Chapter 2

Poverty Reduction as Focal Point of Development
Cooperation: The International Consensus

2.1. The Evolution Towards the Current Consensus

2.1.1. Overview

The current consensus on the measures most conducive to poverty reduction, which will be the concern of the majority of this chapter, is in large part influenced by the experiences gained in the development process over the last 50 years. The problems that arose from any conception for development that had been adopted since the 1950s led to subsequent reformulation of the conception to address these. This 'trial and error' approach has also preceded the current proposals on poverty reduction, as is most pronouncedly voiced by the UK government:

“There have been two flaws in models of development over the past half-century. The first was characterized by a belief that the State (sic!) should extend its control over production and trading activities, and over the allocation of resources and prices, in a way which created distortions and led to inefficiencies and corruption. The second was a belief in a minimalist State (sic!) and unregulated market forces, which failed to secure economic growth, and led to increases in inequality across the world. There is now an opportunity to create a new synthesis”.

This quotation shall serve to motivate the following discussion of the evolution of development strategies. The discussion provides the basis for understanding the current strategic conceptions and the problems they want to address. It will be seen that much of the current consensus has been retained from previous approaches, yet with a strong concern for avoidance of the shortcomings of these. The quote of the UK government also hints at a strong dispute over the last five decades between a more structuralist view of development in which the states takes an active role of intervening in the markets and a neo-classical view in which the play of the free market forces is the paradigm. A short explanation of both will be integrated into the discussion of the past strategies.

This discussion will reflect the main trains of thought that have influenced the policies of the World Bank. This approach has its limitation: It focuses only on one agency and neglects other viewpoints. In order to provide a comprehensive view of the past strategies but also to stay comprehensive in the analysis the
constraint to one viewpoint was necessary. The choice for the World Bank has its advantages as it represents 182 member countries\(^1\) and can thus be seen to provide broad-based picture.\(^2\) The World Bank has also been extremely influential on the direction in which development strategies have turned, which is due to the high volume of its transactions and the high level or research conducted by its staff. Therefore, an understanding of the evolution of the viewpoint of the World Bank on development can provide valuable insights on the overall viewpoints on this topic.

The mainstream ideas that have dominated the discussion on development within the World Bank and many other development agencies in the past can be described in four eras where the different goals of development were seen as

1. Growth in the 1950s
2. Redistribution with Growth in the 1960s
3. Fulfillment of Basic Needs in the 1970s and
4. Free market forces and a solid economic framework in the 1980s and the beginning of the 1990s.
5. Poverty reduction through increasing the self-help potential of the poor in a conducive national framework in the late 1990s and today\(^3\).

These shall be discussed in turn.

2.1.2. Growth

After the Second World War, the way to help the people living in poverty was seen in a path of steep growth in terms of real income per head\(^4\). Poverty was seen as a purely economic matter of lack of income. Growth was promoted as the dominant goal in development on the basis that, independent of the method used in its advancement, growth leads automatically to a higher degree of employment and to a higher standard of living\(^5\). It was assumed that the benefits of increased wealth through the growth process would spread to the entire society even if the initial benefits accrue to the non-poor or even only to the rich, as their spending, consumption and investment in turn leads to employment and

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\(^1\) This number is for 2001. For a more detailed discussion of the background of the World Bank see the chapter on ‘World Bank Background’.

\(^2\) The 182 member nations ‘own’ the World Bank according to their contributions to the world’s economic activity, which implies that rather than a majority opinion the World Bank presents a weighted majority view with a bias towards the industrialized countries. Yet since the strategies analyzed in the remainder of this thesis refer also to industrialized countries and the World Bank itself, this should not harm the value of this viewpoint in understanding the new donor strategies presented later.

\(^3\) This goal is expanded upon in later chapters.


wage opportunities for those people in social and economical positions below them. The spreading of wealth to those on the immediately lower level would spur the income of those people in a social and economical position on an even lower level by increasing the demand for their services and products and offering new employment opportunities, with this spiral continuing until the proceeds of growth have “trickled-down” to all levels of the society. Distributional effects were already discussed at that time\(^1\), but did not gain prominence in policy formulation due to the prevalence of the above-mentioned assumption of a trickle-down effect. The strategies for development focused “mainly on large investments in physical capital and infrastructure as the primary means of development”\(^2\).

2.1.3. Redistribution with Growth

This growth-based strategy builds the mainstream focus for about a decade before the **dissatisfaction with the low impact** of the strategy on the situation of the poor led to a shift in the approach to development. It was realized that growth alone does not suffice to reduce poverty and that growth accruing to the poor does not necessarily trickle down to them. Growth accruing more directly to the poor, fostered by a stronger role of the state in the economic sphere, was placed in the center of the discussion that was at the heart of Chenery’s, Ahluwalia’s and others work on ‘Redistribution with Growth’.

Their argumentation rests on the observation “that more than a decade of rapid growth in underdeveloped countries has been of little or no benefit to perhaps a third of their population.”\(^3\) In pursuit of an explanation to this evidence, they came to reject the assumption of a trickle-down effect as well as the traditional assumption of welfare economics. Welfare economics assumes that optimal growth should be achieved by any measure and that – after this optimal economic performance is achieved - the optimal distribution can be undertaken by fiscal measures. This traditional view thus regards growth and distribution as phenomena that can be tackled independent of one another. Chenery on the contrary emphasizes that at least for poorer countries a development strategy will have “growth implications for different groups in society that can be modified by fiscal measures only within fairly narrow limits.”\(^4\) This implies that growth, investment and distribution cannot be separated, but have to be integrated into one single strategy.

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\(^1\) See e.g. Lewis’ extensive work on surplus labor in which he considers lack of growth in the subsistence sector as a cause for worsening income distribution. See Lewis (1954).
\(^2\) See the outline provided by the World Bank on the history of poverty reduction strategies in World Bank (2000a), p. 6f.
The mechanisms that promote economic growth as their main concern are rejected because they are assumed to promote greater income concentration at the beginning of the growth process. This hypothesis, emphasized most strongly by Kuznets, leads if accurate to the worsening of the relative and possibly absolute position of the poverty groups in the society. To counter this, a development goal is postulated that focuses more on the growth of the poorer population. Instead of the GNP as a measure of the welfare advancement to society Chenery et al. propose a weighted measure giving higher importance to increases in growth in poorer socio-economic groups. This measure of welfare shows that poverty in this concept is still based solely on monetary income, while the novelty consists in the reflection that the marginal contribution to welfare accruing from an income increase is greater at lower income levels, as reflected crudely by assigning the attached weights according to welfare considerations.

In his theory to maximize this welfare function, Chenery does not want to rely on either neoclassical or Marxist wage theories, since both regard income distribution as determined by the level of employment and the remuneration of the factors of production, capital and labor, with differences resulting from assumptions on market behavior. Chenery refutes already the basic idea of employment and the interaction of capital and labor, on the basis that in underdeveloped countries many poor people can neither be classified as employed or unemployed, but "half of the poor are self-employed and do not..."
enter the wage-economy”. In this condition, rather than relying mainly on employment creation, higher concern is placed on the distribution of various forms of assets among the different groups of society. This is the concern of the integrated theory of “growth-cum-distribution”. Thus, the traditional objective of promoting employment in order to increase the total wage bill, leading to partial benefits to the poor, is only a part of the objective of this strategy. The alteration of the pattern of concentration of productive assets in favor of the poorer groups of society over time and the reduction of barriers to entry into more profitable types of production and employment is regarded as equally important.

Out of the four perceived generic strategies of (i) maximizing GNP growth with benefits for all; (ii) redirecting investment to poverty groups; (iii) redistributing income to increase the consumption of the poor; and, (iv) transfer of existing assets, Chenery and others regard the second strategy as most promising. They posit that the first lacks focus, the third cannot be sustained for an extended period and the fourth is politically unlikely to be successful. The redistribution of investments in favor of the poor in forms of e.g. human capital in form of education, provision of public services and access to credit is projected to result in higher productivity and wages in the organized sectors as well as greater output and income in the self-employed sector.

To achieve this, Chenery and his colleagues rely on elements of private as well as public ownership and democratic as well as authoritarian features, based on a diagnosis of the available administrative and political options available. Yet a tendency in favor of a structuralist viewpoint over a neoclassical, free-market oriented approach can be made out. The general paradigms of the structuralist viewpoints shall therefore be discussed here in short.

At the core the structuralist viewpoint rejects the assumption of mainstream neoclassical economic thought that free markets are the most efficient way of economic interaction. They should be free of state intervention. The structuralist approach is based on the perception that the fundamental concepts of the neoclassical theory cannot readily be transferred to the situation in developing countries due to technical and behavioral rigidities in these countries and due to

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1 For a greater analysis of the rejection of neoclassical and Marxist employment concepts see Chenery, H. et al (1974), p. 43, 44.
6 Even the basic assumption that increased prices lead to higher supply while lower prices lead to lower supply due to the potential to make a greater profit when prices are high is rejected in some extreme views on economic interaction in developing countries. It is claimed that a mentality focused on the fulfillment of a given level of needs would lead to an increase
market imperfections\(^1\). These imperfections are attributed to lags in the adjustment process to demand or trade changes, shortages and surpluses, low elasticities of supply and demand, and other characteristics attributed to developing countries. For example, population growth too high to be absorbed into the high-productivity sector of the economy is seen as the cause for elastic\(^2\) supply of unskilled labor concentrated in the agricultural and service sectors\(^3\), refuting the classical assumption of more inelastic\(^4\) demand for the labor market and the associated policy implications. Further, transformations in the productive structure are regarded as the cause for disequilibria in the factor markets because the adjustment takes an extended amount of time and might be inhibited by low factor mobility or lack of incentives for producers to enter new markets. This inhibits the fast, in the neoclassical analysis immediate, return to economic equilibrium conditions.

These disequilibria that are assumed to result due to failures to reallocate resources efficiently build the basis for the policy advice of the structuralist approach. Disequilibria leading to differences in returns to labor and capital in different uses\(^5\) open the chance for economically preferable state interventions. Growth is supposed to be spurred by transferring factors that are, due to market imperfections, occupied in less productive uses to occupations with higher productivity – creating an obligation for the state to foster this transfer. The state is called for to take an active role by detecting and reducing bottlenecks, reallocating resources in disequilibrium situations and enabling the adoption of productive technology from higher developed countries. Since disequilibria are considered to be larger in developing countries than in developed countries due to more frequent and higher-impact shocks, the interventionist role of the state is supposed to be correspondingly larger. In some cases these thoughts were coupled with dependency theoretical views strongly refuting international trade.\(^6\)

in production when the prices rise, because more has to be sold to achieve the same level of satisfaction, while with rising prices the output can be reduced. For a discussion of these views see Dürr, E. (1981), p. 580.


\(^2\) While generally the structuralist argument points out the prevalence of inelastic demand and supply, referring to an unresponsiveness of citizens to the price mechanism, this argument is different for the labor sector. Here the argument relies of full elasticity, as abundant labor supply from the informal sector is willing to enter any open positions in the formal sector.

\(^3\) See Chenery, H. (1986), p. 98, 99. This inability to absorb labor in the high productivity sectors is partly explained by the low substitution ability between labor and capital.

\(^4\) In the structuralist viewpoint the labor supply is nearly fully elastic, portrayed by extremely high wage elasticity. The neoclassical viewpoint on the contrary relies on a more, though not fully, inelastic supply portrayed by moderate wage elasticity.

\(^5\) Chenery, H. (1986), p. 99 views this as the more likely result of market imperfections, rather than the total failure of markets to clear.

\(^6\) The dependency theory assumes an exploitative nature of the relationship between the advanced industrialized nation and the dependent developing nation. It is seen contrary to the industrialized nations interest to compete with another industrialized nation. Therefore they co-operate with traditional national elites and use their influence to access domestic resources

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Overall, the strong role of the state in planning and management of the economy for its greatest contribution to the national development is demanded in the structuralistic viewpoint.

Chenery et al. considered as areas suitable for intervention the factor markets, ownership and control of assets, commodity markets and the state of the technology. Notable emphasis in this context is placed on the intervention in capital markets, the redirection of investment, taxation of wealth, restrictions of domestic production, restrictions of foreign trade and the adaptation of technology, which rest on a strong believe in the state's ability for efficient planning and control.

Chenery et al. did not unambiguously support the structuralist viewpoint. In some cases they also opted for a greater play of free market forces and in other they proposed both structuralist and neoclassical options dependant on the specific situation. Especially in capital markets institutional barriers were perceived as leading to under pricing of capital in the modern sector while leading to marked overpricing of capital in the traditional and unorganized sectors. Policy action is required to reduce this discrimination of the labor-intensive sectors by reducing state intervention and distortions, which presents an element of the neoclassical school of thought. Concerning the build-up of assets, two strategies are seen as viable, with more or less structuralist tendencies. One proclaimed strategy would yield an increasing socialization through restriction of private sector expansion combined with growing public investment rate and thus a transfer of assets to society and, in turn, to the poor. The other viable strategy is seen in providing direct investment in favor of private assets by increasing income through infrastructure investments and other inputs such as irrigation and land improvement.

Special emphasis is placed on human development due to its impact on productivity of the poor. While investment in the modern sector might provide faster growth, this is not seen as aiding the poor because trickle-down effects are seen unlikely to occur in the medium-term. The two strategies mentioned above show the ambiguity of the authors in regard to their policy proposals, leaving them open to structuralist as well as neoclassical alternatives. This can also be seen in the strategic recommendation for commodity goods. On the one hand quantitative restrictions on both domestic production and foreign trade, indirect taxation and production controls are proposed to shift demand from capital-intensive modern goods towards more labor-intensive goods. On the other hand for surplus extraction to prevent economic development. This leads to domestic surplus being in large part expropriated by foreign capital. The policy recommendation is the withdrawal from trade with industrialized nations. For a deeper analysis see Palma, G. (1978), p. 105, 106.

foreign trade possibilities should be seized for labor-intensive products if the
first approach is difficult to implement. The demand for adaptation of
technology for the local conditions by research rounds up this strategy.

2.1.4. Basic Needs Approach

In the 1970s this view was challenged because the experience with this strategy
did not have the desired impact on the reduction of poverty. It became visible
that a pure concentration on monetary growth even if accruing to the poorest
quintile of the population was not sufficient to improve the living conditions of
the poor people. A new focus on the individual and his personal well-being also
in non-economic terms, aided by a stronger role of the state towards this end,
becomes the dominant strategy.

While the strategy of redistribution with growth proposed a focus on the
poor and promoted investment in poor people’s assets, its main focus remained
on the growth of monetary income. Investment in poor people’s assets was seen
as one of the means to achieve this. This perception was reversed with the
introduction of the Basic Needs Approach, which postulated the fulfillment of
the basic needs of each individual as the goal of development, while growth of
income was regarded as only one of the means to achieve this. This shift in
perception was evident in the influential speech of the president of the World
Bank Robert McNamara at the board of governors meeting of the World Bank in
1973 in Nairobi, in which he depicted the devastating situation of the developing
countries and called for a new strategy. He supported the work of Paul Streeten
et al who substantiated the Basic Needs approach towards a comprehensive
supplement to existing strategies. The following discussion is based on the view
of Streeten, which is a limitation the comprehensive literature on this topic, yet
legitimated by the fact that he was on of the leading voices of this development.

It will be seen at the end of this discussion that Streeten et al., while
retaining the conception of the market for general allocation, favor a strong
state. This is true not only in regard to public service provision, but also to
drastic limitations of the market mechanism if it is conducive to the fulfillment

\(^3\) The percentile was not predetermined in Chenery’s argumentation and could be set at any
other value.
\(^4\) See McNamara, R. (1973).
\(^6\) It could be seen as a full flagged strategy in its own right, but the authors point out that in a
full strategy goals other than basic needs will have to be accommodated as well. To bring out
sharply the distinctive features of this approach, they see it as “supplementing or
of basic needs. Thus, they subscribe to a strongly structuralistic viewpoint\(^1\). Even though the views of Chenery et al. have influenced the thinking of the World Bank in terms of focusing stronger on the basic needs of the individual, their structuralistic viewpoint was not adopted to this extent by the World Bank or most other donor nations. A notable exception to this is the Swedish position. Influenced among others by Gunnar Myrdal who refuted the applicability of high elasticities of supply and perfect markets\(^2\), Sweden’s government proposed a Third Way between capitalistic free markets and socialist regulation in development based on markets with a high degree of state intervention\(^3\) in the 1970s. The Swedish position in regard to development strategies changed in the 1980s to embrace again a more market oriented mainstream orientation. The structuralist view also received strong support among many developing nations.\(^4\)

A strong contrast of the Basic Needs strategy to those prior is the **broadening of the definition of poverty** beyond the lack of monetary income. “Poverty is characterized by hunger and malnutrition, by ill health, and by the lack of education, safe water, sanitation, or decent shelter”\(^5\), which also provides a list of the basic needs as perceived by Streeten et al\(^6\). This concern with nonmaterial needs in their own right\(^7\) does not include a disregard for growth or productivity. It is claimed by Streeten et al that the Basic Needs approach indeed fosters productivity by increasing the demand for more basic goods that are more labor intensive and by increasing the quality of the labor force through better health

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\(^3\) Which is basically the same as structuralism. For an expansion on the Swedish tradition of development see e.g. Lembke, H. (1996).

\(^4\) See e.g. Reynolds, L. (1983), p. 92, 93. This change of orientation towards greater structuralism in developing countries is also reflected in Sen (1983), p. 747. The reasons why different policies have been adopted might not necessarily have been economically induced, but might as well be a political concern, yet the economic theories have provided the ground for justification.


\(^6\) An exact definition of basic needs is not provided. Rather, a discussion of various forms to determine basic needs is undertaken. According to this discussion, basic needs can be determined either by minimum specified quantities, consumers themselves could determine what basic needs are and chose only constraint by a the necessary income (which is a difficult construct, since the income constraint itself depends on the wishes of the individual, the author), the state should determine the needs, and last basic needs could not be stated but fulfilled implicitly by the participation of the poor in the decisions and implementation of projects, e.g. political mobilization. For a lengthier discussion of this see Streeten, P. et al (1981), p. 25 f.

and education. Thus quantity and quality of labor increases lead to growth at least to the people living in poverty.

This is seen as one contributor to the goal behind this strategy: To meet basic needs in a short period of time, possibly in one generation. With the growth strategies pursued prior to the Basic Needs strategy this would not be possible, according to Streeten et al, even when redistribution is taken into account. The Basic Needs strategy purportedly enables the fulfillment of basic needs at a substantially lower GNP per head by affording fewer resources to reach the same impact due to a more focused approach. And it attracts a larger amount of resources, as more people are willing to commit resources to concrete human goals rather than to abstract concepts such as egalitarianism as proposed by redistributive arguments (which lack intrinsic value for most people). Streeten summarized his perception of the advantages of the Basic Needs approach over prior concepts in the following points: The approach provides “all human beings with the opportunity for a full life” because a full life presupposes meeting basic needs no matter how ‘full’ is defined. The concept also is less abstract and more specific and disaggregated because it looks at individuals and their immediate problems. This takes up the concept of individual poverty, in contrast to a concern about poor nations. This in tum provides organizing and integrating power for intellectual as well as political considerations, since focus on concrete problems is provided. Specific humanitarian problems of individuals also appeal stronger to members of the national and international community and therefore can help attracting resources.

Regarding the implementation of the approach, the Basic Needs concept does not prescribe a fixed set of measures in an integrated framework. Still some themes reoccurr and provide insights into measures that are seen important in achieving the fulfillment of basic needs. Regarding the provision of services, the state is seen as the most efficient provider for services in the areas of education, health, water and sanitation. Since these aspects are linked in their effects, they should be pursued together. For example female education is seen as beneficial to nutrition and health practices, reduced fertility and improved education. Subsidization or transfer payments should ensure affordability, with finance

3 Even with transfers of 2% of the GNP per year, the consumption of the poorest 40% can only be raised 23% over a 25-year period according to the computations in Streeten, P. et al (1981), p. 16. But this computation leaves out human development aspects that were already incorporated in Chenery’s view on Redistribution with Growth.
4 For a detailed discussion on the advantage of the humanitarian view over the egalitarian concept see Streeten, P. et al (1981), p. 17 f.
provided through progressive taxation and indirect taxation of luxury goods.\(^1\) Transfer payments are also considered as a means to reach the substantial proportion of people who cannot contribute productively due to sickness or old age and are therefore neglected in a growth-oriented approach.\(^2\) Still emphasis is placed also on the productivity of the poor, especially in the sector of small-scale farming and the production of food for domestic consumption where small-scale farmers have at least the same saving quota and produce more labor intensive and efficient as large-scale producers\(^3\); a point among many that has been taken over into today's strategies. This applies also to the ideas on the political situation.

In the political sphere Streeten et al see the problem that a basic needs approach is inevitably connected to a shift in the power distribution in a country, which needs to be achieved by mobilizing the poor themselves.\(^4\) The participation of the poor in the organization, implementation and delivery of services is essential for this\(^5\) and needs to be accompanied by a reorganization of the administration through decentralization and simplification of procedures.\(^6\) Streeten et al demand the focus of the work of the administration on the fulfillment of the basic needs of the people. They assume a time of transition from the former growth oriented strategies to the new strategies in which the increased demand for goods fulfilling basic needs, e.g. basic food items, will drive up their prices in a count-productive way that places especial burdens on poor consumer.\(^7\) National measures and the support of the international community should counter this effect.

This rather weak conception calls to attention one of the deficits of this approach, which is the supply side. An increase of demand for basic needs items is fostered, while impacts of shortages in the supply of low cost basic needs items are not further investigated but are to be bridged by national or international aid efforts. In concern of the international community, further demands regard a need to qualify their people employed in labor-intensive industries for better, more remunerative positions to enable the developing countries to expand in labor-intensive low skill industries. The developed countries are furthermore encouraged to provide development assistance only to poor countries that implement basic needs oriented strategies.\(^8\)

As will be seen in the later sections of this chapter, many of the points emphasized by the Basic Needs strategy were adopted by the modern

strategies proposed today. These include the broad definition of poverty, the creation of opportunities for the poor, investments in their human capital and conditionality on the donor side. One major demand that was not taken over was the call for strong state intervention. Some "forms of direct management of supply so that the intention of the policy are not frustrated" was justified by Streeten et al. on the grounds of externalities and market imperfections. The demands of a Basic Needs-oriented approach require in their opinion such large and sudden changes that total prohibition for imports and domestic production of non-basic needs items were deemed the most appropriate solution to control consumption and, indirectly, technology and income distribution. These rather drastic state interventions into the market mechanism mark the strong structuralistic tendencies, which underlie Streeten's strategic conception.

2.1.5. Free Market Forces

The experience with the structuralist conception of the basic needs approach led to another shift in the approach to development in the 1980s. Most states who had adopted a strongly structuralist viewpoint proved to be over-burdened by the responsibilities of intervening in the market place or by fully regulating the economic activities. This became obvious in the stagnation of their economies relative to the growth rates and associated prosperity achieved in some nations, mainly in South-east Asia. The debt crisis and the global recession of the 1980s exacerbated the problems of many countries. To counter the negative effects, a stronger value was placed on improving economic efficiency and allowing greater play for market forces. This resurgence of neoclassical economics refused structuralistic intervention in the market mechanism. It was based on strong criticism of policy-induced distortions and the non-market failures associated with public interventions, which led to the critique of comprehensive and detailed administrative controls and called for a removal of all kinds of price distortions. Since the neoclassical viewpoint is at the heart of the strategies of the 1980s, the main paradigms of the neoclassical school of thought are presented here briefly.

Neoclassical economics have been traditionally occupied with the allocation function of the market mechanism, which is regarded as the most efficient form of resource allocation and economic interaction. The neoclassical view draws on the concept of Adam Smith's invisible hand. The self-interest of all participants in the market yields the highest return for everybody and brings about optimal

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social welfare. This results from the equalizing pressures of demand and supply on the market price. No state intervention is required or desired, the price mechanism leads to optimal results in competitive markets. These markets are assumed to develop without the need for intervention if the incentive system is right. The institutions in the form of regulations and enforceable standards are considered to evolve on their own and are not assumed to need governmental interference.

This school of thought assumes high flexibility within the system characterized by high elasticity of substitution among commodities and factors in response to market signals. This allows the retention of equilibrium prices even in the face of shifts in internal demand or external trade. The pareto-optimal results that are achieved under these conditions, with each factor receiving returns equal to its marginal productivity no matter to what use it is deployed, rejects the notion that state intervention could possibly do any good in terms of spurring growth by shifting resources to other uses.

Linked to the concept of neoclassical theory is the modernization theory. It postulates that promotion of open trade and a gradual advance towards the world market forces an economy to modernize to keep up with international competition, which yields benefits of increased productivity and fosters a catch-up process with more advanced economies. Both theories rely on the forces of the markets to bring about positive results in terms of efficiency. The intervention of the state is seen as a limitation to the economic gains possible in a ‘free’ market environment.

In his presentation of the neoclassical conception prevalent in the 1980s, Jungfer presents the criticism of the structuralistic viewpoint by outlining the negative effects of price distortions. Price distortions in his analysis are seen as detrimental to social welfare due to negative side effects. Price stops and price limits have the effect that the market cannot fulfill its allocation mechanism since according to the behavioral assumption of the neoclassical model producers reduce their output with decreasing price while the demand increases, which leaves a discrepancy. The allocation has to be arbitrary or administered by the state. Since the reduction in output is unintended, the government is compelled to regulate the output of the industry or has to increase the price to producers through subsidies to encourage higher production. A spiral of increasing state intervention is necessary to prevent the unintended side effects in the case of regulation. Due to the spread between demand and supply, consumers are willing to pay a higher price than the regulated one, opening up opportunities for corruption and black market activities. These cannot be hidden for long, which bear potential for social unrest and upheaval.

1 The following discussion on the detrimental effects of price distortions and the national framework conducive to the mechanisms of the free market economy is strongly based on the analysis undertaken by Jungfer, J. (1991), p. 179 - 210.
2 Which is according to Jungfer the only way in which such price regulation can be sustained.
Especially serious effects are expected in **capital markets**. Interest ceilings with sometime negative real interest rates are assessed to deprive owners of monetary capital of their property, while in turn enabling arbitrary projects or projects with corrupt links to authorities instead of investment in the most profitable alternative. Under these conditions entrepreneurial spirits are excluded from the market for capital. These developments lead to a reduction of overall productivity in the state. This is propelled as the willingness to save decreases at lower-than-market, sometimes even negative, interest rates; at least in terms of savings in local currency.\(^1\) To counter this, states introduced forced saving practices, leading to impoverishment of their society and capital flight to foreign countries. Furthermore, artificial under-pricing of capital leads to increased investments in capital-intensive production techniques at the reduction of labor input, with negative effects on the income position in the society. Similar negative effects are noted in cases of price distortions in the foreign exchange market and the labor market. Effects of these price distortions include criminalization of those members of society who try to avoid the regulations, the unavailability of goods, the proliferation of corruption and black market activity and the diversion of resources for unproductive uses.

When **interventionist practices are stopped** due potentially to the inability of the state to keep up the subsidies used to intermediate demand and supply, those groups in society that are negatively affected are likely to protest against this development. This can lead to social unrest and attempts of usurpation. The more the subsidies are financed by foreign borrowing, the harder the adaptation process will be for the country, because it has to cope with the consequences of the internal shock of a sudden price increase as well as with the repayments of foreign debt and interest limiting the room for maneuver ever more. Thus, the shocks that result from a return to neoclassical policies are seen as inherent in prior price distorting policies and not as attributable to the neoclassical model.

A remedy to prevent these negative developments of price distortions is in the neoclassical conception a regulatory framework conducive to **free market interactions**. Jungfer points out that developing countries need entrepreneurs as much as developed nations because the diffusion of existing technology and its adaptation to local conditions require the ability to take risks and to be innovative. In order to evolve their economic potential, entrepreneurs need a minimum degree of individual liberty rights, which excludes totalitarian regimes as viable to foster economic activity\(^2\). Individual liberty rights also comprise free market access. This argument is placed in favor of dismantling monopoly

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\(^1\) Some studies have shown the real interest rate as little or no influence of the savings ratio. (For reference on this see Jungfer, J. (1991), p. 195 – 198 or Frey, M. (1980), p. 317 – 319.) Yet it can be assumed that despite an approximately equal savings ratio the from of savings changes with decreasing real interest rates below the inflation rate - from monetary savings in local currency to savings in real equity or foreign currency to prevent the reduction in value.

situations and price distortions such as price ceilings and credit and foreign exchange restrictions.

Free international trade is, according to the neoclassical view, a promising way to ensure competition in national markets and thus an environment conducive to entrepreneurial behavior. To reap the benefits of international trade and to be able to detect at all those areas where a nation has comparative advantages, liberal foreign trade policies and a market-based price mechanism for exchange rates and production factors are seen as preconditions. Additionally, a stability-oriented price and foreign exchange policy is recommended because inflationary tendencies and currency devaluation are seen as root causes for enacting price distortions with all the negative effects in regard to investment efficiency, saving quotas and corruption mentioned above. 

Budgetary discipline is a precondition for this and is regarded as best protected by an independent federal bank.

This neoliberal approach in the 1980s and early 1990s guided the structural adjustment programs of the International Monetary Fund. The effects of these programs are generally viewed as beneficial\(^1\), yet the immediate effects sometimes resulted in severe declines in GDP per capita and overall welfare\(^2\). These negative effects are seen as inherent in the prior misleading policies of market intervention\(^3\) as discussed above.

Adjustment programs of the early 1980s focused mainly on the demand side by lowering the exchange rate and imposing import restriction, while progress on internal problems such as budgetary deficits and inflation was slow. The resource outflow associated with the improved trade balance through exchange rate depreciation led to reductions in investments in the private and economic area including the area of human capital. Despite the efforts of the majority of developing countries to cut social expenditures less than average expenditures\(^4\), a “sharp reversal in the trend toward the improvement in standards of child health, nutrition, and education”\(^5\) was visible. The reduction of investments and the pertaining internal problems did not only impose high social costs but also reduced the long-term prospects for growth\(^6\).

To improve the growth prospects second-phase reforms concentrated on three issues established in the so-called Washington Consensus: expenditure reduction through governmental expenditure cuts, increased tax revenues and limitation on credits; expenditure switching through exchange rate devaluation that increases the relative prices of tradable goods; and reform measures in a

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\(^1\) See World Bank (2000a), p. 62.


narrower sense such as deregulation of capital and labor markets, enforcement of ownership rights and trade and capital account liberalization.\footnote{See Sautter, H. / Schinke, R. (1994), p. 4, 5.} The negative effects on the poor resulting from the elimination of subsidies and loss of jobs due to intensified international competition coupled with a deregulation of capital markets were taken into account in the Washington consensus. Measures like social funds and protection of social spending were implemented to mitigate this effect. These measures have in some cases led to efficiency improvements due to stronger focus of the expenditures on the poor population that have outweigh the negative implications of the expenditure cuts\footnote{An often-cited example for such a development is Chile. See e.g. Sautter, H. / Schinke, R. (1994), p. 15.}. Yet the aim of these measures to secure acceptance of the reform program rather than to eliminate poverty led impact mainly to the prevention of new poverty rather than the fight of existing poverty.\footnote{See Sautter, H. / Schinke, R. (1994), p. 13.}

The results of these adjustment programs have been mixed. In many cases they have delivered growth\footnote{See World Bank (2000a), p. 62-64.} and led to mainly small reductions in poverty\footnote{See Thiele, R. / Wiebelt, M. (1999), p. 29.}. Yet some reforms have failed to deliver benefits to the poor because of slow or unassertive reforms, capture by the special interests of elites or because of the failure to build supporting institutions.\footnote{See Tommasi, M. / Velasco, A. (1996).} This last point shows that a neglect of the role of the state in building up adequate institutions to support the market oriented reforms can lead to strongly negative impact on reform process.

### 2.2. Today’s understanding of poverty reduction

The high social costs of necessary but dragging and inadequately sequenced reforms experienced in the 1980s have led to a rethinking of the development strategy. To avoid some of the negative impacts on the poor, a concern for pro-poor spending and for securing this spending even in times of fiscal austerity emerged in the new strategic conception. The negative impacts on the poor are also considered to result from a neglect to focus on the following criteria: On the empowerment of the poor to ensure that their concerns are taken into account, on expanding their endowments to increase their opportunity for economic progress and on their security to reduce the effects of sudden changes in their income situation. These themes have been taken up with vigor in the new strategies.

The lessons learned from the trials and errors of past experiences\footnote{The faults of the past are summarized in the first British White Paper: “The first (flaw) was characterized by a belief that the State should extend its control over production and trading} have also led to the agreement that markets as well as sufficient regulatory...
frameworks are needed for development, expressed in a call for a strong but limited state. Coupled with a focus on improving the situation of poor individuals this has shaped today's understanding of measures of development. The historical conversion of the concepts of mainstream economics and structuralism towards a common understanding, focusing on the benefits of a combination of both while avoiding the pitfalls of a pure strategy, contributes importantly to the evolution of measures of development. Today's understanding is shaped by a call for a strong but limited state. Improving the situation of poor individuals is central to this understanding.
living are seen as the driving force that has to be at core of the attempts to reduce poverty. Appropriate allocations or resources and changes to the political system have to be made to enable the poor to take over this proactive role that is assumed for them in the new strategies. It is realized that currently the power to help themselves and the will of many poor individuals are suppressed by conditions that prevents them from using their assets and will power most effectively. Many forces affecting poor peoples' lives are seen to be beyond their control. This necessitates a view on poverty reduction that changes these conditions towards greater responsiveness to the needs of the poor. Special emphasis is placed on providing poor people with economic opportunities, empowerment in terms of participation on decisions regarding his life and security, which are deemed as essential for the full utilization of his resources.

