started facing a sustainability crisis. It became difficult to maintain the level and quality of governmental services. These problems were further compounded by the sharply adversarial political relations in Kerala. It was felt that decentralization could shake up the system and help in a thorough overhaul. In this context, the objectives of the decentralization experiment in Kerala could be listed as follows:

- Improve the quality of investment by allocating resources for priorities fixed by the local people;
- Facilitate emergence of local solutions to developmental problems through improved planning, better implementation, use of traditional knowledge and appropriate technology, etc.;
- Exploit local production possibilities;
- Enable people's participation, leading to keener oversight in the execution of schemes, followed by better upkeep of assets;
- Provide the enabling environment for people to make contributions in kind and cash for development programs identified by them for priority action;
- Bring about a convergence of resources and services to tackle development problems with greater vigor; and
- Unleash public action resulting in a demand-led improvement in the delivery of developmental and welfare services.

In the process of realizing these objectives it was felt that a new politics of development would emerge out of dialogue and consensus rather than conflict and collusion, helping to forge a realistic approach to development, and based on a clearer understanding of problems and issues at the grassroots level.

c. The strategy of decentralization

Kerala has followed an unorthodox strategy of decentralization. It reversed the traditional paradigm of gradual transfer of powers to local governments as a result of perceived improvement in their capacities to exercise them. It opted for a "big bang" approach by transferring functions, authority, and resources simultaneously and then attempting to build the capacity of local governments to perform efficiently. This methodology first transferred powers and then set up umpiring systems; it devolved funds and then structured procedures and systems. It facilitated learning by doing and at the same time was backed up by a system that responded quickly to the ups and downs of the process. In a sense, this reversal of the conventional sequence placed an onus on the state government to ensure that the right environment was created for the local governments to function well. At the same time, the local governments were pushed to carry out their responsibilities to the best of their ability. Hindsight proves that it was a very wise move strategically, as it is well nigh impossible to transfer power by degrees.

To make decentralization work, Kerala chose the path of participatory local-level planning as the entry point. This succeeded to a considerable extent in harnessing public action in favor of decentralization. In order to push the system and force the process, a campaign approach was followed for decentralized planning, known as the "People's Planning Campaign." This campaign created a powerful demand for decentralization to be guided along the right path. To a large degree, the campaign has succeeded in setting the agenda for decentralization.

d. Steps in decentralization

The decentralization process had several major steps:

i. Legal entitlements for local governments

The legal entitlements of local governments were introduced through new legislation setting up a three-tier local government system in rural areas and a single-tier local government system in urban areas. In rural areas, the three tiers consist of 991 village *panchayats* (assemblies) at the grassroots level, having an average population of about 30,000; 152 block panchayats at the intermediate level, having an average population of about 200,000; and 14 district panchayats having an average population of about 2.25 million. The legislation also defines the functional domains of each level of local government.

ii. Transfer of institutions and staff

All the development institutions and government offices dealing with developmental matters at the district level and below have been transferred to the concerned local governments, along with staff.

The degree and quality of decentralization as delineated in laws and prescribed in government orders can be gauged from the following statements:

- In the health sector, all institutions other than medical colleges and large regional specialty hospitals have been placed under the control of local governments.
- In the education sector, responsibility for high schools in rural areas has been transferred to the district panchayats and that for primary and upper primary schools has been transferred to village panchayats; in urban areas, all schools have been transferred to the urban local bodies.
- The entire responsibility for poverty alleviation has gone to local governments, which now plan and implement all formerly centrally sponsored antipoverty programs.
- All social welfare functions except statutory functions relating to juvenile justice have gone to local governments.
- In the agriculture and allied sectors, the following have become local government functions, de facto and de jure:
- agricultural extension, including farmer-oriented support for increasing production and productivity;

- watershed management and minor irrigation;
- dairy development;
- animal husbandry, including veterinary care; and
- inland fisheries.
- Barring highways and major district roads, connectivity has become a local government responsibility.
- The responsibility for sanitation and almost the entire rural water supply have moved over to local governments.
- Promotion of tiny, cottage, and small industries is mostly with local governments.
- All welfare pensions are administered by local governments.

The above list shows clearly that in terms of governance, interface with citizens is nearly two thirds at the local level.

iii. Transfer of financial resources

Traditionally Kerala had only village panchayats and the urban local bodies. They used to get grants-in-aid from the government that were hardly enough to meet their obligatory functions and establishment costs. A few government schemes were also transferred for implementation to local governments as agencies of the state government. However, in 1996 a landmark decision was taken to allot more than one third of the state's plan resources (i.e., funds to be invested in new development ventures) to local governments, with the rural local governments getting an 85-percent share reflecting the proportion of the rural population. The noteworthy features of Kerala's financial devolution to local governments are listed below:

- The amount of plan funds earmarked for local governments is the highest in the country.
- Around 90 percent of the plan funds are given in a practically untied form to local governments to prepare their own schemes and implement them within a certain broad policy framework, which stipulates that at least 40 percent of the funds should be invested in productive sectors, not more than 30 percent should be invested in roads, and at least 10 percent should be earmarked for gender-sensitive schemes; and which has fixed a consensual upper ceiling for subsidies in different categories of schemes.
- The entire plan grant can be invested. This can be called "pure money," as it does not carry any staff salaries or other administrative costs. At the state level, 20 to 25 percent of the plan is normally eaten up by such commitments.
- All the plan grants due to local governments are separately budgeted in a document known as Annexure IV of the State Budget. Since it is passed by the legislature, it cannot be diverted for other purposes by the executive.
- Contrary to nearly universal practice, it is the village panchayats that get the bulk of the grants, with nearly 70 percent of the rural share going to them and the district and block panchayats sharing the remaining 30 percent more or less equally.
- Every single rupee devolved to local governments, whether under plan or other categories, is given according to a transparent formula; there is no room for patronage

or partisanship in allocation of resources to local governments.

- A flow-of-funds procedure has been designed. The funds flow in four installments. A local government has to spend at least 75 percent of its allocation during a year, failing which the shortfall will be deducted from the next year's allotment.

iv. Operationalizing decentralized participatory planning

The People's Planning Campaign has succeeded in providing a concrete methodology for participatory planning for local level development. The salient features of this methodology are described below, stage by stage.

Needs identification. Through a meeting of a *grama sabha*, i.e., the ward or the electoral constituency of a village panchayat member, the felt needs of the community are identified. There is a period of environment creation to mobilize maximum participation in the grama sabha. Statistics reveal that about 10–12 percent of the rural population has participated in the grama sabhas held as part of the People's Planning Campaign. The grama sabha meetings are held in a semistructured manner, with plenary sessions and subgroup sessions dealing with specific development issues. The decisions are minuted and forwarded to the panchayats. Each grama sabha is chaired by the elected member and has an official as its coordinator.

Situation analysis. Based on the demands emanating from the first special grama sabha and based on development data, both primary and secondary, exhaustive development reports are prepared and printed for every panchayat raj institution (PRI) in Kerala state. These reports describe the status in each development sector with reference to available data, analyze the problems, and point out the directions for further development. This is a one-time exercise and the reports will be revised before the next five-year plan.

Strategy setting. Based on the grama sabha feedback and the development report, a one-day seminar is held at the PRI level in which experts, elected members, representatives nominated by grama sabhas, and practitioners from among the public are sure to take part. The development seminars suggest the broad priorities and general strategies for developmental projects to be taken up in a particular year.

Project formation: The ideas thrown up by the above three stages are translated into projects by task forces at the PRI level. For each PRI, there are about 12 task forces dealing with different sectors of development. Each task force is headed by an elected member and is convened by the concerned government official. The vice chairman of the task force is normally a nongovernment expert in the sector. The projects are prepared in the suggested format, outlining the objectives, describing the benefits, explaining the funding, and detailing the mode of execution and phasing.

Plan finalization: From among the projects, based on the allocation communicated, the concerned PRI finalizes its plan for the year and it is submitted to the district planning committees (DPCs) through the expert committees. The panchayat is free to take up any project, irrespective of its cost, subject of course to the resources actually available and within the sectoral limits.

Plan vetting: The expert committees at the block or the district level vet the projects for their technical viability and conformity with the mandatory government guidelines on planning and costing, and forward them to the DPC. They cannot change the priorities or the projects; they can only ask for rectification.

Plan approval: The DPC formally approves the plans, after which the PRI can start implementation. It is to be noted that the DPC also cannot change the priority of a PRI. It can only ensure that government guidelines are followed. Administrative approval for implementation is given for project implementation by the PRI. Every PRI has unlimited powers of administrative sanctions, subject only to the limits of its financial resources.

v. Setting up appropriate systems

Several innovative administrative arrangements have been put into place to improve the quality of decentralized governance. Following are the major administrative reforms: (i) providing for total transparency of all records relating to developmental matters, with the right given to any citizen to demand and access information from local governments; (ii) setting up of committees of experts at the intermediate and district level to provide technical advice, technically vet the projects prepared by local governments, and accord technical sanction for public works, particularly construction of roads, buildings, irrigation structures, water supply systems, and extended electricity lines; (iii) accreditation of appropriate nongovernment organizations (NGOs) to take up construction works on behalf of local governments; (iv) participatory selection of beneficiaries in the presence of all applicants and all voters of each ward of the local government, with well-defined sets of eligibility and prioritization criteria, the latter having marks for each criterion on a scale of 1 to 100; (v) identifying "beacon" local governments and encouraging them to share their experience with others; (vi) launching a massive capacity-building exercise in a cascading fashion, with about 600 key resource persons at the state level, 10,000 district resource persons, and 100,000 local resource persons being trained under the auspices of the Kerala Institute of Local Administration, an institution set up jointly by the local governments in the state; and (vii) setting up independent regulatory institutions, such as, the State Election Commission, for the conduct of elections, the State Finance Commission (to give five awards per year for transfer of resources to local governments), an ombudsman for local government to check malfeasance, appellate tribunals, to take care of appeals against the decisions of local governments taken in exercise of their regulatory role (such as in the issuance of licenses, grant of permits, etc), a State Development Council consisting of the state cabinet, the leader of the opposition, presidents of district panchayats, and representatives of other local governments, to discuss policy issues in decentralization, and an Audit Commission to audit local governments.

e. Implications of decentralization for poverty reduction-Initial evidence from the field

i. The achievements

The experience of the first few years of decentralization has proved that in providing basic minimum needs infrastructure like housing, water supply, sanitation, and connectivity, the local governments have performed creditably. The speed and extent of coverage as well as efficiency in providing minimum needs has been superior to that of the state government.

Along with minimum needs, the local governments have done reasonably well in natural resource management, particularly in the utilization of water resources for productive purposes. As regards the productive sector, there have been isolated successes, where agricultural production and productivity have increased in a major way.

In providing services like health and education, however, success stories have been relatively few in number. Of course, the outreach of health services as well as remedial coaching for laggard students has definitely improved, and the infrastructure for health care and education has rapidly been upgraded. But management of professionals and other staff to provide better quality services requires further effort.

On the whole, an encouraging feature is the fact that individual local governments have evolved viable models in most of the sectors relating to poverty reduction. A major challenge would be to upscale and replicate them. It is pertinent to note that funds spent on poverty reduction programs by local governments significantly exceed earlier investments. This is suggestive of the higher priority given to antipoverty programs by local governments. The spread of this investment is also much broader and generally more equitable.

Another significant aspect of poverty reduction where local governments have performed well is the implementation of social security schemes like pensions. The coverage has improved and the targeting has been fairly satisfactory.

The good governance aspect of decentralization, particularly transparency, as well as the opportunities for participation, have improved the quality of antipoverty programs formulated and implemented by local governments. There is considerably less leakage and the identification of beneficiaries is definitely better.

What holds the biggest promise for poverty reduction is the attempt to develop a network of self-help groups of BPL families, each represented by a woman. The network derives from a community-based identification of BPL families on nonmonetary criteria that are transparent and reflective of social perceptions of poverty. Identified families are organized into neighborhood groups (NHGs) of 20–25 members who are federated into an organization called an Area Development Society (ADS) at the panchayat ward/grama sabha level and further networked into a registered NGO of poor women called the Community Development Society (CDS) at the level of the village panchayat. This experiment, which has been tried out in Kerala's most backward district of Malappuram, has now been expanded to cover the entire state (details are given in section 3 as a case study).

ii. The potential and limitations

Practice has shown that in terms of poverty reduction, decentralization has certain definite advantages: (i) resources have flowed into every nook and corner, and if the formula of devolution and distribution is a progressive one, with earmarking of funds for disadvantaged groups, greater equity can be achieved; (ii) the outreach of developmental services has greatly improved; (iii) there is less channeling of resources to particular sectors in decentralized programs, Greater convergence has contributed to reducing the ratchet effect of poverty, local governments, particularly village panchayats, tend to view problems holistically and derive a solution first, and only then decide on the agency of implementation; (iv) in view of the financial constraints and skill limitations, there is greater emphasis on locally appropriate, affordable solutions; (v) there is greater realism in tackling problems of poverty, there are no tall promises with the problem of poverty is perceived in its stark reality, and it is not submerged in academic debates or hidden in statistical sophistry; (vi) the innumerable opportunities for participation that have been structured into Kerala's decentralization process have helped the poor in gaining confidence and in moving from lower levels of participation into higher forms of direct social action like management of facilities, creation of demand for services, and so on; and (vii) popular participation has definitely improved accountability.

Decentralization affords opportunities to the poor to grow in strength by continuous participation (learning by doing), constant observation of the exercise of power (learning by seeing), and accessing more information (learning by knowing). As barriers are weaker in the local situation, the poor can hope to break through them with some effort.

There have also been certain problems, which are: (i) Those outside the social and political mainstream, like the scheduled castes and tribes, have still to gain from decentralization. (i.e., in scenarios where one section of the poor lives off another section, then decentralization has certain inbuilt limitations); (ii) The poorest among the poor need social safety nets, particularly for food and health emergencies. These cannot be provided by local governments; (iii) The management of services, particularly health care and education, have not become more efficient than before, and these services have direct implications for poverty reduction; (iv) The flow of bank credit into local schemes for poverty reduction has been rather limited, and it appears to result more from bankers' reluctance to deal with local governments than from inadequacies of project formulation, which has meant higher subsidies; (v) In a state like Kerala, where the number of educated poor is very high, there is an inherent limitation in local government action against such poverty, linkage with job markets through skill upgrades or identification of self-employment opportunities or small scale production activities with assured markets are all functions that can be done better at higher levels, thus the problem of vertical integration of antipoverty programs is a crucial one.

Antipoverty initiatives at the local level seem to be characterized by incrementalism and there is a clear need for a long-range vision to reduce poverty.

f. Toward institutionalization of the decentralization initiative

The decentralization process in Kerala has moved from the experimental phase through a corrective phase and has now entered the critical institutionalization phase. In the first stage, which was based on trial and error, several mistakes were made and several new areas discovered. Ad hoc systems were designed to facilitate operational flexibility at the local level. Now, from the campaign mode, decentralization is entering the systems mode. This is the time for weeding out worn-out procedures and systems and planning modern systems that are simple, transparent, fair, and afford easy upkeep, while at the same time ensuring accountability of the highest degree. The Peoples' Planning Campaign has been sustained through a host of activist volunteers. Soon these volunteers will move out of direct leadership and play the role of facilitators. Regular support systems appropriate to local government functioning will be in place.

The local governments, which are by now reasonably adept in preparing plans, will be expected to further improve their capacity to implement them efficiently and economically. A major challenge ahead will be to build capacity in the local governments to manage the provision of various services to the people. Participation of the people needs to be further institutionalized and the question of integration of plans among the tiers of government needs to be dealt with. From incremental annual planning, the local governments are expected to switch over to five-year planning from the year 2001. For this purpose they have to be conditioned to develop a strategic vision. In this phase, they have to graduate from creation of infrastructure to promoting local economic development. While doing so, they have to rely increasingly on local resource mobilization as well as innovative methods of financing projects. In sum ,they have to provide responsive and good governance.

3. Participatory Poverty Reduction in Malappuram: A Case Study [1]

a. Background

In the early years of planned development in India, it was thought that overall development would trickle down to the poor and help them emerge from poverty. The onset of the green revolution brought about prosperity in several rural areas of the country. However, it was soon realized that the "trickle-down" theory had not worked and poverty was in fact increasing. This brought about a major change in the development policy of the Government, which started what is called the "direct attack" on poverty through programs targeted exclusively to the poor.

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[1] In 2000, the Malappuram program won the gold medal for best practice in Public Management, instituted by the Commonwealth Association for Public Administration and Management.

For the purpose of identifying the poor, a poverty line was based on the income required to provide food having a caloric value of 2,100 calories per person per day and other minimum necessities. The antipoverty programs targeted at the BPL families were broadly in two categories: one category of schemes providing wage employment to the poor through public works programs, and the other category providing subsidized financial assistance for self-employment.

The national strategies and programs were duly followed in Kerala. Though poverty levels dropped considerably, persistent poverty in certain locations and among particular groups of people worried the policymakers. It was widely recognized that a top-down approach to poverty reduction, depending on isolated schemes delivered separately to individual families or artificial groups of families, had failed to yield the desired results. A program of participation on the basis of self-help and integration of resources, with women as the key actors, was identified as a better strategy for reducing poverty.

A pilot project was launched in the Malappuram District of Kerala at the end of 1994. Malappuram was chosen for the experimental project because it was found to be the most backward district of Kerala. Certain basic features of the district are shown in Table 24.10.

b. Elements of the Malappuram experiment

i. Identification of the poor

It was realized that the identification of the poor suffered from two basic deficiencies: first, as it was based on income, there was much underreporting, and the officials conducting the survey had a lot of discretion in the absence of hard verifiable data; second, the identification was used only to provide direct assistance under a single program known as the Integrated Rural Development Program. It was felt that a nonmonetary set of indicators that are easily understood and recognized by the community to determine poverty would be more reliable and acceptable. Based on trial and error in Alappuzha Municipality of

Table 24.10. Features of Malappuram District, Kerala

1. Area: 3,548 Sq Km

2. Population (1991 Census) 3,096,330

Male	Female	Total	Socially disadvantaged groups
1,508,289	1,588,050	3,096,339	255,731

3. Social indicators vis-à-vis Kerala average:

	District Average	State Average
Population Growth Rate (percent)	28.87	13.10
Infant Mortality rate	2.2	1.3
Women's Literacy (percent)	65	86.17
Average Family Size	6.49	5.3
Families Below Poverty Line (percent)	45	26

Source: 1991 National Census Data.