Measures proposed in this regard comprise a regulatory framework conducive to the expansion of activities by the poor; public service provision aiming at increasing the human capacity and the access to basic services; provision of market access for the poor; political reorganizations to increase the political participation of and accountability to the poor; and private and public insurance schemes extending security against adverse changes in living conditions to poor people. The strategies thus integrate ideas of the basic needs approach, demands for free play of market forces embedded in a conducive institutional framework and considerations on favorable governance issues. The focus on governance and institutions, including investigations on the negative effects of corruption, in-efficiency und unresponsiveness to the poor population, as well as a concern about the vulnerability of the poor are the main new concerns of the strategies developed at the end of the 1990s.

The main approaches to achieve progress on poverty reduction that are similar in most modern strategies are at the heart of the remainder of this chapter. But before they can be tackled the question of who is considered poor under the new strategies and how poverty is defined must be explored, as this provides the base line against which the effectiveness of the approaches needs to be assessed.

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1 For an expansion on this point and on measures for action see World Bank (2000a), p. 7 - 12.
2 This three-dimensional approach has been introduced by the World Bank as the structure by which the measures for development are assessed in the WDR 2000/20001, but can be found in equal or similar terminology in other recent strategies.
3 See e.g. World Bank (2000a), p. 32: “And expanding the human capabilities of poor people remains central in any poverty reduction strategy, both for the intrinsic value of such capabilities as health and education as for their instrumental contribution to other dimensions of well-being, including income.
4 Similarly see World Bank (2000a), p. 6.
5 The definition of poverty is not a task of mere academic value; it crucially influences the measures pursued in its reduction since the definitions determine which problems are focused on and which are peripheral or neglected.
2.3. Poverty Definitions beyond Monetary Income

2.3.1. Conceptual Dimensions of Poverty Definitions

Parallel to the trial and error approach that led to current consensus on poverty reduction there has also been a development concerning the development of the definition of poverty. Before this is discussed the conceptual dimensions by which poverty definitions can be classified shall be shortly introduced.

Poverty definitions can differ along three dimensions\(^1\). First, poverty can be measured against a minimum standard necessary for a life in dignity or against the general living standard in a society: The dimensions of absolute vs. relative poverty.

Absolute poverty in a narrow sense is the state in which a person cannot secure his physical survival in the long run\(^2\). This measure is applicable for all countries and time periods and has the advantage of international comparability. An example of this would be a minimum amount of calorie intake.

Absolute poverty in a broader sense can be defined as a state in which a person cannot achieve a socio-cultural minimum necessary for a life in dignity in a given society. Here the various needs besides pure physical survival and their different characteristics in different cultures are taken into account at the expense of intercultural comparability. Thus the broader definition already includes a certain amount of relativity. An example for this has already been provided by Adam Smith, who assesses that the ownership of certain things such as leather shoes might be necessary in one society to achieve social acceptance, while in another their possession is not relevant. Social circumstances and customs determine to a high degree the goods seen as necessities for a life in dignity\(^3\). The concept is considered ‘absolute’ in that it is derived from unfulfilled minimum needs, which are relatively stable in a given society.

The term relative poverty refers to the divergence of the prosperity of an individual from the mean prosperity of the society. Relative poverty thus is prone to change if the average societal prosperity changes. Examples for poverty definitions in this category include people in the lowest 20% of the income distribution or people earning less than 50% of the mean income.

The applicability of a relative vs. an absolute poverty definition depends on the need for comparability between countries and the overall wealth of a country\(^4\). In attempts to illustrate the global progress in poverty reduction,

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\(^3\) Smith, A. (1976), p. 870.

\(^4\) If the average person cannot even sustain physical survival, the relative poverty definition becomes meaningless.
preference is usually given to absolute poverty criteria in a narrow sense\(^1\), while in the assessment of national or regional poverty absolute poverty in a broader sense or relative poverty concepts are preferred\(^2\).

A second dimension portraying differences in poverty definitions consider **primary vs. secondary poverty**. Primary poverty is concerned with the resources available to a household. These are related to the satisfaction of needs by the assumption of perfect utilization of these resources. That means that the usage of resources by the household is not considered since inefficiencies in the spending of the resources are not anticipated. Secondary poverty, on the contrary, is concerned directly with the utilization of resources. Inefficiencies in utilization are seen to lead to a lower ability to satisfy one’s needs than under a primary poverty definition assumed. Reasons for this are assumed to be information and transaction costs, societal customs such as burial rites, or simply squandering assets, such as with drug or alcohol abuse\(^3\). Thus, the outcomes of the activities of the poor are of concern for the secondary poverty definition, while the inputs serve as the base line for the primary definition.

A third way to distinguish poverty definitions rests on the considerations of **resource vs. non-monetary poverty conception**. In a resource-based definition, all forms of monetary and non-monetary income such as work and property income or reception of public services are taken into account. It is implicitly assumed that the goods necessary to satisfy the basic needs can be obtained with these resources. This approach is easy to operationalize and measure, but neglects the fact that discrimination or corruption might impede the obtainment of services and goods, especially intangible goods such as participation in political and social life. Also the obtainment of public goods such as education, health care and sanitation might be impeded due to remoteness form public service facilities.

The non-monetary poverty conception looks at the overall situation of the individual in regard to all poverty relevant areas and conditions such as aspects of work, education, habitation, health, and participation in the political, social and cultural life. It incorporates the entire surrounding in which the individual can act to achieve his or her fortune. This allows an assessment of a person’s life beyond his monetary income and consumption, but complicates the measurement of poverty and aggravates the comparability of the situation.

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1. See the IDT criteria of income below US$1 per day in purchasing power parity in the next paragraph.
3. Squander can be regarded as an effect of the apathy that the poor might develop because of their experiences that changes tend to even worsen their situation. This apathy can extend to economic considerations. On this topic see Rein (1970), p. 60 as portrayed in Sautter, H.; Serries, C. (1993), p. 13.
between two individuals. It can be said that most modern strategies borrow from the resource as well as the non-monetary poverty conception.

### 2.3.2. The Current Poverty Definition

The definition of poverty has developed over time alongside the overall evolution of development cooperation. During the 1950s and 1960s it was characterized by a concern for mainly economic matters of income and physical assets of the poor, relying exclusively on a resource based, primary definition of poverty. This poverty definition has been extended beyond measuring the lack of monetary income to incorporation of the non-resource based, secondary measures of basic needs in health and education already by the Basic Needs conception\(^1\) of the 70s and even prior to that\(^2\). It was retained throughout the 80s and builds the basis even for today’s strategic conceptions.

The new aspect regarding the definition of poverty in the contemporary strategies is the inclusion of the additional, non-resource based, secondary measures of vulnerability and deprivation of participation in economic, social and political life. The focus on vulnerability is based on the consideration that gross insecurity about the future and uncertainty about being able to cope with it can be a psychological strain, especially since people with little income or assets have to fear for their very survival. Further, it overly limits the current choices about one’s life since proactive, higher-risk-higher-return decisions could ruin one’s future existence\(^3\). The inclusion of deprivation of participation in economic, social and political life as a form of poverty takes into account the negative impact of discrimination, powerlessness and deprivation of a person’s dignity, which can take from of humiliation, exploitation and inhuman treatment\(^4\).

By taking this social and political dimension into account the current definition also affirms the Universal Declaration of Human Rights (UDHR) which asserts the right to participate in political process and to participate in cultural life\(^5\). The inclusion of "voicelessness and powerlessness\(^6\) is especially noteworthy because it provides the focus on aspects of good governance and participation\(^7\) within the new strategies with a legitimization of being worth on

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1. See the discussion in Chapter 2.1.
2. Already in the 1950s voices within the United Nation pointed at a stronger focus on the basic needs of the poor population.
4. See e.g. World Bank (2000a), p. 35, 36 for a discussion on this.
7. The explanation of these words is provided later. In short, good governance is concerned with favorable political conditions attributable to poverty reduction and includes responsiveness to the needs of the population, especially the poor, lack of corruption, rule of
their own behalf, and not only because they contribute to the reduction of some other measure of poverty. That means that exclusion from social life or political decisions cannot be justified by progress on economic terms¹ since the lack of inclusion is a form of poverty itself.

This view of poverty has been made explicit by the World Bank, which is the only one of the four organization to take up the challenge to define poverty explicitly. As it is similar to the views presented in the other strategies, it shall serve as the definition for poverty within the further argumentation of this thesis. The expression given in the WDR states:

Poverty is “encompassing not only material deprivation (...) but also low achievements in education and health. Low levels of education and health are of concern in their own right, but they merit special attention when they accompany material deprivation. This report broadens the notion of poverty to include vulnerability and exposure to risk – and voicelessness and powerlessness.”²

The German action program, even though not explicitly providing a poverty definition, relies on the poor person’s perception of poverty³ to come up with the following criteria: lack of material well-being; social deprecation, voice- and powerlessness, lack of self-confidence, lack of dignity; lack of basic infrastructure; illness; lack of education; and lack of resources.⁴ This aims in the same direction as the poverty definition of the World Bank⁵. Instead of a definition on poverty, Sida relies on a statement of “quality of life,” which reflects the absence of poverty as “peoples’ opportunities for making a secure living in a manner that is foreseeable and safe, to be in good health and to have access to education and other social services.”⁶ It specifies later that this means “guaranteeing the poor, particularly women and children, their human rights and freedoms, opening up their range of choice, improving their environment and security and enabling poor women and men to participate in development law, decentralization, accountability and transparency of political and administrative decisions. Participation is used to describe the inclusion of the poor or of civil society in the political decision making process.

¹ Which some supporters of the focus on the political dimension would deny in the first place since they see the inclusion of the poor in the political system affecting them as a precondition for reaching substantial economic progress for them.
³ Borrowed from the World Bank survey Voices of the Poor.
⁴ See BMZ (2001a), p. 2. (Translated by the author.) This selection has been extracted from the original work of World Bank (2000b).
⁵ Which is not surprising since the report Voices of the Poor influenced the viewpoint of the World Bank on poverty as well. The issue of security is not included in these indicators, but is a central theme in the later discussion on the measures of poverty reduction.
It can be argued that the British position regards similar criteria on the basis of their strong concerns about the achievement of human rights in accordance to the UDHR, which comprises the views presented already for the other three definitions. Yet it is astounding that the extensive work comprising two White Papers and eight strategic documents does not contain a clear definition of poverty from the British point of view. Rather, the “UK’s policy on international development is based on a commitment to an internationally agreed set of development goals and time-bound targets.” These targets known as International Development Targets (IDTs) are referred to throughout the British strategic proposal, and are accepted also by the other OECD member states as well as the World Bank, the International Monetary Fund (IMF), the United Nations Development Program (UNDP) and other development organizations. They are targets rather than a definition, but their content also specifies certain dimensions of poverty. Due to the widespread acceptance of these targets and the focus they can provide for work of the development community, they shall be presented and analyzed in the following paragraph.

2.3.3. International Development Targets

The international development targets (IDTs) represent the current state of international consensus about the measurable goals that are to be pursued in development cooperation. The overall consensus extends beyond these goals and also encompasses the means by which they are to be pursued as well as agreements on issues such as cooperation or trade where measurable goals are difficult to operationalize.

The measurability of the IDTs is their great strength in order to track the effectiveness of the new strategies. Their second major contribution is their international acceptance. While the consensus that is examined in the rest of the chapter is only inferred from the strategies of the agencies without being formally agreed to, the IDTs are officially accepted by the UN, the World Bank\(^1\) and the OECD\(^2\) and its member countries. This broad based international acceptance of a fixed set of measurable goals is one reason for the enthusiasm about the ability to cooperate more efficiently in the future due to shared aims and about improvements in aid effectiveness because of improved accountability\(^3\).

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5. This enthusiasm is visible throughout the International Development Target Strategy Papers of DfID, which aim directly at meeting these targets. See e.g. DfID (1999a), p. ii.
The IDTs comprise:

Well being in that they demand

1. a reduction by one-half in the proportion of people living in extreme poverty by 2015,

human development in their request for

2. universal primary education in all countries by 2015,

3. demonstrated progress toward gender equality and the empowerment of women by eliminating gender disparity in primary and secondary education by 2005,

4. a reduction by two-third in the mortality rates for infants and children under age five and a reduction by three-quarters in maternal mortality, all by 2015,

5. access through the primary health-care system to reproductive health services for all individuals of appropriate ages as soon as possible and no later than the year 2015

and environmental sustainability and regeneration through

6. the implementation of national strategies for sustainable development in all countries by 2005 so as to ensure that current trends in the loss of environmental resources are effectively reversed at both global and national levels by 2015.1

These goals by themselves do not contain a clear poverty definition but rather present measures, which implicitly rely on a certain understanding of poverty. Therefore these goals do not waive the need to define poverty properly in order to give guidance in individual decisions. The first goal in this set is concerned with income poverty because the poor in this definition are defined as people with less income than US$1.08 per day in Purchasing Power Parity2 at prices of 19933. This describes people who can obtain less goods and services with their daily income as could have been obtained with one4 US dollar in the United

importance placed on these goals is also visible in the speeches of the German Minister for Economic Development and Cooperation, Wieckzoreck-Zeul (2000b): These goals will only be achievable by the international community if everyone aims at reaching them with all their power. (Translated by the author.)

2 Purchasing Power Poverty (PPP) refers to the ability to obtain the same amounts of goods and services in the developing country as could be obtained from the dollar amount in the USA. PPP conversions should not be confused with conversions by the official exchange rate. One dollar converted at the official exchange rate can result in significantly higher value in local currency than when converted at PPP, since especially services and labor-intensive goods can be obtained cheaper in the developing country due to the low labor costs.
4 Slightly rounded for easiness of reading. This will be kept in poverty definitions throughout the text. The correct value is 1.08.
States in 1993, which is deemed insufficient to provide nutritional intake, not to mention essential services such as education and medical care. This measure is, thus, based on an absolute poverty and relies heavily on resource considerations, since it infers from daily income on daily goods that can be obtained. It is also based on a primary poverty definition because no considerations are given to inefficient use of resources. Thus, this is a rather crude measure of progress on poverty reduction. The limit of around one dollar is set rather arbitrarily and due to the absolute and resource based definition the applicability to the situation of a poor individual in a specific country context is quite low. Still, this criteria provides an overall, easy to understand and easy to measure base line for the progress on the international scope of poverty reduction.

The current international, aggregated situation on poverty in economic terms is depicted in figure 2 and 3.

**Figure 2:** World Population by Income Level (in billion people)

* Source: WDR 2000/2001

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2 It does have some descriptive meaning, though, since it is constructed as the most typical poverty line in terms of purchasing power parity out of 33 national poverty lines and thus can claim to have legitimacy based on the national view of poverty in the poorest countries. Still a certain amount of arbitrariness cannot be dismantled for this method of construction, because the choice of countries and the definition of "most typical" leave ample room for variations. For a construction of the one dollar criteria see World Bank (2000a), p. 17.
The figures show the ambition of the first and most pronounced of the international development targets: Four people that are non-poor are to lift one poor person out of poverty. If the people that live below PPP$2 per day are not accounted for because they are living in poverty themselves and need support rather than provide it, the ratio is down to 2.5 to 1. The large number of poor people is one reason why the new strategies rely heavily on enabling the poor to contribute themselves to a betterment of their situation as will be pointed out in more detail in the discussion of the general consensus.

The regional distribution of poor people (figure 3) shows that their majority lives in South Asia and Asia and the Pacific. While in the latter large progress has been achieved in terms of poverty reduction in the 1990s, poverty actually increased in all other regions of the world, as shown in figure 4. To reach the target of halving the world’s poverty, these trends need to be reversed in the near future.

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1 Actually the modern view of poverty reduction places the greatest burden of changing the economic situation on the poor people themselves. The international community’s main input is to provide the right international framework and some support. Therefore, the comparison of numbers of people presented here is mainly for illustration purposes.
Figure 4: Changes in the Number of Poor People by Region*

<table>
<thead>
<tr>
<th>Region</th>
<th>1990</th>
<th>1996</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sub-Saharan Africa</td>
<td>200</td>
<td>200</td>
</tr>
<tr>
<td>South Asia</td>
<td>400</td>
<td>500</td>
</tr>
<tr>
<td>Middle East &amp; North Africa</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Latin America &amp; the Caribbean</td>
<td>200</td>
<td>300</td>
</tr>
<tr>
<td>Europe &amp; Central Asia</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td>Asia &amp; the Pacific</td>
<td>300</td>
<td>400</td>
</tr>
</tbody>
</table>


To supplement this economic viewpoint by considerations of non-monetary oriented nature, the goals were extended towards measuring progress in terms of health, education and environmental concerns. The assessment of the circumstances in which a person lives cannot be achieved by the income approach alone, and thus measures such as the availability of health and educational services, the freedom from gender discrimination and the prospect of hazardless environmental conditions receive their justification. The non-monetary approach underlying goals two to six are also based on absolute considerations in that the average population is of no concern. It is related to a secondary poverty definition in that outputs are considered rather than inputs¹ and, thus, widens the perspective to look at inefficiencies that are incurred by

¹ This is definitely the case for the health sector, but remains to be seen for the environmental and educational sector, where measures such as achieved environmental preservation and achieved literacy and mathematical proficiency should prevail over easier to determine but less meaningful input measures such as money spent on environmental projects or years of mandatory schooling.
the poor. Thus, the IDTs together try to incorporate a broader perspective than a consideration for income alone.1

This corresponds to the broad-based definition of poverty presented in the preceding sub-chapter. In its underlying definitions, the first IDT is concerned with “material deprivation”, while goals two, four and five aim at “achievements in education and health”. Goal three can be argued to encompass a focus countering “voicelessness and powerlessness”, at least concerning the situation of gender inequalities. Still this is a very limited measure of the success on the political and social dimension. Insecurity as a part of poverty is fully omitted from these goals. This might be partly so because political and social freedom and security from adverse shocks are hard to measure. The last IDT on environmental progress extends beyond the consideration of the poverty definition to encompass the broader concern about environmental degradation. Therefore it can be concluded that the IDTs do not reflect all dimensions of the currently discussed poverty definitions, but shed a light on many of the relevant considerations in this regard.

The acceptance of the IDTs has its virtues and drawbacks. As a promise and a proclaimed aim of the development agencies, they contain the threat of leading into a credibility trap for the official development assistance. As has been argued prior,3 the development agencies proclaim goals that the donor governments and the development agencies cannot fully influence since the most important decisions for the reduction of poverty are taken autonomously in the developing countries themselves.4 And within the development community the contribution of each agency towards these goals is difficult to assess due to the global scope of the goals and due to measurement problems, leading to ambiguity about the individual agency’s performance and to possibilities of free-riding. Yet even if this interagency problem could be solved, the first problem remains: The major success factors for poverty reduction are not set by the development agencies. Thus, the IDTs proclaim a development that is to a high degree determined by factors beyond the control of the development agencies, which bears the threat that a potential failure to achieve them is attributed by the national constituents to their development agencies despite high efforts on their part. This might lead to reduced confidence in their work and potentially reduced financial resources.

Another drawback is that the IDTs measure only a very small part of the incidences that mark poverty. For example the measures on health omit many

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1 Still, the one-dollar a day criterion remains the most popular in the current discussion and dominates the perception about the progress reached so far.
2 The concern for the environment can be seen as contributing to some degree to the reduction of poverty, while to some degree this is not the case. See the discussion in the chapter on 'poverty reduction vs. other development goals'.
3 See the chapter on poverty reduction vs. other development goals.
4 For an extension of this idea see Sautter (1995), p. 135.
factors contributing to longer life expectancy and focus mainly on birth and young age. This bears the threat that other important issues, e.g. support for the elderly, are disregarded to reach the highest impact towards the achievement of the development targets.

These potential drawbacks have to be evaluated against the virtues of this approach. A strong mutual understanding between the donor nations about the direction of development efforts can be achieved. Projects and sector policies are evaluated against quantitative measures that account – at least partially – for their performance, focussing mainly on the delivery in terms of output measures rather than on inputs. Cooperation becomes easier because the general aims are clear to all participants, and thus the chance for greater impact due to concerted actions increases. These are strong benefits, which have led to the general adoption of the IDTs. In the current situation, where the decision in favor of the IDTs has already been taken, the development agencies should aim at making the greatest use of the advantages, while trying to reduce the negative aspects where possible.

2.4. The Domestic Framework for Poverty Reduction

The broad agreement on the international development targets is one aspect of the grown international consensus on poverty reduction. However, the IDTs only aim at the direction of what shall be achieved, but do not provide insights on how this shall be attained. On their own they provide a weak case for proclaiming an international consensus. Yet the consensus extends beyond an agreement on goals towards acceptance of a number of broadly defined measures for domestic as well as international action for poverty reduction. The proposed domestic conditions favorable for poverty reduction can be shown along the three dimensions of economic framework, political conditions and security concerns. These shall be outlined in this chapter, while the international conditions are presented thereafter.

2.4.1. Economic Framework

2.4.1.1. Growth and Equality

The new consensus on poverty reduction, in line with the strategies of the past, gives close attention to the economic aspects of development. This follows from the perspective that, despite the broadening of the poverty definition to non-monetary measures, low economic achievements of the individual

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1 As one measure to this extend DfID proposes the extension of the IDTs by additional measures on a country and sector basis to avoid the threat of a too narrow focus on the pure achievement of the IDTs while disregarding other problems. See e.g. DfID (1999a), p. 35, 36.
contributes greatly to his own feeling of poverty\(^1\). On a broader perspective economic performance is also seen as a factor aiding the advancements on non-monetary factors such as health and education, which tend to increase on average as GNP grows\(^2\).

The foremost point of all strategies regarding economic performance is the requirement for growth as a necessary condition to reduce poverty\(^3\). The rate of growth needs to be substantially larger than the population growth to have an impact on the individual, meaning that per capita growth is the main determinant. It needs to be achieved over an extended period of time\(^4\).

The value of growth is assessed in terms of its impact on the poor. A ‘trickle-down’ effect promoted in early strategies of development is not a consideration in any of the strategies reviewed here. Rather, empirical evidence is consulted to conclude that growth on average accrues to the poor to the same extend as to the rich. E.g. growth in the consumption of the poorest fifth of the population tracked economic growth in their countries on average one-for-one in the 80s and 90s\(^5\). Additionally, the fact that no country has managed to reduce poverty without economic growth provides justification for its promotion within the strategies\(^6\). The case for economic growth as a precondition for poverty reduction is further supported by the assessment that economic growth also aids growth on non-monetary factors such as education and health, which become more affordable as national income rises\(^7\).

Growth in itself is not seen as a panacea to reduce poverty and is considered only as a necessary, but not a sufficient condition for the reduction of poverty\(^8\). The fact that the “trickle-down” effect is not regarded to bring the desired changes for the incomes of the poor and the realization that growth, even rapid growth, can occur without a reduction in poverty, led to the discussion of inequality as a determinate of poverty reduction.

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\(^1\) See citations of the World Bank report Voices of the Poor – World Bank (2000b) - cited in World Bank (2000a), p. 34 and in BMZ (2001a), p. 2, where missing material well-being in terms of nutrition, housing and land is assessed as the first of the main problems of the poor.

\(^2\) See World Bank (2000a), p. 46.


\(^5\) Study covering 65 countries. See World Bank (2000a), p. 47.

\(^6\) See e.g. Sida (1996), p. 3.

\(^7\) See World Bank (2000a), p. 57. There are deviations from this average, though, which point at the possibility to increase non-income factors such as health and education without increases in GNP. This will in fact be argued later as a measure to boost the national growth, which can be seen as a reversal of the thought presented here. Still, this does not refute the fact that stronger economic performance makes achievements on non-income measures easier affordable and on average more likely. Thus, the case of a “vicious” or “virtuous” circle of non-income progress and economic performance seems possible.

\(^8\) See Sida (1996), p. 3.
The impact of growth depends on the change in inequality in a nation. GNP growth accompanied by a reduction in inequality leads to over-proportional growth for the poor, since the proceeds from growth are in this situation more equally spread than the initial distribution within the society. On the contrary, GNP growth coupled with rising inequality leads to under-proportional growth for the poor\(^1\), which could even lead to a situation where poverty increases despite growth because the inequality of income distribution rises even faster.

On average there does not seem to be a clear connection in the direction from growth to a change in inequality, neither increasing nor decreasing it on average. This provides the basis for the reasoning that growth is on average helpful to the poor. Even growth with rising inequality is not necessarily a negative phenomenon if the increase in inequality still leads to improvements in the situation of the poor, to an increase in their economic opportunities and is not accompanied by dysfunctional forces such as discrimination\(^2\).

While the link from growth to changes in inequality does not show a clear tendency, there seems to be a case for initial levels of inequality in monetary and non-monetary assets and incomes\(^3\) having strong impact on growth for the poor. This is based on two considerations. First, inequality can lead to lower overall growth rates, since "unequal societies are more prone to differences in collective action, possible reflected in dysfunctional institutions, political instability, a propensity for populist redistributive policies, or greater volatility in policies – all of which can lower growth"\(^4\). For some cases this can even be argued out of considerations on the productivity per asset, which can e.g. in agriculture be greater for small farms owned by many than by large farms owned by few\(^5\).

Second, high initial inequality will also lead to most of the overall GNP growth accruing to the non-poor under the assumption of relatively stable levels of inequality, implying that growth is distributed according to the initial levels of assets or incomes\(^6\). The same level of growth will thus yield higher impact on reducing poverty in countries with low inequality. The poor will receive a greater share of the growth according to their greater share in initial assets or incomes in these countries compared to poor people living in countries with high inequality - under the assumption that the proceeds of growth will occur

\(^1\) For a deeper insight on the following discussion see World Bank (2000a) p. 52 – 59 and DfID 10 – 14.

\(^2\) See World Bank, p. 54 and 55.

\(^3\) See DfID (1999b) p. 11. On p. 14 the inequality in assets is seen as even more relevant than the initial distribution of incomes.

\(^4\) See World Bank (2000a), p. 56.

\(^5\) This is exemplified in World Bank (2000a), p. 57 by citing the land reforms in the Indian state of West Bengal that led to output improvements of 18%.

according to the initial distribution. Since inequalities are hard to change, this assumption seems reasonable.

The conclusions drawn from this discussion of the necessity of growth on the one hand and the need for more equality on the other hand are twofold: On the one hand the overall economic incentive system has to be adjusted to support growth on all levels. Therefore the institutions have to be conducive to growth and private initiate – which is seen as the driver of growth – and obstacles inhibiting economic activity leading to growth need to be removed. On the other hand special attention has to be given to ensuring that growth occurs to the poor and that opportunities open up for all, in particular through the “advancement of the disadvantaged”. This is termed pro-poor growth and is to be achieved through measures spurring the growth for the poor and, thus, overall GNP growth according to the new strategies. These two concerns – the economic incentive system and the creation of economic opportunities, especially those for the poor – shall be analyzed in more depth in the remainder of the chapter after a brief discussion of the significance of growth for development.

The assumption that growth is a necessary condition for poverty reduction is, despite its general acceptance, not unchallenged in the contemporary debate between practitioners in economic development. Therefore the claim to be able to reduce poverty without growth is discussed here briefly.

In this context it is argued that poverty is reduced by conducive policies. These also tend to favor economic growth, so that growth rather moves together with poverty reduction and does not necessarily influence it. Also, it is claimed that progress on poverty reduction can be achieved by more efficient use of existing governmental resources, increase of government resources for redistribution by more efficient taxation and shift in government allocation. Additionally, non-income poverty in regard to social and political rights is considered to be reducible without growth.

There is some virtue to these considerations in that they point at the need to strive for poverty reduction and human resource development through better use of governmental resources and better institutions even in countries lacking growth – and thus lacking the claimed precondition for poverty reduction. The possibility to improve non-income measures such as health, education and human rights and even to increase the income of the poor – by reducing wastage in the government system and possibly by transfers from the non-poor – does

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1 See e.g. DfID (1999b), p. 12.
2 It seems reasonable given many countries that face difficulties to change the distribution of income. Yet there are noteworthy examples in which inequalities have worsened in relatively short periods of time, such as in Mexico, or have been reduced as in Brazil, implying that in these cases growth must have occurred in strongly different patterns than the initial distribution.
4 The mainstream thought on growth as a necessary condition is e.g. challenged in Jentsch, G. (2000), which shall serve as a base line for the brief discussion presented here.
not seem unreasonable. In fact, the strategies that confirm the role of growth for poverty reduction partially recommend these steps, such as land reform and expenditures in education and health as will be discussed later.

The difference in the views lies in the scope of poverty reduction. Sustainable reductions in poverty\(^1\) in the meaning of enduring reductions in poverty\(^2\) require growth for two basic reasons. First, a minimum amount of growth is necessary to offset the tendencies of population growth, which will at constant GNP reduce the living conditions of each individual, reducing directly the living conditions of the poor as well as the scope for redistribution. Second, even when growth is considered per capita, the current average GNP per capita limits the scope for redistribution. In some poor countries this value is currently so low that even perfect equality would only lead to a level where everyone would live in poverty\(^3\). Since the maximum scope for redistribution can be considered as limited - by political considerations and powers of elites – to a level far above a point of perfect equality, in most developing countries the poor will earn a living substantially below the average GNP and below a material income allowing for a live in dignity. Without growth, there is no chance for a change of their destitute beyond the low level determined by per capita GNP and the maximum possible redistribution.

Therefore, the conclusion can be drawn that despite certain achievements in poverty reduction that can occur without economic growth and which should be pursued where possible, for many poor countries a sustainable reduction in poverty for the masses will only be achieved if growth increases average incomes. This is not to say that growth alone is the important determinant. As is pointed out in the strategies that quality of growth is more important than the quantity, pointing at the need to extend growth to the poor and to expand their economic opportunities. How this shall be achieved and how economic benefits for the poor can be reached is the concern of the following paragraphs.

2.4.1.2. The Economic Incentive System

The success of an economy is strongly related to the incentive system influencing each economic actor in his decisions. Since the interactions of the decisions and their resulting actions between the individuals amount to the overall economic performance within a nation – and in an open economy further than that – any concept aiming at increased economic performance has to pay special attention to its economic incentive system. It should be designed to

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1 See e.g. BMZ (2001a), p. 9.
2 Not limited to the preservation the environment, as is sometimes implied by the term sustainable development.
3 E.G. Mali, Yemen and Zaire have a per capita GNP below US$360 a year and even in purchasing power parity the GNP per capita is below PPP$700 a year, which allows the minimum of PPP$1 a day, but not even the value of PPP$2 per day considered as the minimum for ensuring housing, clothing and other essentials next to bare survival. This PPP$2 line is used e.g. by the World Bank as a secondary line to assess poverty next to the PPP$1 line.
encourage individual efforts and to allow for the most efficient and effective way of interactions between the efforts of individuals.

The recent consensus on poverty reduction views the **market economy combined with a proper regulation** as the most effective system to encourage economic growth and with it poverty reduction\(^1\). The World Bank even goes to the point to consider reforms in this direction inevitable for many developing countries that have pursued a more interventionist path including public ownership and heavy protectionism in the preceding decades, since “the absence of reforms to develop vibrant, competitive markets and create strong institutions condemns countries to continued stagnation and decline.”\(^2\) The governments are advised to “liberalize markets, to move out of activities best undertaken in the private sector and (to) institute effective regulation”\(^3\),

This calls for an establishment of **predictable rules** encouraging investment and private economic activity. This includes freedom of and income-earning-opportunities for entrepreneurial engagement in innovation and business expansion\(^4\). It requires regulations preventing inefficient or sub-optimal outcomes for the entire economy despite (or because of) individually optimal decision-making; such as in monopoly situations or overly risky banking activities. On the other hand, over-regulation has to be capped to reduce administrative obstacles to business activity. The practice of corruption impeding effective competition and equal chances has to be curbed. Overall, the role of private business activities needs to be strengthened while a “sound government policy (needs to be) in place, exemplified by a sound macro and micro policy and an aspiration to establish viable institutions and rules and regulations which promote legality, openness and efficiency.”\(^5\)

In more specific terms, the demands placed on the governments include low inflation, moderate budget deficits in line with sound monetary and fiscal policy, open international trade without extensive trade barriers and reductions of over-regulations. The World Bank refers to these as **“first-generation” reforms** due to their straightforward implementation possibility. The benefits from **low and stable inflation** arise from increased incentives for domestic savings leading to more funds available for investment. It is also conducive to reducing market inefficiencies, since the currency keeps its wealth-storing function and transactions with a longer time frame can be undertaken more easily. The wealth-storing function is seen as especially valuable for the poor who are lacking other forms of wealth conducive to saving\(^7\). Furthermore, the increased

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6 See World Bank (2000a), p. 64.
predictability enabled by low and stable inflation reduces the uncertainty of business decisions, thereby leading to superior investment decisions. This is especially valuable to attract mobile capital and foreign investments.

Low inflation as a measure of sound monetary policy depends in part on low budget deficits, since the financing of a budgetary deficit in the absence of an independent central bank tempts governments to expand the monetary base, which usually leads to high inflation. The fiscal policy as a determinate of the budgetary deficit should aim at efficient taxation avoiding distortions in the market mechanism and, on the expenditure side, at constraining spending. Stable macroeconomic policies as described above, together with efficient and business friendly administration and competitive and regulated markets contribute to an investment-friendly environment favorable for the extension of business activity and economic growth. Also necessary for this is a well-regulated and healthy financial sector channeling savings to the most productive use.

Productive investment and business initiatives are strengthened by open international trade that expands business opportunities. Through foreign investment additional capital, new technologies, additional markets and modern ways of working become accessible to the domestic industry; thus spurring its economic potential. The competition on an international level also provides the incentives for domestic firms to become competitive, which - if achieved - sharpens the possibilities to expand into export markets and at the same time makes products less costly on local markets. This obviously also bears the risk that certain companies or even whole industries do not succeed in becoming internationally competitive and will vanish, including the job opportunities for those prior employed in these companies. The reasoning in support of international trade is that all change brings about benefits and costs, with the costs being concentrated heavily on particular groups, yet being smaller in magnitude than the benefits accruing to the entire society. Therefore, the costs are seen as justified but need to be lessened for marginalized groups by social policies. These social policies are an important element, since poor people affected adversely by reforms can suffer irreversible harm, especially when children are taken out of school in economic downturn or are permanently negatively affected by nutritional deprivation, which might propel poverty for a further generation. Therefore, the impact of reforms on the poor has to be carefully evaluated and measures to limit the adverse effects have to be implemented. Even those companies that are capable of meeting global competition might need time to adjust to the new environment. Special attention has to be given to the timing of reforms to open protected markets for worldwide competition.

1 See BMZ (2001a), p. 11.
3 See World Bank (2000a), p. 66. Social policies and mechanisms for the poor to cope with adverse changes in their economic position are discussed in the chapter on 'Measures to provide security'.

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The opening of the domestic economy towards international markets places special importance on the **exchange rate** regime. For this it is argued that real exchange rate devaluations of artificially overvalued currencies are especially successful\(^1\). Such a policy reduces the pressure on the nation's foreign currency reserves and favors conditions for export. Yet, in turn this increases prices for imports, thus putting pressure in the inflation rate and increasing the burdens of loans taken in foreign currency. The benefits of increasing the competitiveness of domestic products are seen as outweighing the negative implications.

The **chances of globalization** that are attainable through open policies include increased access to ideas, information, technologies, products, services and financial resources.\(^2\) These foster economic growth and provide incentives for individuals in developing countries by opening up new opportunities for businesses ideas and private initiative. Open markets in general – domestic as well as for export – are regarded as conductive to the provision of the necessary incentives for economic performance via the price mechanism and competition. They also open up necessary opportunities for production\(^3\).

The **liberalization of state monopolies** in favor of competitive markets is demanded in the new strategies in those situations where the private sector can undertake the activities at least as efficiently\(^4\). Government-owned companies are seen as inefficient, because they “are given precedence by the government and drain the state of capital and expertise, use existing expertise inefficiently and push aside the needs of the poor”\(^5\), as is confirmed strongly in the Sida’s poverty program.\(^6\) Centralization tendencies are also seen as encouraging political cronyism and grand corruption\(^7\), and therefore their dissolution has favorable side effects.

These “first-generation” reforms, which can be summed up as fiscal and monetary prudence, deregulation, privatization and internal and external openness of markets, by themselves are not seen as sufficient today. They need to be accompanied by “**second-generation)** reforms that have been hinted at

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\(^1\) See DFID (1999b), p. 18.
\(^3\) See DFID (1999b), p. 7 and 8 for a comprehensive view on the requirements for market economies and their regulation.
\(^4\) This does not seem possible in some sectors like national defense and is complicated in other such as education and health care, as can be seen by the experiences of the developed nations. Nevertheless, there is much room for liberalization and privatization in the manufacturing sector in many developed countries, where the public sector share has increased from nearly zero in the 1940s to about 25% percent (and in some countries even up to 80%) in the middle of the 1980s (see Reynolds, G. (1983), p. 93). This trend has been reversed since the 1980s, but scope for further progress remains.
\(^6\) This underlines the fact that also the Swedish position favors the market based approach presented here as the consensus, in contrast to their more strongly state oriented views of the 70s.
\(^7\) See DFID (2000e), p. 7.
already: The **buildup of institutions** in difficult areas including the advancement of an independent judiciary system and independent and effective regulatory agencies, which require as pre-requisites a high amount of professionalism within the public sector\(^1\). This is seen as a time-consuming and difficult activity, potentially facing strong opposition from influential groups whose interests are negatively affected. Yet the insight prevails in the new strategies that “when reforms leave an institutional vacuum, performance suffers”\(^2\). This point of view marks a departure from the call for free markets forces as the sufficient mechanism for efficient operations that prevailed in the 80s. Today, institutions in the form of enforceable rights and applicable rules supported by sensible legislation, able administrations and accessible judiciary systems are emphasized in order for market economies to function efficiently\(^3\). The entire legal system has to be shaped in such a way that contracts become binding, enforceable and their interpretation predictable in order to provide fertile grounds for private economic interaction.

In regard to reforms – e.g. the sudden opening of prior monopolized markets, the privatization of state enterprises or the change from centralized allocation mechanisms to price determined markets – problems of **under-regulation** have to be tackled. Inefficiencies are likely to arise if the appropriate institutions for regulation cannot be established prior or simultaneous to the market oriented reforms or if their enforcement and oversight is weak due to lack in administrative ability\(^4\). Therefore, the appropriate legislative frameworks for privatization including the establishment of sound regulatory bodies have to be pursued to enable efficient functioning of the newly created markets and to limit market-dominating power. The ability to regulate newly privatized industries, and market-dominating industries in general, depends also on the specification of the information demands necessary to enable the legislators to deter the inherent incentives for monopoly business practices. The autonomy of regulators and their accountability is seen as important to prevent arbitrary intervention of politics in the regulatory process as well as arbitrary judgments on the part of the regulators. The high demands on regulatory ability during the privatization of state-owned enterprises are also visible in industrialized countries. The ongoing disputes e.g. in the German telecommunications sector since the deregulation in the early 1990s despite well-developed and able administrations\(^5\) shed light on the scope of regulatory demands that is placed on the far more restricted administrative capacity in developing countries.

\(^1\) See World Bank (2000a), p. 64 and for a similar view DfID (2000e), p. 9.
\(^3\) See DfID (2000e), p. 7. These measures are also important for the achievements of political and social rights for the poor and shall be portrayed later in this regard.
\(^4\) For the general idea of the following discussion see the remarks in DfID (1999b), p. 9.
\(^5\) See for example the difficulties in the regulation of the resulting telecommunications market in Germany after the privatization of the Deutsche Telekom AG because of its still dominating position. The frequent decisions of the regulating body, the Regulierungsbehörde für Telekommunikation und Post, and the challenges of its decision in the court system, which
A resort given special attention in the current concepts is the **banking sector** and the appropriate regulation of it. In the light of the Asian financial crisis and in consideration of the role of the banking sector for the economy as a whole, regulations for financial transaction are seen as a priority. Stability and transparency in this sector are sought through reporting requirements for commercial banks, encouragement of competition and deepening of the financial sector. Regulations on the maximum exposures in short-term foreign currency obligations and on other risky investments are possible further measures. Improvements of banking supervision, of insolvency laws and the surrounding legal system shall reinforce these measures.

Overall, the economic incentives system within the new strategies is based on a view that the incentives of the market mechanism are most effective in exerting private economic activity. State intervention in economic activities aside from basic state obligations in the realms of security and social services is rejected. The role of the state is seen in the efficient regulation of the markets. It has to set the legal foundations and the regulatory framework for the efficient interplay of market participants. This does not mean that governments have to give up all their responsibility for ensuring public interests. Rather, as is pointed out in the strategies of DfID, “Governments are having to learn how to represent the public interest through regulation rather than ownership and control, and through the creation of an enabling environment rather than direct participation in economic activity.”

### 2.4.1.3. Creating Economic Opportunities

An economic incentive system based on well-regulated competitive markets is a starting point for the achievement of growth. But growth by itself does not guarantee improvements of the situation of the poor if inequalities rise. Therefore, special attention is recommended to measures that enable the poor to share in this growth. These recommendations can be summed up under two main headings: the augmentation of poor people’s assets and the provision of access to markets, which shall be discussed in turn.

#### 2.4.1.3.1. Poor People’s Assets

The fact that governments refrain from direct state control of many industries in favor of private initiative coupled with a well-regulated, competitive market mechanism, as recommended in the new strategies, does not mean that the market has taken over and will solve the social problems of a society. Under a

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1. See DfID (2000e), p. 9. This point will also be taken up in the discussion of international institutional frameworks in the chapter on ‘Finance’.
market environment possibilities for the government to pursue social objectives persist, and with them the obligation to tackle these issues, the most important of which being poverty reduction in most developing countries.

The adoption of a market mechanism does not allow for direct measures such as state owned enterprises were employment policies and incomes can be set by government command limited only by the government budget. Measures in a market environment have to be more subtle and long-term. These measures include mainly the fiscal policy of the state, on the revenue as well as the expenditure side, and regulatory and legal policies. These have to be shaped in a way that is conducive to pro-poor growth. Pro-poor growth is based on the extension of opportunities for all, and in particular for those that are lacking these opportunities currently, as is the case for most of the poor people. This decision to concentrate on growth patterns that are most conducive to the participation of the poor in this growth is obviously based on the social objective to increase the incomes of the poor.

It also reflects the assumption currently held that the poor themselves can be the main drivers of growth, without whose contribution of assets and skills substantial growth rates in many developing countries are not deemed possible. A central problem in this regard results from the fact that the necessary skills and assets are not yet attainable for the poor because of absence of public services, constraints on the affordability of these service provision or because of lacking poverty rights and other legal measures, demanding reforms in fiscal policies, government spending priorities and legal frameworks.

In terms of fiscal policy, the considerations regarding the revenue side are rather limited in the current strategic positions. For once, the reduction of agricultural taxes is proposed in order to yield higher farm prices benefiting the poor on the countryside, where still the majority of the poor live. This would directly increase the income-earning opportunities of the poor on the countryside and would enable them to accumulate assets for further growth. Yet, a general decrease of revenues is not desirable because this would restrain state spending

1 Forms of commanded employment and wage policies are one reason for some of the inefficiencies of state-owned systems. Also it should be noted that the government can use state owned systems only to a certain degree for employment generation and other measures, limited by the government funds available to finance the incurred inefficiencies.
2 The change from a centralized system to a market based system is likely to free up funds that were prior tied in inefficient state-owned enterprises, leading to more funds going to productive investments and possible expanding the fiscal position of the government in turn.
3 These will be discussed here in terms of their contribution to economic assets of the poor, such as the provision of land rights, and not to the political environment limiting the participation of the poor in political decision-making, as this will be the topic of the chapter on ‘National Political Condition’.
on measures extending the economic opportunities of the poor if the budget
deficit is to be kept constant.

In this regard it is assessed that revenue raising measures, as part of the
attempts to reduce the budgetary deficit or at least to prevent its rise, should not
be regressive in impact. Therefore, value added taxes should be viewed carefully
in their impact on poor people if they are to replace more progressive taxes, e.g.
on income, that have not effected the poor people since the poor either did not
qualify for them or avoided them\[^1\]. On the other side low rates of taxation on
profits and incomes are deemed necessary to foster enterprise development and
investment\[^2\], which limits the ability to raise progressive taxes.

This short discussion on taxation shows that their impact is not
disregarded in the current strategies, but no generally applicable framework for
just taxation and fiscal revenue raising seems yet to have been found. The
dilemma of a need for low progressive taxes on the one hand and the reluctance
towards regressive taxes on the other hand can be overcome, since even slightly
regressive tax reforms can have progressive results if the additional revenue is
devoted to expenditures targeted towards poor people. This underlines the
current presumption that the redistributive power of public finance lies on the
expenditure side rather than the revenue side\[^3\].

On the expenditure side of fiscal policy the by far most important point in the
current discussion is the demand to invest in people’s human capital, especially
in the spheres of education and health and other social services\[^4\]. This point is
forcefully drawn in the Second White paper of the British government: The
“unique and indispensable role of government remains that of setting policies
and priorities, ensuring that basic services are provided to all, and regulating to
ensure quality and standards.” \[^5\] This investment in basic needs is seen as a
concern in its own right, since poor health, education, nutrition and lack of other
basic needs is by itself a form of poverty that needs to be reduced. Also, they
are seen as key assets to foster economic activity of the poor\[^6\], to increase their
opportunities to benefit from overall growth and to strengthen their ability to
provide the main source for economic growth. Since many poor people own
only marginal material assets, the expansion of their human capital is seen as
one of the most influential ways of increasing their asset base.

\[^1\] See World Bank (2000a), p. 70.
\[^2\] See DfID, p. 8.
\[^3\] See World Bank (2000a), p. 70.
\[^4\] This is strongly reflected in all strategies. E.g. Sida sees its first two priorities for the
creation of the right conditions for development in “Basic education of acceptable quality”
and “Human resource development” (Sida (2000)), while the German action program
promotes the “securing of social services (basic education, basic health, alimentation and safe
\[^6\] See DfID (2000b), p. i and ii for a general view on the value of education. For an
introduction into the benefits of health see DfID (1999a), p. 1-3.
Especially investments in *education* allow the poor to become more productive in their current occupations as well as to increase their potential to move into different, higher return occupations\(^1\). This development is in turn viewed as conductive to overall growth. High returns on education are for example expected due to agricultural innovations that require a comprehension of new farming methods. Their application requires a willingness and ability to learn. The opportunities for the poor to share in the growth provided by international openness are also increased, due to higher flexibility and a higher level of skills.

This increase in education is attempted primarily by an increase in the scope of *primary education*, which is to be extended to all children. The reasoning behind the focus on primary education is based for once on a general concern for human rights. Yet more often the believe is expressed that primary education yields the highest returns. The reasons for the latter assertion are assumed to lie in productivity improvements and expansions of economic opportunities on a broad scale. Literacy, numeracy and the capabilities for lifelong learning, which are conveyed through primary education, help the individual to acquire new skills and production methods. Indirect returns accrue from the strong influence of the provision of primary education on health and nutrition intake, which augment the value of this basic education strategy. Especially the education of girls is seen as strongly beneficial, since empirical research points at the fact that educated women have smaller and healthier families and are more likely to send their children to school, propelling the impact on education and leading to increased growth\(^2\). The overall value of primary education, especially for girls, is a central part of the new strategies as a way to increase poor peoples’ assets and, thus, their income-earning potential.

The believe within the strategies that investments in primary education yield the highest returns in terms of poverty reduction and economic growth is firmly established within the strategies. The World Bank even promotes a reduction of higher education in favor of basic education.\(^3\) This strong bias towards primary education is questioned in some of the newer research findings, at least as far as its impact on national growth is concerned. Since primary education receives especially strong attention in the new strategies, some of the research findings contrary to this opinion shall be presented in a short *excursion into the economic benefits of primary education*. In his empirical study on 114 countries Barro (1997)\(^4\) does not detect any statistically significant effect of male primary education on growth when male higher education is included in the regression. He does acknowledge though the indirect effect of male primary education as a prerequisite to higher education.

\(^1\) For the following discussion is influenced by the ideas in DFID (2000b), p. 1-15.
\(^3\) See World Bank (2000a), p. 82. A more explicit view of this issue is presented in Thiele, R./ Wiebelt, M. (1999). This discussion is taken up in more detail in chapter 3.5.2.
As for the discussion of the value of female education, which is even to the World Bank’s acknowledgment still ongoing, Barro finds no significant relationship to growth. This is the case for all levels of education. Even by allowing for the indirect effects through reduced fertility rates female education did not appear as a significant factor. Thus, neither the special value of primary education nor the value of female education for economic growth receive support in this study. Human rights and social aspects have not been integrated in this analysis.

Similar findings on the level of education and its impact on growth are presented in Graff (1995). In his approach based on assumptions taken from production theory Graff presents support for the hypothesis that individual education below four to six school years is nearly ineffective on growth. Individual primary education as well as individual attainments in terms of literacy have insignificant effects on growth. Yet his support for the ‘Anderson-Bowman-Hypothesis’ of a minimum threshold of literacy in the economy as a precondition for growth points at the potential for countries with a minimum educational level below 20% to 40% literacy rate or average schooling time of less than three years to gain substantial momentum for economic development from efforts to extend primary education. While individual primary education is overall found as insignificant, secondary and tertiary education are estimated as significant contributors to growth in developing countries. Thus, Graff’s findings do not support the view that higher levels of growth are attainable through primary at the expense of higher education. The analysis is not disaggregated by gender.

These strong findings of Graff and Barro concerning the ineffectiveness of primary education are not upheld in Timmermann (1999). His empirical analysis of 37 developing countries establishes a positive connection between

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1 See annotations to World Bank (2000a), p. 49 on p. 209.
2 See Graff, M. (1995), p. 174 – 182, which serves as reference also for the rest of this paragraph. Graff’s analysis covers data from 75 developing and developed countries. A difference of the ineffectiveness of education based on the wealth of a country is not detected in his findings. The analysis does not investigate different effects of education by gender.
3 The ‘Anderson-Bowman-Hypothesis’ proposes a minimum level of around 40% literacy as the precondition for sustainable growth. This threshold is seen as the basis to achieve the structural changes within society that are necessary for continuous growth. See Bowman, M. / Anderson, A. (1963) and for a more recent affirmation Morris, C. / Adelman, I. (1989), p. 1426. Graff’s findings generally support this minimum threshold view, yet the level he proposes is somewhere between 20% and 40%, thus potentially below the ‘Anderson-Bowman-Hypothesis’. Also he does not recognize an ‘impediment to growth’, but a ‘more difficult’ task to attain growth for countries below this level. Above this level, the benefits from increased primary education are insignificant, as pointed out prior.
5 This is due to the fact that a majority of countries already have extended literacy beyond the threshold level, where further increases in literacy are hypothesized (and here empirically supported) to have only marginal effects on growth.
primary education and growth. He also establishes a nearly equally high connection of higher education on growth. Thus, he lends support to the view that all levels of education should be taken into account to spur growth, not only the primary level. His analysis is not disaggregated by gender and does not take other non-knowledge based investments into account. Therefore, neither the special value of female education nor the assertion that primary education yields higher returns than other investments can be analyzed.

These findings point in the direction that, on economic grounds, the entire educational sector - if at all - needs to be given priority in the strategic conceptions, not just the sector of primary education. On theoretical grounds Birdsall (1996) explains the potential underestimation of the benefits from higher education in contrast to primary education by unmeasured social benefits from higher education in form of “non-training public goods”, e.g. basic and applied research, adaptation of research and technology to domestic demands and the training of administrators and managers, among others. She also points at the fact that the benefits from primary education could be declining with increasing levels, while the benefits of higher education might be increasing due to the demands on high-qualified staff arising from globalization and increased competition.2

The research findings referenced here question strongly the emphasis on primary education brought forth in the new strategies. Especially they question the assumption that returns to primary education are higher than for other investments; here mainly investments in higher levels of education. While the support for primary education is emphasized in all strategies, its relationship to higher education is still under discussion among donors. This is taken up in the discussion of the accentuations of the strategies in the section on the Swedish program.

As a last point in this excursion it should be annotated that all studies presented have the limitation taking gross domestic product (GDP) or the gross national product (GNP) as the only measure of economic return of the investment in education. These measures reflect the growth of the entire economy and do not account for the economic growth the poor individual can achieve through investment in education vs. investments in other alternatives. Thus, while the impact of primary education on growth on the national level might truly be insignificant, it might still have the highest overall benefit for the poor people to whom the education is extended.3 The analyses also have the shortcoming that they only regard economic matters and leave out other

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3 This can be theoretically motivated by the fact that the economic activity of the poor is of limited scale in comparison to the overall economic activity. Therefore, the GNP is probably dominated by the activities of the non-poor in most countries. Thus, while basic education might provide higher growth of income for the poor population than any other investment, this growth might not show up equally strong in the entire economy, as the large proportion of GNP of the non-poor remains largely unchanged.
dimensions of poverty. Human rights related views and concerns for participation place a high value on education for all, thus shifting the balance towards general provision of basic education.

Back to portraying the international consensus, it has to be assessed that **quality of education** receives high importance next to its quantity. This is fostered by a concern within the new strategies for the output that the educational system provides in terms of skills development\(^1\). Able teachers, conducive teaching environments, availability of learning materials and adaptation of the curriculum are regarded as key factors towards high quality education\(^2\). Local monitoring and community participation enhances the quality of education by providing strong incentives for teacher performance, good maintenance of school infrastructure and provision of supplies\(^3\). While the factors that contribute to good performance are stated, the ends to which the educational system should contribute remain unclear. The broad content of a valuable curriculum remains ambiguous. There seems to be a preference for basic skills in literacy and numeracy over the provision of specific skills for employment opportunities, yet this point remains implicit\(^4\). The World Bank acknowledges that the pure provision of services does not necessarily increase demand if the service is too poor or unresponsive to the poor people's needs\(^5\). Whether the poor people deem special skills e.g. in agriculture or craftsmanship as important parts of the curriculum, potentially to an equal degree as literacy and numeracy, and whether that could be beneficial or should be rejected is not part of the discussion. While the need and value of primary education seems to have acquired general acceptance, the necessary content of the curriculum did not receive much attention in the new strategies.

Next to education the **health sector** plays a major role building up of assets of poor people\(^6\). Good health is a precondition for the use of the poor people's main asset, their labor. While good health increases this asset – and also contributes to non-economic benefits of happiness and joy of life, the lack of which is obvious to anyone being sick – illness diminishes this asset, resulting in serious economic consequences for the poor individual who might not be able to support his livelihood anymore. Poor health is seen to extend beyond the individual to

\(^{1}\) See DFID (2000e), p. 11.
\(^{2}\) See DFID (2000e), p. 11.
\(^{3}\) See World Bank (2000a), p. 88 and 89.
\(^{4}\) Literacy is used by DFID next to enrollment to measure progress towards the IDTs regarding development (see DFID (2000e), p. 32), literacy and numeracy are claimed as essential skills (DFID (2000e), p. 2) and female literacy is claimed as important by the World Bank (World Bank (2000a), p. 49).
\(^{5}\) See World Bank (2000a), p. 81.
\(^{6}\) This is also a strong emphasis in all strategies. See e.g. DFID (1999a) p. i, ii and 1 - 15, is used for most of the following argumentation as a guide for deeper analysis because of its comprehensiveness.
the entire family, which has to take time from other activities for support and care and might struggle with their very survival if the ill person is the family's breadwinner. This points not only at the impact of poor health for the individual and its family, but also its influence on overall growth. A pandemic such as HIV not only poses serious human problems, it also reduces the national growth rate by more than a percentage point for a heavily struck country such as Zimbabwe, where in some regions 40% to 50% of all pregnant women are infected.

The problems of poor health in developing countries thus place a strong burden on development in non-economic and economic terms. Poverty and illness can be interpreted as a vicious circle, in which poverty leads to exposure to higher personal and environmental risks, increases in malnutrition, less access to knowledge and information and diminished ability to access care, which contribute to ill health. Ill health in turn leads to diminished household savings and debt, lowered learning ability, reduced productivity and diminished quality of life leading to increased poverty.

This vicious circle is supposed to be broken by a combined strategy of improved education, improved access to health care, provision of sanitary systems, access to clean water and concerns for the social and physical environment. These measures are seen as highly conducive to improvements in health. For example education of women influences better health outcomes for their children, as does nutrition provided to women. Education generally is seen to lead to a more sensible use of clean water and sanitation systems.

Of special attention is also the accessibility of health centers. Rather than on highly specialized medical care, the emphasis is placed on the provision of basic services in acceptable reach. Problems of petty corruption, which obstructs access to medical care and medicine, have to be tackled, as well as problems of remote areas that are not able to attract skilled staff.

Further problems to be tackled to improve the assets of the poor in terms of health are, first, incentives for researchers to develop medicines for the poor and, second, the low-cost provision of necessary medicines to developing countries. For the first, fund structures are considered that guarantee to pay a predetermined prices for medicine of the first company that can develop the desired cure, thus hoping to provide the lacking economic incentives. The

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1 Zimbabwe's growth rate for 1998 was reduced from estimated 2.5% to only 1.1%. Most other African countries fare better, even though for many of them the epidemic already reduced GNP by between 0.2 and 0.5%. Source: US Bureau of Census Population Profile as cited in DFID (1999a), p. 13.

2 This number taken from Vogel, U. (1999) is cited to provide an insight on the magnitude of the problem. Exact numbers for the entire working population were not obtainable.


4 Many 'faults' in the use of clean water can prevent the benefits from it to manifest. For example the storage of water for a several hours in warm climates in ordinary reservoirs already leads to the spread of bacteria. The correct usage of these systems is seen to increase with extended education.
second point will be discussed later under international intellectual property rights.

Rather than paying greatest attention to the cure of already incurred diseases, focus in the new strategies is placed on the prevention of illnesses. Since communicable diseases contribute most to the health problems of poor people\textsuperscript{1}, social services such as the provision of clean water and sanitary systems are important to reduce the outbreak of these. Further measures include educational advertising and contraceptive prevalence, which is seen as especially conducive in the case of HIV. Reproductive health in general becomes an important issue, since population growth places a high burden on the spread of development. Especially when the aims regarding health care become reality, such as higher life expectancy and lower levels of illness\textsuperscript{2}, the spread of reproductive health services will be necessary to keep the number of birth in line with progressions in life extension\textsuperscript{3}. Otherwise the problem of too rapid population growth will be exacerbated.\textsuperscript{4}

An additional point that is emphasized regarding the build-up of assets of the poor in terms of education as well as health is a concern with demand side constraints. Demand side constraints, which can apply basically to all government services, can result from unwillingness of the poor to use the services because it does not meet their needs or is of too low quality, or because the costs are too high\textsuperscript{5}. This leads to conclude that the government has to find ways to adapt the service to the needs of the poor. This will be facilitated by efforts for decentralization of state power and participation of the poor, as will be examined closer in the chapter on necessary political conditions. It also points at the fact that subsidies might have to be provided to the poor in order to enable them to afford the services. Costs might be accrued because of user charges, which are seen as effective financing measures at least in the health sector but might have to be reduced to enable the poor to access the service. Further impediments can occur if the opportunity costs of the poor are too high in terms of distance, forgone help of the children when they are in school or

\textsuperscript{1} See DfID (1999a), p. 10, 11.
\textsuperscript{2} See DfID (1999a), p. 2.
\textsuperscript{3} This problem has been reflected in Reynolds, G. (1983), p. 82 – 91. He assesses that in the last centuries famine, war and plague were prevalent to a degree where families were not sure weather the desired number of children would survive and where due to this uncertainty the number of desired children was greater than the natural fertility rate, rendering birth control meaningless. Yet, the progress in medical care in this decade has reduced death and illness even in poor countries while birth rates are only beginning to adjust, leading to a doubling of the population growth between the 1920s and 1970s.
\textsuperscript{4} Other factors that might impede lower fertility rates despite the availability of reproductive health services, such as the security that high number of children provide for their parents, are not explicitly taken into account in the new strategies.
\textsuperscript{5} Note that this is an artificial distinction, since the quality of the service and the price together determine the willingness to demand the service. For reference see World Bank (2000a), p. 81.
costs of school books, which can impede the inclusion of the poor even at free charge and might have to be additionally compensated.

Generally, public investments – in education, health care, water supply, electrification, and other services – are supposed to be targeted in their benefits to the poor\(^1\) and non-poverty oriented investment should be checked for the necessary level and for possibilities of reallocation, as is pointed out especially for military expenditures.

Aside from fiscal policies **legal and regulatory frameworks** can also expand the asset base of poor people\(^2\). Of especial concern in this regard are the agricultural sector and property rights for women. The **agricultural sector**, which has been neglected by many developing countries especially in Sub-Saharan Africa for an extended period of time, is seen as especially important for economic development that favors the poor, who are in the majority living in rural areas, and for spurring overall growth\(^3\).

The absence of land and tenure rights in many poor regions is regarded as problematic because it increases the insecurity of the poor regarding the sustainability of their livelihoods. It also limits the expansion of their economic activity due to insufficient access to capital, which could be raised if land titles could be used as collateral. Research establishing the view that small farms are more productive and have a higher savings rate than large farms has given rise to the promotion of land reforms, which is deemed important to increase productivity and to spread the benefits of this increase to the poor\(^4\). Next to land titles legal reforms opening the market for long-term rental agreements between proprietor and tenant are also seen as beneficial for poverty reduction; directly for the farmers and indirectly for the entire rural population that experiences positive spillover effects\(^5\). Further improvements aside from legal reforms are attributed to research on seeds\(^6\), education on farming methods and reduction of price distortions. Nevertheless, the legal system is seen as largely responsible for the low agricultural productivity and the low opportunities for the rural poor in some developing countries and, thus, deserves special attention.

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\(^1\) In some developing countries the expenditures on education (and health care) benefit the highest quintile compared to the lowest quintile of the population up to a ratio of 4 to 1 (3 to 1 in health care). Gross differences also occur in subsidies of water, electricity and infrastructure. See World Bank (2000a), p. 80 – 83.

\(^2\) The general incentive system, which also benefits the poor by encouraging private effort and extending opportunities for business activity and therefore can be argued to contribute to the increase of assets by the poor, has been discussed above and shall not be the concern of this paragraph.

\(^3\) See BMZ, p. 11 and 12.


\(^5\) See World Bank (2000a), p. 67. Through better enforceable and more reliable agreements the position of the tenant is improved. If the farm population prospers, so the reasoning, the demand for goods from non-farm employment increases as well.

A second area where legal reforms are seen as beneficial to asset formation is the **extension of rights towards women**. This demand can also be strongly placed out of human rights concerns and shows the interaction of social dimensions with the economic dimension. Apart from the benefits accruing to women from a social perspective, there are potentially strong economic benefits in extending rights to women. Women are discriminated in inheritance, property and land concerns as well as in regard to employment opportunities and access to resources. Deprivation from property rights extend in some countries so far that in the case of death of the husband the wife loses the rights to his property and land, endangering the livelihood of the entire remaining family. Even in less dramatic cases the economic potential of women including their innovativeness and their opportunities for returns on labor is reduced by regulations limiting their economic rights.

A third aspect of concern in the strategies in regard to the assets of the poor, somewhat standing aside from the investment and legal considerations, relates to the **environment** and its influences on poor people. The reasoning for the inclusion of environmental aspects as parts of the factors that influence the asset base of the poor results from the negative effects of environmental deterioration on the poor people’s assets and livelihoods.

Poor people are more prone to inhibit marginal land and to suffer form extending desertification and erosion of the soil, which reduce the income-earning and subsistence performance of their land. Poverty in return is also thought to contribute to this situation in some cases by increasing environmental degradation, e.g. through uncontrolled deforestation of arable land leading to reduced wood resources in the future and to lower ground water. This in turn reduces agrarian yield, worsening the situation of the poor even further. In urban sectors, the economic situation of the poor forces them into housing and working under more hazardous environmental conditions caused by pollution affecting their health and, thus, their labor. While in some cases - such as the concern for the preservation of biodiversity as part of the efforts to fight

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3. Where again the roots of the problem lies in social perceptions and attitudes.
5. See BMZ (2001a), p. 27.
6. The strategies emphasize that poverty leads to environmental degradation and vice versa. Yet they aim at avoiding the notion that it is the poor who are responsible for environmental degradation. Rather the notion that “All people affect the environment, and vice versa, but the rich have a disproportionately higher impact and the poor tend to be the most vulnerable to the effects of environmental degradation” prevails. Statement of UNEP, US NASA and World Bank cited in DFID (2000c), p. 1. This view is even more reversed at other placed such as DFID (2000c), p. 4: “Globally, most environmental degradation is caused by the non-poor as the poor’s consumption levels are still low relative to the rich”, pointing at the need for action beyond looking at the poor.
7. See DFID (2000c), p. 3.
poverty\(^1\) – the impact of environmental preservation on the poor is arguable, for many other areas this relationship holds true and is therefore integrated into the strategies.

The extent of the impact of environmental degradation on the entire economy can be startlingly high, reaching more than 3\% of GDP in some countries\(^2\). Also the effects on other determinates of poverty are substantial; for example on health where environmental factors are estimated to be responsible for almost a quarter of all diseases in developing countries\(^3\).

Causes for environmental degradation include income inequalities and unsustainable consumption, both in developed and developing countries. It is also associated with market failures, which cause goods and services related to the environment to be systematically undervalued, and poor and ineffective governance, which leads to the environment being relatively neglected and not integrated into the development of national policies and programs\(^4\).

On the national level this calls for measures restoring the correct price of environmental goods by internalizing the effects of pollution and environmental degradation that do not figure into the individual actors calculations. Also, measures to fight desertification\(^5\) and local management of forests should be attempted on a national or sub-national level. To give the local population, especially the poor, economic incentives to secure the sustainable management of the ecological environment at the local level is seen as the key to integrate pro-poor growth strategies with sustainable development, while at the same time evading free-rider problems associated with public management\(^6\). This is seen as essential in preserving the natural assets on which the poor people today, but also people in the next generations will rely for their living.