Kerala, a nine-point risk index was developed consisting of the following elements, which had a high correlation with poverty: no house, no access to safe drinking water, no access to a sanitary latrine, an illiterate adult in the family, no more than one earning member in the family, eating barely two meals a day or less, the presence of children below the age of five in the family, an alcoholic or drug addict in the family, and membership in a Scheduled Caste or Scheduled Tribe (or belonging to some other socially disadvantaged group).

The families exhibiting four or more elements from this set were to be classified as poor. This attempted community-based, transparent identification of the poor represented a fundamental departure from the existing practice and a significant innovation.

ii. Organization of the poor

Hitherto, poverty alleviation programs focused on the family, and by design or default, on the male chief member. Programs were delivered without any lateral linkages or convergence, and no attempt was made to see the target groups as a community and provide a suitable basket of services and schemes. In the Malappuram project, a conscious attempt was made to sidestep these problems.

All the identified families were organized into Neighborhood Groups (NHGs) of 20 to 30 local families, each family being represented by a woman. These NHGs of women were networked into Area Development Societies (ADSs) at the level of the ward or electoral constituency of the lowest level of local government, viz., village panchayat or municipality. These ADSs were federated into a Community Development Society (CDS) at the village panchayat or municipality level. There were also higher levels of networking at the level of the intermediate local government tier, viz., the block panchayat and the district.

iii. The function of the system

The basic building block of the community-based organization is the *Neighborhood Group* (NHG). This grassroots body democratically elects five volunteers from its members who function as "barefoot experts" performing the following functions:

- *President*. She presides over weekly meetings and imparts necessary leadership and guidance to the group members.
- *Secretary*. She records the proceedings of meetings and is responsible for necessary follow-up, including motivation and team building.
- *Community health volunteer*. She looks after the various health-related issues of the group members, including children, women, and the aged, and is responsible for the convergence of various programs undertaken by health and social welfare departments.
- *Volunteer for income generation activities*. She looks after the collection, consolidation, and maintenance of books of accounts and registers in connection with thrift mobilization. The National Bank for Agriculture and Rural Development imparts the necessary training for building their capacity.

- *Volunteer for physical amenities*. She identifies gaps in the availability of critical physical amenities and tries to integrate the resources of various government programs. She also maintains liaison with local governments and acts as a catalyst for local development.

Each NHG prepares a micro plan for its development based on the needs of the members as identified through surveys and discussions.

The *Area Development Society* (ADS) formed at the ward level of the village panchayat or municipality by networking NHGs, normally 8 to 10 in number. The ADS functions through three distinct bodies:

- *General body*. This consists of all presidents and secretaries of federated NHGs, along with resource persons selected from that area.
- *Governing body*. This body, constituted by electing a president, secretary and five-member committee from among the General Body, has a development promotion role.
- *Monitoring and advisory committee*. This committee is formed, under the Chairmanship of the elected member of the village panchayat or municipality representing that ward, in order to integrate with the activities of other local governments . Since the ward is the basic unit for laying down priorities for local development, the ADS acts as a lobby of the poor in the preparation of development plans by local governments. The ADS coordinates the “micro” plans of the NHGs into what is called a “mini” plan.

At the level of the village panchayat or municipality, each ADSs is federated into the *Community Development Society* (CDS)–a registered NGO. Like the ADS, it has also three subsystems:

- *General body*. This comprises all ADS chairpersons and ADS Governing Body members along with resource persons and officers of the local government who are involved in implementing various poverty alleviation and women empowerment programs.
- *Governing body*. This body consists of a president, member secretary, and five selected committee members. The president is elected; the member secretary is the local officer in charge of antipoverty programs. Other government officials and representatives of resource persons are nominated to the Governing Body.
- *Monitoring and advisory committee*. The municipal chairperson/president of the panchayat is the chairman of the monitoring and advisory committee, which is convened by the municipal secretary/panchayat secretary.

The CDS, which is coterminous with the village panchayat or municipality, prepares development plans at the local government level by consolidating the plans prepared by the ADSs. The CDS is recognized as an agency to which local governments can entrust the execution of small public works through community contracting. The CDS is visualized as a subsystem of the local government, taking care of the interests of the poor through its womenfolk, thereby automatically giving attention to the gender dimension.

There are CDSs at the block and district level, which serve the purposes of coordination as well as feedback and take up higher-order development activities. To sum up, the key features of this Malappuram-originated organization of the poor are that: (i) it covers every BPL family; (ii) each poor family is represented by a woman, improving the program in terms of feedback on poverty, sensitivity to problems of the poor, and commitment to alleviating and addressing gender concerns; (iii) the whole system is democratic and encourages full participation through periodic discussions and rotation of the volunteers every two years; (iv) the volunteers are natural leaders and have ample opportunities to develop leadership qualities; (v) the democratic hierarchy of the organization facilitates interventions at different stages of the local development planning process; (vi) the representative character of the organization enables it to be a powerful interest group representing 30–35 percent of the population; (vii) since decisions are based on analysis of the field situation and through discussions, the plans of the systems represent felt needs and priorities; and (viii) the hierarchical organization, with the higher levels "nesting the representatives of the lower level," affords good channels for quick and effective communication.

Regular weekly meetings are held and the discussions and decisions are recorded. These meetings serve as forums for sharing information, developing a consensus on felt needs, and discussing possibilities of collective action for the common good.

A major function of the organization is to act as an informal "bank of the poor." Small savings of the women are collected regularly at the weekly NHG meetings. The ADSs are authorized to open accounts in banks to deposit the savings. So far in Malappuram, Rs26.7 million have been collected, out of which Rs20.6 million has been circulated as loans among the members, mainly for immediate needs like medical treatment, educational expenses, repayment of old debts, etc. About 70 percent of the disbursements are for consumption purposes, or warding off indebtedness. The remaining disbursements are for economic development activities, either for strengthening existing activities or taking up new ones. Since the whole process is transparent and functions well, the repayment rate has been 100 percent.

In order to ensure accountability, a simple community financial management system has been designed, operated by the secretary of the ADS. This ensures proper accounting and monitoring of repayment.

The ultimate objective is to go beyond mobilizing thrift from members to attracting credit from commercial banks. It is expected that with the strengthening of the system the banks would lend nine times the accumulated savings without any guarantee. The National Bank for Agriculture and Rural Development has already provided credit to 808 NHGs. The loan repayment rate is 99.98%, as against 51% for the traditional antipoverty programs.

iv. Enabling the organization

The Kerala government acts as a proactive facilitator. At the district level, there is a government-appointed full-time coordinator for the program, who acts as a catalyst without infringing the autonomy of the CDS system.

A massive capacity-building exercise was undertaken with the formation of the CDS system. Experts as well as key resource persons selected from the community give the training. The rigorous, cascading-type of training has achieved the following results:

- 13,000 volunteers trained in the identification of at-risk families;
- 106,000 community volunteers trained in the concept, strategy, and operations of the project;
- 4,645 volunteers trained in community health management;
- 2,000 training courses conducted on community finance management;
- 20,000 volunteers trained for the preparation of development plans, implementation, and monitoring;
- 3,000 volunteers trained in participatory learning and action (PLA) techniques;
- 850 volunteers trained on microenterprise development;
- 99 awareness camps conducted against alcoholism; and
- 1,700 training camps held on immunization.

c. Physical achievements of the system

The CDS system has achieved some impressive physical results. Improvements in the area of environmental sanitation and provision of potable drinking water include the following new infrastructure: (i) 5,600 household sanitary latrines, 53 toilets in schools, development of a low-cost model for sanitary latrines; (ii) rural sanitary marts in 14 blocks; (iii) 20 bore wells; (iv) 15 open wells; (v) rainwater harvesting techniques developed; and (vi) 200 women masons trained and equipped.

Additional facilities and staff for education include: (i) more facilities created in preprimary and primary schools, (ii) formation of mother-teacher associations in primary schools, (iii) reduction in the dropout rate, (iv) remedial education for underperforming students from poor families, and (v) extension of district primary education programs to marginalized groups.

Community health improvements include: (i) more efficient use of medical facilities, (ii) integration of health programs, (iii) 100-percent coverage in immunization against polio, (iv) reduced incidence of diseases (cholera, typhoid, malaria and diarrhea), (v) better outreach for reproductive and child health programs, (vi) participatory implementation of an HIV/AIDS control program, and (vii) opening of rural health depots for first aid.

Achievements in the area of development of microenterprise include: (i) 12,322 microenterprises set up and assisted through revolving funds, (ii) direct marketing groups have seen set up to sell consumer goods, (iii) festival markets organized through group action, (iv) microenterprise consultants trained and positioned for continued support, and (v) a variety of activities ranging from solid waste management to computer centers.

d. Significance of the Malappuram model in managing poverty reduction

The first five years of the Malappuram experience has yielded several lessons which are of relevance in managing poverty reduction. Several important lessons have emerged for this experience.

Community-based determination of the poor through simple, transparent criteria has resulted in better identification of the poor. Since the criteria are congruent with the perceptions of the public, there is greater objectivity and reduced patronage in classifying poor families for various benefits. As described, the CDS organization of the poor has provided a powerful social safety net against vulnerability. The poor have attained a well-defined role in public life, particularly in the development process, right from the planning stage. The internal dynamics of the organization often help it to develop organically with cohesion and purpose. The highly democratic and participatory structure has helped it to become the acknowledged representative of the poor. The poor have undergone a gradual but perceptible improvement in their confidence levels, so that they have begun articulating their demands. And from "voice" they are proceeding to use the power of "choice." Their freedoms have been enlarged and their capabilities enhanced in small but significant degrees.

The Malappuram experience represents a conscious empowerment of the poor through a gender-sensitive process. It has given a new dimension to the role of the state. By actively promoting awareness creation among the public, building the capacity of the community, and designing self-management systems, the state government has shown that it can facilitate the empowerment of poor communities through a conscious policy decision. The CDS system has been authorized to select and identify the beneficiaries of various state-sponsored and local-government-sponsored development programs for the poor. The CDS is also encouraged to implement public works through community contracting. Group activities have led to greater cohesion, serving as a social safety net in times of crisis, reducing the feeling of vulnerability. By focusing on the social dynamics of the organization and by encouraging thrift, the CDS system has inculcated the culture of self-help. This is a sharp deviation from the earlier practice of providing doles and freebies.

The quality of interventions for reducing poverty has improved, particularly through the participatory planning undertaken by the CDS system. Rapid gathering of essential data, interactive prioritization of development needs, and collective identification of economic development opportunities have all contributed to the preparation and implementation of improved poverty reduction schemes at the local level. The transparent functioning of the CDS system has promoted trust among the poor and has enabled them to identify the neediest persons with precision and grace, moving away from ungainly jockeying for benefits and crude dependence-inducing patronage systems.

The experiment has helped bring about more responsive governance by means of: (i) improved outreach of development software, (ii) better accessing and utilization of public services, (iii) cost reduction in delivery of services, (iv) improved accountability and transparency in development systems, (v) quick and effective feedback to the government, (vi) improved targeting of programs and services, (vii) more efficient management of public assets like water supply systems, (viii) greater integration of governmental resources and services through a demand- led process, and (ix) better value for money invested. Awareness about various programs and services for the poor has increased, resulting in improved accessing of such programs and services. The outreach of various government services has improved in scale as well as in effectiveness.

The habit of thrift has sunk in and considerable savings have been generated, resulting in formation of “informal banks of the poor.” The credit from these thrift banks initially flows into consumption expenditure and expenditure on emergencies. Later, it helps in expanding existing economic development activities and finally, albeit only in a few cases, it has promoted new microenterprises by attracting bank credit based on the strength of the savings. The participation rate of women from the CDS system in the grama sabhas is significantly higher. The groups have shown a capacity for micro level planning for development facilities. Gradually they are developing into lobbies for the poor within panchayats. In rare cases, the women’s groups have shown the potential for public action against social and economic injustice.

In summary, the Malappuram experience shows that the empowerment of the poor is an unfolding process with clearly discernible phases having sequential progression. Based on the evidence presented, Figure 1 depicts the stages in the empowerment process.

e. Conclusion

Having realized that the Malappuram experience shows the way for tackling the various dimensions of poverty, both causative and symptomatic, the government of Kerala has decided to replicate this experience throughout the state. For this purpose, a state poverty eradication mission has been created to work at the state and district levels, and specially staffed by officers selected from various development departments on the basis of proven capability and commitment. The poverty eradication mission, known as “Kudumbashree,” is charged with the responsibility of laying down the guidelines, carrying out capacity building, identifying market niches for microenterprises, providing technology inputs and upgrading managerial and technical skills, arranging for the flow of credit from banks, mediating with various government departments, and monitoring the process.

As a policy, the community organization of the poor is seen as the next step in the decentralization process, going beyond local governments to local communities. The CDS system is envisaged as a subsystem of local governments, part of the decentralized setup. It will have a direct role in the conceptualization and implementation of antipoverty programs, in the identification and selection of beneficiaries of such programs, and in performing social audit functions as a watchdog of the public.

Figure 24.1. Empowerment of the Poor: An Unfolding Process

Better awareness of government programs and services for the poor

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Improved accessing and utilization of such facilities and programs

↓

Generating savings and lending them for consumption purposes and emergencies

↓

Lending to improve existing self-employment ventures

↓

Microlevel planning for minimum basic needs

↓

Microlevel planning for social infrastructure

↓

Microlevel planning for economic development through income-generation activities

↓

Seeking and taking advantage of bank credit for individual and then group microenterprises

↓

Expressing demands for improvement in public services, especially those relating to primary health care, reproductive and child health care, preprimary and school education, welfare entitlements related to food security and social security, etc.

↓

Readiness to manage public assets like water supply systems

↓

Public action against social evils like alcoholism that affect women

↓

Public action to control resources and to influence policy: creation of political space for themselves

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Understanding Rural Poverty in Nepal

Devendra Chhetry

1. Introduction

a. General background of the country

Nepal, with an area of 147,181 square kilometers (km^2), is a land of enormous geographical diversity. The country has three main geographical/ecological regions: the *terai*[1] region, the hill region and the mountain region, which cover 23.1 percent, 41.7 percent, and 35.2 percent of the total area, respectively. Each ecological region is a narrow strip of land stretching from east to west. These three regions not only manifest immense diversity of geographic features, but also display immense diversity of human settlement patterns; population and land distribution; availability of productive resources; and levels of economic, human and infrastructure development.

The terai region has a high population density[2] but relatively low population pressure on the farmland and relatively advanced infrastructure development. The conditions of the hill region appear to be somewhere between those of the terai region and the mountain region, with a relatively moderate population density and moderate population pressure on the farmland. The mountain region has a low population density but relatively high population pressure on the farmland, as well as difficult terrain, adverse climatic conditions, and very little infrastructure development, and that rudimentary.

Nepal's population is currently projected at a close to 23 million. The distribution of population across the three ecological regions is continually changing due to migration, particularly from the hill/mountain region to the terai region, but also from neighboring countries. However, the 1991 population distribution was 46.7 percent for the terai region, 45.5 percent for the hill region, and 7.8 percent for the mountain region. The population distribution is closely related to the distribution of the farmland (total area of holdings): 52.9 of the arable land is terai, 40.3 percent is hill country, and 6.8 percent is mountainous.

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1 Narrow strip of flat alluvial terrain in the southern part of the country, with a mostly humid and tropical climate.

2 In about 1991, population density was 254 persons/km^2 in the terai region, 137 in the hill region, and 28 in the mountain region.

Nepal also has five development regions: Eastern, Central, Midwestern, Western, and Far Western. Each development region is a narrow strip of land stretching from north to south. Each development region includes the three ecological regions. Several development indicators have persistently shown that the Eastern, Central and Western development regions are relatively better off than the Midwestern and Far Western development regions (ICIMOD, 1997; NESAC, 1998).

Nepal is one of the least urbanized countries in the world. The 1991 census reported that around 9 percent of the total population resided in urban areas, which comprise 33 municipalities. Out of these 33 municipalities, 22 are in the terai region and 11 in the hill region. The availability of the basic amenities of life is highly urban-biased. For instance, around 80 percent of all urban households have access to electricity for lighting, while less than 10 percent of all rural households do so.

Nepal, with an annual per capita income of around US$ 200, is one of the poorest countries in the world (World Bank, 1997). The country's employment and economy depend heavily on agriculture. In the past, numerous nationwide surveys have repeatedly shown agriculture as the main economic activity of over 80 percent of the nation's labor force. Likewise, numerous national level surveys have repeatedly shown that over 60 percent of total household income originates from agriculture.

b. Recent poverty scenario

Regional disparities in the incidence of poverty and illiteracy are quite stark in Nepal. In essence, regional disparity is a major dimension of poverty. The incidence of poverty, for example, ranges from 28 percent in the Rural Eastern hill/mountain region to 72 percent in the Rural Midwestern and Far Western hill/mountain region. Likewise, the illiteracy rate ranges from 54 percent in the Rural Western hill/mountain region to 77 percent in the Rural Central terai region (Table 25.1).

Some distinct poverty scenarios of Nepal emerge from Table 25.1. The level of rural poverty is almost twice as high as that of urban poverty. Despite the obvious advantages of the terai region over the hill region, the incidence of poverty in the terai region is higher than that in the hill region. This finding is a reverse of past trends.[3] Another anomaly is that the rural Central region, which suffers from a relatively lower incidence of poverty, experiences the highest illiteracy.

c. Poverty reduction initiatives

Poverty has always been an overriding concern of planned development efforts in Nepal. However, the first attempt to formulate a separate plan with a long-term perspective for poverty alleviation was made during the Seventh Plan period (1985–1990), which was

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[3] The 1978 estimates of the incidence of poverty were 32 percent for the terai region, 35 percent for the hill region, and 72 percent for the mountain region; the corresponding 1988 estimates were 35 percent, 50 percent, and 44 percent.

Table 25.1. Poverty Indicators for Areas of Nepal

	Poverty Incidence (percent)	Poverty Gap	Illiteracy (6+) Rate (percent)
Ecological Region			
Terai	42	0.099	69
Hill	41	0.136	58
Mountain	56	0.185	75
Nepal	42	0.121	64
Rural/Urban			
Urban	23	0.070	37
Rural	44	0.125	67
Rural Eco-Development Region			
Rural Eastern hill/mountain	28	0.068	59
Rural Eastern terai	42	0.095	62
Rural Central hill/mountain	67	0.108	66
Rural Central terai	38	0.082	77
Rural Western hill/mountain	40	0.128	54
Rural Western terai	40	0.092	69
Rural Mid & Far Western hill/mountain	72	0.281	73
Rural Mid & Far Western terai	53	0.132	72
Interurban Variation			
Urban Katmandu Valley[a]	4	0.004	24
Other Urban	34	0.109	45

Notes: [a] Includes municipalities—Katmandu, Bhaktapur, and Lalitpur—and accounts for 35 percent of the urban population.
Source: Prennushi (1999).

later abandoned. The Eighth Plan (1992–1997) and the Ninth Plan (1997–1902) have poverty reduction as their main objectives. The Ninth Plan set out to reduce the incidence of poverty in Nepal from 42 percent to 32 percent by the end of 2002. Some of the major initiatives of the Government to reduce poverty are the Agriculture Perspective Plan (APP), economic reform, the Local Self-Governance Act (LSGA) and adoption of an interim Poverty Reduction Strategy paper (PRSP).