Yet, some problems such as over-fishing in international waters, which affect the nutritional support for the poor in coastal regions, and climate change, which is seen as particularly harmful to poor countries and the poor people within them because they can least protect themselves against the resulting

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\(^1\) Expressed as part of poverty reduction programs e.g. in BMZ (2001a), p. 17 and DfID (2000c), p. 27. That the proceeds of the commercial use of biodiversity shall be shared with the developing countries can be seen as partly contributing to poverty reduction. Yet the overall interests in the preservation can be argued to lie in the interests of the developed countries. The promotion of efforts to secure biodiversity as part of poverty reduction can only be justified if the benefits of this are greater than those of other, more direct efforts or if the resources for such action are supplementary. For a more detailed discussion see the introductory chapter on the role of poverty reduction: 'Poverty Reduction vs. Other Developmental Goals'.

\(^2\) E.g. in Pakistan the cost is estimated at 3.3\% in the 1990s and for China at 4 – 7\% of GDP in 1990 by the Asian Development Bank (1997): Emerging Asia: - changes and challenges, as cited in DfID (2000c), p. 21.


\(^4\) See DfID (2000c), p. i.


\(^6\) See World Bank (2000a), p. 91 and 92 for the application of this concept to forestation, and DfID (2000c), p. 2 for a generalization of this view.
adverse effects, are beyond the scope of intervention by the individual governments and are subject to international efforts. These are discussed in more detail in the later chapter on international institutional framework on environment.

2.4.1.3.2. Access to Markets
The need to increase the assets of the poor through various measures relating to human asset, natural assets and material assets is based on considerations on the inner value of these assets for poverty reduction, as in the case of health and education, and their influence on the economic situation of the poor. Aside from subsistence considerations these assets only receive their economic value if they are connected to markets. There the assets themselves, as in the case for labor or cattle, or their proceeds, as for agricultural or small business output, can be offered and the inputs for the most profitable use of these assets such as credits or fertilizers can be demanded.

Physical, social or regulatory barriers to markets severely limit economic opportunities. Since barriers to markets are seen as especially high for poor people because they tend to live to a greater proportion in remote areas, lack connections and face higher barriers of social discrimination, there is a need to focus on their needs. General measures towards the extension of markets such as privatization and dissolution of state monopolies, removal of price distortions and a framework conducive to a well-regulated market mechanism, have already been discussed in regard to the economic incentive system. Extended efforts in regard to the value that markets provide to the poor are important in regard to agriculture, financial markets and infrastructure.

As argued prior, agricultural growth is regarded as an important source for pro-poor growth justifying land and tenure reforms, yet other reforms are needed as well to make this market beneficial to the poor\(^1\). These include the dismantling of state interventions that limit the full functioning of this market and its growth. Reducing regulation and liberalizing trade possibilities and prices have generally led to increases in producer prices\(^2\). Gross distortions such as marketing boards as the only allowed intermediary for the farmers should be changed into a competitive system, not only to increase the price to market value, but also because it has been observed that competitive, market-based structures offer better service for the smallholder farmers. Next to higher efficiencies these services include the provision of extension and input services including fertilizers. These raise agricultural productivity to the benefit of the small farmers. The competitive intermediary environment brings new ideas and knowledge to the small farmers and allows for an increasing variety in their production.

\(^1\) For the following discussion see World Bank(2000a), p. 67 – 69.

\(^2\) Yet the negative side of these reforms on the urban poor, who face higher prices, has to be anticipated and appropriate measures have to be taken if the increase is too detrimental.
Of strong importance for the successful and fruitful functioning of the agricultural sector is also the availability of credit to be able to invest in fertilizers and other necessary inputs that increase the yield and the productivity of the soil. This also helps to smooth the consumption over the agrarian seasons. Similarly, financial services in form of credit, savings instruments and insurance are also needed by poor people outside the agrarian sector in order to manage risks, smooth consumption but especially to take advantage of opportunities and increase their earnings potential\(^1\). Many poor lack access to financial services, though, because they do not have any securities for loans and without effective supervision the risk of lending to them is too high for commercial banks. Moreover, the transactions of poor people tend to be small, up to a degree where financial transactions of regular banks become unprofitable.

A solution to this problem is seen in micro-finance schemes, which provide financial services for poor people\(^2\). Pioneered by private initiatives like the Grameen Bank in Bangladesh, these schemes use group lending to supply credits. The local management keeps costs low, while the collective monitoring of the correct, productive use of the loan and of the financial situation resulting from it increases repayment rates by overcoming the problems of asymmetric information such as adverse selection and moral hazard\(^3\). This expansion of credit to the informal sector\(^4\) allows the great number of poor working in this sector to achieve access to the financial markets which can substantially increase their ability to expand or newly build their business and thus their income-earning potential; and for those who are saving it enables the provision for and coping capabilities with adverse influences.

To return to the agrarian sector, neither assets nor credits suffice for the establishment of a market if the physical connection between supply from the remote farms and demand is not available, thus leading to the question of necessary infrastructural investments. Infrastructure is one of the basic preconditions for a framework conducive to poverty reduction\(^5\).

The provision of rural roads provides the necessary physical conditions that connect rural areas to broader markets, which is a precondition if these areas are to benefit from growth accruing from increased national and international trade. This is the case not only for agriculture, but also for other products crafted in rural areas. International connections might also increase the need for national roads and railways.

\(^1\) See World Bank (2000a), p. 74.
\(^2\) Yet not necessarily for the poorest, as a review of 13 microfinance institutions indicates. See Hulme, D. / Mosley, P. (1996).
\(^3\) See World Bank (2000a), p. 74 – 76.
Next to transport, essential infrastructure regarding water supply and energy are to be addressed to assure access of the poor to these markets. Water and electricity augment the living conditions of people and also increase their economic base through access to these markets for inputs required by many production processes. This might benefit the poor directly, but also contributes to indirect benefits of increased employment e.g. in the manufacturing sector. The expansion of modern technology, enabled by electrification and extending towards telecommunication, is also conducive to connecting the poor to remote markets.

Telecommunication infrastructure is seen as important to bring new information and influences to rural areas and, thus, to provide links to larger, more remote markets. Possible further areas for the use of modern technology are in secondary and tertiary education, teacher continuing education and administration. Strategies for this are still very basic, as will be discussed in the subsequent chapter. These strategies relying on cellular phones accessible through local entrepreneurs as pioneered by Grameen Telecom of Bangladesh, and on reductions in user fees and extension of coverage in a well-regulated and competitive telecommunications market, that is yet missing in many developing countries.

Further infrastructure requirements include social infrastructure for a connection to health care and education as discussed prior, and certain aspects of economic infrastructure including for example irrigation as inputs for the agrarian industry.

In infrastructure investments involving government financing special concern is placed on the fitness of projects to needs and on recurrent costs. To tackle these problems local ownership is the seen as a key. The participation of the local community in the decision making and their acceptance of ownership for the infrastructure, e.g. rural roads or water supply, helps in choosing priorities, especially in difficult choices such as on social vs. productive investment. This demand-based approach has in many cases to be supplemented by supply-side inputs such as local capacity building and information provision. In some situation where the overall sectoral strategy does not figure into the individual calculation at community level or where projects of a broader scope than the community level are pursued, a bottom-up approach will not be feasible. Yet

3 See UK government (2000), p. 41 and 42.
4 See World Bank (2000a), p. 87.
6 These problems arise more in governmental projects than in private projects, which determine their initiative on market needs and on possible returns. Projects that are foreseeable to not cover their recurrent costs or not to meet the needs of the population will likely not be undertaken in a market environment.
7 For this discussion see World Bank (2000a), p. 90 and 91.
wherever feasible ownership of the project by the community should be sought since it also ensures good operation and maintenance of the infrastructure investment. It also might enable community-based cost sharing of the investment or the operation. Tackling the problem of recurrent costs and maintenance needs is essential to insure that the investments undertaken to provide long-term access to markets for the poor (and the non-poor in most cases) can actually provide the benefits and increased economic opportunities and do not falter early because the necessary upkeep was not undertaken.

In conclusion, the new strategies’ focus on the advancement of the poor is based in part on an approach to expand their assets and the return to those assets. This is pursued mainly through investments in human capital and legislation granting property rights to the poor. To enable the poor to use their assets effectively, the need for integration into the market economy is stressed. The access for the poor to markets is attempted through promoting agricultural markets, micro-finance schemes and infrastructure investments. The strategies thus rely strongly on the market mechanism while stressing the role of the state to set the regulatory framework and to enable the poor to participate successfully in these markets.

2.4.1.3. Excursion into Infrastructure Investment

As has been pointed out before, infrastructure is important for the provision of social services, market access and the sprout and development of business activities. Irrigation is needed for improved agricultural yields; water supply is essential to fight diseases and to reduce the work load for women who fetch water traditionally; sanitation is necessary to fight communicable diseases; rural roads are needed to connect the poor to the markets; basic service infrastructure is needed to provide schooling and health care for human capital accumulation and in their own rights; electrification is essential for a region to be attractive for business activity, to preserve more inefficient natural forms of energy and raise the quality of life; national roads and railways are a precondition to link people to export markets; and communication and new media access is important for the availability of information, the broadening of the views and to reap some of the benefits of globalization. This shows the vast difference of infrastructural projects, ranging from small cost, small reach projects for local dwell with immediate impact on the poor to projects of high costs, extended reach such as energy projects, where the benefits to the poor are indirect and hard to assess. The limited resources in developing countries do not permit all projects to be pursued at once in all areas. Facing this constraint, it is astounding that the new strategic proposals shed little or no light on three important questions: The priorities of projects, their sequencing and the inclusion of new technologies.
Do projects on economic infrastructure and services justify their more than fourfold costs over projects for social infrastructure and services\(^1\) due to their greater outreach and potentially broad, but difficult to measure indirect effects? And if economic infrastructure is desirable, are then road networks more desirable for poverty reduction, or rather electrification? The strategies give some hints. Social services in regard for schooling and health care receive high emphasis, thus implying the need for social infrastructure in their support. Also, the bottom-up approach of the World Bank that points to participation in order to determine the priorities on a local level seems sensible, as it links the priorities to the needs of the local population. The local perspective does not help though in decisions where at least one of the alternatives has over-communal reach such as for electricity, where the benefits are difficult to determine or where large external benefits might exist due to interrelations with other projects or cross-communal linkages. Here the local benefits do not coincide with overall benefits.

The vacuum concerning answers to the question of priorities stems from the focus of the new strategies. The need for infrastructure, also economic infrastructure, is confirmed, yet only certain aspects of infrastructure have been reflected, such as rural road networks and sanitation, while others like national transportation and electricity have been neglected. And even those aspects taken into account stand side by side rather than in ordered priority. Priorities are difficult to generalize; yet even the discussion of ways and criteria to determine them are missing, with the bottom-up approach of the World Bank being the notable exception\(^2\).

The discussion of priorities is strongly connected to the reflection on sequencing issues. Whether a vast road network is preferable to electrification should rather be turned into the question whether a vast network of roads should be implemented at the expense of late electrification or rather a few roads but therefore early electrification? A further question concerns investments in more than one geographic area: for two distinct areas, should one receive both infrastructure services, i.e. electricity and broad road access (or any other two infrastructure investments) due to synergies either in the provision or their impact? Or should both first receive one service, and later both receive the other? There seems to be an understanding that broad provision of basic social infrastructure for health and education is essential, implying a view of broad

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\(^1\) The survey presented later on projects in the German financial cooperation found this ratio of average investments in both sectors to be above four. See the chapter on implications for project evaluations.

\(^2\) The potential annotation that the developing countries themselves should determine the priorities since they are the owners of their national strategy does not relieve the strategists from this concern, since the strategies are aimed at guiding national choice in a whole range of national priorities reaching from the role of the state to social perceptions of the role of the women, and the reflection on this very cost-intensive matter in regard to infrastructure investment should as well be taken up.
based but basic rather than punctual but profound social infrastructure\(^1\). On the other hand DfID acknowledges the possibility that migration from rural areas to centers might be sensible since the spread of business infrastructure to thinly populated rural areas might be too costly in terms of their economic returns\(^2\), pointing at a more concentrated approach.

Since a framework for setting priorities is missing, a very simple one is outlined here. The following discussion is included to illustrate the point made above: In a financially constraint setting not only the different possibilities have to be listed, but there have to be some ideas on which of these possibilities are most important in a given situation as the scarce resources prohibit the pursuit of all of them. It does not claim to cover all relevant issues here - this cannot even be attempted in this short exposition - but rather tries to point out the direction a sensible discussion on financially constraint recommendations could follow to give guidance for the national discussion in the developing country:

Theoretically, under abstraction from the concrete problems of a specific country and starting from scratch, a simple framework could work as follows: As a first priority and first step in a sequence the construction or rehabilitation of a road connecting a rural community is proposed. This has the potential of fostering private initiative, since the physical connection is important for merchants and industries to reach the community as well as for the rural community to seek the interaction with external markets. Private initiative might then already be able to increase the provision of other infrastructure services because the physical inaccessibility is removed.

This also eases the provision of social services, which in this train of thought would be the second priority swiftly following road construction. Physical access facilitates the delivery of medicine and the attraction of qualified personnel in health care and education necessary for the delivery of the service. While health care is important for the people for their well-being and their returns from labor, education is the main concern here because it can serve as a means to foster an attitude of learning and entrepreneurial spirit, prepare the children for the changes of a more open world and expands their skill level, if the curriculum is set right. This process will take some time.

A third step in the sequence will then be the extension of business infrastructure such as water supply and electricity to the region after a time sufficient for educational efforts to show effect, but fast enough so that increased physical access and education does not result only in migration of those seeking business opportunities. This business infrastructure will, in an optimal case, provide a fertile ground for the entrepreneurial spirit induced by education to extend into business activity. For outside entrepreneurs it increases

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\(^1\) Both will not be feasible at once due to budgetary constraints without which this discussion and the discussion on priorities for development as a whole would be superfluous.

the incentives to bring their know-how to an already sufficiently skilled and open-minded labor force. The benefits from education and later business infrastructure could accrue from adaptation of more profitable methods in agriculture or from the start of small businesses which use the newly provided inputs for their advantage; both leading to better economic performance and result in higher living standards for the local population.

Summarizing, the sequence: physical infrastructure followed by social infrastructure followed by economic infrastructure is tentatively proposed. Yet it is not the results of this analysis that is of importance, but the way to look at the problem. The framework is included to portray the need to focus on priorities in implementing the new strategies: i.e. to give guidance on the way to reap the highest benefits given the constraints that not all projects will be able to be financed due to the limited resource availability. This is mostly omitted in the new strategies. The very simple framework presented here obviously abstracts form the individual problems within each country and region, from the priorities of the urban population and from rural-urban interactions. It also assumes a development from scratch and does not tackle the question of additional infrastructure investments when basic infrastructure exists but is not sufficient or improperly maintained. Furthermore, it does not look at potential synergies in service provision. If the costs of laying electricity and telecommunication lines or water pipes is substantially reduces if this is conducted jointly with efforts of road construction, since manpower and possibly earth moving equipment is already at the sight, a case for a more concentrated approach providing several services at one time might receive stronger support over the presented sequential approach.

This opens up the question to how such a framework looks like under more realistic conditions. Despite all these obvious drawbacks, the approach presented above steps in a direction where not all infrastructure investments are favored, but where priorities and sequencing play a role. A broader framework in this respect could give guidance in those cases where the most helpful solution cannot be determined by assessing the local demand because of conflicts of interests in the community, projects with over-communal character and highly interrelated projects. Such a broader framework will have to draw on empirical analysis on the interrelation of projects as well as on country or regional specific knowledge, but would positively extend the current strategic proposals. Its benefits would include the integration of different sector policies into one framework and a contribution to development effectiveness. These prospects make a pursuit of such a framework for setting priorities worthwhile.

One further point to be made regards the emphasis for new technologies within the new strategies. The “stronger application of modern technology”\(^1\) is demanded, yet the areas in which this should be applied and the ends to which

\(^1\) See BMZ (2001a), p. 12.
they shall serve remain unclear in most strategies. One interpretation for the increased demand for information technology is the concern with international inequality, implied by the phrase “Digital Divide”\(^1\), which describes the divergence in the use of advanced information technologies (IT), mainly of computers and the internet, in industrialized countries in contrast to developing countries.

This divergence by itself does not justify the inclusion of information technology in strategies for poverty reduction, since a further departure of the developed world has no influence on the poor, whose misery is mainly reflected by their distance from the absolute minimum necessary for survival and their relative position in their society rather than their distance to living conditions in industrialized countries. Yet if increases in the use of information technology are seen as conducive to poverty reduction because they increase overall economic growth and growth that occurs to the poor, and not just as a global objective of international equality, they receive distinctive value for poverty reduction strategies.

This second interpretation seems to be reasonable, since the economies of the developed world that provide most of the export opportunities for developing countries rely increasingly on the use of the Internet in business-to-business transactions. That implies that the availability of new technologies increases the opportunities for exports and growth, while the unavailability decreases these possibilities. Since in contrast to manufacturing facilities the costs of Internet access are rather small, there seems to be a case in promoting these in bigger manufacturing environments.

For smaller, informal manufacturing, the costs of Internet access including the hardware are much less favorable, and even though there are still benefits by circumventing the middleman, broadening the market and increasing administrative productivity, the cost/benefits ratio will tend to be smaller than for larger companies. For the rural sector, especially for the agricultural sector, the value of the Internet in economic terms is especially questionable in the short to medium time frame, since individual exports to industrialized countries are unlikely and a broadening of the domestic markets is unrealistic, since on the domestic front business to business solutions to agriculture are unlikely to exist.

These differences remain unreflected in the new strategies. Considerations beyond the economic sphere that give rise to the promotion of information technology are hardly presented at all. On the countryside new technologies can have positive impacts by broadening the horizon of the young generation\(^2\) and expanding their comprehension of the possibilities in this world. News can be accessed and learning opportunities can be opened. For this to happen, there has

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\(^2\) For the aged generations as well, yet the young generations seems to be more responsive to the advance of new media, as the experience of the industrialized countries shows.
to be a strategy\textsuperscript{1} for the provision of the services and also about the provision of content especially when learning is an aim. International content does not make superfluous local or national content due to language barriers and different content needs, as for example in rural areas simple farming techniques might be of interest. Adaptation of content to the national or local language might also need to be undertaken.

Most of the current strategies either provide no further reference than stating the need for new technology\textsuperscript{2}, or stay with currently tried and realistic, yet not very visionary implementation proposals such as pre-paid phone cards\textsuperscript{3} and local entrepreneurs offering cell-phone access\textsuperscript{4}. Real concern about the preconditions for the effective use of new technologies and communication systems and their integration into a strategy that links these new technologies to the development process are for the most part missing.

The Second British White Paper on International Development\textsuperscript{5} is a notable exception to this, since it defines areas where new technologies could successfully be deployed, i.e. secondary and tertiary education, teacher training, common virtual marketplaces and public sector efficiency. It extends its investigation beyond considerations of modern IT. Concerns about limited access to information from new technology stimulated ideas to couple new and old technology. For example the connection of radio stations to the internet is proposed, so that the information gained through internet access can be broadly communicated. To increase access and reduce costs the deregulation of the telecommunications market, limitation of monopoly power and increased competition are promoted. Also concerns regarding content, language and marginalization of rural areas that are less likely to be connected are raised.

Such a discussion, extending beyond solely stating the need for new technology into a direction of a meaningful analysis of the impact that new technologies can actually have and about ways to bring these to full potential, will have to be undertaken in greater detail to lead to a sensible strategy for the application of new technologies in developing countries.

\textsuperscript{1} It could be argued that a strategy is not always necessary and that the market does not need a strategy, but in many developing countries there is not yet a framework for a functioning market, thus the changes in regulations have to be part of the strategy. Furthermore, areas where the return from market investment is too low might have to be a concern for strategic intervention, as has to be the case in regard to the provision of content that might in many developing countries not serve the needs of the users and which could be enhanced by initiatives spurring private, and if necessary public content for the new media.

\textsuperscript{2} As in BMZ (2001a), p 12, 13. As areas of implementation improved health services, improved education especially for women and the extension of economic commerce are mentioned. The vague implementation reference summarized in a single sentence only hints at a possible direction of implementation of these ideas, yet is far from illuminating concrete steps. Even new academic advice to the BMZ on the topic of globalization neglects this point nearly entirely. See BMZ (1999b), p. 13.


\textsuperscript{4} See World Bank (2000a), p. 87.

\textsuperscript{5} See UK government (2000), p. 39 – 42.
2.4.2. Necessary Political Conditions

2.4.2.1. Linkages Between Political Conditions and Economic Issues
Economic issues play an important part in the reduction of poverty, as has been shown in the preceding section. Yet the economic sphere in a society cannot be separated from the political framework prevailing in a country. The importance of political and social considerations for the lives of poor people and on the outcomes of their economic activities is acknowledged and deeply rooted in all analyzed strategies. This is most evident in the inclusion of the political and social dimensions in the definition of the poverty\(^1\), and receives strong attention in the discussion on strategic actions.

The concern for political considerations is strongly based on their inherent value for the attainment of human rights regarding the life and personal freedom of each individual. These rights are seen as "means of empowering all people to make decisions about their own lives rather than being the passive objects of choices made on their behalf\(^2\). Additionally, political considerations are also regarded as important in the pursuit of economic development. The impact on the economic activity is supposed to be achieved by empowering the people to claim their rights. This shall enable them to access the opportunities and services made available through pro-poor development\(^3\). Empowerment is pursued by demanding a political concern for human rights and equality, participation of the poor or their representatives in the decision-making process and democratization.\(^4\) These measures are regarded as conducive to improve the availability and quality of public service inputs for poor people due to increased influence on and accountability by the administration and to create a nonrestrictive political and social environment conducive to economic activity.\(^5\) This is claimed to better the overall economic situation of the poor.

In contrast, if good governance cannot be achieved, economic opportunities are stifled; for example by corruption and absent rule of law\(^6\). Thus, increased attention is being given within the new strategies to governance matters on the part of the government, the legal system and the administration. Corruption and lacking rule of law do not only hamper the initiative of poor people, they diminish also overall economic incentives, reduce domestic investments and deter foreign capital inflow, leading to reduced overall economic performance. Another major concern is paced on gender equality, since discrimination on the base of gender is still widely spread and massively impacts the situation of women, as the fact that about 70% of the poor are

\(^1\) See the chapter on 'Poverty Definitions beyond Monetary Income.
\(^3\) See DFID (2000d), p. 4.
\(^4\) See e.g. BMZ, p. 6 and 30.
\(^6\) See World Bank (2000a), p. 102, 103.
women\textsuperscript{1} points out sharply. This also has economic implications, since women have great potential for increasing their economic activity\textsuperscript{2} and, thus, their equal treatment is seen as a prerequisite for sustainable development\textsuperscript{3}.

Yet while political and social aspects influence economic outcomes, this relationship holds true in the other direction as well, where measures fostering economic activity also influence the political sphere. For example, education not only expands peoples economic possibilities, but also their will and potential to engage in politics and diminish social inequalities. Especially education of girls, which is seen as strongly conducive to economic growth, changes the balance in society towards greater acceptance of women\textsuperscript{4}.

Due to these interactions between economic and political issues, the strategies extend their focus beyond economic considerations and strongly regard the political dimension, which has its virtues in its own right as well as in their contribution to economic advancements and also to the provision of security\textsuperscript{5}. This political dimension is the concern of this chapter. The empowerment of the poor in terms of human rights and equality, participation in decision-making and democratic reforms is investigated first, while in the second part the measures of good governance relating to legislative, legal and administrative issues necessary for empowering the poor are discussed.

2.4.2.2. Empowerment

2.4.2.2.1. Human Rights and Equality

In the pursuit of the reduction of poverty in developing countries, the compliance with human rights standards such as the Universal Declaration of Human Rights (UDHR) is claimed as a guideline for goals and actions that the government should adopt to progress in the right direction.\textsuperscript{6} The new strategies emphasize the strong linkage between the attainment of human rights and increasing empowerment of the poor. Thus, need to focus on the empowerment of the poor is stressed. Empowerment means in these strategies the ability of people to take decisions on their own lives instead of being passive objects of

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\textsuperscript{1} See UNDP (1995).
\textsuperscript{2} See DfID (2000f), p.4.
\textsuperscript{3} See Sida (2000b).
\textsuperscript{5} Which will be the concern of the chapter on ‘Measures to Increase Security’.
\textsuperscript{6} Human rights are mainly a concern of the three bilateral strategies, while except for few mentionings (like “culture of human rights” World Bank (2000a), p. 122) they do not play an explicit role in the World Development Report 2000/2001. This is due to the interpretation of the mandate of the World Bank, which focuses on economic matters, which is strongly criticized by DfID (DfID (2000f), p. 15 and 16). Since human rights play implicitly a strong role in the WDR, they can still be considered overall consensus. For more detail on this see the chapter on ‘Different Accentuations: the World Bank’.
}
the decisions other people make on their behalf\textsuperscript{1}. For an abstract of important human rights see annex 1. These comprise a wide array of goals from mere physical survival and integrity – the right to live and the right to the highest attainable standard of physical and mental health - over personal liberty, freedom from discrimination and cultural inclusion to economic goals of just and favorable conditions of work and political aims of freedom of religion, opinion, speech and expression and the right of political participation\textsuperscript{2}.

The breadth of these goals is broad. The governments who signed one of altogether six human right treaties commit themselves to doing everything within its capacities\textsuperscript{3} to meet the human rights standards enshrined in that treaty. This points at a problem if this capacity is limited, as can be assumed for some poor countries. This is the especially so for the rights on economic conditions. Yet other conditions concerning individual, social and political aspects are not very costly in other terms than in the reduction of the power of the administration and the government, and are also seen as conducive to the achievement of better economic conditions. The most important aspects in regard to human rights are related to: The strengthening of social priorities of government spending, the importance of core labor standards and the curbing of discriminatory practices, most importantly in regard to the situation of women.

In the first chapter on the domestic framework for poverty reduction, the need for spending in favor of the poor was justified mainly from an economic perspective, which might or might not be accepted by the government in their design of national policies, since a government could retain a standpoint claiming non-poor oriented projects as most conducive to the poor due to indirect effects. The human rights based view provides a different approach to the justification for pro-poor spending\textsuperscript{4}. The poor are in a human rights

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\item This definition is taken in very close relation to the statement: "They (the human rights, the author) provide a means of empowering all people to make decisions about their own lives rather than being the passive objects of choices made on their behalf." DfID (2000d), p. 1. Despite a great concern for empowerment, the other strategies neglect the definition and rather jump right into the solution. For example the World Bank (2000a), p. 33 states: "Facilitating empowerment: making state institutions more accountable and responsive to poor people, strengthening the participation of poor people in political processes and local decision making, and removing the social barriers that result from distinctions of gender, ethnicity, race and social status." Yet from the concern for the ends we see that the definition given for empowerment by DfID well could be the goal behind these ends, thus accepting its overall value.
\item See DfID (2000d), p. 2.
\item See DfID (2000d), p. 4.
\item A consideration of social perspectives is also implicitly included in the economic perspective (otherwise a concern could be fully concentrated on overall economic growth). The given social objective of improving the situation of the poor is the base line for the economic policies on poverty reduction to be judged against. Yet the difference between the economic perspective and the human rights perspective, despite nearly equal demands, is the
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approach not seen as appellative, but rather as demanding a right that has been granted to them.\textsuperscript{1} The value of investments in health and education is not measured in terms of progress on another dimension such as economic growth. The need to undertake such investments is linked to the inherent right of every person of attainments in education and health. This opens broad potential for the poor or their representatives to claim these rights\textsuperscript{2}.

The concern that public actions might be more prone to rent-seeking behavior of elites than to socially justified actions and the inferred need for strong priorities for public actions in favor of the poor\textsuperscript{3} can be tackled by a human rights based framework, because it increases the obligation of the state to focus on those deprived of their human rights, provides support for people who strive to claim or provide these rights and gives guidance on the ends to which public actions should be taken. The focus of the new strategies to encourage the inclusion of the human rights into national law\textsuperscript{4} and to make them accessible should aid this development\textsuperscript{5}. Increasing the obligations of the state and its government to improve the living conditions of its poorest citizens is a way of turning the share of government funds and the directions of policies, laws and regulations in favor of the poor, with potentially great effects on their lives and on poverty reduction as the abstract objective.

One important issue in the context of human rights in the new strategies is the adoption of **core labor standards**, which are politically binding for the members of the International Labor Organization (ILO) since their acceptance in 1998\textsuperscript{6}. They include the freedom of association and the right to collective bargaining, elimination of forced labor, effective abolition of child labor, and the elimination of discrimination in employment and occupation, which are seen as a basis for the socially responsible economic process.\textsuperscript{7} The value of these norms is strongly acknowledged and it has been widely agreed that the standards themselves represent worthy targets for economic development.\textsuperscript{8} That the poor and powerless are most prone to exploitative working conditions which are not reconcilable with human rights standards can be explained by their minor position in bargaining about these conditions and the according payments in cases where the demand for labor is relatively low and supply is high, as is the condition in many poor developing countries.

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\textsuperscript{1} This right can constitute a direct claim on state action or an indirect claim to preconditions that allows the individual to attain the entitlements of the right by his own efforts.

\textsuperscript{2} For this argument see e.g. DFID (2000d), p. 19.

\textsuperscript{3} See World Bank (2000a), p. 100.


\textsuperscript{5} See BMZ (2001a), p. 31.

\textsuperscript{6} See BMZ (2001a), p. 31.

\textsuperscript{7} See BMZ (2001a), p. 31, 32.

\textsuperscript{8} See World Bank (2000a), p. 73.
While abusive and hazardous working conditions are univocally regarded as contributing to poverty at least on the non-economic dimensions, the ways in which rights to better working condition and core labor standards should be enforced remain ambiguous. Most strategies favor the promotion of these rights as part of a broad-based development strategy through information, technical assistance, capacity building and complementary initiatives.\(^1\) A concern for labor standards in public contracts on development assistance and educational work on human rights as a whole are further proposals to foster these standards.\(^2\) International sanctions in terms of trade barriers imposed through the WTO system are disputed in their effectiveness. WTO trade sanctions are discussed in more detail in a later chapter on international regimes on trade.

**Discrimination** in employment and occupation, one of the concerns of the ILO that supervises the adherence to the agreed upon standards, is only one form of discrimination, which reflects underlying discriminatory tendencies in the society. Discrimination on the basis of gender, ethnicity, race, religion, or social status can effectively exclude people from social life and lock them in long-term poverty traps,\(^3\) which points at the fact that discrimination causes deprivation in economic and non-economic terms. These poverty traps do not only result from discrimination at work, but also from exclusion from social services, legal representation, property rights and political representation. This limits economic opportunities in terms of dependent employment through direct discrimination and of self-employment because of lack of inputs in from of health, education and administrative services. It also reduces the ability to change this situation because of low political and social influence. Discrimination is a phenomenon deeply rooted in a society, resulting in exclusion in social, economic and political terms.

Therefore, a comprehensive response to the interdependent social, economic, cultural, civil and political relationships of power that lead to discrimination and inequality has to be found.\(^4\) Currently proposed measures comprise support for minority languages and cultures,\(^5\) educational material breaking with traditional stereotypes, provision of disaggregated information by ethnicity, gender or religion\(^6\) and the emphasis of role models out of the discriminated group\(^7\). Affirmative action on part of the government is proposed for deeply stratified countries where the disabilities from long-standing discrimination are so entrenched that in order to compete in economic and political terrain the people discriminated against need special assistance in

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\(^1\) See e.g. World Bank, p. 73, 74.


\(^3\) See World Bank (2000a), p. 117.


\(^7\) For this and the following argument see World Bank (2000a), p. 125, 126.
acquiring education, information and self-respect. This assistance can be provided by developmental policies aiming at improving the skill level of the target group through financial, educational and managerial allowances.\(^1\) For long-term solution, special emphasis is placed on the inclusion and advancement of children and adolescents since they can carry future developments that will enable a society to overcome social disintegration and lack of perspective\(^2\).

The concerns about discrimination span every form of discrimination, which could be based on ethnicity, race, gender, religion, social status or other criteria. **Gender inequalities** receive special attention in the new strategies. One reason for this is the fact that about twice as many women are estimated to live in absolute poverty compared to men\(^3\). Concerns are also raised about high levels of violence and abuse of women, which is partly caused by the inability of women to pursue their rights as many countries still continue to discriminate against women in the law.\(^4\) Gender inequalities and gender discrimination is seen as a gross violation of human rights.\(^5\) Also on economic terms the gender bias raises worries since the predominant part of the women work in the informal sector in underpaid conditions and constitute a only a very small part of the formal sector employment, despite a proportion of 40% in the worldwide paid-labor force.\(^6\) The sheer number of women that are deprived of their economic opportunities and the economic potential lost thereby places equality of women as one of the prerequisite for poverty reduction\(^7\).

The exclusion of women from political decision-making processes\(^8\) also places gender equality as a major concern for the achievement of democratic systems. These concerns highlight the important role that the development organizations ascribe to gender equality. Since there is a perception that gender

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1. The World Bank also debates the use preferential policies looking to decrease inequality by giving opportunities to members of the disadvantaged groups even when they are less qualified. It cautions this approach because of the associated risk of increasing the negative stereotypes against the target group. See World Bank (2000a), p. 126.