The APP was formulated in 1995 with a 20-year time horizon and provides a strong basis for planning and implementing agricultural development programs in Nepal. The objective of APP is to raise the annual growth rate from around 3 percent to around 5 percent by 2015. The plan places special emphasis on increasing use of modern agricultural inputs. If the APP is successfully implemented, the population living below the poverty line should decline significantly. The Ninth Plan's strategy for agricultural growth is based on the APP.

Nepal has been in the deliberate process of economic reform since 1985. The process accelerated after 1992. At the aggregate level, reform has produced some very tangible results: increased gross domestic product (GDP), increased exports and foreign exchange reserves, increased revenue, and compression of inflationary pressures.

Realizing the importance of decentralized mechanisms, the Government of Nepal in 1999 promulgated the LSGA. The act created 75 District Development Committees (DDCs), 58 municipalities, and 3,912 Village Development Committees (VDCs). The lowest tier of local self-governance is the ward committee. The act aims principally at enabling the VDCs and DDCs to prepare and implement their development work locally.

The National Planning Commission (NPC) has recently prepared an Interim Poverty Reduction Strategy Paper (I-PRSP) based on a poverty situation analysis of the country, plus public consultations and focus group discussions. It has recognized poverty assessment and monitoring as an integral part of the poverty reduction exercise. It looks to (i) improve and institutionalize data collection and analysis of poverty indicators and (ii) strengthen the capacity for monitoring and evaluation at various levels of the country.

Microcredit finance and targeted poverty alleviation programs are other types of initiatives. These initiatives, introduced by governments and other agencies, are discussed elsewhere (see, for example, Pyakuryal [2001]).

d. Objective and organization of the paper

Poverty in Nepal is predominantly a rural phenomenon. The main aim of this paper is to understand the rural poverty of Nepal at both the macro and the micro level. In this paper more emphasis is placed on understanding the underlying factors that perpetuate poverty in Nepal. For this purpose, several available databases and indicators of development and deprivation were reviewed and analyzed. Whenever possible, data for rural areas were separated out and analyzed. The process of separating out data of rural areas was not always possible, and in many cases reported results are for the nation or regions. Due to the predominance of rural poverty, however, the national poverty scenario largely mirrors that for rural poverty.

Poverty outcomes at a given time are a reflection of past economic, social, and political development; so poverty needs to be understood in the broader context of development. With this premise, section 2 presents a brief review of some major political and economic events in Nepal during the period 1955–1990. Sections 3 and 4 review and analyze the indicators of economic growth and population growth. Land is the main productive asset of the rural people. Its access, entitlement and institutional framework are reviewed in Section 5. Section 6 reviews disparities in education among quintile groups, male/female groups, and caste/ethnic groups. Section 7 identifies the most “backward” region of the country and briefly reviews the socioeconomic indicators of the region in the context of poverty. The nature and causes of poverty vary from one population or household group to another. Poverty and its determinants, therefore, need to be understood for various population or household groups. With this premise, Section 8 makes a separate comparative appraisal of socioeconomic and demographic characteristics of poor and nonpoor farm households of three categories: marginal, small, and large.

2. Brief Review of the Political Economy of Nepal: 1955-1990

This section attempts to examine in retrospect how political developments have affected the course of economic development in Nepal.

Nepalese society first opened to the outside world after the overthrow of the Rana oligarchy in March 1951, nearly four years after India's independence from British imperialism and two years after the establishment of the People's Republic of China (PRC). The next five years were spent in a political transition to democracy, during which economic agendas hardly surfaced. The systematic drive for national economic development began in 1956, when the National Planning Commission (NPC) and the Nepal Rastra Bank (NRB) were established.

The NPC drafted and introduced the First Five Year Plan (1956–1961) under a very unfavorable situation characterized by mass illiteracy (around 95 per cent), high mortality and fertility rates, high incidence of endemic diseases, almost no physical infrastructure, no skilled manpower, and severe financial constraints. To execute the national economic development plans effectively, the Public Service Commission was established in the same year. The inflow of foreign aid to Nepal began in the early 1950s, from the United States and subsequently from India, the PRC, and other individual aid providers. Nepal then adopted a mixed economic strategy: the State and the market-led private sector complemented each other.

Meanwhile, the Nepali Congress Party, led by B. P. Koirala, won Nepal's first-ever general election held in 1959. Koirala, a leading figure of the Socialist International, was a committed democratic socialist. Koirala continued the 1956 mixed economic strategy, and accelerated welfare measures. In the process, he abolished the *Birta* system (huge land grants to members of the nobility and aristocracy, and perks and privileges for erstwhile royals in the hill principalities).

The Nepali Congress Government committed itself to a significant land reform program; this commitment was almost certainly one of the factors that motivated the conservative landowners to support the King's overthrow of the Government in December 1960 (Seddon, 1987). The royal coup subordinated Nepal's economic agenda to the political agenda of the King's government.

A land reform program was introduced in 1964. The program abolished intermediaries in the land revenue collection system, provided security of tenure to sharecroppers and tenants, and imposed land ownership ceilings. However, the policy of redistributing "ceiling–surplus" land from landlords to the land-poor was only marginally successful (Seddon, 1987).

After the royal coup, several factors led to a greater injection of foreign aid into Nepal: the 1962 Sino-Indian War, the intensification of the Cold War after the Kennedy-Khrushchev confrontation over Cuba, and the use of aid funds in the competition between the West and the Soviets for third-world influence. The Western individual countries provided "soft" aid, whereas the Soviets and Chinese built large factories (leather, brick and tile, pulp and paper, sugar, cigarette and the like), hydroelectric generators, highways, and a stadium. India too extended aid in the form of roads, health facilities, and education facilities. This contributed to national (social, cultural, religious, and economic) integration and increased popular legitimacy for the King. The State's share of national output increased considerably and employment opportunities in the modern sector increased. All these measures helped to widen the revenue base.

Some new measures in the social sector were also initiated. In the health care sector, endemic diseases such as smallpox, malaria, and cholera were eradicated from Nepal. In order to reduce fertility, the use of family planning methods was widely encouraged. In the education sector, the National Education System plan, introduced in 1971, brought all private schools and institutions of higher education into the public sector. This measure proved to be quite expensive and unmanageable (Manandhar, 1995). In 1981, the Government changed the educational regulations and allowed the private sector to operate, under the condition that they implement the national curriculum. Private schools were allowed to use supplementary reading materials as well. Subsequently, the Government also opened up higher education to the private sector. Private schools that have opened since 1981 are very expensive compared to the pre-1971 period. Public schools continue to operate, but their quality has become much lower than that of the private schools.

Starting in the mid-1970s, political dissent, which had been under control since the 1960 royal coup, began to surface in the media, colleges, intelligentsia, and even in the street. This dissent was spearheaded by the political parties operating within Nepal and by Nepalis residing in India, who advocated the restoration of multiparty democracy. The dissent sometimes surfaced in the form of mass demonstrations and at other times in the form of insurgent and terrorist assaults against the Government. In 1979, the nationwide mass movement reached the point where the King declared a national referendum with the choice of "Reformed Panchayat" or "Multi-Party Democracy." The referendum results favored the former choice by a margin of 10 percent. The constitution was subsequently amended, incorporating some democratic ideals. These political developments again pushed economic issues into the background.

Nepal's economy passed through a difficult time in the early 1980s, which led in December 1985 to the implementation of a stabilization program supported by the International Monetary Fund (IMF), followed by a structural adjustment program (SAP) to address long-term problems with structural adjustment loans (SAL I in 1987 and SAL II in 1989), and an IMF Structural Adjustment Facility in 1988 (Shrestha, 1993). Acharya and Karki (1996) discuss the post-SAP macroeconomic scenario in Nepal.

India, the dominant neighbor surrounding Nepal on the east, south, and west and with which Nepal shares an open border, imposed a total economic (trade) blockade against Nepal in 1988–1989. This blockade inflicted severe economic damage on Nepal. It was also during this period that the left-leaning and democratic alliance of Nepal staged a nationwide mass political protest against the partyless Panchayat system and in favor of restoration of multiparty democracy. The Panchayat was eventually overthrown in 1990.

This overthrow led to the formation of an interim coalition Government of the Nepali Congress Party, the United Left Front, and the royal nominee. The Government was vested both with legislative and executive power. The principal mandates of this government were drafting a new constitution and holding a free and fair general election, both within a year. Both of these mandates were accomplished successfully: the 1991 general election returned the Nepali Congress with an absolute majority.

3. Economic Growth

Economic growth is a precondition for poverty reduction. In an agrarian country like Nepal, the growth of the agricultural sector is even more essential, since individual country studies have shown that agricultural sector growth has the largest effect on poverty reduction (Datt and Ravallion [1998] on India; Thorbecke and Jung [1996] on Indonesia). This section reviews the growth and structure of the country's GDP by sector (agriculture versus nonagriculture) and analyzes their implications for poverty, particularly rural poverty.

a. Growth in gross domestic product

Nepal's gross domestic product (GDP) growth rate is quite erratic and unstable (Table 25.2). During the various development plans, the GDP growth rates show large swings (1.8 percent to 4.9 percent). Sectoral growth rates reveal even larger swings. Nonagricultural growth rates have remained consistently higher than agricultural growth rates in every plan period except the Sixth. Overall GDP growth rates in the Third, Fourth, and Fifth Plan hardly kept pace with the population growth rate of 2.5 percent. Notwithstanding such variations, the overall economic growth rate appears to have accelerated during more recent plan periods. This preliminary finding warrants a more comprehensive analysis of agricultural and nonagricultural GDP.

Table 25.2. Growth Rates of Gross Domestic Product by Sector and Plan Period

Sector	Third Plan (1965- 70)	Fourth Plan (1970- 75)	Fifth Plan (1975- 80)	Sixth Plan (1980- 85)	Seventh Plan (1985- 90)	Eighth Plan 1992- 97
Agriculture	2.9	1.5	-1.1	5.1	4.1	3.0
Nonagriculture	2.4	2.2	9.0	2.1	5.5	6.3
Overall	2.7	1.8	2.3	4.0	4.8	4.9

Source: Shrestha (1993) for Third to Seventh Plan, with corrections in the Seventh Plan; for the Eighth Plan, findings calculated from available data.

Table 25.3 summarizes GDP growth rates by sector for each of the 12 years, 1984/1985 to 1996/1997,with the year 1984/1985 as the base year. This choice is governed by the fact that in the following year (1985/1985), Nepal started macroeconomic adjustment programs. In the 12 years to 1996/1997, agricultural GDP growth rates show relatively large variations and tend to cluster at around 3.0 percent. Nonagricultural growth rates, on the other hand, exhibit a more stable growth path and tend to cluster around 6.6 percent. Overall GDP growth rates tend to cluster at around 5.0 percent.

Table 25.3. Gross Domestic Product Growth Rates by Sector
(base year 1984/85)

Period	Agricultural GDP Growth Rate	Nonagricultural GDP Growth Rate	Overall GDP Growth Rate
1984/85–1985/86	2.7	6.7	4.7
1984/85–1986/87	1.0	5.7	3.3
1984/85–1987/88	2.8	6.3	4.5
1984/85–1988/89	3.6	5.9	4.8
1984/85–1989/90	4.1	5.5	4.8
1984/85–1990/91	3.7	6.4	5.1
1984/85–1991/92	3.0	6.8	5.0
1984/85–1992/93	2.6	6.8	4.8
1984/85–1993/94	3.1	6.9	5.1
1984/85–1994/95	2.8	6.8	4.9
1984/85–1995/96	2.9	6.8	5.0
1984/85–1996/97	3.0	6.6	5.0

Note: GDP = gross domestic product.
Source: Computed for CBS (1999).

Assuming an annual population growth rate of 2.5 percent during the 12-year period, the per capita agricultural and nonagricultural GDP growth rate turn out at 0.5 percent and 4.1 percent respectively. Thus, in terms of per capita sectoral growth rates, the nonagriculture sector exceeds the agriculture sector by a multiple of 8. The high and stable growth rate of the nonagricultural sector is attributable to economic reforms. The unstable growth rate of agricultural sector is attributable to the vagaries of the monsoon. Some problems related to sluggish growth of the agricultural sector are discussed below.

The per capita GDP growth rate (proxy for per capita income) during the reference period of 12 years turns out to be 2.5 percent per annum. This scale of growth would be encouraging, provided the increased income were equitably distributed between rural and urban residents. The GDP data are not segregated at the rural and urban level. However, estimates of rural per capita income and urban per capita income are available from nationwide surveys. This information is used in the following analysis.

The per capita income (PCI) of rural and urban areas for the years 1984/1985 and 1995/1996 is summarized in Table 25.4. The figures may not be strictly comparable, since data may have been collected using different methodologies at different times. Notwithstanding, the following finding raises an important question that needs further investigation.

Table 25.4. Comparison of Per Capita Incomes of Rural Urban Residents

	PCI in 1984/85 (in Rs.)[1]	PCI in 1995/96 (in Rs.)[2]	Growth rate in PCI (in percent)
Rural Nepal	2,456	7,075	10.1
Urban Nepal	4,108	16,118	13.2
Ratio of urban PCI to rural PCI	1.7	2.3	

Note: PCI= per capita income; Rs. = Nepali rupees.
Source: [1] NRB (1988); [2] CBS (1996).

The ratio of urban per capita income to rural per capita income clearly indicates that the gap between the two is quite large and growing. Specifically, the ratio of urban PCI to rural PCI (rural-urban gap) increased from a factor of 1.7 in 1984/11985 to a factor of 2.3 in 1995/ 1996.

PCI growth rates are high in both rural and urban areas (Table 25.4, last column), and demand some explanations. The PCI in both time periods is valued at current market prices. When the rate of inflation is taken into account, the growth rate figures change drastically. The GDP deflator, a proxy for the rate of inflation, increased from 100 in 1984/ 1985 to 310 in 1995/1996, resulting in an annual average inflation rate of 11.1 percent (CBS, 1999). Sadly, the growth rate of rural per capita income at 10.1 percent falls below the rate of inflation (11.1 percent). This implies that there has been virtually no growth in per capita rural income during the reference period. This result broadly supports the hypothesis that the past economic reforms in Nepal have not resulted in any reduction in rural poverty. This finding is very crucial in the context of the country's economic development and needs further serious scrutiny.

b. Structure of GDP

The impact of economic reforms is more pronounced in the nonagricultural sector. The expanded numbers of business enterprises and service centers are the visible impact of economic reforms, reinforced by the political liberalization in the 1990s. The continually increasing ratio of nonagricultural GDP to total GDP (Figure 25.1) is a manifestation of the expanding size of Nepal's nonagricultural economy. In fact, the size of the newly developed sector's economy has exceeded the size of the several-centuries-old agricultural economy.

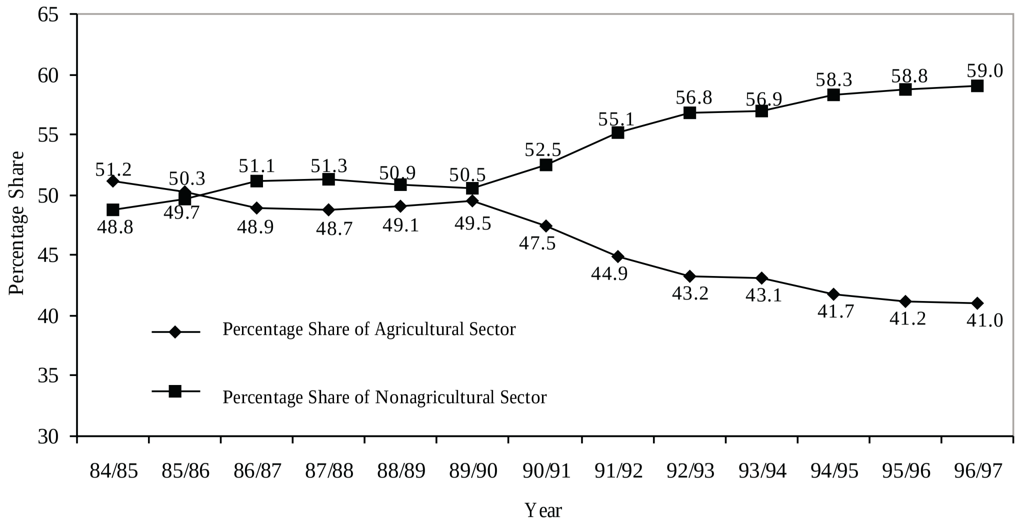
Labor productivity (production per worker) in the agricultural sector is much lower than that in the nonagricultural sector and the gap in labor productivity is continually widening. This is evident from Figure 1 under the prevailing condition that an overwhelming majority of the labor force is engaged in agriculture.

c. Remarks on the sluggish growth of the agricultural sector

Nepal has long had sluggish growth in agriculture. The multifaceted impact of this sluggish growth on poverty is well documented (see, for example, APROSC and JMA [1995]; World Bank [1990]; and Seddon [1987]). The main reasons for the agricultural sector's low growth are low input use and low productivity.

The use of modern inputs in Nepal remains well below the levels prevailing in neighboring countries. The farmer's decision to use inputs—for example, fertilizer—is influenced by the relationship of the price of fertilizer to the price of the crop concerned, and the anticipated additional yield of the crop, since together these determine the additional anticipated income (Rao, 1994). These observations are important in the context of recent reforms: a cut in subsidies to agricultural inputs and a withdrawal of the minimum guaranteed price

Figure 25.1. Percentage Share of Agricultural and Nonagricultural Sectors in Total GDP



Source: Prepared from National Account Statistics, CBS, 1999 of major crops. The fall in the price of agricultural products due to the withdrawal of the minimum guaranteed price and the rise in the price of inputs due to the cut in subsidies on agricultural inputs have definitely discouraged farmers from using yield-increasing modern inputs. The Government should make serious efforts to encourage farmers to use more inputs; otherwise the whole objective of APP may be defeated.

4. Population Growth

Economic growth alone is not sufficient to reduce poverty. In the previous section, population and economic growth rates were used to understand the causes of income poverty at the macro level. This section reviews the past growth and age composition of the population, and analyzes their implications for poverty, particularly education poverty.