3. See DFID (2000f), p. i, which cites the UNDP (1995) figure that 70% of the poor are female.


5. The support for gender equality is sometimes countered by the right of respect for a people’s culture, which would prohibit the intervention of donor nations on this matter. This argument has been clearly rebutted by DFID (2000d), p. 8: “Donor countries which support women’s equality have sometimes been accused of seeking to impose their own values on others. While respect for people’s culture is a right, so too is respect for the human rights of women. Both are recognized in the Universal Declaration of Human Rights. Women have been oppressed and treated unequally in all cultures, and in all cultures this is an abuse of human rights.”

6. See BMZ (2001a), p. 34. Since it remains unclear to what extend the 40% are due to the paid labor women undertook in industrialized countries, the ratio on paid labor might well be lower in developing countries. Yet the problem of circumstances preventing women from accessing work either totally or to adequate conditions remains.


8. See BMZ (2001a), p. 34.
equality does not necessarily depend on the economic development of a country\(^1\), there has been extensive thought about the measures needed to increase gender equality. To achieve progress on the demands for greater gender equity requires participation of women in political and economic decision-making\(^2\), as well as legal rights reforms, access to public and private services and educational work\(^3\).

Women are poorly represented in the political life in many countries, which explains the widespread neglect of women’s priorities in laws and regulation.\(^4\) This is attributed to the fact that “(norms) for gender roles and rights form part of the moral order of a community and permeate other institutions, including those of the state”\(^5\). To counter this, projects of education and training for underprivileged women for leadership roles on the communal level and the advancements of women’s organizations and their linkage are proposed.\(^6\) This is also conducive to pressure for necessary changes in laws and regulations, especially in terms of marriage rights and inheritance laws, the bias of which strongly effects the role of women within the society\(^7\). The inheritance laws form a special case of overall economic laws, that in some countries do not grant any economic rights to women who are under the guardianship of their husbands, while in others land rights, property rights or the right to freely choose employment are severely limited. This propels dependency situations and inhibits change of the situation of the women. Therefore, the legal system should incorporate gender equality and gender related rights as part of human rights.\(^8\) While the equality in front of the law is a necessary condition for equal opportunities, impediments in the access to these rights or to the services granted by them can limit the positive impact of legal reforms.

Poor women are highly dependent on basic services in terms of transport, energy, water, secure shelter and sanitation, which heavily impact their ability to fulfill their social tasks and their economic aspirations, yet are difficult to obtain because the combination of low availability to the poor and discrimination against women. Therefore, reform of public services and administrations towards a focus on the needs of poor women is demanded in the new strategies\(^9\).

Beyond the provision of material services the need to provide education to women is stressed because the returns to female education are assessed to be

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\(^1\) In DfID (2000), p. 3. it is pointed out that those occurrences where the Gender-related Development Index is higher than the Human Development Index, depicting gender equality (or even inverse gender inequality, which shall not be of concern here) occurs in developing as well as developed countries.


\(^3\) See World Bank, p. 121.


\(^6\) See BMZ (2001a), p. 35.

\(^7\) See World Bank (2000a), p. 118.

\(^8\) This area for political dialogue is emphasized in BMZ (2001a), p. 34.

especially high for the women, their children and the society. This is claimed on the basis that farm outputs and overall economic performance tend to increase, the nutritional and educational attainments for their children tend to rise and the number of children and thus the population growth tends to fall with improved female education. Girls’ education is assessed to lead to higher productivity. It is also a means of strengthening their ability for later participation in decision-making by increasing the women’s self-confidence and their ability to communicate and analyze material, not least due to fostering the ability to comprehend and compose written and numeric material. To give the pupils a positive role model and to provide education in a way that is inclusive of girls, women teachers have an important role and domestic employment and training policies should reflect this.

A special concern permeating the needs on legal, administrative and educational reforms is the concern about all forms of violence against women. The measures to prevent violence against women are not explicitly stated because of the variety of influences on these crimes, yet the need to progress in terms of increased security for women is clearly pronounced in the new strategies.

This discussion of potential areas where reforms towards gender equity could be undertaken focusses strongly on areas of public policy, such as women’s political representation, issues concerning the legal and administrative environment and public service provision, because these can be influenced comparatively easily by governmental policy. Yet gender inequalities, similar to other forms of discrimination, reach beyond the public sector and are deeply rooted in the attitudes and perceptions of people, which are hard to change and beyond the direct control of the government. These have to be tackled because inequalities will not be removed solely by changing the framework of public action, not the least because the views held in society also influence the administration. Therefore, educational campaigns and the activities of women’s associations for changing broad based social opinions need to be strengthened in order to achieve lasting changes towards greater gender equality.

Developmental strategies try to achieve a lasting impact by integrating a focus on the impact on gender equity in every project (gender mainstreaming). This is accompanied by special projects focussing directly on gender questions.

1 See World Bank (2000a), p. 118 – 120.
3 See e.g. BMZ (2001a), p. 35 on “efforts (…) to fight trade of women, forced and child prostitution” (translation by the author) and DfID (2000d), p. 7 “The most shocking manifestation of women’s inequality is violence.”
4 The difficulties and the long time frame that will be required to achieve full gender equality becomes evident when looking at the performance in many developing countries, where gender equality has only been reached by very few nations – mainly the Scandinavian – despite a comparatively long history of the women’s rights movement.
These efforts are supposed to be supplemented by increasing gender-differentiated data collection and dissemination\textsuperscript{1}.

To end this overview on approaches aiming at greater gender equality, a point only mentioned in the British strategy concerning the influence of the women themselves is worth to be mentioned: “An underlying guiding principle in addressing attitudes and social values is the importance of moving forward at a pace, and in a direction, which women themselves support.”\textsuperscript{2}

\subsection*{2.4.2.2 Participation}

The discussion on human rights already pointed at the fact that influence of the people on the decisions that effect their lives is of great importance in achieving progress on the full adoption of these rights. The new strategies rely heavily on the concept of participation\textsuperscript{3}, which broadly represents the ability of people – in this case, especially the poor people – to influence the political and administrative decisions affecting their life. Participation is proposed not only to achieve progress on human rights, but also on a variety of other goals such as efficient public service delivery, effective public investment corresponding to the needs of the poor and a greater focus of national policy on the interests and concerns of that part of the population living in destitute. The reasoning relies on the implicit assumption that the poor people know what services they want and need and what framework best contributes to their needs.\textsuperscript{4} By enabling them to express and enforce their interests, the circumstances, in which they live and

\textsuperscript{1} For gender mainstreaming, see BMZ (2001a), p. 35 and for gender mainstreaming and data issues DfID (2000d), p. 17 and 24 – 27.
\textsuperscript{4} This is a necessary assumption for participation to be a viable means for the efficient reduction of poverty. That the poor possess this knowledge about the means most effective for their advance is not explicitly stated in most strategies. Phrases like “Also poor women and men are actors (in the development process). They are not the problem, but part of the solution.” (BMZ (2001a), p. 5 – translated by the author) hint in this direction, yet do not clearly attribute the formulation of the solution to the abilities of the poor. Yet without this notion, the concept of participation becomes useless. If the poor people would not know what contributes to the fulfillment of their needs, their input in the decision-making process would not yield important improvements over the status quo where other people take the decisions. The mere statement of their problems – which they are attributed to know – does not reward the title ‘participation’. On what level the poor can formulate the solutions self-responsible without government help is under debate. The World Bank expresses the concern that for over-communal projects the local government needs to integrate the opinions of various communities, which might have too narrow a view to determine the overall value of the project. This does not challenge the general validity of the assumption that the poor know what is good for them, but searches for means to aggregate their perceptions. Still it is surprising - and undermining the value of participation – that the World Bank regards economic analysis as more valuable in setting priorities, and where this becomes difficult participation is regarded as particularly helpful. See World Bank, p. 90, 91.
pursue their livelihoods, will change in their favor. To give the poor people a
voice and to make public officials’ policies dependent on that voice – by
measures that increase the downward accountability to the poor through
decision-making processes that are closer to those affected and that guarantee
their involvement – will guide public officials to take better, more pro-poor
decisions.¹

A concrete definition of participation is hard to find throughout the analyzed
texts, since most strategies rely on a vague terminology such as “engaging poor
communities and poor people”², which is then used to present broad virtues of
this concept in various fields. One definition can be found in the strategy papers
of DFID in the context of human rights:
“Participation: enabling people to claim their human rights through the
promotion of the rights of all citizens to participation in, and access to
information relating to, the decision-making processes which affect their lives.”³

This definition hints at the important point that participation is a right for
everybody, needs to be accompanied by the provision of appropriate information
and provides a way of demanding (“claiming”). Yet the definition has the
disadvantage to define the phrase participation by using this phrase in the
definition. A proposal for a broad definition of participation incorporating the
benefits of the prior shall be attempted here:
Participation is a personal right to exercise knowledgeable influence on all
decisions taken by third parties according to the impact of this decision on the
person’s life relative to the life of others.

Under this definition participation can be claimed as a right, yet that the amount
of influence of each person decreases as the impact of a decision on this
person’s life decreases relative to the impact on the lives of others. This includes
the notion that decisions that can be taken at the local level should be guided by
the local people’s preferences, decisions taken in regard to a certain group such
as the poor people should be guided by their preference (and if the decisions can
be taken on an individual level, should be guided by the preferences by the
individual poor person), but even decisions of national scope require the
consideration of the individual interests according to the effect imposed on
them. The term ‘knowledgeable’ refers to the fact that to make participation
feasible, information has to be provided to those that have a right to participate
in order to make them aware about their possibility of taking influence and to

¹ See DFID (2000e), p. 15 for an expansion of this thought towards public service delivery.
² See World Bank (2000a), p. 88. The question that remains in this notion is to what extend
and in what ways the communities and the people should be engaged.
³ See DFID (2000f), p. ii. (Accentuations as in the original text.)
provide the background to exert one’s influence on a competent and informed basis.

This definition, based on the understanding on the way participation is used in the strategic documents, is still broad based and leaves open many questions about how to make participation operational on various levels. This is for due to the scope in which participation is perceived as useful. Participatory concepts influencing central government and local authorities are desired; yet require quite different methods on the two levels. It can already be noted here that methods for increasing participation on local decisions rather than on national strategies have received the foremost attention within the strategies.

Despite these operational uncertainties, the concept of greater participation is regarded to strongly benefit the pursuit of poverty reduction and human rights realization. The World Bank attributes three objectives to be achieved via participation: The reflection of preferences and values of communities in choices and interventions, the improvement of implementation, transparency and accountability through community and participant monitoring, and the provision of greater influence of the people on their lives. Measures to achieve participation and the benefits associated with it rest strongly on actions towards good governance in terms of decentralization - in order to take decisions closer to the affected people giving them the chance to influence the decisions on the local level - in terms of greater accountability of public service provision and public administration to local constituents and in terms of increasing the transparency of the decision-making process to the local population. Because of the importance of governmental and public actions on a framework responsive and favorable to the aspirations of the poor, which is summarized in the term “good governance” and which includes diverse measures for fostering an environment conducive to participation of the poor, these shall be discussed in greater detail in the subsequent chapter.

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1 In BMZ (1999), p. 7, information and communication are seen as key measures in all types of participation and constitute by themselves the lowest form of participatory involvement. This is reflected for example in the attempts to support free media and the training of journalists towards the end of political participation of the population. See BMZ (2001a), p. 37.
3 While for participation in decisions effecting the local community decentralization is the main thought which is broadly reflected in the strategies, the aggregation of voices of the poor to receive impact in national decisions is much less conceptualized and investigated. Yet the extensive problems of ensuring that the voices at the bottom are reflected in the demands at the top justify a deeper concern for this question.
4 For reference on these objectives and on measures to achieve them in the special contexts of education, infrastructure and forest management, see World Bank (2000a), p. 88 – 93.
5 Good governance in general and accountability, decentralization and transparency in special are discussed in depth in the following chapters with the same headings.
To enable the voices of the poor to be heard is not only dependant on public action favorable to greater participation of the poor, but also by initiatives of the poor themselves to take advantage and claim the provision of greater participation in the decision-making process by organizing themselves. Campaigns for social mobilization, which aim at increasing the ability of the poor for self-organization and raising their ability for political dialogue, are directed towards this end.\(^1\) To strengthen the ability of the poor to become active, self-help projects are regarded as conducive to foster the self-confidence of the poor. Civil society organizations as advocates for the interests of the poor are needed on the national and international level and, especially important, networking and the linkage among the poor are necessary.

This networking is analyzed in detail in the WDR 2000/2001\(^2\) along three dimensions. Bonding social capital is characterized by strong links between family members or close friends, which are prevalent in many developing countries and form the basis not only for greater security and economic benefit, but can also provide confidence for the group to speak up.

Bridging social capital, describing weak ties between members of the same social and economic status, becomes an important aspect in order to link poor people among each other and to expend their influence by fostering poor peoples associations. By encouraging these internal connections, the poor increase their voice through bundling of their interests resulting in higher overall impact on the decision making process\(^3\).

Besides domestic ties and bonds within the same background, linkages between the poor and people in positions of influence become important, the so-called linking social capital. Next to increasing economic opportunities\(^4\) this provides informal means for making the voices of the poor heard and transferred into action. The state can foster the development of linkages by taking an active role in shaping the context in which people can organize themselves. It can even move into the expansion of linkage social capital by putting up special programs to build up trust between government workers and poor people.\(^5\)

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1 For this and the following point see BMZ (2001a), p. 36, 37.
2 For this discussion see World Bank (2000a), p. 128 – 131. The strongly economical analysis prevalent in most of the World Bank work is here transferred to a more political viewpoint that is only a secondary factor in the World Bank analysis.
3 This neglects the fact that the poor are not a homogeneous group but consist of people with different occupations, problems and attitudes. They might not respond to one united organization that cannot support the potentially divergent interests. Especially the interests of urban and rural poor are potentially highly divergent.
4 This problem does not imply that linking poor people is not beneficial; rather a system of participation has to accept a wider variety of problems that need to be tackled and potentially a greater number of organizations that reflect the interests of the poor.
5 These are incurred by linking poor people to influential personnel in banks or agricultural extension offices thus permitting their access to important inputs into their economic activities. See World Bank (2000a), p. 128.
6 See World Bank, p. 130.
To increase participation by linking poor and influential people, the state should also encourage non-government organizations (NGOs), which are considered as especially helpful as intermediaries in this process - on the economic as well as on the political side. They can help to link poor people to banking institutions by providing intermediary micro-credit services and to public officials and staff at national institutions by providing feedback between these and the grassroots organizations to which NGOs generally have close contacts. The civil society not only fosters linkage effects, it can also create pressure and carry forward the demands of the poor with greater vigor by making critical ground level information on human rights violations or discriminatory practices widely available and gathering support for corrective action. The influence of an active civil society also provides control over the actions of governmental bodies and helps to spread information to the poor people. Their linkage up to the international level even allows them to represent the interests of the poor in international forums, even though this potential is not yet fully used.

This analysis on NGOs already points at the fact that the poor cannot in all cases handle the representation of their interests on their own. This has several reasons. It is sometimes difficult to identify the poor. Even if this is possible, it is often difficult to ensure their participation because they tend to have little time, insufficient information and lacking access to outside sources for consultation. Also decisions on regional, national or international scope are potentially beyond the reach where individual participation is feasible. Therefore poor communities or civil society organizations are often considered as proxies for the participation of poor individuals and are the targets for participatory attempts.

Which leaves the question to what extent these reflect the interests of the poor – or are counterproductively dominated by the non-poor. Even if communities are poor they tend to have some non-poor members who are prone to have a greater say in the community’s decisions due to their higher resources. And even among the poor there are varying degrees of poverty, with the poorest possibly being those least able to take a role in the participatory process and to make their interests heard since they tend to be the least active, the elderly and

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1 See World Bank p. 110, 111, 129, 130.
2 In DfID (2000d), p. 7 it is argued that the international civil society has until recently been unfocused on work to promote economic, social and cultural rights of poor people with some exceptions, thus leaving room for improvement. The analysis also provides a broader overview about the benefits of civil society activities.
4 The notion that NGO’s and civil society organizations are important actors in the expression of poor people’s voice receives attention in DfID (2000e), p. 15 and Sida (2000d). Phrases like “Participation of the poor population and the civil society (are) an important precondition (for the provision of basic social services)” (BMZ (2001a), p. 24 – translated by the author) do not distinguish any more between the participation of civil society organizations and the poor themselves.
the disabled. How the poor and among these the poorest should be detected in poor communities and how they should be integrated into the decision making process is left largely open in the discussion, but needs to be operationalized to enable real pro-poor policies.

Regarding civil society organizations, it is unclear to what extend they actually reflect the interest of the poor and not other priorities in their own regard. The connection that civil society organizations effectively and accurately channel the interests of the poor into the decision-making process needs to be firmly established before the link from participation of NGOs in the decision-making process to pro-poor policies can be drawn. It is acknowledged that "(some) lobbying groups and civil society organizations promote division, represent the interest of elites or misrepresent the interests of the poor." Yet, this point is either not regarded at all, not further investigated or taken up by assessing single-sentence that accountability of civil society organizations’ actions especially to the poor people whom they represent, is important.

The rather unreflected believe in the abilities and interests of civil society organizations to correctly reflect their constituents interests is astounding in light of the skepticism that is expressed about exactly this ability in the public and political sector. Since participation is heavily relied on within the new strategies - especially to correct the unresponsiveness of the public sector to the needs of the poor - further investigation should be undertaken to ensure that civil society organizations can live up to this challenge and to analyze which measures are most conducive to prevent the dilution of interests as the scope of the activities of these organizations expands.

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1 This seems reasonable for some NGOs, but has to be questioned for their entirety, thus necessitating deeper analysis. This topic is covered in more detail in the chapter ‘Differing Accentuations’, ‘Sweden’.
3 Strategies of Sida and BMZ.
4 In DfID (2000d), p. 17, it is assessed that civil society organizations “require (...) independently verified signs of the networking improving the lives of poor people”. Yet this is not proposed as a measure to avoid the capture of interests other than those of the poor, but as a means to improve their position in international negotiations. A second requirement of “real links back to the grass roots” hints at the problem and at the need to make sure that the poor people are correctly represented, but does not propose any measures.
6 It can be assumed that as long as these organizations operate locally and are represented by local poor people, the control of their actions is provided for because their constituents can observe their actions, and misunderstandings are unlikely due to short communication ways. Yet with the linkage of civil society organizations to broader, nationwide networks (see BMZ (2001a), p. 36) the ability of control for the constituents decreases and the communication links increase, thus increasing the room for capture of the orientation of the organization by special interests.
2.4.2.2.3. Democratization

In the pursuit of empowerment for the poor people in developing countries democratization and participation are both demanded. While sometimes democracy and participation are mentioned jointly to reflect the same issue\(^1\), in many cases they present distinctly different concepts\(^2\). This ambiguity results from the fact that democracy can be both participatory and representative\(^3\).

In a broad definition democratic development can mean the “broad popular participation in the development process at all levels (... without) prescription of formal multiparty democracy”\(^4\). In this perception the concepts of participation and democracy are united into a single objective, which makes obsolete any further substantiation over the preceding paragraph. Yet in the general perception the notion has evolved to link the definition of democracy with the narrower focus on formal multiparty democracy\(^5\). The formal structures of this narrower view comprise political parties, elections, and parliaments\(^6\).

Since democratic multiparty systems require even in their representative form a minimum degree of participation, i.e. the participation in the electoral process, this system can be seen as a special case of a participatory process - even though participation in the analyzed strategies is attributed generally with a higher intensity of personal involvement and influence than is provided by the electoral process only.

Yet participation can occur without a multiparty political regime (e.g. as participation on local levels while the national government remains totalitarian) or formal multiparty regimes can occur with only a minimum of participation and involvement of the constituents (e.g. only the punctual participatory involvement on election days or only on local issues), which points at democratization and participation as being two distinct concepts. This necessitates a closer look on democratic regimes even though the concept of participation has been already discussed. The unequivocal support for democracy in the bilateral strategies\(^7\) and the pronouncement of special requirements to make a formal democracy generally effective and inclusive for

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1. See e.g. World Bank (2000a), p. 112.
2. See e.g. DFID (2000), p. 19, 20 or view in World Bank (2000a) the general distinction of presentation of participation (mainly p. 88 – 96) and of democracy (only p. 112 – 115).
5. See also Sida (1996), p. 5. This view is also reflected in World Bank (2000a), p. 113.
7. See UK government (1997), p. 30, BMZ (2001a), p. 37 and Sida (1996), p. 22. The World Development Report (World Bank (2000a), p. 112 - 115) also lends support to democratic regimes, yet reflects this notion only briefly in comparison to the overall analysis. Yet the WDR 2000/1 is the only document that critically reflects the role of democracy. It emphasizes that despite the spectacular progress in some non-democratic countries on poverty reduction, the abuse of power even in poverty reducing settings and the potential for rapid policy reversal can make the development gains fragile. In this the World Bank follows a tradition of emphasizing not the ability of democratic societies to choose the best leader, but to protect itself from the worst leaders (See e.g. Popper, K. (1945)).
poor people lend further support to the value of discussing democratic systems in detail.

Multiparty democratic systems are strongly favored in most strategies because of their conflict resolution potential and their positive consequences for poor people with respect to their experience of freedom, security and well-being.\(^1\) The conflict resolution characteristic is based on the viewpoint that democratic societies provide peaceful methods for coming to a solution or compromise between different interests, without suppressing divergent points of view entirely. Democratic systems are assumed to provide positive consequences for the poor on the basis that their views tend to be better represented and that they are presented with a formal method to hold their government accountable. This in turn is regarded to lead to better quality services for them and a concern for generally pro-poor government initiatives.

These benefits can be realized because democracy can increase the poor people's confidence and opportunities to use social organizations for social action\(^2\). Powerful and broadly supported social organizations also raise the general ability for participation outside the formal democratic system by lobbying and campaigning for the interests of the poor\(^3\). Greater participation in turn is generally beneficial to democratic development by bringing into discussion the various views latent within a society and by engaging the people in knowledgeable political interaction. This points at the potential for mutually reinforcing effects between democracy and participation.

Mutually reinforcing effects also accrue in the simultaneous adoption of democracy and liberal economic policies, providing benefits in terms of political inclusion and social well-being. Liberal economic policies encourage power centers outside politics in the private sector, which can influence government policies and add to political pluralism benefiting democratic developments. In turn democratic developments provides the ground for the individual freedom necessary for the development of liberal economies.\(^4\) These mutually reinforcing effects hint at the potentially increasing returns from fostering democracy, participation and liberal economic policies jointly.

While taking closer looks at the interactions of these three variables, a positive effect of prosperity on democracy as hypothesized by Lipset\(^5\) does not figure prominently in the analysis in the strategic documents. The ability to build functioning democracies is not seen as dependent on the wealth of a nation.

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\(^1\) See Sida (1996), p. 22.
\(^3\) See World Bank (2000a), p. 114.
\(^5\) This hypothesis is expanded upon in Lipset (1959).
Formal democratic institutions in a country are encouraged in the strategies, but are no panacea. Under their prevalence the mentioned effects and the general benefits from poor people's inclusion do not necessarily occur. Rather many poor experience powerlessness despite formal democratic institutions. This is mainly viewed as an outcome of the influence in and capture of the political process by the better connected and educated – sometimes referred to as the elites. Since “democratic political processes alone are not enough” to ensure the inclusion of the views of the poor, certain additional preconditions have to be in place. These comprise measures generally necessary for the functioning of democracies as well as specific measures aimed at the poor.

General measures univocally include the provision of adequate information fostered by independent and effective media, inclusive and fair electoral processes administered and supported by a loyal but autonomous civil service, open and issue based political parties strong enough to monitor the executive in the parliamentary process, and an independent judiciary able to uphold the constitution and the rule of law. Supportive measures in this regard include actions like campaigns for broad political education, training of journalists, support for free media and for civil society organizations and transparent public budgeting policies.

The regulatory framework should be shaped in a way to promote freedom of information provision regarding the decisions and actions of the government. New information technology should be employed to enable the vaster spread of information, accompanied by fostering proven technology and local-level information proliferation.

These general actions to foster the functioning of the democratic system should be supplemented by special actions to include the poor. A genuine will of the government to improve the possibilities of the poor people to participate in the electoral process is demanded, accompanied by training on election procedures conducted by organizations receiving broad popular confidence.

Furthermore, the new strategies emphasize that democratic decisions should permeate all major levels of decision-making, since not just central government decisions, but also the lower level decisions affect the circumstances of life especially of poor people. This links back to the demand for participation, which is entailed in these demands.

Overall, democracy is seen as the form of government most conducive to development – if the right preconditions are in place.

1 See DfID (2000e), p. 4.
2 See also DfID (2000e), p. 4. Here “elites” is used rather than the better educated and connected.
7 See Sida, p. 22.
8 This is next to vibrant civil society organizations and information provision the main point the World Bank presents on this issue. See World Bank (2000a), p. 114.
After having reviewed the benefits of democracy for the empowerment of the poor, the conditions necessary to realize the benefits and its interaction with economic necessities, in this last paragraph the discussion of the connection of participation and democracy shall be taken up from a more critical viewpoint. It has already been emphasized that participation and democracy are usually mutually reinforcing, as broad participation enables the inclusion of people in the overall democratic process while democratic processes foster the openness of the overall political situation to participatory involvement.

But is it also possible that participation and democratic systems do not reinforce each other? That participation actually puts strains on the democratic system? For this discussion a closer look at the statements of DfID yields some insights. In one of its consultation documents it is phrased: “A second concern on the effectiveness of newer democracies is that communications, between those in power and those representing the interests of the population, are often inadequate.”¹ This calls into question the general principle of democracy, which assumes that those elected into power represent the interests of the population; otherwise a representative democracy would not deserve its name. This shows, as pointed out prior, the general disbelieve in the donor community that formal democratic institutions alone ensure the correct functioning of the democratic mechanism.²

In an extension of this thought stronger participation in the decision-making processes than is currently implemented in the democratic systems of many developing nations are demanded. This shall ensure that the voice of the population is heard in the general policy formulation³. As has been argued in the preceding section, the entire population is difficult to involve in the decision-making process, thus reliance is put on the participation of civil society organizations. While their influence in the democratic systems of industrialized countries is limited to indirect lobbying and media campaigns, they are in the participatory process proposed for developing countries directly involved in the decision-making.

As long as participation is part of the democratic process, respecting the freedom of choice of the elected representatives by feeding the insights from participation into the debates of the parliament, this process does not imposes any problems. Yet if the influence of participation bypasses the democratically elected representatives or reduces their power to make the final decisions, the question becomes important who really reflects the interests of the population. If civil society does this better than the elected parliaments, such a bypassing move

¹ DfID (2000e), p. 4.
² The reason for the disbelieve in the general validity of adequate representation of people’s interests in the actions of their democratically elected representatives in developing countries is based on the view that the necessary preconditions discussed in the preceding subsection are not sufficiently implemented.
³ As will be shown in the last subchapter on ‘Initiated Reforms’, this is an aim of the process that generates the Poverty Reduction Strategies that are required by World Bank and IMF from countries applying for debt relieve under the extended HIPC-Initiative.
is not totally refutable, yet it will be more valuable for the stability of the country and for its internal democratization to pursue the integration of participatory movements into its democratic structures. Bypassing the national democratic institutions is generally not favored despite a concern about their representativeness. Therefore, DfID demands in a different text than that quoted prior that “reform programs led by the Bretton Woods institutions respect national democratic institutions and are evolved and debated through existing formal and informal methods of participation”. DfID as the only organization hints at potential problems of participation and democracy, yet leaves solutions open as to how participation could be structured and how it is to be integrated if formal and informal methods do not currently exist. The absence of formal and informal methods is precisely the reason why participation receives such a strong focus in the contemporary strategies.

This discussion points at the need to pay closer attention to and conduct research on the connection of participation and democracy, in order to use the mutually reinforcing effects and prevent counterproductive interference of both.

Summarizing, in the new strategies the need to empower the poor is emphasized. The goal is to provide them with a voice within their society. This is regarded as important to ensure their human rights and is fostered by participatory movements and democratic processes. Empowerment is linked back to the economic performance of the poor by affecting the focus of services and expenditures of the state. The need for empowerment is unambiguously stressed, yet not all measures to foster it are fully developed. There also remains scope for conflict between participatory attempts and democratic structures that deserve consideration when designing programs to foster empowerment.

2.4.2.3. Good Governance

2.4.2.3.1. The Concept

For the poor, the realization of empowerment, the ability to influence the decisions that affect their lives and the attainment of their human rights depends on more than the establishment of laws granting participation and social, economic and political entitlements. It is also crucial that institutions and administrative bodies respect, enforce and implement these laws. The realization that legislation is not sufficient has led to a strong focus on good governance in terms of more efficient and responsive administrations, access to the legal system and absence of corruption in all analyzed strategies.

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Responsible governance of a country results in increased empowerment of the poor and leads to direct improvements in their lives\(^1\) by providing a framework conducive to the expansion of the personal capabilities of the poor, by allocating resources to poor and deprived persons, and by providing these resources efficiently and responsive to the poor people's needs. It also leads to indirect improvements of their situation by providing an environment conducive to overall economic growth through improvement of administrative efficiency, enforcement of the rule of law and reductions of regulatory burdens, corruption and graft. The value of good governance for developing and transition economies has been conclusively shown in newer studies by illustrating its strong impact on per capita income, infant mortality and adult literacy\(^2\) and on growth in investment and security of property rights\(^3\).

The exact definition of good governance is not unambiguous, ranging from the efficient use of resources for the poor\(^4\) to spanning a concern for human rights, democratic principles and political participation by civil society\(^5\). While in some strategies democracy, rule of law and good governance form separate concerns\(^6\), in others the former two are integrated in the latter\(^7\). In their research on measurement of governance Kaufmann, Kraay and Zoido-Lobatón provide a very broad-based definition of governance:

"We define governance as the traditions and institutions that determine how authority is exercised in a particular country. This includes (1) the process by which governments are selected, held accountable, monitored, and replaced; (2) the capacity of governments to manage resources efficiently and formulate, implement, and enforce sound policies and regulations; and (3) the respect of citizens and the state for the institutions that govern economic and social interactions."

This definition takes into account a broad spectrum of concerns, including government control, efficiency of policy enforcement and the grounding of the institutions within the society. Yet it neglects a focus on the poor people within a society, which is attached to concepts of good governance within most strategic documents\(^9\). Since in this analysis human rights, participation and democracy have already been discussed in concern with poor people's empowerment, this approach to good governance will be restrained to measures

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9 See e.g. BMZ (2001a), p. 36.
of governance that allow empowerment to take hold. Thus, while empowerment has been discussed regarding necessary rights (legislative sphere), encouragement of participation by linking people (social sphere), and the legitimization of government (questions concerning the sovereign), the concept of good governance presented here is concerned with practical aspects of the executive and judicative powers. Inefficient administrations, inaccessible legal systems and corrupt government agents prevent the proceeds from empowerment to materialize. They curb the ability of poor people to access necessary services, claim their rights and receive the resources intended for them. They also hamper the economic system by diversion and squander of resources, by corruption and inefficiency and by lack of rule of law and the associated insecurity for economic transactions. Because of their importance for the realization of empowerment and for overall economic progress, deficits and improvement possibilities in the executive and legal system shall be of concern in the next sections.

2.4.2.3.2. Accountability, Decentralization and Transparency

Inefficiency and ineffectiveness within the governmental and administrative bodies can have many reasons. These may include lack of clear priorities and uncertainty about the tasks to perform, lack of legislative oversight or excessive political pressure on the local administrative bodies, recruitment and promotion based on personal connections or side-payments, discriminatory practices, corruption and unresponsiveness to the people they serve.

The main determinant that underlies all these causes is viewed as the lack of accountability of the public institutions towards their constituents. Effective monitoring and evaluation methods by the population, on local and national levels, reduce the ability of public servants to divert resources or to be unresponsive to their clients needs. Monitoring and evaluation create performance incentives for public servants for responsible and efficient use of the available resources in terms of administrative capacity and monetary budgets. They should be supplemented by government action to foster supportive behavior in terms of merit-based recruitment and rewards for good performance to motive public servants. Accountability to the constituency resolves the question of priorities to be set and tasks to perform, since it is the clients' views that determine the actions. Ambiguity about what the clients want

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1 Since empowerment is closely linked to the benefits for poor people, a focus for their problems is indirectly retained in this approach.
2 Some strategies, like the WDR 2000/1, do not draw a clear distinction between empowerment and good governance. Here is attempted to clarify this distinction by separating legislative, social and sovereignty issues from executive and judicial concerns. Yet the concepts are strongly interrelated and therefore cannot be fully separated.
3 See e.g. World Bank (2000a), p. 100, 101.
can be eliminated by increased public participation in the decision-making and implementation process.\(^1\)

Accountability is closely linked to the concept of participation\(^2\), since the ex post accountability of administrative bodies increases their incentives to engage the population ex ante in the formulation of policies and the setting of priorities. A well-build system of accountability limits the ability of public officials to determine policies on their own terms, out of their rational expectation that the evaluation such policies by the population will tend to be substantially lower than for participatory policies that include the will of the constituents from the start. Since the incentives of accountability might not in all cases outweigh the personal benefits in terms of bribes in the decision-making process or personal desire for power, the establishment of participatory processes should be implemented by the national government on a formal, enforceable basis.