Population growth has remained a major concern of the planned development efforts in Nepal. The first population policy in Nepal was made in the nation's Third Five Year Plan (1965–70). The Plan's document discussed the importance of family planning in reducing the crude birth rate. Family planning contraceptive services were actually made available to married couples in 1966 (Joshi, 1995). Since then, fertility reduction has remained a major agenda of population policy in subsequent Plans. In spite of all the efforts, the total fertility rate (TFR) remained at a high and constant level between 1971 and 1981, and between then and 1991 has declined only from 6.3 births per woman to 5.6. As a result of high TFR levels and the declining trend of mortality,[4] intercensal population growth rates in Nepal remained at high levels, with large regional disparities (Table 25.5). The excessively high population growth rate in the terai region is attributable to population migration from the hill/mountain region as well as from neighboring countries.

Table 25.5. Intercensal Population Growth Rates by Region
(percent per year)

Period	Terai	Hill/Mountain	Nepal
1961–1971	2.39	1.85	2.05
1971–1981	4.11	1.61	2.62
1981–1991	2.75	1.52	2.08

Source: CBS (1995).

a. Demographic profile

Because of high population growth, the population of Nepal continues to have a large proportion of children below 15 years of age (Table 25.6). This has resulted a high child dependency ratio.[5] The two factors, low economic growth and a high child dependency

[4] In the absence of a vital registration system, mortality parameters are usually estimated by survey data using different techniques. In a strict sense, the estimates are not comparable. However, estimates of the infant mortality rate have declined from 172 deaths per 1,000 live births in 1971 to 117 in 1981, and to 97 in 1991.

[5] Defined by the ratio of children under 15 years of age to the population 15 to 64 years of age.

Table 25.6. Age Composition of the Population
(percent of total population)

	1971	1981	1991
Children (14 years of age)	40.5	41.4	42.4
Adults (15 years of age)	59.5	58.6	57.6

Source: 1971, 1981 from CBS (1987): Table 3.14; 1991 based on 1991 population census data.

ratio, prevent poor parents from sending their children to school. They would rather send them into the labor market as wage earners. Putting children to work instead of sending them to school creates a vicious circle: initially, work adversely affects schooling; later, little or no education perpetuates the practice of child labor (Thapa, Chhetry, and Aryal, 1996).

Child deprivation is an emerging issue of poverty in Nepal. In 1991, out of 2.3 million Nepalese children in the 10–14 age group, around 37 per cent were illiterate, among which 66 per cent were girls. Gender disparity in education, as in other countries, begins from early childhood in Nepal. In Nepalese society, girls are often treated as the property of others and are deprived of their right to education during childhood (Acharya, 1995).

5. Land: Access, Entitlement, and Institutional Framework

Land is the most common productive economic resource for rural people. Its possession offers them both economic and food security. Often its possession entitles them to high political and social prestige in the society. It is, therefore, important to understand its access, entitlement, and institutional framework at the national as well as the regional level.

a. Access to land

In 1992, the National Sample Census of Agriculture (NSCA) estimated the area of land holdings in Nepal (hereafter operational land) at 2.6 million hectares (ha) and the number of holdings (hereafter farm households) at 2.7 million, Nepal is not in a position to add more land for farming, except at the expense of the remaining forestland. Access to land is higher in the terai region than in the other two regions. Of the total 2.7 million farm households, for instance, 40 percent located in the terai region cultivate around 53 percent of the operational land, while 60 percent located in the hill/mountain region cultivate 47 percent of the operational land.

The average farm size in Nepal has decreased from 1.13 ha in 1981/1982 to 0.95 ha in 1991/1992. The decrease in farm size is attributable to family breakups under the existing laws of inheritance. The average farm size varies across the region and descends as one ascends to higher altitudes: 1.23 ha in the terai region, 0.77 ha in the hill region, and 0.68 ha in the mountain region. Agroclimatic conditions of the hill and mountain region are favorable for the development of horticulture, cash crops and off-season vegetables. Unfortunately, this production potential has not yet been utilized because of the persistent problems of accessibility to markets.

b. Land tenure

The dominant type of land tenure in Nepal is owner–tiller (owned and operated land). According to the NSCA estimates, around 91 percent of the total worked agricultural land in Nepal is owner–tiller, and the remaining 9 percent is rented. With regard to regional variations, owner-tiller based tenure is highest in the hill region (95 percent), followed by the mountain region (94 percent) and the terai region (87 percent).

The dominance of owner-tiller landholdings likely resulted from the dual ownership (tenant and owner) of land induced by the 1964 land reforms. From the start, this created a situation where neither party was motivated to invest in land improvement (NESAC, 1998). In this regard, the rural credit survey reports that investment in land improvement is less than 3 per cent of household income (NRB, 1994). The dual ownership of land was abandoned in 1996, and half of the tenancy land was legally transferred to the tenants.

c. Institutional framework

Distribution of operational land and farm households across the farm categories clearly demonstrates that the land distribution is skewed (Table 25.7). At the national level, for instance, marginal farmers comprising 43 percent of all farm households cultivate only 11 percent of the total operational land; small farmers comprising 46 percent of all farm households cultivate 47 percent of the total operational land, while "large" farmers com-

Table 25.7. Distribution of Farm Households and Operational Land across Farm Categories

	Farm Category			
	Marginal (< 0.5 ha)	Small (0.5- 2.0 ha)	Large (>2.0 ha)	Total
a. Terai				
Farm households (percent)	35.6	45.8	18.7	100.0
Area (percent)	6.6	37.9	55.5	100.0
Average farm size (in ha)	0.22	1.04	3.75	1.23
b. Hill				
Farm households (percent)	47.3	46.6	6.2	100.0
Area (percent)	15.8	56.8	27.3	100.0
Average farm size (in ha)	0.26	0.94	3.48	0.77
c. Mountain				
Farm households (percent)	52.9	42.9	4.1	100.0
Area (percent)	21.1	57.2	21.7	100.0
Average farm size (in ha)	0.27	0.91	3.62	0.68
d. All Nepal				
Farm households (percent)	43.1	45.9`	11.0	100.0
Area (percent)	11.3	46.8	41.9	100.0
Average farm size (in ha)	0.25	0.98	3.67	0.95

Note: ha = hectares.
Source: Compiled from Table 2.6 of CBS (1994).

prising only 11 percent of all farm households cultivate 42 percent of total operational land. The land distribution is most highly skewed in the terai region, followed by the hill region and the mountain region.

The average farm size of marginal, small, and large farmers at the national level is correspondingly 0.25 ha, 0.98 ha, and 3.67 ha. The disparity in access to land across the various farm categories has to be seen against the background of the average farm household size.[7] The average farm household size also varies across the farm category: 5.1 persons for marginal farmers, 6.2 persons for small farmers, and 8.3 persons for large farmers. This positive correlation between farm size and household size suggests that "per capita farmland" is more appropriate than "per household farmland" when measuring inequality in land distribution.

Due to family breakup under the prevailing laws of inheritance, land is continually fragmenting. Land fragmentation is a serious problem in Nepal. The analysis of the 1991 NSCA data show that around 82 per cent of farm households in the country have fragmented land: 40 per cent have two to three parcels and 42 percent have four and more (Chhetry and Subedi, 1997).

6. Disparity in Education

Human poverty is immense in Nepal. A large proportion of the population is deprived of education, resulting in mass illiteracy. It is believed that mass illiteracy keeps people from taking advantage of the opportunities that are offered by economic reforms (Sen, 1996), social services, and modern agricultural inputs. Regional disparity in education is very high (Table 25.1). Disparity in education among various population groups also persists in Nepal. This section reviews the disparity in education among various population groups.

a. Disparity among quintile groups and women

Table 25.8 summarizes the literacy rates across the various quintile groups.[8] Literacy rates, irrespective of male and female, increase across successively higher quintile groups. The

Table 25.8. Literacy Rate (6+) by Gender and Quintile Group
(percent)

Quintile Groups	Male	Female	Total
First	31.9	8.8	20.0
Second	41.3	15.6	27.7
Third	45.7	20.9	33.0
Fourth	63.0	30.5	46.2
Fifth	75.9	44.0	59.2

Source: CBS (1996).

7 Farm population/farm households.

8 Defined according to the level of household consumption expenditure; the lower the level of the quintile group, the higher the degree of poverty.

literacy rate among people of the fifth quintile group (59.2 percent) is almost three times higher than that of the first quintile group (20.0 percent), implying a very wide disparity in the literacy status between the lowest 20 percent and the top 20 percent . In most of the quintile groups, the female literacy rate is less than half of the male literacy rate, showing a wide gender disparity in education. However, the gap between male and female literacy tends to narrow across successively higher quintiles.

b. Disparity among caste/ethnic groups

Nepal is a country of striking caste/ethnic diversity. The precise number of caste/ethic groups of Nepal is not known. Nevertheless, the 1991 Population Census collected data on various aspects, including literacy, of 60 caste/ethic groups. Figure 25.2 displays the literacy rates of 29 selected caste/ethnic groups of Nepal.

These 29 groups account for 90 percent of the national population. The literacy rate ranges from 4.2 percent among the Musahar group to 61.8 percent among the Terai Brahman. Disparity in literacy status is huge across the caste/ethnic group population, making caste/ethnic group a major dimension of education poverty in Nepal.

Many problems of human poverty can be better understood when such problems are analyzed from the perspective of caste/ethnicity. For example, despite the obvious economic advantages of the terai region over the hill region, the illiteracy rate in the terai region is significantly higher than that in the hill region (69 percent versus 58 percent). This problem is better understood if the residents of the terai region are classified into the two broad caste/ethnic groups: terai origin and hill origin. The predominance of the terai origin population and the low literacy[9] among them pulls down the literacy rate of the whole terai region (Chhetry, 1999).

7. Regional Disparities

Up to now, the development process in Nepal seems regionally unbalanced. Some regions fall far behind others. This disparity is reflected in the district-level indicators of development (ICIMOD, 1997) and also in the district-level Human Development Index (NESAC, 1998). The purpose of this section is to identify the most poorly developed region of the country and briefly review the socioeconomic indicators of the region in the context of poverty.

The Overall Composite Index of Development of the International Centre for Integrated Mountain Development (ICIMOD) and the Human Development Index of the Nepal South Asian Centre (NESAC) indicate that development in the Midwestern hill/mountain region and Far Western hill/mountain region is far behind that of the other regions. In this

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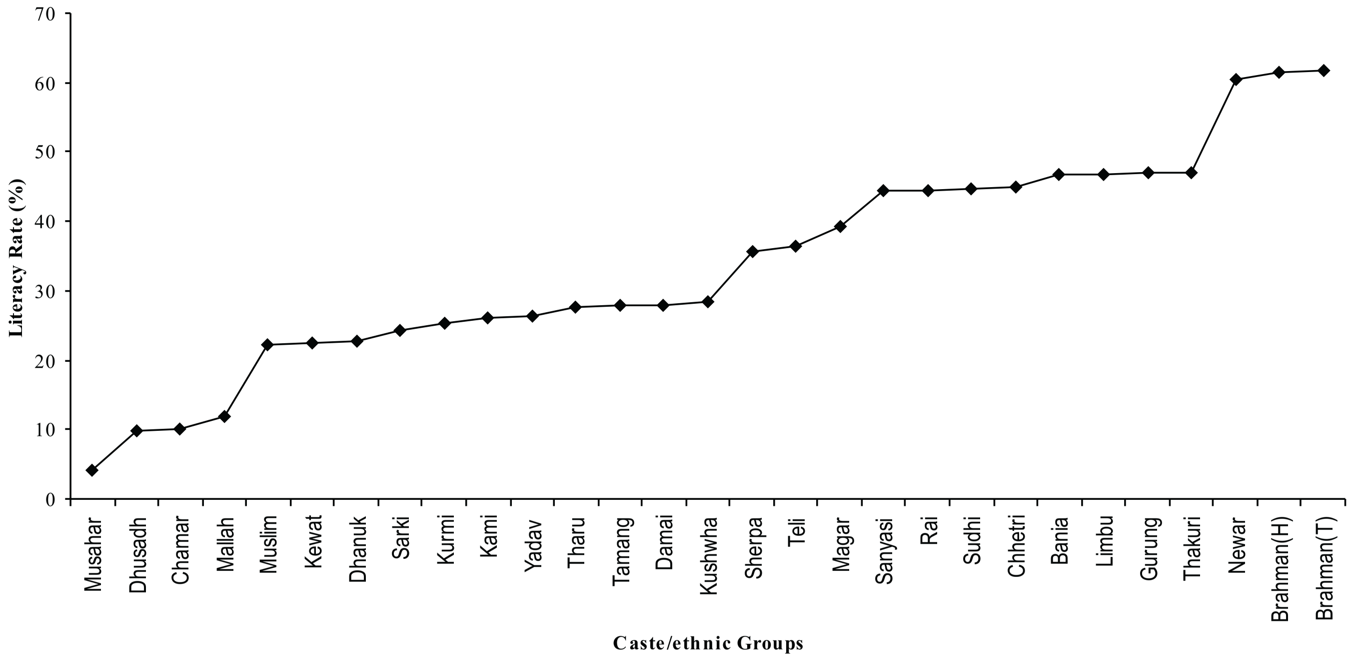
[9] Literacy rates among terai and hill origin population were 27.5 percent and 53.4 percent, respectively, in 1991.

Figure 25.2. Literacy Rates of 29 Major Caste/ethnic Groups



Source: Prepared from the 1991 Population Census Data study, for convenience, these two regions were combined and named “the backward region,” where the incidence of poverty (72 percent) and illiteracy rate (73 percent) are the highest in the country.

The backward region accounts for 34 percent of Nepal’s total area and 13 percent of the nation’s population. Infrastructure is extremely poor in the backward region: the region accounts for only 3 percent of the nation’s black-topped and graveled road; 6 percent of the country’s banks and cooperatives; and 2 percent of the country’s urban population. It is characterized by a high labor participation rate, with the overwhelming majority in agriculture (Table 25.9). The average farm size is small. Incidentally, the backward region contains the very districts where the Maoist insurgency first erupted in 1995, and grew rapidly thereafter; today, these areas are in effect ruled by the Maoist insurgents.

Table 25.9. Comparison of Backward Region’s Poverty with all Nepal’s Poverty

Indicator	Backward Region	All Nepal
Labor participation rate (10+) in percent	72	54
Percent of labor force in agriculture	93	79
Average Farm size in hectares	0.6	1.0

Source: Computed from the Database of ICIMOD (1997).

The backward region, though poor in terms of agricultural land, is endowed with rich natural resources such as grassland and forest. However, no public policies encourage the more productive use of these natural resources for the betterment of the local poor. The failure to link human labor to the area’s plentiful natural resources compels people to stick to below-subsistence farming. Roads constitute the basic infrastructure for expanding the accessibility and size of the region’s markets. Unfortunately, the condition of the roads in this region is extremely poor. Government policies that would use the region’s abundant natural resources to generate employment, and policies that would extend roads to create a market for these resources, would be effective actions for alleviating poverty in the region. Market facilities are also essential for implementing the APP in the region. Extreme regional disparities, if not addressed soon, will escalate sociopolitical tensions beyond repair.

8. Socioeconomic and Demographic Characteristics of the Poor and Nonpoor

Comparative analysis of socioeconomic and demographic characteristics of the poor and nonpoor is an important tool for understanding poverty. In particular, it identifies factors that divide the population or households into poor and nonpoor groups. It also reveals the disadvantages faced by the poor as compared to the nonpoor. Comparative analysis at the aggregate level, however, tends to hide sharp variations between different regions and different subgroups, implying the need for analysis at a more disaggregated level. An appropriate disaggregation scheme for rural households is to categorize them by the size of their operational land (farm size)(see Table 25.10). Chhetry (1996) carried out one such comparative analysis by disaggregating the rural households into three categorizes: (i) land-

Table 25.10. Socioeconomic and Demographic Profile of Landless/Marginal, Small, and Large Farm Households in Nepal

	Landless/Marginal	Small	Large	Overall
	Percentage of Poor and Nonpoor Households			
Poor	58	50	28	50
Nonpoor	42	50	72	50
	Average Farm Size (hectares)			
Poor	0.24	0.98	3.18	0.82
Nonpoor	0.20	1.08	3.75	1.33
Both	0.22	1.03	3.59	1.07
	Percentage of Owner-Tillers (land entitlements)			
Poor	87.3	89.5	88.5	88.9
Nonpoor	84.2	85.4	85.5	85.4
Both	86.1	87.4	86.3	86.7
	Percentage share of Farm Income			
Poor	37.7	64.7	76.0	56.9
Nonpoor	25.6	56.5	67.1	53.3
Both	30.2	59.0	68.2	54.3
	Average Household Size			
Poor	5.4	6.8	9.9	6.4
Nonpoor	4.4	5.8	8.7	6.0
Both	5.0	6.3	9.1	6.2
	Average Number of Children Per Household			
Poor	1.8	2.0	3.1	2.0
Nonpoor	1.1	1.4	2.0	1.5
Both	1.5	1.7	2.3	1.7
	Average Number of Literate Persons Per Household			
Poor	1.3	2.3	3.7	2.0
Nonpoor	1.6	2.8	4.7	2.8
Both	1.4	2.5	4.4	2.4

Source: Estimated from the database, NRCS (1992).

less/marginal (farm size < 0.5 ha), (ii) small (farm size 0.5 to 2.0 ha) and (iii) large (farm size > 2.0 ha). This paper also uses the same disaggregation scheme and carries out comparative analysis using Nepal Rural Credit Survey data.[10] In this analysis, the incidence of poverty is assumed to be 64 percent in the hill/mountain region and 34 percent in the terai region. The results of the analysis for all Nepal are presented in Table 25.10, and the main findings are discussed below.

a. Poverty across types of farms

The notion that poverty is the lot only of landless/marginal farmers is untrue in the context of Nepal. For instance, around 28 percent of Nepalese households in the large farm category, and 50 percent of households in the small farm category, are found to be poor. A similar analysis carried out using the 1996 Nepal Living Standard Survey data, revealing an overall incidence of poverty of 42 percent in the terai region, 41 percent in the hill region, and 56 percent in the mountain region, showed that around 36 percent of households in

[10] The survey, covering 7,336 households from all over Nepal, was carried out by NRB in 1992 .

the large farm category and 37 percent of households in the small farm category were indeed found to be poor.

Farm size is a minor factor for dividing households of each farm category into poor and nonpoor groups. For instance, the difference in farm size between poor and nonpoor is 0.04 ha among landless/marginal farmers, 0.1 ha among small farmers, and 0.6 ha among large farmers. Household size, land productivity, land entitlements, and access to nonfarm employment are among the factors that may explain how households divide along poor and nonpoor lines.

Further analysis shows that land entitlement is also a minor factor for dividing households into poor and nonpoor. The percentage of owner-tillers among the poor tends to be higher than the percentage of owner-tillers among the nonpoor within each farm category.