In the establishment of accountable administrative systems, one of the major preconditions is a sufficient information base on which to judge the performance of public officials. To foster this, the policy-making process has to be transparent and the budgeting process and expenditures of the administrative bodies have to open for inspection by the general population.\(^3\)

Measures to increase the transparency of government agencies and administrative bodies comprise the simplification and the clear declaration of the procedures that lead to decisions. Disclosure of the resources used and progress achieved in the implementations of projects is another contributor.

The information made available by the public agencies has to be conveyed to the public. This is most effectively done via independent media\(^4\) or civil society organizations\(^5\). These can also investigate beyond the transparency offered by public administrations to discover undisclosed activities. Sen has shown the immense role of the media in influencing public service provision in his studies on famine prevention. He shows that free media are one of the most important sources to spur preventive government action.\(^6\) This impact of the

\(^1\) On the connection of participation, accountability and public service provision see the subchapter on 'Poor Peoples Assets'.

\(^2\) These two notions are strongly linked. See e.g. World Bank (2000a), p. 88, 89.

\(^3\) See DFID, (2000d), p. 11.


\(^6\) For a short analysis of the Indian and Chinese policies on nutrition and famines see Sen (1983), p. 757 – 760. Here he also notes limitations to the influence of the media. If deprivations are not newsworthy, such as in cases of endemic malnutrition in contrast to famines, the existence of free media does not yield any changes in policy. Yet this argument is based on the Indian system, which is not considered strongly accountable at the local level, especially to the poor. A system that provides more accountability at the local level and gives its citizens the ability to affect public choices on local levels is likely to induce a stronger demand from the local population on local news. Under the assumption of free media und the effect that demand drives supply malnutrition, while not making it into the national news, is
media is seen as conducive also to prevent less extreme cases of government failure. Measures to improve media coverage are similar to those discussed in the connection with democracy, yet focus more on the local level.

The one-way communication from administrations to the public needs to be accompanied by a reverse flow from information from the public to the administration. This is obvious in a participatory system, but can also be achieved in systems with less user involvement through feedback cards or other mechanisms for learning about the user’s demands and concerns.¹

A second precondition for the establishment of accountability and a strong necessity for the functioning of participatory processes are reforms for greater decentralization in many developing countries.² The potential for the achievement of development goals by decentralization stems from the delegation of control rights to those people that have the necessary information and the incentives to respond to the needs of the poor. The incentives are provided by making local administrators responsible for the political and economic outcomes of their decisions.³ The delegation of power enables the participation of and accountability to the local population that is not possible if the decisions are taken at central agencies, which are physically distant and in their accountability removed from the local population whose lives they affect.

The benefits from decentralization will only be realized if the delegation of power to make decisions is accompanied by a delegation of the resources necessary to implement these decisions and by ensuring that decentralization does not merely shift power from central elites to local elites.⁴ To achieve local autonomy it is necessary to supply the local authorities with sufficient resources to fulfill their obligations. These resources need to be at the local administration’s independent disposal and need to be firmly set to provide incentives for their efficient use instead of encouraging the expansion of lobbying activities at the center for additional resources.

The shift of responsibility from the central to the local level breaks the power of elite structures at the center and allows for greater focus on local participation. However, placing autonomy at the local level also bears the risk that the local elite may abuse this power to their advantage, especially in countries with highly unequal power structures. Therefore, the mechanisms of downward accountability and participation have to be firmly established from the center to ensure that the interests of the local population are adhered to. Information on the budgets given to the local authorities need to be spread to the likely to make the local news, which in a system of sufficient local accountability would yield substantial effects.

² For the need for greater decentralization see Sida (1996), p. 34.
³ For an expansion of this point see Bardhan, P. (1997).
⁴ For the following expansion on these points see World Bank (2000a), p. 106 - 108, and for the capture of power by local elites see also DFID (1999b), p. 28.
population and audits and supervisions from the center have to be conducted to ensure the effectiveness of the measures in preventing capture by local elites.

Accountability, transparency and decentralization require additional institutions, such as free and independent media, knowledgeable and capable personnel on the local levels, mechanisms and standards governing the dissemination of information and independent and competent audit institutions that supervise the responsible use of autonomy given to the local level. If these can be put into place, the benefits from this triangle of measures presented in this subchapter can be assumed to provide strong benefits in terms of policy decisions, resource allocations and public service provision that focus on the needs of the population and, thus, lead to overall economic and social benefits for the population. This is especially true for the poor, who otherwise lack measures to influence decisions in their favor.

2.4.2.3.3. Stemming Corruption

The prior reference to abuse of power by the local elite already points at a further problem: corruption as a pervasive impediment to poverty reduction. Its strongly negative impact occur in diverting resources from their intended usage, imposing constraints and inefficiencies in the economic system and exerting an especially hard toll on the lives of poor people by reducing employment opportunities, causing higher prices and demanding additional payments for free or low-priced public services.

These detrimental effects are incurred by engagement in *grand corruption* by government officials. This diverts substantial national resources from the public into the pockets of a corrupt few and by channeling funds into inefficient uses by awarding contracts on graft rather than on efficiency and social desirability. This imposes social costs (in terms of lost efficiency) in the domestic industry that focuses more on relationships and side-payments than on competition on terms of efficiency and quality by impeding price reductions in the domestic market and by eroding export opportunities and associated additional employment opportunities. The costs incurred by businesses because of bribery and lost economic opportunities can add to costs in excess of 11% of total gross incomes, as in the case of companies in Georgia.

At least as negative for the quality of life and the economic opportunities of poor people is *petty corruption* involving bribes for public services and transportation. These costs can be vast and severely limiting for the economic activity of the poor, as costs of bribes can reach nearly seven times the regular

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costs incurred e.g. in the transport sector. This limits the ability of the poor to expand their markets to more distant locations substantially. Both types of corruption also have indirect economic impact that constrains economic growth by increasing the uncertainty and unpredictability of costs to prospective investors.

The strong and broad-based negative effects of corruption on the impact of development justify a separate section on this phenomenon.

Corruption can be defined as "the abuse of public office for private gain." Corruption can logically be separated into administrative corruption in cases where the abuse is initiated by the holder of the official position to extract extra tolls from businesses or private people, and state capture in cases where the business community actively seeks to intervene in politics and policies to its advantage. While both cases cause important distortions to the business and private environment, the latter especially in transition economies, the focus within the new strategies for poverty reduction lies mainly on the former.

Regardless of the form of corruption, the reasons for its existence lie in the availability of rents to holders of public office. This leaves open two possibilities for curbing corruption: to reduce the opportunities and needs for corruption, and to impose strict controls and accountability standards. The opportunities for corruption can be tackled by promoting a market-based system, where the role of the state is important in providing the right institutions, but where the state is restraint from direct interventions in the marketplace. Restrictive use of measures such as quotas or licenses reduces a major source for rents for their owners and those that issue them and, thus, automatically limits

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1 See Center for Institutional Reform and the Informal Sector and U.S. Agency for International Development (1996) for bribes on transports in Benin. The World Bank also cites side-payments of 75% of the total transport costs being incurred in Cote d'Ivoire. (See World Bank (2000a), p. 102).

2 For the benefits for the poor occurring from access to markets see the chapter on Access to Markets.


4 In their extensive statistical study Hellman, Geraint and Kaufmann differentiate corruption on three levels and after accounting for inverse causation find that "a reduction in corruption from the very high level prevalent in Indonesia to the lower level in Korea leads to between a two- and fourfold increase in per capita incomes, a decline in infant mortality of similar magnitude, and an improvement of 15 – 25% percentage points in literacy levels". Hellman, J. / Geraint, J. / Kaufmann, D. (2000).

5 See Hellman, J. / Geraint, J. / Kaufmann, D. (2000). The analyzed strategies take the meaning of corruption for granted and do not provide a definition, therefore this common-sense definition will be used in this exposition.


7 For an introduction on the prevalence of rents in public decisions see Meier, G. / Rauch, J. (2000) and for an expansion of this point see Krueger, A. (1974).

8 For deeper analysis on the economic incentives system see the correspondent chapter in this booklet.
the scope for corruptive activity. Measures to simplify the tax system and to eliminate excessive regulations also limit the opportunities for corruption.\(^1\) To tackle the need for corruption is another way to reduce administrative corruption. The main idea in this regard: paying state employees a wage above the 'living wage', can be seen as an obvious precondition to discourage the engagement of officials in activities that expand their income.\(^2\)

Opportunities for corruption will remain even under the economic system proposed in the strategies above because the role of the state in actively effecting the institutional environment of business activities persists. In order to discourage corruption despite available opportunities, measures to increase accountability and participation as discussed prior are of vital importance. In order to increase the ability of the public to take over their responsibilities in monitoring, it is important to simplify administrative procedures as much as possible. Independent audit functions and parliament oversight over the standards of conduct should supplement the downward oriented measures of accountability and participation by supervision from above.\(^3\) The vigorous prosecution and removal of corrupt politicians, police officers and members of the judiciary need to be the result of negative findings in audits or other investigations in order to provide a clear signal to the entire society.

The industrialized countries are also seen in charge for curbing corruption committed by their home residence and businesses. On the level of the OECD this has been taken up by anti-bribery conventions, which make the offering of bribes to foreign public officials illegal and which disallow bribes as a cost against tax.\(^4\)

Overall, the two measures for curbing corruption - the elimination of opportunities and the monitoring of those activities where possibilities remain including the consequential prosecution of abuse of administrative power - need to be in place in order to create a conducive environment for poverty reduction and economic expansion.

2.4.2.3.4. Rule of Law and Accessibility of the Law

The main measures presented so far in order to improve the governance of a state comprise the reduction of opportunities for misuse and the control of government and administrative action through the public by increasing accountability. A further major point is the ability of the people to pursue their given rights in court and in the executive systems of law enforcement. Rule of law and accessibility of the law represent a part of good governance and their implementation should be a core priority for government action according to the new strategies.\(^5\)

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1 See World Bank (2000a), p. 102.  
4 International measures are discussed e.g. in DFID (2000e), p. 20, 21.  
5 See e.g. UK government (1997), p. 16.
Rule of law can be interpreted to mean "that a country's formal rules are made publicly known and enforced in a predictable way through transparent mechanisms."

1 Achieving progress in this regard also increases the impact on other areas of good governance in terms of strengthening accountability and curbing corruption. This is achieved because individuals do not solely have to rely on the power of the media and of civil society groups, or of indirect measures of democratic or participatory processes to pressure administrators for changes if they feel deprived of their rights. They are enabled to access their rights individually and directly if the judicial system is favorable to such claims and free from internal corruption and from outside influence.

Prevalence of the rule of law has also economic implications in terms of increased investment and growth, creating opportunities to substantially raise GNP per head. It creates foreseeable and secure economic environments by credibly enforcing contractual obligations and providing methods of swift conflict resolution. Thus, it reduces the uncertainty and the transaction costs for economic agents to engage in production, trade and investment. These activities in turn aid the poor via employment and income opportunities. The rule of law is also immediately influential on the economic situation of the poor. They are likely to be deterred from investing in their own development if they lack safety and security for reaping the proceeds.

Next to economic benefits the rule of law, its accessibility and its undiscriminating and rightful enforcement also contribute to the achievement of human rights with measurable improvements in health and educational achievements by providing the population with means to claim their rights and to enforce their claims.

1 This definition is taken from World Bank (2000a), p. 102. It reflects the general notion of the terminology and corresponds to the usage of this phrase in the other documents.
2 See e.g. World Bank (2000a), p. 103.
3 See DFID (2000e), p. 15.
4 Kaufmann, Kraay and Zoido-Lobatón (2000) estimate the effects of a change of rule of law from a low to a middle level on their three level scale to result in a two- to four-fold increase in GNP/head in the long run. Barro estimates the effect of each increase of one on his six-level scale to result in increased growth rates of GNP/head by 0.5%. In contrast of the finding of Kaufmann et al. he does not find significant coefficients for corruption or political instability if rule of law is added to the system, making rule of law the prior variable in the impact on growth in his study. See Barro, R. (1999), p. 26 – 28.
5 This point is expanded upon in the study of Norton, S. (1998) and taken up in World Bank (2000a), p. 103.
6 For an expansion of this point see DFID (2000e), p. 16.
7 The already cited study by Kaufmann, Kraay and Zoido-Lobatón (2000) estimates the effects of a change of rule of law from a low to a middle level on their three level scale to result in substantial decline in infant mortality and an improvement in literacy levels between 15% and 25%.
This already points at the fact that a discussion of the legal system needs to start with the laws that it is supposed to enforce. These need to be consistent and easy to understand.¹ This will enable consistent and unambiguous verdicts and allow predictability and comprehension of the rights within the broader public. The laws need to apply equally to all citizens and the state needs to be subject to the law², implying a strong degree of independence of the judicative from the influence of executive and legislative powers. Discrimination needs to be prevented in the formulation of laws, especially in the case of gender³ where discrimination still widely prevails. Property rights regimes and inheritance laws often strongly disfavor women in developing countries, limiting their ability for economic and social progress and their chances for independence in the decisions on their lives. Some legislation does not even respect the right of physical self-determination of women, for example by not considering wife beating as an offence. Criminal justice and law reforms are demanded to give women a chance to progress in their lives.⁴ This is embedded in a general concern for human rights as the basis on which national law should be developed or reformed and which it should protect.⁵

Since laws tend to reflect the positions of those in power, special concern needs to be given to build coalitions in favor of the poor and by strengthening civil society organizations that can shift the power distribution in favor of the poor and disadvantaged.⁶ This is necessary since absence of discrimination within the law does not necessary imply its tendency to shape the structure of rights in favor of the activities and possibilities of the poor.

The impact of the legal system on the poor is an important issue since the poor lack other, private means to achieve their entitlements. If bribery persists and the poor have no possibility of redress, they are effectively excluded from the service or treatment to which they are entitled. A main concern for poor people is not only the content of the law, but also the accessibility of the law.⁷

The accessibility of the legal system is limited for the poor through administrative procedures, complexities of the law, exclusionary practices and financial costs. The reliance of most legal systems on written documents limits the knowledge of poor people of their rights and complicates the access for poor

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¹See DfID (2000e), p. 17.
²See World Bank (2000a), p. 102, 103.
⁴The prevalence of legislative deficiencies, their impact on women and measures to reverse this are discussed in great detail in DfID (2000f), p. 7, 8, 18, 19 and 22 and BMZ (2001a), p. 31. General concerns about the discrimination of women are discussed in the sections on the International Development Targets and on human rights.
people with little formal education. Para-legal organizations that spread knowledge about the law and encourage groups of poor people to organize themselves to use the law are one means to overcome this problem.\(^1\) Literacy programs and media campaigns are further measures. Simpler and clearer rules also are also needed to convey rights to the impoverished, especially in areas of their immediate concern such as labor disputes, land titling, and human rights and police violence.\(^2\)

This becomes even more necessary in cases where overlapping new laws, colonial legislation and customary law result in confusion and arbitrariness in decisions, benefiting those with greater power to shape the outcome in their favor. While customary rights are not outright rejected because of their benefits in terms of swift, relatively low-cost procedures, they need to be embedded in general legal system to prevent traditional systems of discrimination and favoring of elites to persist.\(^3\) This concern also applies to alternative conflict resolution methods such as mediation, which are favored for similar reasons but bear equal potential problems. Therefore, the challenge of informal rulings in formal procedures needs to remain possible.\(^4\) The general weakness and complexity of the procedural progressions in many legal systems is addressed as a need for reform in order to simplify rules, shortening proceedings and allowing parties to represent themselves, thereby lowering the indirect costs for poor people.\(^5\)

Direct costs are another major inhibitive force for the access to the law for poor people. Costs waivers based on indigence and expansion of legal service to poor people can aid in overcoming these barriers. Special attention also needs to be given that non-monetary discriminatory barriers - which might persist in a society and might be the root cause for claims by the poor - do not also proliferate the legal system and effectively prohibit the deprived from accessing their rights.

Another concern rests with the enforcements of the rights, which requires a modern police force, which views its actions as a service to the entire population and extends security to the lives of the poor. This is fostered by creating partnerships between law enforcement agencies, civil society organizations and the local government.\(^6\)

In their approach to improve the legal system, the analyzed donor strategies rely on the counseling of the national government concerning system of justice reform and on the support for para-legal civil society organizations, which

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\(^2\) For this and the following point see World Bank (2000a), p. 104.
\(^3\) See DfID (2000e), p. 16.
\(^4\) See e.g. World Bank (2000a), p. 104.
\(^5\) The need to respect due process has to be kept in mind in the attempts to simplify rules. See World Bank (2000a), p. 104.
\(^6\) See DfID (2000e), p. 16.
educate poor citizens on their rights and enable joint suits of a group of deprived people. Their concern for the rule of law is based on their understanding that it is strongly beneficial to economic progress as well as progress in terms of securing democracy and fulfillment of human rights. Yet despite some ideas about the measures to achieve rule of law that have been presented above, there remain ambiguity on how a “strong, honest and independent judiciary”\(^1\) is supposed to be developed in its absence and in a political environment that is prone with corruption and discrimination.

A system of downward accountability to the population coupled with checks and supervision from higher levels of the system as proposed for administrative bodies fails for the judicative since there is a strong need for independence. Some checks have to be in place to ensure that this independence is not used for personal gains, while ensuring that the controlling mechanism cannot exert undue influence on the judicial system and thereby divert its independence. This problem has received little attention and the strategies remain rather on the surface of what should be achieved rather than moving on to how it can be achieved. This requires further research to guide willing governments in the process to reform the national judicative system effectively towards the right ends.

It has been shown that a national environment that empowers poor people to take charge of their lives, backed by measures of good governance, is a major contributor to the extension of personal freedom and human rights in the political and social sphere of the poor individual. It also enables him to pursue economic opportunities available to him without obstacles and expands these opportunities by giving him a voice in public decisions. Thus, he can influence the environment in which he lives as well as some of the public service inputs in his economic activities such as education, health care and commercial infrastructure.\(^2\) A conducive political and legal framework also expands the overall availability of economic opportunities by creating an environment conducive to the activity of all economic agents, the poor as well as the non-poor. The economic activity of the non-poor spurred by the prevalence of the rule of law and the curbing of corruption leads to increased demand for the main economic asset of the poor, their labor. Yet this connection between political and economic activities, which has been analyzed so far, does not provide the entire picture on poverty reduction, as the dimension of security for the poor plays a major role in their achievement of sustainable reduction of poverty in the contemporary strategies.

\(^1\) DfID (2000e), p. 17.

\(^2\) Social infrastructure in health and education can be seen as an input into the economic activity of the poor if it is accepted that labor is their major economic asset, which is strongly effected in their productivity through the provision of social services.
2.4.3. Measures to Provide Security for Poor People

2.4.3.1. The Need for Security

The uncertainty in the lives of many poor people on how to cope with possible health or weather-related income shortages and other detrimental effects that threatens their livelihoods is by itself a part of poverty and leads to deeper poverty in economic terms. Security is seen as a major component of poverty reduction in the analyzed strategies because it is seen as one of the major problems the poor are faced with and threatens their very survival. The notion that temporary poverty rather than constant poverty can be the prevalent phenomenon has increased the focus on how to prevent people from falling back into poverty once they escaped it. It also has interactions with overall economic growth, with the opportunities that people can pursue and its provision relies on empowerment of the poor as will be seen in the expansion in this chapter. The provision of security is therefore regarded as the third pillar on the national level next to the creation of opportunities and the empowerment of poor people that needs to be tackled for overall reduction of poverty.

Poor people are regarded as especially prone to risks such as illness, poverty in old age, natural catastrophes and wars and possess only few possibilities to cope with crisis when it occurs. The increased risk results from higher exposure to hazardous work and environmental conditions, the exposure to unsafe water, the ownership of marginal land more prone with crop failure, employment situations more likely to be reduced in economic crisis and higher exposure to national crisis situations. Their coping strategies are also limited because poor people lack assets to deal with unexpected crisis situations and lack formal insurance mechanisms. This doubled disadvantage of higher risk coupled with lower ability to cope with crises of poor people in comparison to the non-poor makes the theme of security especially important for poor people and those living close to the poverty line. This is aggravated by the fact that the

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1 See the chapter on 'The current poverty definition'
3 This notion has been established e.g. for South India by studies from Ravallion, M. (1988) and Gahia, R. / Deolalikar, A. (1993) where the first estimates the extent of transitional poverty at about half the total estimated poverty, while the second estimates about 70% of the population to move in and out of poverty over a nine-year period.
7 DfID (2000a), p. 5.
impact of a shock\(^1\) is greater for those people living in poverty. The consequences of a drop in income in terms of reduced utility for people struggling with their very survival can be assumed to be much higher than for those with enough resources to protect their basic needs even in cases of adverse conditions. "Vulnerability is for [...] poor people] a graver concern because any drop in income can push them into destitute"\(^2\).

This leads to consequences in their economic activities, since they forego higher-risk, higher-return activities\(^3\) that could boost their living standards and contribute to overall economic growth, but cannot be backed by adequate insurance to secure their survival in case of adverse outcomes. In the case of shock situations, poor people have to opt for short-term security while incurring long-term costs\(^4\) because in severe situations poor households have to reduce consumption or increase labor supply.

Long-term effects result from the absence of children from school because they need to work to increase income, or because direct or indirect school expenditures cannot be afforded any longer\(^5\). This limits the ability of children to escape poverty in their adulthood. Further long-term consequences arise from suffering health and undernourishment\(^6\), with especially high impact on women and children. These adverse effects on the current fulfillment of basic needs and the future achievement of economic progress highlight the special attention that has to be given to increased security for poor people.

Strive for a socially secured life is a universal desideratum\(^7\). This fact gives rise to the pursuit of security in its own regard. Enshrined is this view in the Article 22 of the UDHR:

Everyone, as a member of society, has the right to social security and is entitled to realization, through national effort and international cooperation and in accordance with the organization and resources of each State, of the economic, social and cultural rights indispensable for his dignity and the free development of his personality.

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\(^1\) For a terminology of terms see World Bank (2000a), p. 139. In short: Insecurity is the expose to risk. Vulnerability is the resulting possibility of a decline in well-being. The event triggering the decline is referred to as shock. Risk exposure is a measure of the probability that a certain risk will occur. Vulnerability measures the resilience against a shock.


\(^5\) These effects were shown e.g. by Frankenberg, E. / Thomas, D. / Beegle, K. (1999) for Indonesia and by Jakoby, H. / Skufias, E. (1997) for South India.

\(^6\) Undernourishment and the resulting long-term impact on physical growth is shown by Benson, C. (1997). The effects on mortality rates are shown by Vos, R. / Velasco M. / de Labastida, E. (1999). In both cases the crisis extended beyond the shortfall of individual income to encompass also supply shortages because of the overall consequences of floods and droughts respectively.

\(^7\) See Gsänger, H. (1993), p. 3.
This rights-based view is another determinate for the strong focus on security as part of the new strategies\(^1\). The large layer of the unsecured especially in the poor countries of Africa and Asia\(^2\), where the formal systems of security rarely reach more than 10% of the population\(^3\), makes the search for measures to increase their security a priority.

The will to increase security is visible in all strategies. Yet the notion what exactly comprises a system providing security and what it should deliver remains rather vague in the various strategies. Security is vaguely described as the responsibility for protecting the vulnerable and assisting those unable to participate in the markets\(^4\). The German Action program distinguishes social security systems, which are supposed to increase and rehabilitate the self-help abilities of the poor, and emergency help for securing lives in catastrophic conditions\(^5\). The World Bank defines: “Enhancing security for poor people means reducing their vulnerability to such risks as ill health, economic shocks, and natural disasters and helping them cope with adverse shocks when they do occur\(^6\)” while Sida relies more on macroscopic prevention of conflict and achievement internal peace\(^7\). For a more detailed definition I rely on Gsänger who defines:

> Under social security systems one understands the sum of social rules which, through enforcement of formal as well as informal claims on the other members of a society, have the goal to (a) ensure the physical survival in dignity, (b) to secure a minimum level of consumption and (c) to ensure the protection from deterioration of the living situation through risk, which have for objective or subjective reasons been unavoidable and which consequences cannot be coped with by those struck by them.\(^8\)

This broad-based definition, which goes beyond the notion of a safety net, incorporates notions of security for those who cannot participate in the market economy and has strong implications for preventive actions to avoid reductions in living conditions\(^9\). Since these are notions are reflected in the attempts of the modern strategies, this broad definition serves well for the further analysis.

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\(^1\) See DfID (2000d), p. 2.
\(^3\) See Gsänger, H. (1983), p. 2. Gsänger compares this number to outreach quotas of up to 80% in some Latin American countries. This also shows the different focal points in different continents. While in Latin America the challenge lies in strengthening the weak and underfunded social systems, the challenge in Africa and Asia rests in extending methods of security – formal or informal – to the broad mass of the people.
\(^4\) See DfID (1999b), p. i, ii.
\(^7\) See Sida (2000d).
\(^8\) This is a direct quote from Gsänger, H. (1983), p. 22, translated by the author.
2.4.3.2. The Role of Private vs. State Security Provision

One of the important questions of the design of security schemes for the poor is concerned with the relationship of measures that are provided by the states with those that the individual or a group of people has established. In a scholarly context, this question has been taken up in the comprehensive analysis of Gsänger (1993), who emphasizes the need for decentralized and networked security systems with pluralistic structures extending beyond the single supply-oriented provision through state organizations.\(^1\) He argues that security can only be extended if its measures are embedded in an economic policy process with a social orientation and if the group specific coping capacities are enforced\(^2\). To strengthen the coping strategies of groups he relies on measures of participation and of access to production factors such as credit and land\(^3\), which takes up major themes in the analyzed poverty reduction strategies. As a hierarchy of subsidiary he proposes local groups and self-help groups on the lowest level, self-help support organizations and NGOs on a secondary level, and social security organizations and funds in state control on the tertiary level\(^4\), which should be vertically and horizontally connected.

This view of a subsidiary oriented social security system is also at the core of the modern strategies of poverty reduction. Most visible is the parallelism in the German Action program, which describes the basic forms of social security as: solidarity groups (e.g. the family); cooperative, member-based systems; private insurance schemes and forms of state security provision.\(^5\) Thus, central, state planned security plans are only one part in the system providing security for the poor. Emphasis is placed to extend public and private security methods to the poor and to link different systems. The difference to the presented academic model lies in the stronger emphasis on private insurance schemes in most modern strategies. Methods to save and borrow money are emphasized, as well as their extension to offer individual insurance instruments.\(^6\) The notion is prevalent that poor people have a need and are willing to use private insurance instruments. They already use very simple ones. Yet the unavailability of more elaborate mechanisms\(^7\) limits poor people in pursuing security privately, which is caused by the low profitability for commercial insurance companies given the small sums poor people transact.

Departing from the precedent views of nation-wide state provided security systems, the new strategies opt for subsidiary systems that look to support smaller solutions on the cooperative or solidarity group basis where appropriate.

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7 “Elaborate” is in itself an exaggeration, since simple savings tools beyond the holding of inflation-prone currency or livestock is already beyond the reach of many poor people.
The Anglo-Saxon strategies move even further and start from the individual or household as the smallest unit for security provision, with his assets serving as the main base for individual security provision. Self-insurance as the most basic form of security provision is important in real terms because it is sometimes the only precaution that the impoverished can take. The accumulation of assets in good times and their reduction in bad times is an ancient idea, yet its virtues rest on the assumption that asset accumulation yields positive rates of return and their value remains independent of the income situation. Since many assets that poor people can obtain have negative time preferences and are covariant with the income level, as is the case if many people suffer income losses and thus sell their buffer assets at the same time, the viability of this method is limited. Due to practical limitations of other security methods it still remains an important measure.

A short summary of the various levels of subsidiary schemes is provided in the following table.

Table 1: Levels of Security Provision

<table>
<thead>
<tr>
<th>Organization</th>
<th>BMZ</th>
<th>World Bank</th>
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</thead>
<tbody>
<tr>
<td>Individual</td>
<td>Self-insurance</td>
<td></td>
</tr>
<tr>
<td>Group</td>
<td>Solidarity groups</td>
<td>Informal insurance</td>
</tr>
<tr>
<td>Private Sector</td>
<td>Private insurance schemes</td>
<td>Formal insurance</td>
</tr>
<tr>
<td>State</td>
<td>State security provision</td>
<td></td>
</tr>
</tbody>
</table>

*a DfID and Sida do not explicitly distinguish between different levels.


These slight differences in the perception on the levels of subsidiary schemes can be distinguished, yet the overall consensus prevails that security provision should be conducted on the lowest level appropriate, and that traditional methods of group-reliance need to be taken into account. They have practical

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2 The increased supply of the buffer asset is faced with a reduced demand because of the adverse economic situation of the average household, yielding to a strongly negative impact on the price of the buffer asset in times of macro-economic shock.
3 An expansion on this point can be found in World Bank (2000a), p. 143.
implications because they are available while state security provision is absent in many cases, and they also have economic benefits because they control the misuse and moral hazard problems through personal supervision. Yet the ideal scheme is still under discussion. State security systems might still be the most economical, because they can diversify their risk over a large area and population. Still, if trust in the state is low or if state funds during a crisis prove limited, these schemes will fail.

Further factors influencing the level of security provision include the level of the risk, since risks affecting an entire area cannot be insured on a community basis, and the availability of certain insurance methods to the very poor. Here the World Bank argues that formal, public systems benefit the poor more than the informal, private insurances because the latter work against inclusion of the poorest who have a higher perceived risk of default. This argument strengthens the role of the state in the provision of security as part of social responsibilities. However, the strengthening of informal and private insurance schemes remains of vital importance in the strategies because of their practical relevance in the current absence of state security provision in many countries. Therefore, the relevance of informal, private and state security provision will continue to be discussed and might change in relevance in the specific country situation, yet the idea of a subsidiary method of security provision seems firmly established.

Finally, the provision of security is also often extended to include security from theft and physical harm. This is especially important for women, who are subject to misuse by men in many societies. But also the poor people face insecurity in their daily lives if the reach of public law enforcement does not reach out to them or if the law enforcement is prejudiced or corrupt. These problems are mainly tackled by measures of good governance that have been covered in prior chapters, and thus the following discussion of the measures to increase security will avoid this aspect and focus on insurance schemes and crisis prevention methods that should be domestically pursued.

2.4.3.3. Measures of State Security Provision

The previous discussion shed light on the level on which security should be provided and on the question on private vs. public security provision. At the various levels different ways to improve security need to be pursued. As a basic and intuitive strategy to reduce vulnerability the increase in economic activity in a growing economy is mentioned, because it increases the incomes of the poor.

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3 This problem of exclusion from private insurance and unavailability of public insurance is pointed out in BMZ (2001a), p. 25. The solution to the conflict is left to the specific situation encountered.
4 See e.g. DFID (1999b), p. 15.
and allows them to establish assets to secure themselves against adverse risk. It also increases the ability of people to support the informal support network they belong to, because these networks rest on the ability of some of its members to provide resources for those other members that are currently threatened in their livelihood provision. Yet as it is noted in the same context\(^1\), the concern for security would be exaggerated if it were not for a deeper search for mechanisms to reduce, mitigate and cope with risks other than improved economic conditions.

As in most contemporary strategies this analysis will look at the measures a state can take to increase its poor citizen’s security in two steps. First by considering those methods it can extend to the population to enable them to better cope with the adverse risk in the everyday live of the individual. And second by looking at prevention and mitigation strategies for macro-economic risks and national crisis such as economic and financial shocks, natural disaster and internal and external armed conflict.

On the first, lowest levels – the individual and group level – the new strategies rely strongly on micro-finance systems that extend the possibility to smooth consumption to poor people.\(^2\) This enables the individual to use credits in the time of need and to save up money when he can spare it without incurring losses in real terms. To avoid failure of these instruments in times when need is greatest– e.g. shocks effecting an entire region and forcing most members of the micro-credit system to draw up credits while no new savings become available for financing - the integration of informal methods of security provision into the larger financial system is attempted\(^3\). This allows for the diversification of risk over a larger population and area and can secure sufficient funds for micro-credit systems in crisis areas even if its member base temporarily needs more funds than it generates. It also allows for easier social transfers to the poorest from the state through this network. The state can actively encourage micro-finance programs by providing start-up financial support and knowledge, advance the networking of micro-finance systems with private or public financial institutions and facilitate the spreading of more sophisticated insurance instruments through these channels by allowing initial support for fees\(^4\).

A further line of thought on the lower levels is concerned with the extension of education and health services. Education is seen as influential on the economic situation and on the physical health of the individual\(^5\), and education is thus seen

\(^{1}\) World Bank (2000a), p. 135.
\(^{3}\) See e.g. BMZ (2001a), p. 28.
\(^{5}\) See chapters on ‘Poor people’s assets’ and ‘Human rights and equality’.
as beneficial to reducing vulnerability. Yet this notion still discussed in the strategies. Health concerns on the contrary are unambiguously seen as a major area where security for the poor needs to be increased. One of its main themes is the provision of safe water, whose absence has detrimental impacts on the health situation especially of poor people. The fecal contamination of water and food due to poor or non-existent excreta disposal systems and inadequate hygiene compounds this effect. Further preventive factors include adequate nutrition and investment in education for women. The 20/20 initiative for the promotion of social services is mentioned as one attempt in this regard.

Health insurance is considered a further strong component in the provision of security of livelihood for the poor. Methods can include the free provision of medical care or targeted subsidies for hospital care, with the latter being less of an administrative burden but also less comprehensive. The World Bank strategy specifically calls for insurance for less frequent, more serious illnesses, rather than more frequent, less traumatic ones, because poor people are considered more able to cope with small shocks than with larger ones. If this proves right, current themes, which cover basic care, rather than large illnesses, need to be reconsidered. Currently this thought has not reached overall support throughout the strategies. Next to the public provision of health services the new strategies call for a stronger focus on private health service provision, which is estimated to remain a large provider of health services. To incorporate this sector stronger, a change in the role of the state from service provider to financier is proposed.

A special concern in the health sector concerns the spread of the HIV/AIDS pandemic. It is to be expected that the pressure for solutions for this problem

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1 See BMZ (2001a), p. 28.
2 Divergent studies for different countries regarding the impact of education in the recovery from shock and expose to risk are cited in World Bank (2000a), p. 140.
3 See DfID (2000c), p. 7. Further factor effecting health are discussed in the chapter on
5 See e.g. DfID (1999a), p. 21, 22. For the discussion of impact factors on health see also the chapter ‘Poor people’s assets’.
6 The United Nations 20/20 initiative describes an understanding between the donor country and the recipient country to increase the provision of social services by reserving 20% of the development aid and 20% of the national budget for this purpose. See BMZ (2001a), p. 26.
7 Or equivalently the provision of an insurance scheme with nearly universal coverage. Both measures are equal in effect, with the differences mainly arising in the way of financing (normally taxes vs. insurance fees).
8 For the argumentation on health insurance systems see primarily World Bank (2000a), p. 152.
9 This analysis is backed by studies of Gertler, P. / Gruber, J. (1997) and Gertler, P. (2000) in India and China, in which the poor people’s ability to cope with moderate health shocks is attested to be substantially higher than their ability to cope with large health shocks.
10 See DfID (1999a), p. 17.
will tremendously increase within the next years due to the growing number of millions of AIDS-infected\(^1\), given an expected growth of the pandemic of 10% each year\(^2\). AIDS is regarded as a deep developmental crisis\(^3\) and the foremost attempt in coping with it is the prevention of further illnesses.\(^4\)

Prevention through information and education and the provision of contraceptives are regarded as the most important measures to this extend. The encouragement of women to use their right of sexual self-determination and to insist on safer-sex is seen as a priority\(^5\). This is all the more important in light of the fact that the proportion of HIV infected women relative to infected men has doubled from 25% to 50% since 1992, and the number of women being infected is now growing faster than that of men. This is linked to the fact that the transmission from men to women is 2 to 4 times more effective than from women to men.\(^6\) Additionally, changes in sexual behavior need to be accomplished.\(^7\)

A recent study of Riedlberger emphasizes that this needs to go beyond the explication of the dangers of AIDS, to challenging male self-perception which is defined via frequent, unprotected sex with varying partners and in which contraceptives are rather a sign of being already infected by HIV or of belonging to a risk group than of thoughtful disease prevention.\(^8\) Thus a lot of effort beyond the information of the public on the disease towards a change of attitudes needs to be accomplished.

Measures to increase the **security for the poor individual through national efforts** comprise in the World Bank analysis: Old age assistance, unemployment assistance, workfare programs, social funds and cash transfers.\(^9\) The support for national measures is ambiguous, with workfare programs being supported by DfID\(^10\), cash transfers and public social security favored by the BMZ\(^11\) and food

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\(^1\) See Gsanger (1993), p. 83.
\(^2\) See Thiel (1999), p. 123. Growth is measured in number of additional infections per year divided by the number of infected at the beginning of the period.
\(^3\) See BMZ (2001a), p. 25. This shows that HIV/AIDS has taken a dimension beyond affecting the individual, yet because of its connection with the general provision of health services it is covered in this analysis of low-level aspects of security provision.
\(^4\) See e.g. BMZ (2001a), p. 24, 25 or DfID (1999a), p. 12 – 14 for this and the following argument.
\(^7\) See DfID (2000f), p. 7.
\(^8\) See Riedlberger (1999) and Riedlberger (1998) on her study of male attitudes and HIV prevention in the Dominican Republic.
\(^9\) See World Bank (2000a), p. 152 – 159. This analysis will be taken up in more detail in the later chapter on ‘Different Accentuation’, ‘World Bank’.
security supported by Sida. A general consensus on what security systems to deploy nationally is not obvious from the strategies presented.

As a general viewpoint especially in regard to workfare programs and social funds, which help finance small projects identified and implemented by poor communities, their potential for mitigating crisis is stressed. If these systems are in place on a small scale before a crisis strikes a country, they can relatively easily be extended to larger scale to provide income earning opportunities for the poor and unemployed and build up the infrastructure needed for new growth. This will be substantially harder if these systems need to be built from the ground up if a crisis is already incurred.

This leads over to the second aspect of security provision, the concern for national crisis that impacts most people adversely, with especially high impact on the poor. Here the prevention of conflict and crisis is the foremost goal. Mitigation – the preparedness for a crisis before it strikes – is considered as the second best option. Both are seen as superior to simply coping with crisis without prior preparations since the costs of prevention and mitigation are considered much lower than the benefits in form of avoided or reduced coping costs. Special concerns in regard to the prevention of crisis are placed on the prevention of economic crisis, the peaceful resolution of conflicts and the reduction of vulnerability to natural disasters.

World Bank and DfID most prominently cover the negative effects of economic downturns on the poor. The negative effects of economic downturns on the poor are most prominently covered by the Macro-economic stability is seen as a key point and is to be achieved through careful management of the economic cycle through monetary, fiscal and exchange rate policy. Avoidance of profligated fiscal and monetary policies, overvalued exchange rates, and unsustainable current account deficits is recommended in this regard. Especially the pitfall of inflation is a major concern, since it hurts the poor disproportional in their ability use savings as risk insurance and also diverts investment and the associated job opportunities. Yet it is annotated that over-adjustment in the policy response such as too restrictive monetary and fiscal policy can be self-defeating by leading to larger than expected recessions and
lower government revenues. Therefore able administrations are needed who can handle this difficult process responsibly. Institutional rules in the financial sector also play a major role in the prevention of economic crisis in a country. For the prevention of financial crises the prudential regulation and supervision of financial intermediaries needs to be improved. This can be backed by requirements for the dissemination of information by commercial banks and by implementation of corporate bankruptcy reform.

Domestic efforts of economic stability cannot be separated from the international context, yet the country can take some unilateral actions to increase the security of its overall economic development. For example a cautious approach for capital account liberalization is recommended; including a concern for the right sequencing in which a well-functioning macro-economy, open and transparent policy-making and effective financial regulation precede capital account liberalization. Controls on capital inflows are recommended by the World Bank to decrease the volatility of capital flows and favor a more long-term oriented investment structure, yet these attempts are cautioned by the U.K. government to be used only transitional. Controls on capital outflows are also considered a possible short-term safeguard to limit the exposure to financial risk. Yet this can create problems in implementation, potential for evasion and restrictions to a countries ability to attract foreign capital. Apart from controls measures to increase liquidity are an option to cope with financial crisis. These comprise the holding of higher reserves with its associated costs, the requirement for higher liquidity requirements in the banking sector with equal costs only born by the private sector, and the establishment of contingent credit lines.

To decrease the vulnerability of poor people to global price fluctuations of export crops, rather than attempting the international stabilization of prices the targeted support for diversification and implemented adjustment programs in the time of crisis might prove more viable and can be implemented on national scale. While these particular measures receive some attention, the overall consensus for the reduction of economic insecurity is placed on measures of

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1 See World Bank (2000a), p. 166.
3 This point is also drawn most conclusive in World Bank (2000a), p. 165.
5 The international dimension will be analyzed in more detail in the chapter ‘International institutional framework’.
11 On this and the next issue see World Bank, p. 181.
12 For contingent credit lines see the chapter on ‘International institutional framework’.
good governance, monetary and fiscal stability, and a national policy aimed at a market economy based in a well-regulated environment.¹

The peaceful resolution of conflict² emerges as one of the major themes in the discussion of security. Arms races divert scarce resources away from the poor. Violent conflicts impede development and poverty reduction and endanger the security and well-being of the population often for long-term periods because of individual and social traumatism, mining of large agricultural areas and illegal distribution of small arms³. Prevention and mitigation play an especially large role in this field, because returns to this activity are seen as especially large.⁴ “Long-term cooperation to reduce structural causes for conflict as well as the peaceful resolution of conflict has strict priority to coping with crisis and stopping violence.”⁵

The reduction of poverty is seen not only as a outcome of conflict prevention, but as one of the preventive measures needed reduce the potential for violent conflict, because impoverished groups of the population are more easily won to fight the current situation and are more prone to join armed groups out of economic necessity.⁶ Another area of intervention concerns social and ethnical fragmentation are considered as one of the major determinants for internal conflict⁷, with internal conflict comprising the majority of conflicts since the Second World War.⁸ Differences of identity are often accompanied by economic, political and social inequalities⁹ and discrimination ¹⁰. Therefore the reduction of inequalities and associated tensions along ethnic lines are considered as of vital importance, which has to address differences in wealth, accessibility of natural resources and inclusion in the political process¹¹. Inclusive governments that break the tension-feeding pattern of ‘winner-takes-all’¹² can make a big contribution in this regard. The support for the right sort of civil society groups is seen as a viable way for the inclusion of previously marginalized individuals.

Internal conflicts are often perpetuated by the involvement of outside nations that see the disorder near their boarders as a threat that might be

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¹ For a deeper discussion of the role of market forces and regulation see the prior chapter on ‘The economic incentive system’.
² See e.g. Sida (2000f).
⁶ A similar line of thought is presented in BMZ (2001a), p. 39.
⁷ See e.g. World Bank (2000a), p. 126, 127.
¹¹ For this and the following point see also BMZ (2001a), p. 39.
MEASURES TO PROVIDE SECURITY

exaggerated by the domestic military forces.\(^1\) Since the interests of the military and even some national governments are not necessarily the interests of the country, it is seen as most conducive for peaceful conflict prevention to establish a high degree of accountability of the armed forces and the government. This helps to determine the right budget level necessary for national security and avoids unnecessary entrance into violent conflict. Military and police forces that are representative of all ethnic and social groups are conducive to prevent the internal misuse of power.

In the case that violent crisis could not be prevented, sequencing of restoration efforts is attempted in the following steps: Restoration of security as a precondition for further efforts, quick restoration of basic civilian government functions, the demobilization of combatants into alternative occupations and reconciliation policies which bring to justice those responsible for violence complemented by indigenous capacities for forgiveness where appropriate.\(^2\) On the international level these national efforts should be backed by mechanisms that prevent the use of money from drug or diamond trade to finance violent conflict.\(^3\) Also there is an understanding that the control on the exports on weapons should be increased, with a special focus on small arms which spur internal conflict between ethnic groups. The build-up of international methods for peaceful conflict resolution is also attempted.\(^4\)

The **third major cause** for crisis is seen in **natural catastrophes**. This already grave concern for some countries is estimated to rise due to the global climate change and thus will increase in importance.\(^5\) The rise of the Yangtze river in China which displaced millions of people, the floods in Mozambique and the disastrous effects of Hurricane Mitch in Latin America with more than 11000 deaths mark some of the recent natural catastrophes, which occur at a rate of 50 to 100 a year\(^6\), claim estimated 50000 lives and cause damage beyond $60 billion a year.\(^7\) In order to reduce the impact of natural disaster, the support for national committees for catastrophe prevention and the establishment of early warning systems for natural disasters\(^8\) is considered.

Specific preventive measures on the national level comprise neighborhood improvement programs that implement low-cost improvements to housing to increase their resistance against natural disaster or that sponsor drainage works

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\(^1\) For this issue see most prominently DfID (2000e), p. 18, 19.
\(^4\) For these issues see e.g. BMZ (2001a), p. 40 – 42.
\(^5\) See World Bank (2000a), p. 170. The global dimensions of natural crisis and its methods for prevention will be covered in more detail under 'International institutional framework'.
\(^7\) See International Federation of Red Cross and Red Crescent Societies (1999), tables 5 and 12.
that reduce risks of flooding.\(^1\) In especially risky areas resettlements are also considered. The establishment of food banks is another mitigation measure to stabilize food prices in the event of crisis. For coping with natural disaster, emphasis is placed on the provision of food, water, shelter and medicine delivered on the base of need. Even though most people in the stricken area are poor, the targeting of aid to those most in need still poses a problem that requires further investigation.\(^2\) Rebuilding of schools is seen as another priority. Cash transfers to poor families might also prove necessary. For the reconstruction of infrastructure special emphasis is laid on a long-term vision that looks beyond the restoration to the enhancement in a way that reduces or eliminates the vulnerability to future crisis.\(^3\)

Overall, the need to provide security is well established within the new strategies. Most strategies are concerned primarily with the prevention of disaster and national crisis. While crisis are eminently deterrent to development, there is also a general understanding that security also on a smaller scale - on the individual or household level – is of importance. To this extend micro-finance systems play the foremost role, while attempts to spread the benefits of the formal state security systems to the informal sector build the second major line of thought.

This chapter on the domestic framework for poverty reduction has emphasized the main trains of thought in regard to the three areas of the economic framework, the necessary political conditions and the provision of security for poor people. Within each category the list of necessary measures is detailed, and the feasibility to tackle all these questions at the same time remains an issue.

2.4.4. **Comprehensiveness or Excessiveness?**

The new strategies on poverty reduction integrate many demands of past strategies into one framework of poverty reduction, in which the failures of the past serve as a basis for a new orientation.\(^4\) This has led to the current, comprehensive framework, which describes a number of relevant concerns in relation to economic, political and security-oriented conditions. These range from far-reaching concerns for growth and democracy to immediate concerns for sanitation and micro-finance systems. This approach has the advantage that it is very comprehensive in its analysis. In its comprehensiveness it naturally has

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\(^1\) For the preventive measures and the coping strategies see the comprehensive analysis in World Bank (2000a), p. 172 – 176.
\(^2\) See Sida (1996), p. 23
\(^3\) See World Bank (2000a), p. 175.
\(^4\) See the chapter on 'The evolution of a consensus'.
the disadvantage to be very vague about the specific aspects that are to be applied in specific situations.

The absence of clear priorities among the proposed measures has sometimes the effect that the strategies seem unfocused, attempting an enumeration of possibilities rather than a guide to concrete action. The comprehensiveness confronts the national governments in developing countries with a wide array of choices for action, yet it might overburden policy makers in the choice of the most conducive starting point for specific action given the limited financial and administrative resources in many developing countries. The breadth of the new agenda for poverty reduction and the associated range of choices for possible action provide the opportunity to fine-tune national attempts to a high degree, yet will likely also increase the need for technical assistance and consulting services that will enable countries to make the right choices. Especially the potential pitfall of spreading the domestic resources in financial and administrative terms too thin over too large a portfolio of measures needs to be avoided.

To put the new strategies into actions will require a potentially difficult search for a manageable number of specific actions with the highest impact in terms of poverty reduction. The quality of this search and the quality of the implementation of the chosen measures in the domestic context will likely be more influential on the impact of the new strategic proposals than the simple explication of the breadth of the options.

This chapter rounds up the analysis of the domestic framework necessary for poverty reduction, which focussed next aspects of providing security and on an economic and political framework conducive to this end. While this analysis has cast light on the main topics on domestic actions in the development agenda, it has to a large extent avoided the international sphere in which development takes place. This perspective is at the heart of the following chapter, which considers the international institutional framework first, and in a second step looks at the actions that the international donor community should take to make their aid delivery more effective.

2.5. International Regimes

2.5.1. International Institutional Framework

The international dimension of poverty reduction is viewed in current strategies to go beyond the provision of funds for projects of development cooperation to encompass the entire international agenda of bilateral and multilateral treaties and institutions. These constitute important frameworks in which the national development takes place by shaping the rules of the game for international interaction, with their influence increasing through the process of rapid
globalization. Of foremost importance in the context of development are the international rules in the areas of trade, finance and the environment, which will be analyzed in turn.

2.5.1.1. Trade

International trade is considered a powerful engine for growth and poverty reduction in developing countries and has been conducive for those countries that are already strongly integrated into the international markets. The primary institution that governs international trade issues is the World Trade Organization (WTO), which developed out of the General Agreement on Tariffs and Trade (GATT). Its member base comprises 140 nations, of whom the majority are developing countries. While the WTO system in principle receives support in the analyzed strategies, reforms of the system to take the conditions, problems and priorities of developing countries stronger into account are voiced.

One of the central concerns of the current trading regime are the barriers that exist for the major exports of developing countries in terms of agricultural goods, labor intensive manufactures like textiles and clothing, and services. These barriers consist of tariffs imposed by industrialized countries that are on average higher for developing countries than for other developed nations and of subsidies for developed nations' products. Especially in the agricultural sector subsidies for domestic producers by industrialized countries distort world market prices, reduce the ability of developing countries to capitalize on their natural competitive advantage and discourage investment in this sector. The estimated costs of these barriers for developing countries in the agricultural sector alone are estimated at nearly $20 billion per year or 40% of the total yearly ODA flows. The potential gains to this group of countries from general tariff cuts of 50% are estimated at $150 billion per year or three times the annual ODA contributions.

To foster development, the international elimination of tariffs and quotas for Least Developed Countries (LDCs) is demanded and a reduction or

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3 Ades, A. and Glaeser, E. (1999) show that while rich countries grew faster on average than poor countries, those poor countries strongly integrated into the global economy have grown at a rate equal or greater than the developed countries.
4 The EU as an independent member is included in this number.
elimination of import tariffs for the most important processed goods from
developed countries is proposed. The current systems of tariffs that are
progressively increasing with the level of processing are deterrent to the
industrial efforts in developing countries.\(^1\) The current reliance of developing
nations on unprocessed goods due partly to the tariff structure of industrialized
nations exposes developing countries to the especially high volatility of world-
market prices in the unprocessed goods markets.\(^2\) The phase-out of subsidies by
developed countries is also of major concern - especially in the agricultural
sector - as it has often led to unsustainable domestic production.\(^3\) Moreover,
trade protective measures such as anti-dumping rules should receive new
investigation and should be built solemnly on factual evidence.\(^4\) The bilateral
strategies view the EU in a precursor role in this regard and express their
willingness to influence the EU policies towards stronger focus in poverty
reduction.\(^5\)

To tackle these issues a new trade round – a “development round”\(^6\) – is
proposed, in which the WTO system is to be made more transparent and in
which the interests of the developing countries are to be given more weight.\(^7\)
Special emphasis is placed on enabling countries to participate to the fullest
extent in the trading system. A strong concern rests currently on the ability of
poor countries to actually exert their influence effectively in the WTO
negotiations.\(^8\) One third of the developing countries lack offices and permanent
representation in Geneva despite the roughly 45 meetings of the WTO each
week.\(^9\) Therefore, support for the sophisticated interaction of representatives of
developing countries is attempted e.g. through the establishments of an Advisory
Center on WTO Law and through technical support for national governments.\(^10\)

This is linked to the attempts to increase the practical impact of trade
liberalization through strategies adapted to the circumstances of the individual
developing country and through reduction of structural barriers. To
accommodate developing countries better in their particular economic
circumstances a more adaptive set of country categories is envisioned for further
negotiations.\(^11\) More flexibility in the deadlines for the implementation of
reforms and technical support during for the implementation process shall
contribute to the more individualistic concern for country specific situations. To

\(^3\) See UK government (2000), p. 70.
though Sida goals in the EU engagement remains rather vague.
\(^7\) See UK government (2000), p. 70.
\(^11\) For this and the next point see UK government (2000), p. 71.
increase the benefits of trade liberalization through the WTO round for developing countries, a strategy for improving trading capacity is pursued with a focus on areas of communication, customs simplification and export encouragement. The realization that halving transport costs can almost double trade volume has also led to an increased focus transportation, which is strongly linked to the establishment of access to markets as discussed in a prior chapter. Thus, adaptation to individual country’s and groups of countries’ problems and the assistance with transferring negotiation results into actual outcomes is a high concern on the international agenda.

Special sub-themes of the WTO are the intellectual property rights regimes which are governed by the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) negotiated in the Uruguay Round of trade negotiations in 1986 to 1994. Intellectual property rights, which grant exclusive rights of ownership to creators of knowledge for a specified period of time, provide incentives for the generation of new knowledge. Developing countries have an important incentive in providing intellectual property rights protection as a way of encouraging more investment, research and innovation. Yet intellectual property rights bear the disadvantage of excluding some developing countries from helpful international goods because they cannot afford the prices charged by the patent holders. The dispute over necessary incentives for research and exclusion of the poor has recently reached its climax in the dispute between the South African government and the pharmaceutical industry over the country’s ability to import or produce necessary AIDS medication from unauthorized cheaper sources.

Both the British and the German strategic documents explicitly acknowledge the TRIPS clause on ‘compulsory licensing’ in exceptional circumstances - as has been the argument of the South African government - yet prefer a system of preferential prices as has been the outcome of the South Africa case where price reductions of 90% have been proposed. Given the inherent conflict between the interest of the individual nation and the pharmaceutical industry, conflicts of this sort will be difficult to avoid in the future.

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5 South Africa has the highest population of people affected with HIV: 4.7 million. For background information on the dispute see Polke-Majewski, K. (2001).
6 See BMZ (2001a), p. 26 and UK government (2000), p. 44, 45. The problem with this measure arises as the pharmaceutical industry has to fear re-imports of pharmaceuticals to industrialized nations that could force them to lower prices even there.
8 The national incentives to pressure the pharmaceutical industry to more preferential terms is visible also in industrialized countries, the latest case being the dispute between the U.S. government and the Bayer AG over the price of the only available product to cure anthrax.
To reduce prices for patent-protected goods the British concept proposes to extend exclusive rights to patent holders for a longer period of time to establish a more affordable price during this time period.\(^1\) This proposal should be considered with caution. Without heavy regulation the patent holder will simply extend his monopoly price policy over an extended period of time since he does not match his price to his costs but to what the market will bear. Thus, a longer time frame for patents will not lead to lower market prices. Therefore such a policy seems questionable in its impact.

Three developments have made a renegotiation of intellectual property rights more urgent in recent years. Private companies alone increasingly conduct research, which excludes the non-paying public from its use. Industrial countries account for the vast majority of patents worldwide, thus capitalizing on their proceeds and potentially excluding the developing countries from gaining prosperity. Moreover, there is a trend in genetic science to patent DNA sequences, which might extend the patent holder's rights to prevent farmers from reusing seeds and developing countries from pursuing adaptations to their needs.\(^2\)

Changes proposed to the international property rights regime as a consequence of these trends and to safeguard developing countries' interests are most conclusively summarized in the WDR: "Recognizing the rights of farmers cultivating traditional varieties. Prohibiting the patenting of life forms or biological processes. Reconciling World Trade Organization (WTO) provisions on intellectual property rights with the International Convention on Biodiversity and the International Undertaking on Plant Genetic Resources. Ensuring access to essential medicines at reasonable cost."\(^3\) This includes the extension of rights to developing countries for their indigenous knowledge and the genetic resources of their species. The quote entails the only slightly less vigorous proposals of the British and German strategies.\(^4\) The question will remain how these legitimate demands are to be integrated into the intellectual property rights regime without deterring future research.

Another concern that has been linked to trade rules is the provision of basic rights at work. The enforcement of the core labor standards (CLS), already discussed in the chapter on 'Human Rights and Equality', is sometimes viewed in connection with trade sanctions in cases where they are not adhered to. This is

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\(^1\) See UK government (2000), p. 44.

\(^2\) For an expansion on these three trends see World Bank (2000a), p. 184, 185.

\(^3\) See World Bank (2000a), p. 185.

refuted by developing countries that fear protectionist influences. The analyzed strategies do not promote trade sanctions as a method for enforcement. Especially the World Bank rejects this practice as unproductive to achieve the desired outcome and detrimental to development. Rather than protective measures, a broader opening of the markets of industrialized nations in a new trade round is promoted to deter the reservations of developing nations against the CLS; complemented by technical assistance, capacity building and other initiatives such as social dialogues with all parties concerned.

Next to these supportive measures private initiatives for social (and ecological) labels are championed. On the one hand these raise the burden for potential exporters who struggle with complying with a proliferation of rules in order to obtain a label for their products. On the other hand they give the consumer the power to choose those products that serve his interests and encourage the acceptance of minimum labor and environmental standards not through trade sanctions, which due to their large scale approach have a high chance of penalizing the innocent, but through economic incentives of higher earning potentials. Still, national support for core labor standards in developing countries has to be further developed as well, because these incentives only extend to export industries. Incentives through labels thus neglect the large informal sector in developing countries that by large does not work for the export industry.

2.5.1.2. Finance

The international framework for financial flows has received special attention in recent years due to the financial and banking crisis in Asia, Russia and Latin America in 1997 to 1999. These events have spurred the realization that greater stability of the international financial system is an important prerequisite for long-term worldwide growth and poverty reduction.

The predominant measure for international financial stability is seen in the national efforts of the individual nations in implementing sound macroeconomic policies, adequate prudential regulations and supervision of domestic

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1 See World Bank (2000a), p. 74.
2 While this consensus is endorsed in the strategies, comments for positive incentives in the EU Generalised System of Preferences to link enhanced market access terms to adherence to ILO standards voiced in UK government (1997), p. 65, aim in a different direction. While here the term 'sanctions' is avoided through the positive expression 'incentives', the actual outcome could be the same. This view is not observable in the other strategies.
4 See BMZ (2001a), p. 33. Yet the German position considers integrating core labor standards in the conditions for projects of public development cooperation.
8 See e.g. BMZ (2001e), p. 21.
financial institutions.\(^1\) The national efforts are underlined on the international level by attempts to establish and enforce \textbf{standards on data dissemination and financial practices}.\(^2\) These are seen important to insure that financial markets and the public have timely and reliable data for making decisions and that financial institutions run effectively.\(^3\)

To this extend existing institutions like the IMF and other standard setting bodies\(^4\) are active as well as newly established bodies like the Financial Stability Forum (FSF), which has the task to assess vulnerabilities affecting the international financial system; to identify and oversee action needed to address these vulnerabilities; and to improve coordination and information exchange among the various authorities responsible for financial stability\(^5\). Its recommendation are explicitly welcomed in the strategies for poverty reduction.\(^6\) They focus on measures to increase the stability and functioning of financial markets comprising directives for risk management at the national, public sector, banking sector and non-bank sector level based on prudent behavior and on short-term liability assessment as well as on tighter regulations of institutions that provide credit to highly leveraged institutions.\(^7\) These codes of conduct for data dissemination and financial practices are to be backed on the international scale by surveillance efforts that ensure their application. In this regard an enhanced IMF surveillance process could play a central role.\(^8\)

These measures should be supplemented by efforts to set up \textbf{early warning systems} that could alert the international community to danger and elicit timely responses to prevent or mitigate approaching crisis.\(^9\) So far the progress on this issue has been rather marginal.\(^10\) Further improvements are also demanded in the approaches to crisis resolution.\(^11\) Contingent credit lines are one approach on international scale to enhance the liquidity of a country endangered by financial crisis.\(^12\) Such overdraft facilities are already available through private banks or

\(^1\) See e.g. World Bank (2000a), p. 180, 181. On this see also the chapter on ‘Measures of state security provision’.
\(^3\) See World Bank (2000a), p. 181.
\(^4\) For a very comprehensive list of standard setting bodies in the financial area see FSF (2000a).
\(^7\) For further details on these complex issues whose breadth extend beyond the scope of this analysis, see FSF (2000b) and FSF (2000c).
\(^9\) See World Bank, p. 181.
\(^10\) See World Bank, p. 181.
the IMF. In the German view this could be backed by special aid through the World Bank and the IMF for countries whose poverty reduction strategies are threatened by external shocks such as oil price increases.\(^1\) Yet a guarantee for comprehensive aid packages in cases of financial crisis through the IMF are rejected in the strategy.\(^2\) Rather, a stronger inclusion of private investors in the resolution of financial conflicts is demanded. To this extend collective action bond clauses are favored, which enforce collective bargaining and, thus, limit the ability of a minority of bondholders of blocking renegotiations of bond repayments.\(^3\) Yet apart from this measure, efforts to design clear guidelines for private sector involvement in crisis prevention and resolution have been rather unproductive\(^4\) and need to be taken up vigorously.

Overall, reforms of the financial system to promote stability and ensure the availability of liquidity for countries facing severe adverse shocks\(^5\) are a high priority in the new strategies, yet concrete measures are still vague.

Next to the importance placed on international financial stability several disjoint themes emerge that are common at least to the German and British position\(^6\). These include the demand for an international surveillance on new debt for LDCs, so as to insure that their debt level remains sustainable. Furthermore, new credits from OECD countries for Heavily Indebted Poor Countries (HIPCs) shall only be provided for productive purposes.\(^7\) This precludes especially credits for arms.\(^8\) The importance of export credit guarantees is stressed and the connection of their granting to the goals of poverty reduction and developmental aspects is demanded. The introduction of private sector capital into the financing of international development projects is considered for those countries where this can be applied.

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1 See BMZ (2001a), p. 23.
7 These are countries that are eligible under the enhanced debt reduction initiative (HIPC II) and comprise LDCs with high levels of debt. For more details see the chapter on ‘Initiated Reforms’.
8 This attempt is faced with the problem of the fungibility of funds. It is easily to conceive situations where a country would like to finance unproductive investments and does so from its national budget, while receiving financing for other productive investments that would normally have required the domestic funds now used for unproductive investments. Thus, countries can internally shift their budget in a way that outside financing is only concerned with productive investment while domestic funds are used for to a greater extend for unproductive investment, and in sum the result is similar to a financing of unproductive investment in the first place. Control mechanism to avoid this problem need to be established for any attempt to prevent international financing for unproductive investment to show impact.
The attraction of private capital is overall a major theme, since foreign direct investment contributed three times the level of development aid in 1999 and grew fourfold in the seven prior years while ODA remained nearly constant\(^1\), and can thus be a major determinate for growth. To spur this investment, the inclusion of international direct investment into multilateral agreements in order to ensure transparency, investor protection, e.g. against expropriation without compensation, and equal rights for national and international investors is attempted. This is supposed to increase investor confidence even in those countries that are currently neglected by FDI. A possible place for such negotiations would be the next WTO trade round.

An innovative attempt in the new strategies is the British government’s intention to require pension funds to state the extent to which social, environmental and ethical policies are pursued in order to provide small private investor with a choice to incorporate these concerns into his investment decisions. Yet overall the strategies are rather conservative and vague on the specific attempts the international forums are to play in the provision of security and heightened investment in developing countries. The strongest reliance is given to measures on the national level where measures for the better supervision of the financial sector and a stronger concern for the sustainability and composition of national debt are straightforward. In contrast to this, international action for a greater international stability struggles with an “apparent lack of urgency in the aftermath of the Asian recovery [which] could lead to inaction”\(^2\) - despite real possibilities of future crises\(^3\).

### 2.5.1.3. Environment

It is accepted within the strategies for poverty reduction that an intact ecological environment and poverty reduction are strongly intertwined.\(^4\) In an attempt to address this, it has been agreed upon in the IDTs\(^5\) that a national strategy for sustainable development (NSSD) should be established in all developing countries by 2005.\(^6\) This attempt is supported in the new strategies by promises

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\(^1\) ODA levels range between $50 and $55 billion (see BMZ (2001a), p. 20), while foreign direct investment in developing countries grew from $36 billion in 1992 to $155 billion in 1999 (see UK government (2000), p. 48).


\(^3\) See World Bank (2000a), p. 181.

\(^4\) See BMZ (2001a), p. 27. For domestic protection of the environment see the chapter ‘Poor peoples assets’. For a broader discussion of environmental concerns in poverty reduction strategies see the chapter on ‘The role of poverty reduction: Poverty reduction vs. other developmental goals’.

\(^5\) For details see the chapter on ‘International Development Targets’.

\(^6\) See DfID (2000c), p. i. The time frame for the NSSD proposes the establishment by 2002, being in the process of implementation by 2005 and leading to a reversal of the reduction of natural resources by 2015.
of assistance for capacity building in the area of the environment through effective partnerships between north and south. A blueprint for the NSSD and its implementation is deliberately avoided in order to be able to accommodate local priorities that are to be established on a participatory basis. This reliance on NSSDs shows that emphasis is placed on national strategies; supported by international efforts.

Yet the realization that environmental problems have large global components and require global agreements for their solution has been realized and is most prominent in the concerns on climate change. Industrialized nations, which contribute most to environmental degradation by their population's consumption patterns and their waste production, have taken a lead in international negotiations on environmental issues. To reach agreement with the developing countries, most international treaties rely on financial and technical assistance to help developing nations to comply with the protocol. The arising financial commitments are supposed to be additional to ODA.

One of the first outcomes is the Agenda 21, which was adopted at the Earth Summit in Rio de Janeiro in 1992 by 178 governments. This program was conceived to integrate development and environmental concerns and covered a wide variety of areas such as protecting of the atmosphere, combating desertification, preserving biological diversity, protecting the quality and supply of fresh water and managing toxic waste among others. Its purpose is to commit all States to engage in a continuous and constructive dialogue on environmental issues and make these a priority on the international agenda. A main point was the incorporation of the participation of all concerned citizens and the associated flexibility of the program.