Analysis also shows that land productivity (farm income, farm size) is an important factor that divides households into poor and nonpoor, since the average land productivity of the nonpoor is almost twice as high as that of the poor within each farm category. Land quality, irrigation facilities, agricultural inputs (fertilizer and improved seeds), access to credit and markets, and crop diversification are determining factors in land productivity. Unfortunately, due to the paucity of data, analysis on these determinants of productivity was not carried out.

The percentage share of farm income to total income increases with the increase of farm size for both the poor and nonpoor. Farm income is the major source of income for poor and nonpoor farm households in the small and large farm categories. On the other hand, nonfarm income is the major source of income for poor (62 percent) and nonpoor (74 percent) landless/marginal farmers. An important implication of this finding is that the landless/marginal farmers' farm size is so small that they cannot escape from poverty on their farm income alone. Further analysis shows that the relative magnitude of per capita nonfarm income of the nonpoor is nearly three times higher than that of the poor.

In Nepal, some caste/ethnic groups on average tend to have larger households than others. For instance, on average, the Muslim and Tharu groups tend to have large households. In Nepal, the average household size increases with the increase in farm size for both poor and nonpoor household groups. But the average household size is higher for the poor than for the nonpoor within each farm category.

The average number of children (below 10 years of age) increases with the increase in farm size in both poor and nonpoor households. But the number of children per household on average is higher for the poor than for the nonpoor within each farm category. The demand for more children among the poor households is due to a low rate of child survival. Another factor that pushes the demand for children is the number of activities that a subsistence farm household undertakes. For instance, a child is assigned with the task of fetching water, while another child is needed to take care of cattle, yet another child is needed to collect fire wood, and so on.

The average number of literate persons per household increases with the increase in farm size, in both poor and nonpoor households. But the average number of literate persons per household is higher for the nonpoor than for the poor within each farm category.

8. Conclusions

This paper attempts to explore and understand the dimensions of rural poverty in Nepal. It also attempts to capture those factors that perpetuate poverty in Nepal. For this purpose, available time series and cross-sectional databases and indicators of development and deprivation pertaining to the period 1984/1985–1996/1997 were reviewed and analyzed. Some conclusions drawn from this analysis are that Nepal's poverty is predominantly a rural phenomenon. Over 95 percent of total income poor or education poor reside in rural Nepal, where agriculture is the main source of income and employment. Unfortunately, the performance of the agricultural sector continues to remain poor. During the review period , agricultural GDP grew with relatively larger variations, tending to cluster at around 3.0 percent. Heavy dependence by agriculture on the vagaries of weather, and insufficient delivery/use of key agricultural inputs are some of the important factors that are impeding the realization of the full potential inherent in Nepal's agricultural sector. Due to the vagaries of weather, the rural economy remains at a greater risk of crop failure. Sluggish growth of the agricultural sector in turn compresses the likely increase in per capita agricultural income. A large percentage of household income in rural Nepal continues to originate from agriculture. Unfortunately, during the review period, the growth in per capita agricultural GDP (proxy for per capita agricultural income) is very low compared to the per capita growth of nonagricultural GDP. The per capita nonagricultural GDP growth rate is more than eight times higher than the per capita agricultural GDP growth rate.

The economic reforms initiated in 1985 have had a profound impact on the nonagricultural sector. During the review period, nonagricultural GDP grew with relatively small variations and tended to cluster at around 6.6 percent. The share of nonagricultural GDP in the total has increased from 49 per cent in 1984/1985 to 59 per cent in 1996/1997. The results of two nationwide household surveys, the Multipurpose Household Budget Survey and the Nepal Living Standard Survey, have shown that there has been virtually no growth in per capita household income among rural residents during the period under review. Viewed against the background of economic reform measures implemented during this period, this result raises some important questions about the contribution made by economic reforms to reducing rural poverty.

The declining trend in the share of agricultural GDP, given that an overwhelming majority of the labor force is engaged in this sector, implies that labor productivity in the agricultural sector has been declining continually since 1984/1985. In order to improve the performance of the agricultural sector, the Nepal Government endorsed the Agriculture Perspective Plan (APP) in the Ninth Five Year (1997–2002) Plan. The success of the APP largely depends upon the delivery/use of key agricultural inputs. But a fall in the prices of agricultural products due to the withdrawal of the minimum guaranteed price, coupled with a rise in the price of inputs due to the withdrawal of subsidies, has definitely discouraged farmers from using inputs. The Government should make serious efforts to encourage farmers to use more agricultural inputs. Otherwise the whole objective of the APP is sure to be defeated.

Human poverty is immense in Nepal. High population growth and low economic growth continue to push a large proportion of children into the labor market as wage earners, resulting in a large pool of educationally poor people, with the result that women suffer much more than men. Disparities in education across caste/ethnic groups is immense, implying that caste/ethnicity is an important dimension of deprivation in education. This dimension has so far been completely ignored in Nepal's review of poverty.

The most backward region of the country, that is, the region with the lowest level of both human and infrastructure development, suffers from the highest incidence of poverty. The paradoxical situation of the region—very low average farm size (around 0.6 ha) and an overwhelming majority (over 90 percent) of the labor force employed in agriculture—partially explains why the incidence of poverty is very high in the backward region. The backward region, though poor in terms of agricultural land, is endowed with rich natural resources such as grassland and forest. However, no public policies encourage the more productive use of these natural resources for the betterment of the local poor.

Comparative analysis of the poor and nonpoor within each of the three farm household categories—marginal, small, and large—generated some interesting results. Significant proportions of not only marginal but also small- and large-sized farm households are suffering from poverty in Nepal. Thus, farm size and land entitlement are not the determining factors for dividing them into poor and nonpoor. This finding is a major departure from the conventional analysis of poverty so far done in Nepal. The most important factor that divides them into the poor and nonpoor is the productivity of their land. The state of poverty of small- and large-sized farm households is therefore transient, in the sense that with the help of improved technologies, inputs, and better market facilities, they could escape from the grip of poverty. The state of poverty of marginal farm households is chronic, in the sense that due to their small farm size, they are unable to escape from poverty through their farm income alone. In the prevailing paradoxical situation (a significant proportion of large-sized farm households are poor), land redistribution alone does not seem to be an efficient strategy for poverty reduction. On the contrary, it is a poverty-sharing strategy. Large household size, with more children and more illiterate persons, is the major sociodemographic characteristics of the poor in Nepal.

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Food Security and Development in the Lower Mekong River Basin and the Need For Regional Cooperation: A Challenge for the Mekong River Commission

Joern Kristensen

1. Introduction

Development partners largely agree that poverty reduction strategy plans should be the basis for development assistance programs. Most often, strategies aim at country-driven poverty reduction. But this approach, while very useful in many countries, may not take sufficiently into consideration cross-boundary impacts of development measures in regions where several countries share a river basin and heavily depend on its associated resources, economically and socially. What one country might consider development that eventually contributes to poverty reduction may in fact translate in a neighboring country into irreversible ecological harm and, as a consequence, into increased poverty.

Although poverty is closely related to and measurable through income and the degree of fulfillment of basic human needs, such as food security, it is also fundamentally linked to the ability to participate in the decisions that affect one's life. The improvement of governance structures by increasing transparency and cooperation in decision-making processes is crucial for making informed decisions at all levels of stakeholders.

This paper addresses the question of how the Mekong River Commission (MRC), through regional cooperation among its four member governments (Cambodia, the Lao People's Democratic Republic [PDR], Thailand, and Viet Nam) can contribute to poverty reduction through food security in the Lower Mekong Basin. The Mekong River Basin's capacity to produce the range of services required of it, including food, forest production, clean water, biodiversity, and perhaps climate, depends upon the maintenance of its ecological integrity. This in turn depends upon cooperation among the riparian states and between sectors to ensure balanced resource use to the benefit of each state. Cooperation should not be limited to a regional intracountry level, but must be expanded to include all stakeholders of the Lower Mekong Basin. Such expanded cooperation will give rise to the opportunity to make and influence informed decisions.

a. The Mekong River, the Lower Mekong Basin, and issues of food security

The Golden Triangle, where the borders of Myanmar, Lao PDR, and Thailand meet, is the beginning of the Lower Mekong Basin (LMB), which includes the riparian countries of

Cambodia, Lao PDR, Thailand, and Viet Nam. The Mekong River has a total length of approximately 4,400 kilometers. It ranks 12th in the world in terms of length, 21st in terms of catchment, and 8th in terms of discharge.

The last two decades have witnessed rapid economic development in the lower basin countries. This has been fuelled by wide-ranging reform processes following the end of civil strife and ideological barriers within and among the LMB states. The opening of the riparian economies to trade with and investment by other countries has been particularly important in the rapid, dynamic economic development processes experienced in Cambodia, Lao PDR, and Viet Nam. Economic development has been concentrated in urban areas and at least some of the urban population have experienced substantial increases in their standard of living over a short period of time.

Seventy-five percent of the population living in the LMB earns its living from agriculture and fishing. Balanced and efficient land and water use is thus essential to long-term food security. The Mekong River Basin is one of the world's most significant food sources, particularly for the growing urban population of the Greater Mekong Subregion. It provides the staple diet for perhaps 300 million people (ADB, 1999) and can, with care, produce much more as demand increases.

The inland capture fisheries production in the LMB forms, together with rice, the basis for the food security of the rural population. Fish is the single most important source of animal protein for this population, and a very important source of income as well.

While the importance of rice for food security in the LMB is well understood, the role of fish in the overall food security of the population is not always acknowledged, either in terms of its contribution to overall food production or its essential contribution to the diet of rural people who produce most of their own food. The common property nature of the fishery sector resource base is generating increasing conflicts inside the sector among the different actors, as well as threats from other economic sectors using the same resource basis. For the economically and socially most vulnerable strata of the society—the poor—access to common property resources constitutes a last safety net in subsistence conditions.

b. The role of the Mekong River Commission in food security and poverty reduction

MRC's origins go back to 1957, when the Committee for Coordination of the Lower Mekong Basin was established. Over the period 1978 to 1995, it was known as the Interim Mekong Committee. In 1995, an agreement between Cambodia, Lao PDR, Thailand, and Viet Nam established the MRC. Under the 1995 Agreement, MRC's role is to coordinate and promote " cooperation in all fields of sustainable development, utilization, management and conservation of the water and related resources of the Basin."

MRC's focus is on three priority areas, each of which follows directly from the 1995 Agreement: (i) developing rules for the cooperative use of water; (ii) facilitating cooperative sustainable development of water and related resources through basin development planning; and (iii) environmental management and monitoring of the basin's natural resources.

Activities in these three fields are aimed at creating the policy and institutional conditions that will secure maintenance of the ecological integrity of the Mekong River Basin, in order to reduce poverty through sustainable development for this and future generations.
MRC produces data and analysis useful for basin planning purposes that has the unique benefit of representing the collective views of the riparian states. Each country and its associated development agencies can use this indicative information as a basis for decision making. This is particularly significant for the issue of water use in agriculture and power generation, fisheries, forestry, and navigation.

2. Aspects of Poverty and Food Security in the Lower Mekong Basin

a. The dimension of poverty in the region

The people in Cambodia and Lao PDR are among the poorest in the world: their income is low, the availability of food is low, and they are suffering from important health problems, due to lack of hygiene and access to safe water and health care. In the northeastern part of Thailand and the provinces of Viet Nam that are part of the basin, many people suffer from severe poverty. Poverty is closely related to access to cultivable land and appropriate amounts of water, as well as to fish.

Throughout the basin, small farms are the main feature, many of which sustain their farmers at close to or below subsistence level. Many farms produce a per capita income below US$100 per year. Farmers are forced to seek off-farm employment elsewhere. Many are at the mercy of rice traders and are caught in a poverty trap in which they are in debt to private moneylenders to whom they have to sell their rice at harvest time at very low prices. Other farmers, for example, those in the Delta outside the problematic saline or acidic areas, generate a significant rice surplus. This situation has led to a rather skewed pattern of income distribution.

There are great discrepancies between countries and within countries. Gross domestic product per capita in three out of the four MRC member countries is among the lowest in Asia, at US$290 for Cambodia, US$324 for Viet Nam, US$365 for Lao PDR and US$2,540 for Thailand (World Bank, 1999).[1] The North-east region of Thailand is much poorer than the rest of the country. In 1996, 18 million people living in the Thai part of the LMB had an average income of US$731 (World Bank, 1999).

Such figures, however, do not fully reflect the socioeconomic reality in the region. In fact, most people in rural areas produce a major part of their food by themselves. They achieve a balanced diet through their own rice production, fish catch, and gathering of common property resources, rather than through buying a basket of food.

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[1] Figures in baht converted into US dollars at 37 baht per dollar.

Many people in Cambodia and Lao PDR do not have access to safe drinking water or proper sanitation facilities. Estimates of the percentage of the total population without a safe water supply vary between 70 percent and 80 percent for Cambodia and between 50 percent and 60 percent for Lao PDR (UNDP, 1999).

Flooding adds to the multiple aspects of poverty in the region. Large areas in the LMB are seasonal wetlands with an important function for biodiversity, fisheries, and soil fertility—and thus for food supply. But floods also aggravate poverty problems. Extreme floods, such as those in Viet Nam in 1999 and in Cambodia in 2000, destroy fields planted with crops. In those events, relief efforts were partly in vain, due to the poor quality of commercial seeds for replanting. The standing crops in 20 per cent of Cambodia's rice fields (400,000 hectares [ha]) were washed away in 2000 (*Cambodian Daily*, 2001). Furthermore, the flooding led to destruction of agricultural land, thereby affecting agricultural productivity. Floods also have an adverse impact on the countries' efforts to build up their human resources (see for instance the Cambodian government's report on the destruction of schools in 2000).

These losses have not been big on a macroeconomic scale in Cambodia (given the low normal yields[2]), but the impact on income, food consumption, and means of production is significant. This impact is felt hardest among the poorer sections of the population, those who are producing for their own subsistence and who are too vulnerable to cushion external shocks.

b. Rice production

Rice is the principle crop and staple food of the people in the LMB, which has achieved a remarkable increase in rice production over the last decade in line with the rest of Southeast Asia. This has contributed to the generation of a sizeable net surplus from the Basin as a whole, although the Lao PDR still has a significant deficit in its mountain areas. The Mekong River Delta annually generates about 40 percent of the total rice production in Viet Nam.

The overall benefits from rice production are unevenly distributed. A case in point is Cambodia, which was mentioned in a recent World Food Program study as one of the four Asian countries in which hunger was worst (*International Herald Tribune*, 2001).

Table 26.1. Fish Production in the Lower Mekong Basin

Fish Production	Volume	Market Value
Capture Fisheries	>1,000,000 tons	>US$750-800 million
Aquaculture	200,000 tons	US$150–200 million
Total	1.2 million tons	US$1,000,000,000

Source: MRC (2000).

[2] Rice paddy yields in Cambodia amounted to 1.55 tons per ha in 1990–98, compared to 2.23 tons in Thailand, 2.53 tons in Lao PDR, 2.55 tons in Viet Nam, and 4.34 tons in Indonesia (Royal Government of Cambodia, 1999).

c. Fish

Because of the complications of assessing the total production,[3] only tentative estimates of catch and aquaculture yields are available:

With the Basin's population now estimated at 60 million people, these data imply an average fish consumption in the LMB of not less than 20 kilograms (kg) per capita per year. This is on the upper edge of what is consumed in most industrialized "fish-eating" countries. Still, this figure is considered preliminary and likely to be well below the final, correct one: the average figure for the whole Basin is likely to fall on the high side of 29 kg when full MRC survey data become available.

The fish harvest is also strongly seasonal. From late November to late March-early April, when the biggest catches are taken, fish is abundant and the price of fresh fish is low. The price rises during the following months. Traditional fish products with a shelf life of 6–9 months, therefore, play a very important role in food security. An important fraction of the small fish caught when migrating out of the flood plains at the beginning of the dry season is dried or salted or converted into some of the traditional fermented products. The per capita consumption of these products lies in the range of 10–14 kg per year in much of the Mekong Basin. These products are responsible for a considerable part of the animal protein intake during the rainy season.

Table 26.2. Food Security

Per capita fish consumption	
Average	>20 kg
Tonle Sap (flood plain):	71 kg
Luang Prabang (highland):	29 kg
Traditional products:	Approximately 10–14 kg

Source: MRC (2000).

These traditional products have, however, a much broader importance in the diet. They are an invaluable source of calcium and an important source of vitamin A and other micronutrients. This is an area which requires considerably more research, and, when confirmed for the specific traditional products, may indicate the importance of supporting the production and consumption of traditional fish products in Southeast Asia.

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3 Collection and analysis of catch and effort data is an impossible task in a strongly seasonal small-scale fishery in flood plains and rice fields, etc., with hundreds of different types of gear. Moreover the exclusive registration of the more visible large-scale fisheries will clearly target only a fraction of the real production. When food security for the people is considered, however, it becomes crucial to obtain more complete and reliable data, which can form the basis for national and regional planning and for the development of appropriate fisheries management systems.

3. Future Prospects: Population Growth, Water Quality, and Development Based on Water-Related Resources

a. Population growth and pollution

Compared to overpopulated river valleys elsewhere in the world, the Mekong River Basin belongs to one of the few areas where population pressure has not been overly strong. However, the basin population has been growing comparatively rapidly. At the current rate of 2 percent per year, the population of the Basin will increase from 73 million at present to approximately 120 million by the year 2025, with an equivalent increase in the demand for food and clean water. Presently, 84 percent of this basin-wide population lives in the LMB.

Even if the population grows at the most optimistic low rate, the population in the LMB will reach an alarming level in the next decades. The population pressure will certainly in itself have negative impacts on the sufficiency of clean water and food. The increase in the demand for energy will most likely mean construction of new dams and the conversion of more forests into agricultural land. Agricultural production will have to be intensified. These and other activities will lead to a considerable pressure on ecosystems.

Currently, only about 16 percent of the basin's population live in urban areas. However, urban population growth is expected to increase rapidly in the coming decades, fueled by both heavy migration from rural areas and population growth. Of particular importance are the rates of urban growth of Cambodia and the Lao PDR, as the largest cities of these countries are located within the basin area.

In the main cities, there are water supply and storm drainage systems. In Cambodia, Lao PDR and (arguably) Viet Nam, however, these systems require great investments for rehabilitation (ADB, 2000b; MRC-UNEP, 1997).[4] In small towns and rural areas no such systems exist; people take their water directly from the river and discharge untreated sewage into it. Only in Thailand do the majority of people have access to safe drinking water and sanitation on a relatively large scale.

With population increasing, much more investment is required to provide safe drinking water (using ground and surface water). Untreated sewage has to be prevented from polluting the surface water bodies. The water quality of the Mekong is already deteriorating significantly and rapidly in major urban centers.

The growth of the still underdeveloped industrial sector in the Mekong River Basin will also contribute its share to the pollution of the water resources. Foreign direct investment is already increasing in several parts of the Basin, and industrial development in general is likely to increase considerably in the longer run. This will significantly raise employment and income opportunities and thereby make an important contribution to poverty reduction. However, it is also likely to increase pressure on the Mekong ecosystem, which could, in particular, affect the fish re-

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[4] ADB is providing substantial funding for these activities.

sources. In this respect, it is worth noting that the Lao PDR and Cambodia, the two least developed countries in the LMB, lie almost entirely within the Basin.

b. Prospects in socioeconomic and ecological development

i. Hydropower

Population growth and industrialization need electrical energy. The energy demand in the Basin is projected to rise rapidly, faster than the population increase. Estimates of the hydropower potential of the LMB vary, depending on the feasibility criteria applied. Hydropower development may lead to increases in income and employment in the industrial sector, rural electrification, education, sanitation and water supply, irrigation possibilities, and regulation of water flow. But it also may generate negative impacts such as the decline of fish resources, possibly an increase of water-borne diseases, reduced food production due to water logging, and the displacement and loss of cultural identity of indigenous people, who are generally among the poorest in the region.

ii. Irrigated agriculture

The World Water Forum conference in The Hague in March 2000 estimated that food demand from the Mekong River Basin will increase by between 20 percent and 50 percent by 2030, accompanied by an increase in water demand. With a view to the resource base, a substantial increase in agricultural production is possible.

Despite the primacy of rice in the agricultural sector in the area, the LMB has a relatively low "irrigation ratio" compared with the rest of Asia. A rough estimate would place the ratio of the LMB irrigated area to its total cultivated area at a mere 7–10 percent, whereas the ratio for the whole of Asia would be around 45 percent. Cropping intensities in the dry season are generally low. However, in certain areas, good prospects exist for seed crops, vegetables, and fish and shrimp ponds.

A large potential for increasing production exists in irrigated agriculture, mainly through an expansion of the irrigated area (in Cambodia and Lao PDR) and through increasing the amount of water for irrigation (in Cambodia, Lao PDR, and Thailand). This, however, may affect the Delta (Viet Nam), which is vulnerable to reduced dry season mainstream flow, accompanied by increased salinity intrusion from the sea.

Potential positive impacts of agricultural development include increased food production and consumption, income, and employment. Reservoirs for irrigation can also create new opportunities for fish production. These can range from harvesting indigenous fish and stocking nonindigenous species to cage culture and integrated farming systems. Agriculture, forestry, and fisheries provide the foundation for economic development in a broader sense.

Potential negative impacts include ecosystem damage, competition by an increased population for limited natural resources (affecting fish resources through conversion of wetlands into agricultural land, deforestation leading to flooding, etc.), the diversion of water by irrigated agriculture, and depletion of soil quality. Inefficient water use by farmers in irrigation projects can result in large flows of tail-water into receiving waters, usually containing large amounts of pesticides. These tail-water overflows can coincide with low flows in receiving waters, resulting in threats to fish stocks in rivers and estuaries. In a recent survey of rivers, reservoirs, and wetlands in LMB, all fish sampled had pesticide residues in their flesh. Such pesticide pollution may especially occur with fish raised in paddy fields, which can create a severe hazard, both to the fish stocks and to the consumer. Integrated pest management is a feasible solution to the problem.

iii. Forest, wetland, and coastal ecosystems

The forest, wetland, and coastal ecosystems in the Mekong River Basin are being continuously degraded—additional victims of growing population pressure. Cambodia probably has still the most diversified and preserved forest/wetland ecosystems in the Basin. The Lao PDR is one of the richest countries in the region in terms of biodiversity, due to a relatively intact large area of forest resources. Yet many areas are threatened by development. Biodiversity degradation in Thailand has already proceeded to a stage where only limited areas of species richness exist within the Mekong River Basin. The Mekong Delta in Viet Nam is fully affected by human intervention (conversion of mangrove forests to shrimp farms and wet rice cultivation, drainage works, etc.).

c. Inland fisheries: A complex issue

Close to 1,300 different species of fish (Rainboth, 1996; Rainboth personal communication, 1999) have now been identified in the LMB. Approximately 120 species are estimated as being commercially important and are found at marketplaces in the Basin.

The variety of ecosystems encompassing rivers, lakes, flood plains, and estuaries supports a high diversity of fish species. The changes between dry and rainy seasons and the periodic flooding of the land create the high fish production, and force the fish to migrate. In particular, the flooded forests are important as feeding areas and shelter for fish. When the water recedes at the end of the rainy season, the fish migrate back to the main stream where—if not caught—they survive until the next flooding. It is the flood plains that provide the high productivity, while the main river and the permanent water bodies create the habitats where the fish can survive from one season to the next. Furthermore, each year some of the species have to travel great distances to reach their spawning grounds (see Figure 26.1).

With the expected population growth in the LMB, additional fish production of approximately 1 million tons is needed by 2025 in order to ensure food security at a consumption level of approximately 30 kg of fish per capita per year. The capture fishery is considered already utilized at its maximum possible level, and there are only limited possibilities for expanding it in reservoirs and other artificial water bodies. It is more than likely that the

Figure 26.1. Example of Fish Migration In The Region
The Arrows indicate migrations of the Trey Riel (*Henicorhynchus spp*).

Source: Mekong River Commission.

development of other economic sectors may lead to some decline in the overall fish production in the LMB in the future.

With strong population growth in the Mekong Basin and a natural capture fishery that can hardly be expanded, aquaculture has an important role to play in food security as a whole. It is the most important source for the increase in fish production that is required to cope with the increase in population.

There is a tradition for inland aquaculture in the Mekong Basin. In an overall perspective, aquaculture production still plays a limited role, with a total production at present estimated at 200,000 tons. The traditional separation of aquaculture and capture fisheries as two almost independent production systems is not feasible in an area like the Mekong Basin. On the one hand, some high-value wild fish are captured (usually as fry and fingerlings) and stocked for on-growing on aquaculture farms, while low-value species are captured and fed to predatory fishes being cultured in cages. On the other hand, escapees from aquaculture activities frequently reach the natural habitats in high numbers, when exceptional floods surpass the dikes around ponds or accidents cause breakage of fish cages.

An increase from the present approximately 200,000 tons per year to 1.2 million tons in 2025 would require an annual growth in the sector of approximately 8–10 percent per year. This is hardly likely to be achieved. To the contrary, there are some significant developments in the LMB that actually form a threat to fisheries.

The most important threat to the fish resources themselves comes from habitat destruction.[5] Fish habitats are changed and destroyed by other sectors, e.g., when the flood forests, which form important shelters and spawning grounds for fish, are cut down and wetlands are drained in order to allow for increased rice production. The net economic result may be negative.

A second important threat is constraints on fish migration. A dam on the main stream could in its worst case scenario cause the collapse of the resource system around the flood plains in central Cambodia and the Mekong Delta of Viet Nam. The fish migrations are vital to these resource systems. The systems would probably recover only slowly and partially from constructions that might cut off large spawning habitats (and then only if given a chance).

Pollution from urban areas and industrial development may destroy important habitats, and is also feared as a barrier to migration, like a dam: the fish will not be able to pass the part of the river where it occurs. Failure to address the pollution problems attendant on urban development may cause irreparable damage to the ecosystems in the main stream and in Tonle Sap. This issue requires the highest attention.

Further, the increase in rice production, using higher-yielding strains that require more fertilizer and pesticides, may eliminate the traditional extra outcome of fish, frogs, and other animals for food and income from the fields. This is rarely considered during the planning of this kind of development. Once again, the net economic result may in some cases be negative, especially for the poorer sections of the population.

Flood prevention, in contrast with prudent flood management, will have a negative effect on fish production, since it hampers the free movement of fish. The same applies to a

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5 Over fishing is often mentioned as a potential threat, and it is certainly so in some local areas and for some vulnerable species like the giant Mekong fish species and other large species, which reproduce at a relatively advanced age. However, for the Basin as a whole, this appears to be of relatively minor importance compared to habitat destruction.

measurable reduction of the peak flood brought about as an accumulated effect of reservoirs constructed upstream.

Thus, the fisheries sector is likely to face severe complications in the near future. Nevertheless, there seem to be few other sources of animal protein that can be developed within a reasonable time span to replace fish in the diet of the rural population.

4. A Catchment Management Approach to Ensure Balanced Resource Use

a. The rationale of the catchment management approach

The previous chapter has sketched some of the interrelationships between the environment, human economic activities, and the Mekong Basin's hydrology. All of these together should be taken into account while striving for food security to accompany continued population growth.

One of the methods MRC applies to take these parameters into consideration is the so called catchment management approach. With this approach, the Mekong River Basin is divided into a number of subdivisions, each consisting of an individual catchment area. A catchment is defined as a geographical unit in which all flows of water (precipitation, evaporation, run-off water, ground water, and river streams) affect the catchment's main water body, which, in MRC's case, is a tributary of the Mekong River.

The catchment management approach was introduced in MRC's fisheries program and is an integral part of the Agriculture, Irrigation and Forestry Program (2001–2005). It also forms the methodological backbone of the three MRC core programs that are about to start: the Water Utilization Program (WUP), the formulation of the Basin Development Plan, and the Environment Program.

The catchment management approach aims at optimizing the use of the resources of the catchment for the local community, the particular nation, and the LMB as a whole. It involves consideration of all sectors and aspects, such as agriculture, forestry, fisheries, the environment, local services, and socioeconomic and cultural characteristics of the local communities. In addition, it also looks at the interlinkages between all these aspects. It recognizes that

- The local communities in a catchment area are often a cause of environmental stress, but may be suffering from the results of irrational planning.
- Social and economic pressure faced by small communities is often taken out on the environment, mainly through unsustainable farming practices.
- Where the exploitation of resources is causing environmental problems, there is often a solution that may minimize the damage and even benefit the rural community in a way that simple compensation would not.
- Planning for natural resources management undertaken without participation from

potentially affected communities will be susceptible to misunderstandings and difficulties in implementation.

Furthermore, it works on the premise that local activities, from the upper catchment to the bottom valley, impact on a fragile landscape, and may eventually impact on the river basin as a whole. Under this approach, all relevant developments are studied on a smaller scale, while taking into account the overall picture of transboundary issues. The impact of pollution from various sources, silting, dam construction, urban and industrial areas, etc., are all included.

The implementation of a natural resources management and development strategy will require broad cooperation among different local authorities sharing the same watershed, in some cases even across national borders. Talking about natural resources management is talking about provincial, national, and regional cross-sectoral economic planning, involving various government offices as well as the people concerned. This also potentially involves local development cooperation at field and district level, where important decisions are made and the natural resources management is actually taking place.

b. The catchment approach in the fisheries program

For fisheries, a catchment-based management planning system involves, among other things, the determination of important habitats and migration routes. The aquaculture potential may be determined in close relationship to the size, type, and role of the wild fish species in food security and their need for habitats. This may be followed by the drafting of a policy for the use of indigenous and exotic fish species in fish culture as well as a catchment-based fish health management plan. The role of existing reservoir fisheries may have to be defined, not only for each water body, but also as an integral part of the resource system in the catchment; thus, plans for, and potential impacts of, further dams, weirs, or other major economic activities related to the water may be assessed more easily. In brief, a catchment-based research and management plan may bring the natural resources and their importance for food security into the overall national and regional planning processes.

"There is vast potential for developing the natural resources of the Mekong Basin."

A catchment approach to fisheries management will explore the following issues:

- Registration of total production, species composition, important habitats, important migration routes, and present aquaculture or reservoir fisheries, and the need and priorities for further research;
- Determination of the present roles and development potential of aquaculture and reservoir fisheries, and development of an overall and integrated management strategy for capture fisheries and aquaculture; and
- Establishment of natural resources management systems at river basin level as well as at subcatchment and local levels, with more emphasis on the access of the poor to the limited resources.

c. The catchment approach in agriculture, irrigation, and forestry

The recently developed MRC program in this field focuses on collaborative planning (and learning) for comprehensive development in sensitive cross-border areas, or areas that are likely to have an impact on the LMB as a whole. Small communities may participate in a grant scheme to improve their livelihood. Some of the other activities[6] included in the catchment management approach to development of these sectors are: (i) the establishment of transborder or transsubbasin local government planning committees to discuss and plan interventions in the catchment, including discussion of transboundary issues; (ii) the establishment of a capacity to monitor resource use and trade in the catchment areas; and (iii) a study of land, water, and forest use rights.

With irrigated agriculture often the single largest consumer of water, it is well understood that efficient water use must receive special attention. Therefore, this aspect has become a second pillar of the program.

5. River Basin Management: The MRC Strategy

a. River basin management

Countries sharing a river are affected by one another's decisions on how to exploit the natural resources in the basin. Cross-border cooperation in resource management is therefore essential. Moreover, authorities at provincial and district levels, who are sharing their daily work with the resource users, the small-scale farmers and fishers, must be involved. Within a sector or subsector, food security and the preservation of resources cannot be planned for in isolation. The planning must be coordinated with similar efforts of other sectors. MRC can play a key role in such cooperation.

To meet present opportunities and challenges, the MRC Secretariat was restructured in July 2000. Operational activities were reoriented from a predominantly sectoral project approach to a multisectoral and basin wide program approach. The changes aim at focusing MRC on river basin management. As evidenced at the meeting of the MRC Ministerial Council in October 2000, the four member countries stand united behind this aim, which also receives strong support from aid providers.

Three core programs provide the foundation for MRC in river basin management. Their purposes and interlinkages are as follows. The WUP is to provide MRC member states with the technical framework for managing the Mekong water, which will take the form of rules for water utilization and ecological protection, including maintenance of sufficient flows in the dry season and measures to protect water quality. The Basin Development Plan, closely linked to the WUP objectives, is to ensure coordination of development activities in the Mekong Basin, so that the balance can be kept between development of the immense Basin

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[6] The details of these activities are described in MRC (2000).

resources, on the one hand, and maintenance of water flow and ecological systems, on the other. The plan aims to identify transboundary economic development activities that balance the Basin peoples' development needs with sustainable water quality, quantity and long-term environmental integrity. The Environment Program is to provide an adequate knowledge basis for development decisions affecting the balance of the many complex, delicate, and critical ecosystems at work in the Mekong Basin, and the means to ameliorate adverse environmental effects.

b. Focus on food security

There is vast potential for developing the natural resources of the Mekong Basin, which is at the core of the MRC mandate. As this occurs, a key task in the years to come will be to ensure food security. Expanding agriculture seems to be a viable response to the expected population increase. But agricultural development has to be managed carefully to reduce negative effects on other sectors, or in geographic areas other than the ones developed, in particular, the fisheries sector. Irrespective of development in the agriculture sector, fish resources are likely to decline, when measured per capita, due to population increases and the adverse effects of development. Their significance in terms of nutritional value makes it imperative for MRC to seek to sustain the fish resources and simultaneously identify and prepare the ground for introduction of alternative sources of protein.

In the long term, a shift to integrated, diversified agriculture with a more balanced cropping pattern throughout the year is likely to be more profitable than the present strong dependence on wet-season rice production. Plans for related infrastructure and investments in agricultural marketing development, institutional development, and support services should therefore be a prime consideration in a planning process for the whole region.

At present, two of MRC's five sector programs directly address the issue of food security. The aim of the MRC Fisheries Program is coordinated and sustainable management, use, and development of the economic and nutritional potential of inland living aquatic resources in the Mekong River Basin. The Agriculture, Irrigation and Forestry Program, which was formulated in October 2000, focuses on activities to promote the sustainability and further development of food production from the land and water resources of the Basin, where cooperation between member countries is required for success. The overall program development objective is to achieve "cooperative sustainable development and utilization of land and water resources to the benefit of the basin community, and to contribute to poverty alleviation and food security." (MRC, 2000).

c. Poverty reduction through basin development

The regional interdependence of the basin as regards development requires regional cooperation to reach decisions on development priorities. This, in turn, requires information on possible development options and their consequences, including the possibilities for compensatory measures, when needed. Through regional cooperation and through its catchment management approach, MRC strives to ensure that development priorities are set in a holistic perspective, taking into account positive and negative impacts of development in various sectors, and guided by the overall objective of reducing poverty. If development options have a negative impact on poverty, compensatory measures have to be introduced to neutralize these effects, so that no one in the basin is worse off. A key prerequisite for this is knowledge and information. MRC has taken steps to become a regional knowledge center and information hub on Mekong Basin issues. Through its current programs, MRC will generate a vast amount of data and information that will be shared with all stakeholders, who are invited to participate in the planning and implementation of its programs and strategies.

MRC has accepted its responsibility as one of the key actors in promoting increased food security and facilitating the development of the countries of the Lower Mekong Basin. In order to do so, MRC crucially needs accurate and timely information to support decision making. Obtaining and providing this information and establishing the processes for sound basic development are among the cornerstones of MRC's work and the key to development that meets the social, cultural, and economic needs of the people, now and in the future.

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Poverty in Fiji Islands and the Pacific Islands

Crosbie Walsh

Develop the poor by civilizing the rich.

—T. Balasuriya, 1973

1. Introduction

The "Pacific Islands" extend from the Asian landmass to the eastern Pacific, excluding New Zealand to the south and Hawaii to the far east. The area covers some 30 million square kilometers (km^2), and extends between the two tropics for a lineal distance equal to that from Manila to Mecca, a quarter of the world away. Yet this vast area is home for only 7 million, most of whom live in the four larger island nations of Melanesia. Of the 22 island countries and territories, 10 are members of the Asian Development Bank (Figures 27.1 and 27.2).

Figure 27.1. The Pacific Islands : Relative Sizes and Distances

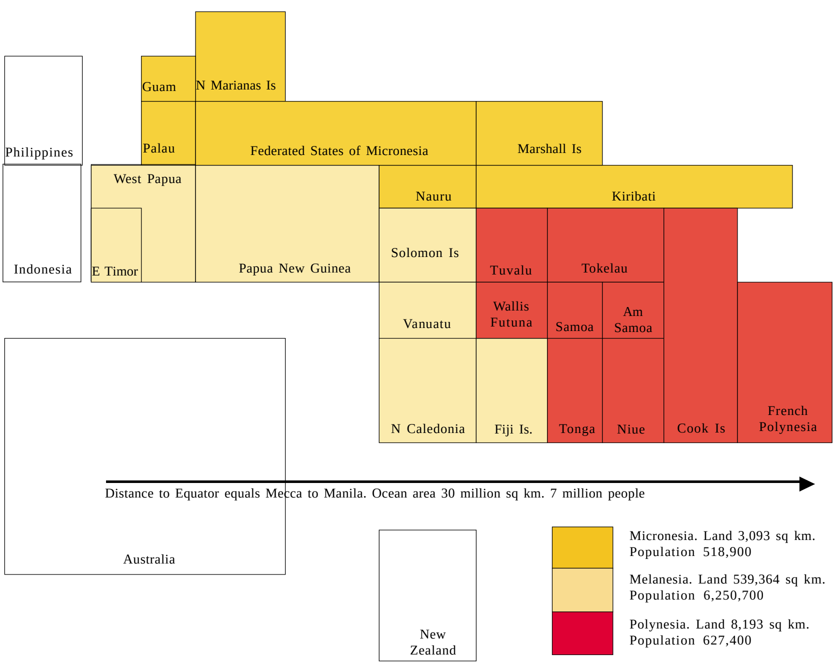
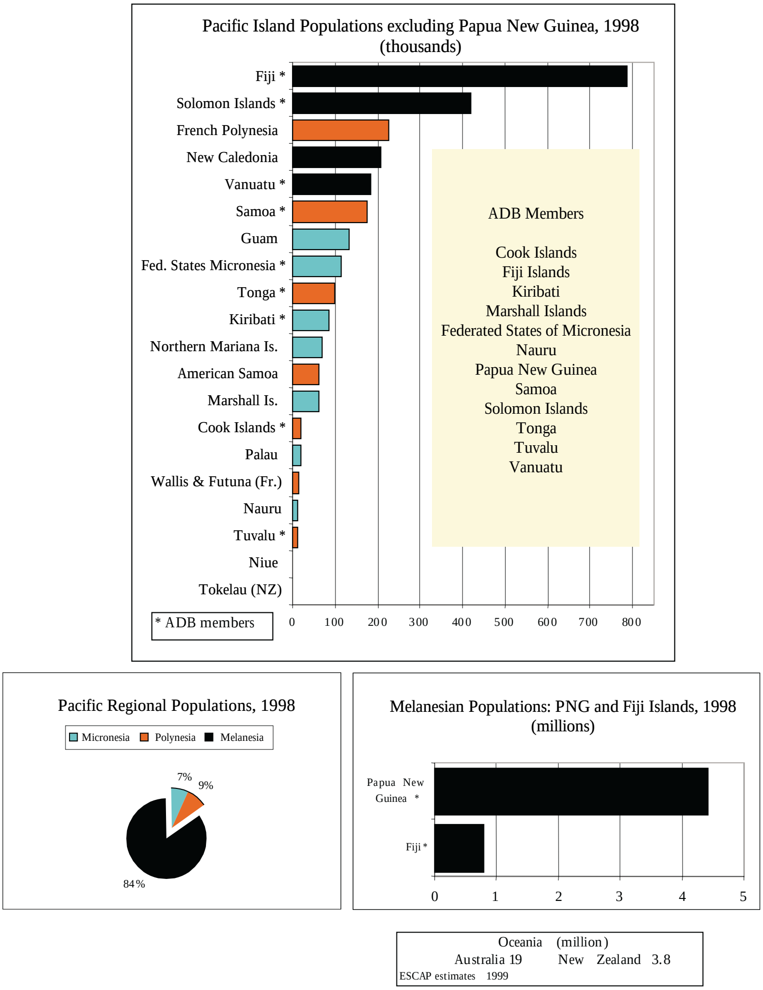


Figure 27.2. Pacific Islands Population



Source: Pacific Community (SPC), Noumea, estimates, 1998.

The area was colonized late by Europeans, and although all but the French territories are now independent, most have limited natural resources and remain to differing extents dependent on aid, remittances from emigrants, and favored-nation trade links. Money, urban settlement, and political entities larger than tribal groupings were unknown until recent times. Where resources are more abundant—in Papua New Guinea (PNG), Solomon Islands and the Fiji Islands—intertribal fighting, acts of secession, ethnic tensions and military coups, and—in the French territories of New Caledonia and French Polynesia—indigenous independence movements deter both domestic and foreign investment. Most people remain semisubsistence rural dwellers. Urbanization levels vary greatly, but are generally lower in Melanesia. PNG has a low 15-percent urbanization level compared with the Fiji Islands' 46 percent. The largest towns (PNG's Port Moresby and the Fiji Islands' Greater Suva, with populations greater than 150,000) are small by international measures.

Land within this vast area occupies a mere 500,000 km^2, 98 percent of it in the five Melanesian countries, and 84 percent in PNG alone. The nine Polynesian nations and territories occupy a mere 8,000 km^2, and the seven Micronesian nations and territories are smaller again (3,093 km^2). Most nations comprise one or more archipelagos made up of many inhabited islands. The Melanesian countries display marked physical and cultural diversity, with far more sustainable resources for development than the small volcanic islands, coral shelves and atolls of the other two subregions.

Most populations are ethnically homogenous (in Western Melanesia, however, tribal divisions inhibit national unity). Nearly half of the Fiji Islands' population is nonindigenous, mostly Indo-Fijians whose ancestors arrived as indentured laborers a hundred years ago. Human resource development skills and involvement in the modern money economy are spread unevenly between and within countries.

Factors favoring development differ from country to country, but taking the region as a whole, health care, education, "democratic" government, and many lifestyle indexes are encouraging—though worsening—and most countries have some economic potential: minerals, fish, sugar, copra, timber, tourism, tax havens, garment manufacture, and the goodwill of neighboring developed nations. The private sector is small and governments, despite recent rhetoric, typically play a large part in the economy. The cost of imports invariably exceeds income from the export of raw or only partly processed materials, tourism, and, more recently in the Fiji Islands, garment and shoe manufacturing.

2. The Pacific paradise?

This vast and enormously varied galaxy of islands has attracted the most glowing of descriptions since the advent of European "discovery." Homesick—and seasick— sailors, educated voyagers, and, more recently, academics, consultants, and tourist promoters have been among those who have variously referred to the "islands" (usually Polynesia, far less often the "black" islands of Melanesia) as "paradise"; and the terms "noble savage" and "subsistence affluence" were attached to their people and lifestyles.

These myths and half-truths persist today, making it difficult for outsiders to recognize unpleasant realities that exist just beyond the hotel door, a little way back from the main road, and on another part of the beach. The authors of the ADB *Strategy for the Pacific* (ADB, 1996) provided pertinent examples of the present-day strength of the myths when, in their general description of the Pacific, they wrote of "relatively high standard of living..." "generous aid flows..." "large inflow of remittances..." "favorable resources for subsistence living..." and "basic food and shelter readily available for modest effort." Not surprisingly, they concluded that "poverty... [is] generally non-existent..."

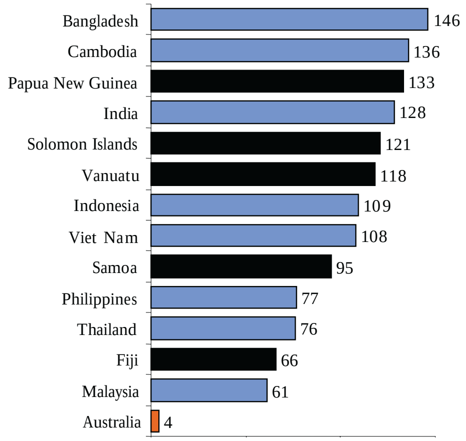
There is, of course, some truth in these generalizations. People in some islands and some occupations do enjoy relatively high standards of living. Aid and remittances are arguably beneficial in Polynesia and parts of Micronesia, but the per capita impact elsewhere is minimal. Subsistence living is important, but most rural people are now firmly part of the money economy (between 15 percent and 90 percent of islanders live in towns) and natural resources are increasingly ravaged by overpopulation, commercial farming, mining, and deforestation. Some would find the comment about "modest effort" rather insulting.

The particularly worrying feature of the paradise myth is that it is believed—or found useful—by many Pacific island leaders. Traditional society is idealized. Chiefs look after their people; the extended family cares for its sick and elderly; there is no poverty. Or, if the existence of poverty is accepted, it exists only in pockets; the statistics are unreliable—more research and meetings are needed; it only affects the lazy, the old, widows, and the disabled. It is due to the breakdown of "traditional values" and the personal inadequacies of the poor. It is God's will. Extending welfare assistance will only encourage laziness and dependence on the State. What is needed is economic growth to create more jobs and perhaps a little more welfare assistance. If the existence of poverty is finally accepted—as it is by an increasing number of people—it is not seen as "real" poverty; not like that in Asia.

Such thinking, which this author has called the "denial syndrome," is a major impediment to pro-poor policies. One does not seek solutions to a nonexistent problem. To lay the myth to rest, it is necessary to show that on at least some indexes of poverty, the Pacific islands compare as badly as or worse than some Asian countries; that poverty is not new, and is now widespread in several Pacific island countries.

Four indicators are used to compare those Pacific island countries for which data are available with a selection of Asian countries. In Figure 27.3, the Human Development Index (HDI) of the United Nations Development Programme (UNDP) shows a composite score

Figure 27.3. Asia Pacific Comparisons: Human Development Index 1998



Source: UNDP (1999a).

for each country based on indicators reflecting quality of life. UNDP developed the HDI in response to criticisms that gross domestic product (GDP) per capita was an unsatisfactory measure of development and well-being. The figure shows the five largest Pacific island nations ranked between Cambodia and Bangladesh, with the worse index scores, and Malaysia with the best score. The HDI of PNG is comparable with those of Cambodia and India; Solomon Islands and Vanuatu had worse scores than Indonesia and Viet Nam; and Samoa a score worse than the Philippines and Thailand. The HDIs of the Fiji Islands and Malaysia are comparable.

Similar conclusions may be drawn from the infant mortality, safe water, and safe sanitation data shown in Table 27.1. Twenty-one nations and territories are shown in each graph. Five of the worst seven infant mortality rates were in Pacific nations; and four Pacific nations were among the worst seven with respect to safe water and sanitation. Within the Pacific, Melanesian countries other than the Fiji Islands, and the Micronesian Kiribati and Federated States of Micronesia (FSM), generally had the worst ratings.

The data show, beyond reasonable doubt, that on these surrogate measures of poverty the situation in many Pacific countries is as bad as—or worse than—that in many Asian countries. They also show how misleading it is to generalize about the Pacific islands, treating the many islands as if they were a single entity. If these two points were more generally recognized, we would be one important step closer to dealing with the problems of poverty.

Table 27.1. Asia Pacific Comparisons

Infant Mortality Rates/000		Safe Water (percent)		Safe Sanitation (percent)	
Cambodia	89	FSM	22	Viet Nam	16
PNG	77	PNG	31	PNG	25
Kiribati	62	Viet Nam	50	China	26
Philippines	45	Solomon	64	Cambodia	26
Solomon	44	China	65	Solomon	34
Tuvalu	40	Cambodia	65	FSM	41
Viet Nam	37	Kiribati	75	Fiji	49
Vanuatu	37	Philippines	76	Kiribati	49
China	33	Nth Mariana	80	Palau	57
Cook Is.	31	Thailand	80	Philippines	67
Thailand	26	Fiji Is.	81	Thailand	70
Marshall	25	Marshall	82	Marshall	78
Samoa	21	Samoa	85	Tuvalu	79
FSM	20	Vanuatu	87	Nth Mariana	80
Fiji Is.	17	Malaysia	93	Tonga	85
Nauru	15	Australia	99	Vanuatu	91
Palau	11	Tonga	100	Malaysia	98
Tonga	10	Palau	100	Samoa	98
Malaysia	10	Nauru	100	Australia	99
Nth Mariana	7	Cook Is.	100	Nauru	100
Australia	5	Tuvalu	100	Cook Is.	100

Notes: Pacific islands in bold. FSM = Federated States of Micronesia; Nth Mariana = Northern Mariana Islands; PNG = Papua New Guinea.
Source: UNICEF, WHO (most recent data).

3. Poverty is Not New to the Pacific Islands

Statements by Pacific island governments and overseas "experts" often infer that poverty is a recent development, hence the absence of earlier official recognition and action. There can be little doubt, however, that subsistence poverty is a permanent or periodic feature of many traditional Pacific societies. In more recent times, churchmen, academics, some non-government organizations, and the media have been reporting one or more manifestations of poverty for at least 30 years.

Some examples from my own research may illustrate the point:

- In Tonga (1966), exceptionally high urban male unemployment and landlessness in the capital, Nuku'alofa, were noted (Walsh, 1966).
- In Niue (1978), village studies showed supposed rural "affluence" and income equality to be illusionary. Large income differences were found to exist between and within villages; one third of households earned less than NZ$200 a year, and poverty in two thirds of village households could be traced to emigration and insufficient and irregular remittances (Walsh, 1978a).
- In the Fiji Islands (1978), the commonly held view that poverty affected only Indo-Fijians and recent urban migrants was shown to be false. Of the urban squatter settlements studied, between 22 percent and 51 percent of households earned less than F$40 a week, and no significant ethnic or residential history difference was evident (Walsh, 1978b).

These findings, and many others, point to high levels of poverty in some Pacific countries. In the Fiji Islands, my squatter studies found support in the work of Knapman and Walter (1980); in the Eastern islands, Cameron (1983) and Stravenuiter (1983), who analyzed official government reports; Sugata's squatter survey (1984); and Bryant-Tokalau's study of urban low-income settlements (1992). Barr (1991) brought these studies and local and government department reports together, and appealed to governments and the churches to take action. I can think of no reason why the situation in the Fiji Islands would have been substantially different than in most other Pacific island countries.

4. More Recent Pacific Studies

The UNDP *Pacific Human Development Report 1999* (UNDP, 1999) contained the following information on poverty in Kiribati, Samoa, and Solomon Islands. A 1996 survey in urban Tarawa, Kiribati, found high levels of poverty, overcrowding, unemployment, and overdependence on imported food. The 1998 Samoa Household Income and Expenditure Survey found one in three households lacked sufficient income to meet their basic needs and "food deficiency" in nearly one half of the households. Several surveys in Solomon Islands during the 1990s reported big differences in household income, even after subsistence and gift exchanges were taken into account.

Major UNDP surveys in Micronesia (Palau, FSM, Marshall Islands) undertaken during 2001 were also expected to show high levels of poverty

In the Fiji Islands, Bryant-Tokelau (1993) found that 20 percent of urban households could not afford government-subsidized housing. Overcrowding was common and squatter and informal housing increasing. Urban youth unemployment stood at 30 percent; 50,000 children could not afford school fees, and some 65 percent of school dropouts were due to poverty. She saw poverty and insufficient quality food as the major reason why one in three women was anemic, and poverty as the main cause for the increase in sex work. The Government's tax-free inducements to overseas and local investors had resulted in the rapid expansion of the garment industry, but a majority of the jobs created, held mostly by women, paid wages 20 percent below the urban poverty line.

5. Poverty in the Fiji Islands

The facts on poverty in this paper derive from two analyses of household income and expenditure surveys , the first conducted in 1977, the second in 1990–91 (Stravenuiter, 1983; Ahlburg, 1995); a summary of many findings by Barr (1990); a UNDP/ Government report (UNDP, 1997); and this author's analysis of housing based on 1996 census data. While no more recent statistical information are available, the impact of "structural adjustment" policies and last year's coup will have caused the situation to deteriorate. The former resulted in cutbacks in government employment, the weakening of wage bargaining power and labor unions, and the introduction of a value-added tax on all expenditure, including the basic necessities of life. The latter caused a sharp decrease in investment, factory closures, and a sharp increase in unemployment, most especially in the tourism and garment–footwear export industry.

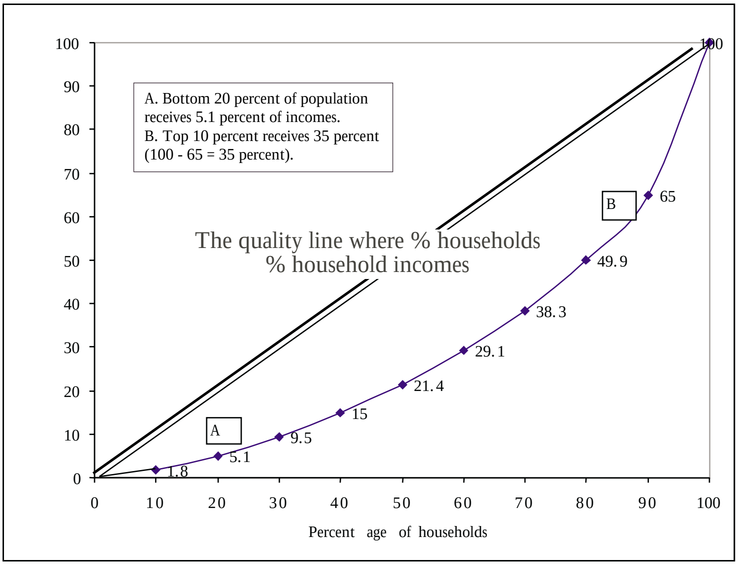
Although a low income does not necessarily equate with poverty, income from cash and imputed noncash sources has been used in the Fiji Islands to determine the proportion of households below the poverty line.

Income inequality in 1990–91 was similar to that in many Third World countries (Household Gini coefficient 0.46; per capita 0.49.). The poorest 20 percent of households received a bare 5 percent of the national income, while the richest 10 percent received 35 percent (Figure 27.4). Income inequality had increased 6 percent since 1977, and the value of real wages had dropped 38 percent.

Three household poverty lines were used in the 1997 analysis: food poverty (the inability to provide minimum dietary requirements), basic needs poverty (incomes less than the cost of basic food and shelter), and relative poverty (less than one half of the average household income). Different minimum income requirements were established for urban and rural areas, and, because of dietary differences, for Fijian and Indo-Fijian communities.

On the basis of these figures, between one in 10 households (Food Poverty), one in four (Basic Needs Poverty) and one in three (Relative Poverty) were found to be below the

Figure 27.4. Marked Income Inequality: Household Distributions 1990-91



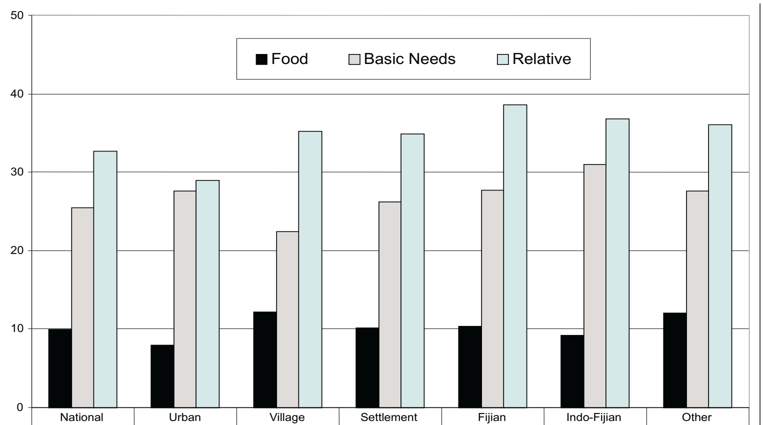
Source: UNDP (1997:17).

poverty line in 1990–91. Figure 27.5 shows the three poverty lines for ethnicity and urban areas, rural Fijian villages, and rural Indo-Fijian settlements. The "other" population is of special interest because, while it includes generally wealthy Europeans and Chinese, and often poor part-Europeans, it also includes the invariably poor, marginalized Solomoni, descendants of 19th-century indentured laborers from Solomon Islands, and their Fijian wives (Halapua, 1993). Although at least half-Fijian, by custom they have no rights to customary land. This community merits special government attention.

The middle measure—income needed to meet basic needs—is used in the subsequent discussion. Figure 27.6 shows that at least 40 percent of households were poor or almost so. Of these, 10 percent were "destitute," 15 percent were "'poor," and 15 percent, with incomes only a little over the poverty line, were "vulnerable" to poverty. With little or no savings, any loss of employment, ill health, or death or marriage in the extended family would tip these households into at least temporary poverty. Many households were not much better off: one half had annual incomes under $6,300, 70 percent under $10,000, and 80 percent under $13,000. The near absence of a "middle class" in the Fiji Islands seriously limits government revenue opportunities.

Contrary to popular opinion, considerably more income inequality occurred within the Fiji Islands' major ethnic groups than between them (Table 27.2). The average income of Indo-Fijian households was higher than that of Fijian households, one half the Indo-Fijian households (deciles 1–5) had lower incomes that their ethnic Fijian cohorts. Indo-Fijian households in deciles 6 to 9 were a little better off. The "great leap upward" occurred for both ethnic groups in decile 10, where the richest Indo-Fijian households averaged $914

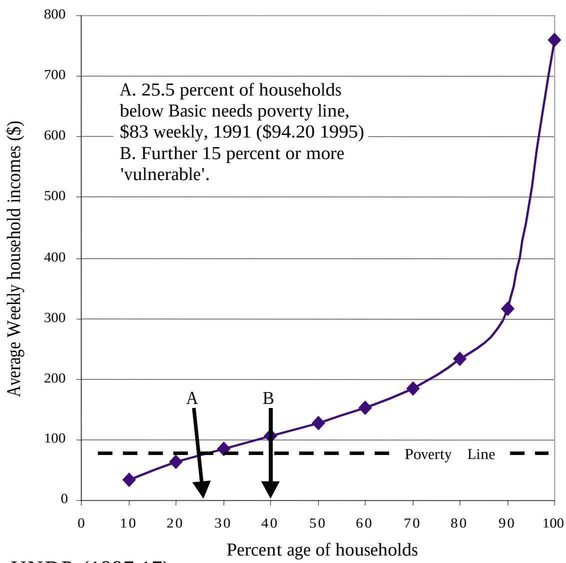
Figure 27.5. Households Under the Three Poverty Lines



	National	Urban	Village	Settlement	Fijian	Indo-Fijian	Other
Food	9.9	7.9	12.2	10.1	10.4	9.2	12.1
Basic Needs	25.5	27.6	22.4	26.2	27.7	31	27.6
Relative	32.7	29	35.2	34.9	38.59	36.81	36.05

Source: UNDP (1997:32–34).

Figure 27.6. Poverty and Vulnerability



Source: UNDP (1997:17).

Table 27.2. Distribution of Household Weekly Income by Deciles 1990-91

	Fiji Is.	Fijian	Indo-Fijian	Employment Agriculture	Self-Employed	Casual
1	33.71	38.1	32.4	15.3	0.4	11.6
2	63.73	67.7	60.8	27.2	0.9	16.7
3	85.67	89.5	81.6	39.2	1.5	13.8
4	105.45	107.9	101.5	48.0	1.6	12.1
5	127.62	126.7	124.2	52.7	3.5	11.0
6	152.22	147.8	152.5	68.8	4.5	12.4
7	183.85	175.3	186.7	72.6	7.0	14.3
8	233.51	217.6	240.6	94.9	9.4	17.3
9	316.01	288.5	327.9	115.6	17.6	18.7
10	760.2	537.1	914.4	183.4	271.3	27.8
Top x Bottom	22.6	14.1	28.2	12.0	678.3	2.4

Less than or very close to urban poverty line

Less than rural poverty line

Source: UNDP (1997).

a week and Fijians $537, 28 and 14 times more than the lowest deciles. It is evident that Indo-Fijians are both richer and poorer than Fijians. A comparison of average incomes, in these circumstances, is misleading, and talk of rich Indo-Fijians and poor Fijians, as recent political events have shown, is more than merely mischievous.

The table also shows the proportion of households below the urban and rural poverty lines. For the employment types shown, 70 percent of households were engaged in agriculture, 90 percent of them were self-employed, and all casual workers were below the rural poverty line. Self-employed income levels suggest the limited extent of, and poor returns from, informal sector activity common in many Third World countries. While job creation is a pressing need in the Fiji Islands—most especially for the unskilled and for urban Fijian youth who, without employment, are prone to crime and acts of civic unrest—incomes need to be sufficient to meet basic needs.

Household characteristics more typical of the poor are often assumed to be major causes of their poverty. Table 27.3 shows nine characteristics of households with the lowest, next lowest, and top incomes. The figures cause no surprise, but they do merit two important observations:

First, on most items, there were significant differences between the bottom and next-to bottom households. The difference appears to be between destitution and the lower rungs of poverty. Destitutes need “social protection” measures; the poor, more wide-ranging changes in the ways society is organized. In the Fiji Islands, this important difference is not always recognized.

Second, it is usual to point to higher levels of disadvantage in poor households. Thus, we may say that 12 percent of the poorest households had heads who were not working. It may be more helpful to inverse the figures and say that 88 percent were working; 81 percent were male heads, and 82 percent were married, and not widowed, divorced, or separated. At most, these charac-

Table 27.3. Some Characteristics of Poor and Rich Households

		Incomes		
		Bottom 10%	Next 10%	Top 10%
Number:	Working heads	1.4	1.6	2.7
	Children	1.5	1.7	1.8
Household Size		4.1	4.5	6.0
Head:	Not Working	11.5	2.5	0.4
	Female	19.3	11.1	6.8
	Old 60 years	24.0	16.0	17.0
	Young 20–34 years	30.0	34.0	17.0
	Widowed	14.4		13.6
	Separated/divorced	3.2		1.9

Source: UNDP (1997).

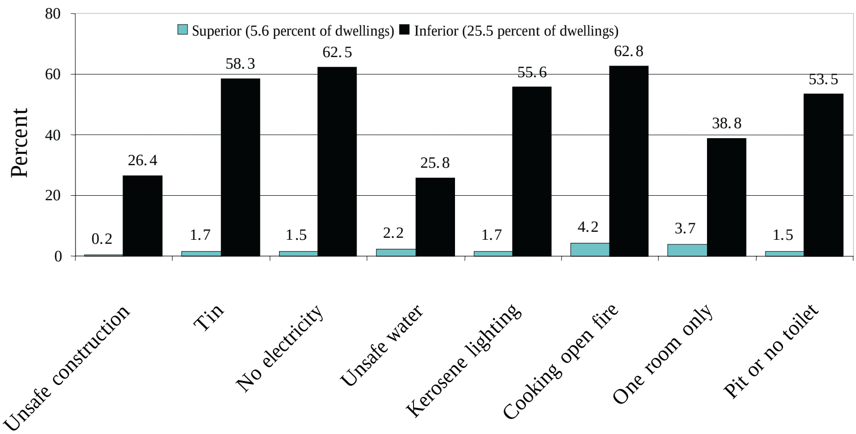
teristics contribute to poverty; they are rarely the cause. The "usual" presentation perpetuates unhelpful stereotypes of the poor, and takes attention away from the basic structural causes of poverty. The inverted presentation shows most poor households have social and demographic characteristics similar to the rest of the population.

Housing quality is an obvious and visible sign of both poverty and wealth. In the 1996 National Census, photographs were used by enumerators to place houses in one of five categories, from "superior" to "inferior." Some 25 percent were classified "inferior"—the same proportion as households below the poverty line—and 6 percent "superior." One quarter of the "inferior" houses were of unsafe construction; one quarter had an unsafe water supply, and one half or more had no electricity, unsafe lighting, no cooking facilities, and/or no toilet or an unsanitary toilet (Figure 27.7). Some housing features had improved a little since the previous census in 1986, but the rich-poor gap remained.

In sum, the economy grew by 25 percent between the 1977 and 1990–1991 HIESs, but the number of poor increased by 66 percent. The cost of improving the lot of the most needy had tripled, to 5.4 percent of GDP. Urban youth unemployment rose by 30 percent, and 20 percent of the "new" garment industry jobs paid wages below the urban basic needs poverty line. The Government's Poverty Alleviation Fund, for some of the most destitute, accounted for slightly less than 1 percent of the budget.

As the situation deteriorated during the 1990s, poverty workshops and reports proliferated, but very little emerged from their efforts. The 1991 Poverty Task Force report went largely unheeded. Almost all the money needed for the 1997 UNDP/Government of Fiji Poverty Report (UNDP, 1997) was provided by the United Nations. Government negotiations with the World Bank for assistance with squatter settlement upgrading collapsed. The 1997 UNDP report has yet to have any significant impact.

Figure 27.7. Housing: The Rich-Poor Gap



6. Politics and Poverty

One cannot usefully discuss poverty in a political vacuum, for politics and government hold the key to its eradication. Race has been a major factor in Fiji Islands politics since independence in 1970, with two exceptions. The first was the election in 1987 of a left-of center, multi-ethnic Government that promised, among other things, to expose corruption and patronage, and provide free health care, better working conditions for wage earners, free bus services after working hours for the elderly, and a greater share of land rents to ordinary Fijian landowners. A military coup, purportedly in support of ethnic Fijian interests, replaced this Government after it had been in power for four weeks.

During the next 12 years, government policies (in particular, structural adjustment, lower personal tax, a 10-percent value-added tax (VAT), and ethnic Fijian preferment) saw a widening of the income gap; massive emigration of professional and skilled Indo-Fijians, with a consequent rundown of health care, education, and other services; and increasing inefficiency and corruption. The National Bank of Fiji lost $220 million of unsecured loans, an amount equal to 12 percent of GNP; and the Poverty Alleviation Fund's crime and squatter settlement upgrading funds were squandered or misappropriated. A new class of rich Fijians emerged, but little effective attention was given to "grassroots" Fijian concerns.

The second exception occurred in 1999 with the election of a second left-of-center multi-ethnic government. In six months poverty alleviation measures had been built into a five year plan; VAT was abolished on basic food, educational, and medical items; the "destitute allowance" was doubled; free education was extended to higher grades; national examination fees were abolished; a social indicator database was established for 6,000 ethnic Fijian villages; and a one-time payment of $28,000 was made to evicted Indo-Fijian tenant farmers. In May 2000, government members were kidnapped in Parliament by armed men backed by disgruntled sections of the Fijian “establishment” purporting—again—to be defending ethnic Fijian interests. The immediate and ongoing costs of the coup are likely to be $1 billion in lost earnings.

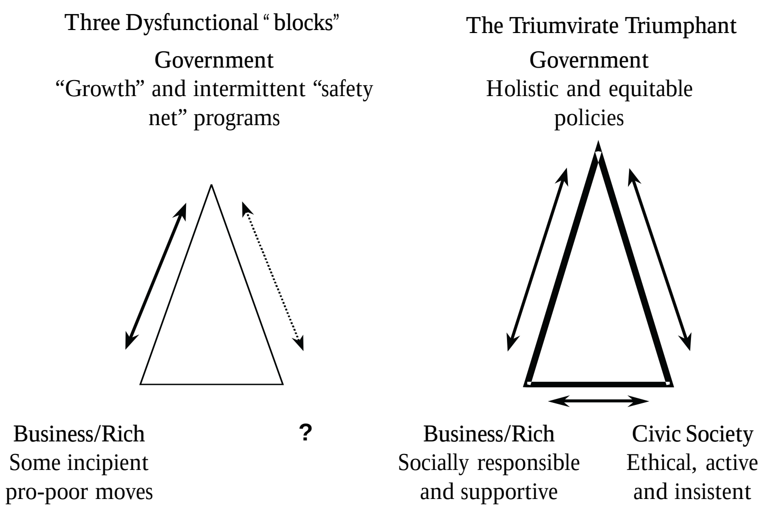
The double irony is that many poor Fijians supported this coup (which replaced a pro-poor government and could only help the Fijian elite), and business (which lost many millions of dollars in damage and lost earnings) could have removed much of the coup’s popular support if it had, over the years, been more attentive to the needs of the poor. The result is a “lose-lose” situation for those at opposite ends of the income spectrum. Any solution to the Fiji Islands’ many problems must seek a “win-win” situation for the poor and the rich.

7. Solutions

If the basic causes of poverty are structural, they are embedded in society. Poverty eradication, therefore, calls for a reexamination of the totality and purposes of societal structures.

If this position is correct, poverty cannot be eliminated by more investment, by economic growth, or even by more employment at subpoverty levels. Much more is needed. Poverty eradication presumes a more equitable society, and this will require fundamental changes in the ways the political, business, and civic sectors of society act and relate to each other (Figure 27.8).

Figure 27.8. Eradicating Poverty: Where We Are and Where We Need to Be



Equitable development requires

- A government of talent and imagination, committed to equitable development, whose members are motivated by ethical principles and public service. Racial politics, patronage, and corruption have no place in such a government.
- A business sector that is socially responsible and willing to assist the Government in its efforts to reduce gross class and regional inequalities. Those who are socially responsible should be rewarded with imaginative tax relief and other incentives. Recent political events in the Fiji Islands should amply demonstrate what business stands to lose from irresponsibility.
- A virile civic society, with participatory democracy at all levels. Religious and community leaders, the education system, and the media have critical roles to play if the people are to be able to make informed political choices. Some Fijians will tell you democracy is untraditional and not the "Pacific way." In the Fiji Islands of the 21st century, such are the arguments of the misguided and those who stand to benefit from injustice and inequality.

In sum, poverty elimination requires a democratic government committed to sustainable, equitable development; a socially responsible business community; and a politically active, educated civil society. These conditions are attainable in the Fiji Islands —and in all human societies— but only after the present political crisis is resolved in a fair and democratic way.

We must come to understand at least two critical points. One is that humanity as a whole is moving rapidly towards a momentous crossroads where there will be no room for mistakes. The second is that we must break this vicious circle... while it still is possible to exert influence and some control over our destiny and future. That something fundamental is wrong with our entire system is quite evident, for even now humanity is unable to assure the minima of life to all its members. (Botkin, Elmandjra, and Malitza, 1979).

Suggestions for measures that could be undertaken by government, business, and civic society to assist the poor in Pacific Island countries are summarized next. Essentially, these call for "sensibly" equitable policies (fair to rich and poor), more socially responsible business, and an active, participatory civic society. Governments, business and the wealthy hold the key to poverty eradication. Research into the ambitions, behavior and concerns of the rich, and the financial costs of poverty, underachievement and crime, are needed to show the wealthy that they also should benefit from a socially more humane society. In the sort of society that the Fiji Islands has become, their life's earnings, their property, and the personal security of their families are at risk. The poor and powerless have been studied enough. What is overdue are studies of the rich and politically powerful.

Specific measures to help the poor include measures to increase the incomes of the poor such as:

- Introduce a realistic minimum wage, especially for casual and seasonal laborers;
- Remove VAT on essentials;

- Develop community service and resource development jobs;
- Increase and widen access to poverty alleviation funds;
- Distribute more land rent money to "grassroots" Fijians; and
- Secure reasonably priced housing.

Increase Saving and Financial "resources" available to the poor by adopting microfinance, People's Bank approaches, e.g., South Pacific Business Development, microfinance in Samoa.

Decrease Public Expenditure on regressive services and activities:

- Strengthen consumer protection;
- Insist on responsible advertising;
- Promote cheap, balanced diets;
- Reduce church and Fijian provincial levies;
- Abolish or income-related education and health costs; and
- Increase the stock of affordable, tenure-secure housing.

The governments of 1999 and earlier aimed to increased jobs; give the poor better access to employment and strengthen social protection (safety nets), but the 2000 coup interrupted these initiatives. Suggestions to improve governance in the Fiji Islands include:

- Establish a stable, democratic, open government that the military police will respect by setting up an efficient and honest public service, with promotion on merit; punishing corruption; and leading by example.
- Promote interracial and intercommunity trust through redress of ethnic Fijian (and Indo-Fijian) grievances; and use education and the media.
- Rethink Structural Adjustment and provide policy measures appropriate for the Fiji Islands.
- Institute pro-poor policies in all interventions to facilitate "reasonable" redistribution by researching the ambitions, behavior, and concerns of the rich; researching thefinancial costs of poverty, underachievement, and crime; showing how the rich maybenefit by pro-poor policies; and rewarding socially and nationally responsible business (flexible taxation, "stick and carrot").

Poverty eradication requires fairer income distribution; structural adjustment program redistribution (VAT, less personal tax, etc.) favors the rich. Suggestions for solutions in Fiji Islands by involving businesses and the wealthy include:

- Instituting government measures to increase available revenues and savings: Encourage "healthy" local and overseas investment; establish rewards for investing, reinvesting, and saving locally; strictly enforce prohibitions against tax evasion and corruption; and restore the graduated personal income tax.
- It is also necessary to institute government measures to redistribute income in favor of middle- and low-income earners: take new approaches to corporate and personal

income tax, e.g., top taxpayers might gain some control over direction and use; reward good employer-employee relations; set up rebates for above-award wages, profit sharing, etc.; see that gifts, grants to philanthropic trusts, research, reinvestments in Fiji Islands, etc., are not taxed; and set up public honors and awards for the socially responsible rich; and promoting socially responsible business practices, e.g., Business for Social Responsibility movement; professional organizations to help the poor.

Suggestions for solutions to poverty in Fiji involving civil society include:

- Setting up educational media codes to ensure citizen access to accurate information. Promote democratic participation at all political and community levels. Undertake nation rebuilding. Non-Fijians should accept "first nation" status for Fijians. Fijians should accept non-Fijians as full citizens and not just "visitors."
- Cultivating active support by religious institutions for a fair and equitable society. Encourage Fijian chiefs and elites to dedicate themselves to serve their people. Cultivate responsible consumerism (e.g., Center for New Amercan Dream). Enhance NGO cooperation and political involvement: real empowerment, not just welfare promotion. Seek foreign aid support for these goals.

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