This initiative has led to further international conventions that resulted in the adoption of a number of multilateral environmental agreements (MEAs) on the issues of biological diversity, biosafety, climate change, desertification, hazardous chemicals in international trade and organic pollutants. To help developing countries tackle these issues despite their financial limitation, the Global Environment Facility (GEF) was established in 1991 by 165 member

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4 See BMZ (2001a), p. 29.
8 See UNEP (2000).
9 For this issue see DfID (2000c), p. 41.
10 See UNEP (2000).
countries with the goal to finance or co-finance projects that serve environmental purposes\(^1\) and to assist developing countries in meeting the additional costs of addressing global environmental objectives.\(^2\) The poverty reduction strategies analyzed in this context places special emphasis on biological diversity\(^3\), desertification\(^4\) and climate change and the depletion of the ozone layer\(^5\).

The preservation of **Biodiversity** was internationally agreed upon in the Agenda 21 and became legally binding for the signatories in the Convention on Biodiversity (CBD), which entered into force in 1994. Its main objectives are the conservation of biological diversity, the sustainable use of its components and the fair and equitable sharing of the benefits arising out of the utilization of genetic resources.\(^6\) The convention is concerned with access and use of genetic resources and indigenous knowledge, with technology transfer and with biosafety\(^7\). The convention takes a broad-based approach that incorporates the conservation and also the utilization of biodiversity to secure nutrition, health and other needs of the world’s growing population. Its measures are based on national strategies and plans for the conservation and sustainable use of biological diversity and their integration into relevant policies.\(^8\)

**Desertification** has been spotted as one of the major problems facing the African continent, with land degradation having affected 65% of the soil of this continent in the last 50 years and its continuation is estimated to reduce crop yields by half during the next 40 years.\(^9\) The Convention to Combat Desertification (CCD) has been internationally adopted in 1996 to combat desertification and mitigate the effects of drought particularly in Africa.\(^10\) Developed countries are obliged in this agreement to provide financial resources and other forms of support to help developing countries in their implementation of long-term strategies, and to facilitate access to appropriate technology, know-how and private funding. These national strategies should focus on improved productivity of the land and the rehabilitation, conservation and sustainable management of land and water resources. This should also address the

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6 See most prominently DfID (2000c), Annex 3. The point of equitable sharing of proceeds is also taken up strongly in BMZ (2001a), p. 30.
7 Biosafety with special focus on living modified organisms is covered in more detail in the Protocol on Biosafety to the CBD, which was amended and agreed to in 2000 in Montreal.
8 See DfID (2000c), Annex 3.
10 See most prominently DfID (2000c), p. 45.
underlying causes of desertification with special attention to socio-economic factors.¹

Most prominently in the debate on global public goods² has been the concern for the preservation of the ozone layer and the prevention of global climate change. Progress in the preservation of the ozone layer, which is expected to have largely recovered within the next 50 years³, is mainly contributed to the Montreal Protocol on Substances that Deplete the Ozone Layer. This protocol, effectively in action since 1987, governs the elimination or reduction of the use of chemicals that damage the ozone layer in order to prevent potential consequences of its further reduction.⁴ While developed nations already have to avoid the use of these chemicals, the protocol takes special account for the situation in developing countries, for whom the deadlines have been extended⁵ and which are to receive financial and technological support to facilitate the transition. A multilateral fund was established to accommodate the agreed incremental costs to developing countries associated with this protocol.

In contrast to the successes regarding the ozone layer, progress on preventing global climate change by reducing international CO² emissions has not yet been reached, with global emissions in 1996 reaching 23,900 tons or about four times the 1950 total.⁶ The effects of a further continuation of this trend can be devastating especially for developing countries, with the overall impact of a doubling of carbon dioxide in the atmosphere estimated to reduce the GDP of developing countries by 2-9% compared with a still high 1-1.5% for developed nations.⁷ First attempts to address this issue during the 1992 Earth Summit in Rio led to the UN Framework Convention on Climate Change (FCCC) which attempts to stabilize greenhouse gas (GHG) concentrations in the atmosphere at a level that will prevent dangerous anthropogenic interference with the climate system.⁸ The time frame of action was conceived to allow ecosystems to adapt naturally to climate change without threatening food production and to enable economic development to proceed in a sustainable manner.

The realization that the herein proposed actions were insufficient to avoid harmful climate change led to the negotiation of the Kyoto Protocol in 1997, which aims to reduce GHG emissions by an average of 5.2% in industrialized and transitional countries compared to 1990 values during the period 2008-

¹ See DfID (2000c), p. 45.
⁴ See DfID (2000c), p. 44 for reference on this section.
⁸ For reference on the FCCC see DfID (2000c), p. 44.
2012.\textsuperscript{1} Due to the already incurred increase in CO\textsubscript{2} emissions since 1990 and the expected increases in absence of the protocol up to 2008, extensive efforts to reach these targets will be necessary by those countries governed by the treatise. Additional measures are included to ensure that countries not restricted by the treaty increase their emissions as slow as possible.\textsuperscript{2} All parties are obliged to prepare national reports which detail the sources and sinks of GHG emissions not controlled by the Montreal Protocol.\textsuperscript{3}

While developing countries do not have an obligation to decrease GHG emissions, they will be affected by this protocol via the Clean Development Mechanism (CDM). This mechanism allows the obtainment of Certified Emissions Reduction (CER) from projects in developing countries if the reduction of GHG emissions surpasses the level that would have been realized under ‘normal’ circumstances without foreign involvement\textsuperscript{4}. The CERs will count towards the achievement of the emission target in the country obtaining these. While the percentage of reductions of GHG which have to be conducted within the emitting country’s own boarders is still of debate\textsuperscript{5}, there seems to be large scope for Joint Implementation practices\textsuperscript{6} and especially for the CDM. These are estimated to have a cost ratio of 1:10 between developing and industrialized countries, which makes the CDM attractive\textsuperscript{7}. CDM-Projects have to contribute to sustainable development and an additional fee has to be submitted to a fund that uses these resources for measures to facilitate the adjustment of countries that are especially prone to the risk of climate change.\textsuperscript{8} CER for CDM-projects can be obtained as of 2000 and be used to account for reductions of the national emissions quota as of 2008.\textsuperscript{9}

\textsuperscript{1} See DfID (2000c), p. 44. The further discussion is based strongly on the comprehensive work in Gamperl et al. (2000). A detailed list for further references can be found in Intergovernmental Panel on Climate Change (2001).


\textsuperscript{3} See DfID (2000c), p. 44.

\textsuperscript{4} The base-line for this argument is hard to determine, which is one of the practical problems this mechanism is faced with. See Gamperl, J. / Seifried, R. / Strangmann, U. (2001), p. 10.

\textsuperscript{5} See Gamperl, J. / Seifried, R. / Strangmann, U. (2001), p. 8, 9. Germany for example demands a minimum percentage of emission reduction within the national borders of 50%, the EU proposes free emission trading within EU boarders and the US does not want any reductions on the scope of CDM. Positions as of 2000.

\textsuperscript{6} Joint Implementation refers to the process of obtaining emission reduction certificates for a country or company A that conducts emission reduction in a country B that also faces a special target for emission reduction. In contrast: CDM refers to obtaining emission reduction certificates for reductions in a developing country C that does not face its own target in GHG emissions. All reductions have to be measured as additionally to any improvements which would have been made under normal circumstance, the so-called base-line. See Gamperl, J. / Seifried, R. / Strangmann, U. (2001), p. 5.


trading\textsuperscript{1} is conceived as one mechanism to foster an efficient allocation of resources to those measures most conducive to GHG reduction. The certificates obtained through these measures can then be traded to the actor with the highest needs. This mechanism can theoretically yield pareto-optimal results.

Despite strong sponsoring of this agreement within the European Union it seemed for a longer period unlikely that the Kyoto Protocol would enter into force due to the announcement of US president Bush within his first 100 days of holding office that the Kyoto Protocol is ‘dead’. The agreement becomes effective if 55 member states ratify the agreement, among them a sufficient number of Annex-I-countries\textsuperscript{2} that account for a minimum of 55\% of their total CO\textsubscript{2} emissions.\textsuperscript{3} While mathematically the participation of the U.S. is not required for the agreement to become effective, its ratification by sufficient number of countries without U.S. consent was not considered likely as the U.S. represents the largest emitter of GHG in the world. Nevertheless the agreement was established in 2001 without the participation of the U.S. by a sufficient number of signatories. In the long run is argued that the U.S. government will again support the Kyoto protocol. The effects of international emissions trading on the competitive position of international companies due a new focus on innovation are considered by experts as the leading argument for the voluntary joining of U.S. industries of the agreement and for their lobbying of the government to fully support it.\textsuperscript{4}

The current repudiation of the U.S. government shows that despite strong efforts since the beginning of the 1990s to find global solutions for problems that cannot be tackled on the national level because of moral hazard and international competition problems\textsuperscript{5}, there is no room for complacency. If no

\textsuperscript{1} The Kyoto Protocol establishes a mechanism whereby Annex I Parties (listed in Annex B of the Kyoto Protocol) with emission commitments may transfer part of their assigned amount to other Annex I Parties (listed in Annex B of the Kyoto Protocol). The aim of international emission trading is to improve the overall flexibility and economic efficiency in achieving the agreed [...] emission target. Gamperl, J. / Seifried, R. / Strangmann, U. (2001), annex 1 p. 2,3.

\textsuperscript{2} These are the Countries mentioned in Annex I of the Kyoto protocol and which face specific targets for CO\textsubscript{2} emissions.


\textsuperscript{4} Information taken from the verbal interview with Josef Gamperl, environmentalist expert for the German Bank for Reconstruction (Kreditanstalt für Wiederaufbau). Cited with consent of the expert.

\textsuperscript{5} The U.S. government’s argument to not want to hurt the domestic industry is a strong example of these problems. If all countries internationally impose the same strict regulations, the incremental costs will be about the same for the industries of all nations, thus preserving competition. The only negative effect will be the slight price increase in high emission industries in comparison to some lower emission industries, which will have small effects due to cross-price elasticity. Yet it will only change competition between industries not between

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working solutions of the environmental problems of the 21st century will be found, the developing nations will be those most vulnerable to the effects because they have the least resources to protect themselves against adverse effects.¹

The international institutions that have been reviewed here receive attention in the new strategies because they set the framework in which the national efforts to reduce poverty are taking place. Another theme of international scope besides these institutions regards the relationships and actions concerning the donor community. These are covered in the following section.

2.5.2. The Donor Community

Reforms of the domestic policies are regarded in the poverty reduction strategies as the foremost measure to reduce the number of impoverished people in this world. To implement these is seen as the obligation of the developing countries as their part in the cooperation for development. The implementation is embedded in the international institutional framework presented above. Yet, the donor community also has to fulfill its share in the development cooperation. The ideas for reorganization of development cooperation from the donor side, though not fully new, are brought forward with new vigor. Three broad themes emerge in this discussion: the redesign of the relationship between the donor and the recipient country, a focus on the responsibilities on the side of the donor policies, and a new concern for international best practices and research. These will be discussed here in turn.

2.5.2.1. The Meaning of Partnership: Ownership, Conditionality and Political Dialogue

Development cooperation, as the name already implies², is based on a partnership between the developing country and the donor nation. One essential question in a partnership involves the role each member plays in leading the

¹ The Netherlands have ordered the improvements in height of all their dikes in 2001 because they are certain of a rise of the water level due to global warming. While the Netherlands have the resources for such action, most coastal developing countries lack these and will face changes in natural conditions without necessary preparations.

² For a discussion of the term ‘development cooperation’ in contrast to ‘development assistance’ see Sida (2000f)
common path. In the past it has been assessed that donors have been the dominating factor in the project cycle with sometimes inadequate attention to the preferences of the national government or of project beneficiaries. The new strategies emphasize a shift of dominance to the developing country by promoting domestic ownership as a strong determinant for aid effectiveness. That means that the basic responsibility for poverty reduction rests with the government of the recipient country, which should self-responsibly, set out its strategy.

Yet ownership of the strategy by a country is not supposed to halt at the governmental level, but extend through a participatory process down to the population and their immanent problems. These consultations with the local population provide for the identification of the priorities and actions with the greatest impact. The strategies of the developing countries are to form the basis for support through the development agencies. James D. Wolfensohn, president of the World Bank, has summarized this point conclusively:

"First and foremost, the government and the people of developing countries must be in the driver's seat — exercising choice and setting their own objectives for themselves. Development requires much too much sustained political will to be externally imposed. It cannot be donor-driven.

But what we as a development community can do is help countries — by providing financing, yes; but even more important, by providing knowledge and lessons learned about the challenges and how to address them."

The donor community takes on the role of a partner in that they are consulted about the process of establishing the national strategy and can provide assistance in the evaluation of policy proposals. The political dialogue with the recipient countries’ governments is still a basis for the cooperation and serves as a measure to convey the donor country’s perception of the best way to tackle poverty. As Sida puts it: "a balance must often be struck between cooperating with them on their own terms and persuading them to choose a direction that Sida regards as suitable for creating better living conditions for poor women and men. This balance is shifted in the new strategies stronger to the leadership of

10 Sida (1996), p. 6. The approach by Sida has changed in recent years. Sida’s political dialogue still relies on the establishment of a country strategy through Sida. This takes account of the populations need and is established in consultation with the partner country. But in 1996 the view prevailed that in contrast to the responsibility Sida attributes to the
the developing nations. Simple measures such as the movement of the dialogue
to locations within the partner country and handing the chairmanship over to the
country's government are conceived to underline this view.¹

This approach to focus on the needs and wishes of the recipient country is partly
challenged by the demand for greater conditionality and selectivity in the
provision of aid². It is widely accepted that financial resources for development
cooperation are limited, and one way of increasing its impact is through
provision of aid only to those countries who pursue poverty reduction
consequentially³ and who follow a path of good governance with national
structures that increase or at least do not inhibit the impact of aid flows on the
situation of the poor population⁴. This form of conditionality, which requires a
poverty reduction focus and efforts for good governance prior to granting ODA,
is regarded as more effective than program and policy-based aid that is tied to
the enactment of certain policy reforms during the implementation.⁵ Countries
that lack either one of the conditions of poverty focus and good governance will
likely use ODA resources less efficiently, which implies a reduction of aid to
these countries. Support is in these cases limited to NGOs and projects aiming
directly at the poor people to reduce the worst cases of poverty and to provide
some help on a local scale⁶.

Also of concern are questions of the level of poverty in the developing
country, the ability of the country to finance poverty reduction by other means
than ODA and the ability of the donor country to contribute most effectively to
the reduction of the specific problems of a recipient country⁷. This assessment
leads to the proposal in most strategies to provide ODA for very poor countries,
instead of providing it to middle-income countries with medium poverty rates
that are believed to be to able to attract resources on the private market⁸. The
cooperation with these countries is limited to the exchange of knowledge,
technical assistance and know-how to support their further development⁹. Such a

¹ See World Bank (2000a), p. 199.
⁴ See World Bank (2000a), p. 196 and DfID (1999b), p. 32. These correspond strongly to the
measures presented in the chapter on 'necessary political conditions' and 'the economic
incentive system'. The concern for human rights is stronger in the case of conditionality for
the bilateral strategies, which explicitly refer to them, then in the World Bank strategy.
⁶ See e.g. Sida (1996), p. 6, 7.
⁷ See e.g. Sida (2000h) and Sida (2000i)
⁸ See e.g. UK government (1997), p. 36.
concentration on the basis of high poverty rates and reasonably effective policies and institutions is estimated to double the number of people lifted out of poverty each year from currently 10 million to 19 million.\(^1\)

Yet the discussion on conditional aid for middle-income countries is still going on, as the German government assesses that the majority of the poor live in these countries for which access to capital markets is inadequate, fluctuating and sometimes too expensive.\(^2\) Therefore ODA is seen as necessary for these countries. Also the World Bank’s mandate has recently been reinforced to engage in middle-income countries on the basis that 80% of the people living on less than two dollars a day live in these countries.\(^3\) That middle-income countries still need support is unambiguously clear, the point on discussion is whether this should be limited to technical assistance or know-how alone or should include ODA. This discussion is taken up in more detail in the analysis of the accentuation of the German strategy in the next chapter.

The presented approach of conditionality and selectivity of ODA flows limits in a way the ability of a recipient country to take full ownership of his strategy. Its government has to fear that a strategy that is not seen as efficient in poverty reduction by the donor community will not receive donor support, even though the national government believes in its poverty reduction impact. This dilemma results from the scarcity of resources. The developed countries governments are responsible to their constituents concerning the efficient use of funds for development assistance, and they are also obliged for moral reasons to provide money to those countries where the effect on the poor individual is potentially highest\(^4\). Despite the limitation of conditionality for national ownership, national ownership can still be strong. This approach to conditionality is mainly concerned with the ‘if’ – if there is a chance of reduction of poverty given the attitude and broad proposals of the government and the soundness of the national institutions – rather than with the ‘how’ – how the specific program for poverty reduction looks like.

Once the confidence in a country’s strategy is established, there is strong concern to leave the leadership to the recipient country. To foster this, less intrusive ways for providing financing are considered.\(^5\) The role of the national government can be enforced by making technical assistance more driven by the

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\(^3\) This has been confirmed on the annual Spring Meeting of the IMF and World Bank in Washington in 2000. See FAZ (2001b).
\(^4\) As each poor individual has the same right – based on the UDHR or pure moral standards – to receive help, and given a scarcity of resources, a moral goal would be to help the greatest number, which under uncertainty corresponds to investments where the potential for helping the greatest number of poor people is highest. Under such a framework, which only considers the individual moral, obligations to countries or other higher entities do not exist.
government's needs, by ending tied aid\(^1\) and extending debt relief to provide the national government with sufficient resources to fulfill its obligations\(^2\). If individually financed and supervised projects are favored, they should be embedded in the nationally determined sector framework and should systematically link investments to poverty outcomes.\(^3\) Instead of individual projects the new strategies explore also sector-wide or budget-wide approaches, in which the financing is not tied to specific projects but rather provided as a contribution to the general funds for a specific sector or for the entire national budget.\(^4\)

Also funds are supposed to be made available on a longer-term basis to allow for a longer planning time frame for the recipient country.\(^5\) Since sector-wide approaches restrict the ability of the donor to control the usage of funds they are limited to countries where the donors have confidence in the policies and budgetary allocation process\(^6\), which requires sound national accounting systems and institutions. Sector-wide approaches are regarded as measures to avoid the problem of fundability - where ODA flows free up national resources which are then used for other, unintended purposes\(^7\) – and is also conducive to donor coordination\(^8\) because agreement only needs to be reached on the level of support and the general strategy for the usage of funds in the sector but not on each individual project.

2.5.2.2. Donor Responsibilities: Donor Coordination, Cooperation and Policy Coherence

Next to the relationship between the donor countries and the recipient country the relationship between the donor organizations themselves receives attention in the new strategies. Donor coordination emerges as a special responsibility for the donor community\(^9\). The parallel demands of many uncoordinated donor activities in terms of different reporting standards, individual policy dialogues

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\(^1\) See World Bank (2000a), p. 200 and UK government (2000), p. 94, 95. Tied aid not only reduces the choices governments have in conducting the projects, it is also estimated to have a 15-30\% lower value than projects contracting the best bids. See Jepma, C. (1991).

\(^2\) This ability is severely limited if new aid money serves merely the fulfillment of old debt obligations. Debt relief is demanded in all strategies, see e.g. BMZ (2001a), p. 19, 20, Sida (2000d), World Bank (2000a), p. 200 – 203, UK government (1997), p. 71, 72.

\(^3\) See World Bank (2000a), p. 196.

\(^4\) See UK government (1997), p. 38 and World Bank (2000a), p. 194 – 1996. In BMZ (2001a), p. 24, sector-wide approaches are considered for the provision of basic needs in health and educational sectors. In Sida (1996), p. 25, this option is only considered as a replacement for balance of payments support. Thus, there is a trend in this direction, yet there is still reluctance to propose it on a large scale by some donors.


\(^7\) For a more detailed discussion on fungibility of resources see World Bank (2000a), p. 193.

\(^8\) See World Bank (2000a), p. 197.

and conflicting objectives put a strain on the limited administrative abilities of the developing country and they are likely to overburden it. Situations like that in Tanzania during the early 1990s, where 40 donors conducted over 2,000 projects, exemplify the problem that sheer numbers of agencies and projects cause for the coordination efforts of local administrations. To cope with this problem, suggestions are made to avoid negotiating national strategies individually with each bilateral and multilateral donor. One proposal to strengthen donor coordination involves the leading agency for a particular country or a sector where it is best situated. Another strategy relies on the national government to lead donor coordination. In this second approach consultations are held jointly with the donor community based on the national plan for development, which donors support strategically. This approach is followed in the Comprehensive Development Framework (CDF), which is proposed as a tool to facilitate donor coordination.

The demand for coherence in policies is linked to coordination’s responsibility for increasing the effectiveness of aid. The coherence of policies by international organizations in terms of their goals is a precondition for coordinating their efforts. The IDTs have contributed to a coherence of goals on the international level and the guideline for poverty reduction that is being prepared by the Development Assistant Committee for the OECD member states is likely to contribute to the coherence of procedures for delivering aid. This will reduce the burden on countries to comply with a variety of different reporting and controlling standards. Yet coherence has to extend beyond the development organization’s goals, to encompass all interactions with developing countries. Such a comprehensive approach can fight poverty by using the synergies between environmental policy, trade, research, technology and trade and fiscal policy. Disadvantages arising from neglecting this coherence between different policy areas have been discussed, for example.

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2 See UK government (1997), p. 38. While a trend in this direction is visible in German, UK and World Bank strategy, the Swedish strategy still relies strongly on strategies that are individually negotiated with countries. See Sida (1996), p. 10.
3 See UK government (1997), p. 38. The German government has already signaled its willingness to take over this position for selected countries via its development organizations. See BMZ (2001a), p. 9.
4 See World Bank (2000a), p. 195. Further detail is provided in the chapter on ‘Initiated Reforms’. The CDF does not necessarily exclude the existence of a lead agency in the attempt to facilitate the coordination of donor activities among each other. The CDF is actually explicitly acknowledged in DfID (1999b), p. 32. Yet the recipient country has the highest responsibility for coordination of the activities pursued.
6 The Development Assistance Committee (2001) draft guidelines are being currently debated.
7 See BMZ (2001a), p. 43.
8 See BMZ (2001a), p. 10. Disadvantages arising out of neglect for this coherence between different policy areas have been discussed, for example.
policy areas have been discussed in the context of international tariffs and trade, for example.\(^1\)

This approach requires cooperation between different international agencies to achieve a mutually agreed, coherent standpoint. It also requires cooperation between different departments within the same international body, whether it be the EU or an OECD member state.\(^2\) The collaborative work between different departments, which may not perceive the reduction of poverty as their main objective, ensures that the overall policy towards developing countries can be consistent. The German initiative to review all German laws on their possible connection to developmental goals including poverty reduction\(^3\) is one step in this direction.

Coordination of donor activities behind the national strategy of the recipient country, plus coherence of their overall activities concerning developing countries and cooperation, are the responsibilities of the donor community by ensuring that their contribution can extend the highest possible effect in terms of reducing poverty for the poor individual in the developing world.

2.5.2.3. Knowledge, Alliances and Raising Awareness

Greater effectiveness of the development cooperation is an underlying concern for strategies to reduce poverty. Knowledge about “what will work and what will not work”\(^4\) is required in order to use the available resources in ways that produce the highest benefits. The generation of such knowledge is seen as a priority.\(^5\)

**Applied research** with a special emphasis on poverty reduction is thus needed to efficiently implement and further develop the proposed strategies.\(^6\) Research in this area is considered to have significant multiplier effects since it allows solutions to the causes of poverty in one part to be replicated in others.\(^7\) The dissemination of good practice\(^8\) is a vital component in this process. The direction of the World Bank to establish itself as a ‘knowledge bank’\(^9\) exemplifies the increasing value placed on establishing and disseminating knowledge.

Next to applied knowledge on effective measures for reducing poverty, there is also a need for technical or scientific knowledge to deal with urgent

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1 See the chapter on ‘International Institutional Framework’, ‘Trade’.
2 This point for internal cooperation between different policy areas is e.g. promoted in BMZ (2001a), p. 10 and by the UK government (1997), p. 20.
5 See e.g. Sida (2000j). In UK (1997), p. 47 it is emphasized: “Knowledge, research and technology underpin all our work.”
problems in areas like environmental degradation, poor health, food shortages or infectious disease.\footnote{See Sida (2000j).} The ability to \textbf{adapt knowledge} to the special circumstances in developing countries is the constraint in some circumstances.\footnote{See UK government (1997), p. 48.} Adaptation constraints are a strong concern for developing countries because the substantial scope to benefit from the achievements of industrialized nations is severely limited if existing knowledge cannot be transferred successfully to developing nations.

The generation of \textbf{new knowledge} is equally important to ensure progress on poverty reduction. The fact that 90\% of the world's disease burden receives only 10\% of the international allocations on research and health\footnote{See UK government (2000), p. 43.} shows the need to focus more research on the urgent issues of developing countries. Therefore, the developed nations and their development agencies need to invest directly in research on the urgent scientific problems of poor nations and they should aim at shifting the incentives for private research to take the areas of low purchasing power into their account.\footnote{See UK government (2000), p. 43.} Partnerships between research institutions, support for research facilities in developing countries\footnote{See Sida (2000j).}, their integration in joint research projects and partnerships with private sector companies will be the keys in this area.\footnote{See BMZ (2001a), p. 48.}

\textbf{Partnerships and alliances} are generally highly valued in the new strategies, not just for research. Alliances with the private sector are conducted to integrate their financial resources and their technological expertise in the development process. Public-Private Partnerships in which private companies and development agencies cooperate in the joint realization of projects that serve to reduce poverty and also economic poverty, are an example of such a partnership.\footnote{See BMZ (2001a), p. 44.} The private sector, together with NGOs, is also consulted in the establishment of country and other developmental strategies.\footnote{See e.g. UK government (1997), p. 45 and BMZ (2001a), p. 46 – 47.} This integration of the private and non-governmental sector in the strategy formulation is intended to ensure their most successful engagement in the development process. NGOs are considered as valuable intercessor for the concerns of the poor, in this respect.\footnote{See BMZ (2001a), p. 47.} Their contribution to project implementation in developing countries and their fund raising activities on the national level are also acknowledged.\footnote{See BMZ (2001a), p. 48.}
NGOs also fulfill the important task of **raising the awareness** within the national population for problems of poverty reduction. There is a strong understanding that developmental goals need to be firmly founded in society, to achieve the national commitment for poverty reduction. To further increase national awareness, the British paper considers the integration of developmental matters into the national curriculum and the establishment of an annual Development Policy Forum to allow broad-based sharing of ideas on the issue. The German government considers a public media campaign sponsored by publicly well-known people to promote awareness on the new poverty reduction focus. Sida embarks on all three – education, media and public debate – to spread information about the extent and consequences of poverty and the need to contribute to the struggle against it. Awareness of the national population to the problems of development and poverty reduction is recognized as necessary to secure future commitments in form of ODA flows, private financial contributions or personal, private initiatives.

In summary, donor strategies grant the strategy's ownership to the developing country, yet plan to ensure efficient use of resources by carefully selecting the countries that receive support. Their part in increasing development effectiveness lies in stronger coordination of their activities and in coherence of all interactions with developing countries, for the common goal of reducing poverty. There is a justified reluctance to tackle the broad developmental challenges alone, therefore the inclusion of the research, private and non-governmental sector is promoted strongly. National awareness and approval of the strategies is seen as a precondition for continued efforts to fight poverty.

### 2.6. Synopsis: Novelties and Challenges of the New Strategic Conception

To sum up the discussion of today's consensus in development cooperation, its contents, its novelties and the challenges arising from it shall be highlighted here shortly. A more extensive summary that integrates the consensus into a hierarchy according to the level of agreement is presented at the end of the following chapter, which enables a view that integrates the commonalities and

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2. See BMZ (2001a), p. 49, Sida (1996), p. 15 and UK government (1996), p. 78. This point cannot readily be extended to the World Bank whose constituents are the nations in its basic membership, rather than a specific population. Yet also the World Bank tries to raise awareness on the international level for the problems of poverty and its measures to fight it. The publication of the annual World Development Reports is one example of its information policy that receives international attention.
the accentuations and provides the reader with a more comprehensive overview over the strategies.

The new strategies place great emphasis on national conditions for poverty reduction and on national priorities that will help poor people to make greater use of their own potential to change their situation. The provision of security for the poor and a concern for the political and governance issues that influence national priorities, the country's administration and provide services to the poor, have emerged as new themes in this discussion. This has the benefit that poverty reduction is now viewed from a holistic viewpoint, which explicitly takes account of detrimental circumstances such as corruption or human rights violations that have the potential to severely limit the effectiveness of poverty reduction measures. On the other hand, this holds the danger that developing countries feel too strongly governed in their national policies.

It will be a challenge to demonstrate a firm will on the political level, to tackle even sensitive governance issues in order to improve the effects of the attempts to reduce poverty, while at the same time avoiding the notion that the money of industrialized nations is used to imperialistically enforce the adoption of industrialized nations' values and governmental systems in poorer countries. Argumentation lines that narrowly focus on the outcomes of policies for the poor people rather than discussions of the most appropriate overall governance system might provide a possible bridge. Less intrusive ways of delivering aid – once the overall commitment of the government to poverty reduction has been established – are also conducive to this end.

The holistic framework for reducing poverty extends into strategies beyond the national boarders of developing countries, to encompass international treaties and the overall priorities of industrialized countries. While the calls to align developmental policies with other relevant areas, especially concerning trade, are no novelty, the renewed commitment might foster expedited progress in this area. This broad approach also takes notice of the challenges and advantages offered by the accelerating process of globalization. Unfortunately, this has not yet been translated into workable programs that assess the chances to use globalization in favor of poverty reduction, evaluate methods to mitigate the potential threats of this development and come up with solutions that are customized to the special circumstances in developing countries. The development of ways to adapt information technology to the problems of developing countries and its integration into the broader

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1 The conception of programs at the governmental level rather than at the level of the development organization (see UK white papers and German action program) looks promising. Greater commitment from the entire government for the task of poverty reduction has potential to spur the implementation of coherent strategies.

2 A notable exception to this is the 2. White Paper of the UK government (2000), which places these concern at the center of its analysis.
strategies for development cooperation will be an especially important task for further strategic conceptions.

While the role of international frameworks for the solution of global problems and the importance of the national government in the design of effective national policies and regulations is enforced, the new strategies manage to place the individual and the local groups in the center of the analysis. Subsidiary approaches in which power and resources are reallocated to the lowest possible level, dominate the discussion on empowerment of the poor. The calls for participation, decentralization and accountability have the potential for increasing the focus of strategies on the needs of the population. This might provide the basis for determining priorities in development efforts that sometimes seem to be missing in the extensive framework of new strategies. The establishment of local administrative capacity and effective control mechanism will determine the success of this decentralized approach.

Finally, next to the presentation of new concepts and the invigoration of existing ideas, new strategies also serve the important task of spreading awareness of the tasks of reducing poverty, bring renewed movement in processes like debt cancellation and reforms of aid delivery processes and they serve as motivation for the individuals who work in the development arena. The last point stems from the fact that their efforts are again acknowledged as contributing to solving one of the earth's greatest problems and by communicating a strong political will to support their work. Efforts in development cooperation are receiving a socially enhanced value through these strategies and the international concern with the issue. This enforced motivation will be of great importance for actually implementing the reforms that are necessary to translate the strategies into real-life actions.

2.7. Initiated Reforms

Although the full implementation of all parts of the presented strategies will require substantial amounts of time and resources in terms of administrative rethinking with the development agencies, setting up individual countries' strategies, increasing national administrative capabilities in the partner countries and redirecting project portfolios, first steps in the implementation process have already begun. Reforms have moved especially swiftly in regard to debt relief for Heavily Indebted Poor Countries (HIPCs), which is mostly referred to as HIPC-Initiative. After a disappointing start with the first HIPC-Initiative the G7 summit in Cologne in 1999 voted to extend the program (HIPC II), which has since then led to agreed debt cancellations of US$ 29 billion (current value

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1 For the discussion on priorities in the strategies see the chapter on ‘Comprehensiveness or Excessiveness?’

1999) for the 10 countries that have reached the decision point. The decision point marks the time when a decision on the extent of the debt relief is taken.\(^1\)

The precondition for debt relief is the submission of a **Poverty Reduction Strategy Paper**\(^2\) (PRSP), which lies at the heart of the new initiative.\(^3\) In order to assure that the money that is released in the process of debt relief is used for reducing poverty, each country has to prepare a PRSP that focuses on poverty reduction and economic growth.\(^4\) The themes that the PRSP ideally covers should range from macroeconomic concerns of inflation and budget deficits to human capital, infrastructure, security and empowerment,\(^5\) which have been discussed above as the domestic framework for poverty reduction. In the establishment of the PRSP, special weight shall be given to "(1) identification of key constraints to economic growth and poverty reduction; (2) consideration of the public actions needed to relieve those constraints; (3) outcome indicators that are set and monitored using participatory process; and (4) a description of the nature of the consultative process by which the strategy was formulated."\(^6\) The steps for implementation are illustrated in more detail in Figure 2.

The process of developing the PRSP in a participatory manner that includes the interests of as wide a cross-section of stakeholders as feasible and that integrates them in the process of monitoring the outcomes is one of the strategy's major advances. This integration of the broad public through mediated group processes shall identify especially vulnerable groups, establish gender-differentiated criteria for progress and ensure more effectiveness in poverty reduction attempts and the acceptance of plans by the local population. The partners in this participatory approach should comprise the central government, parliaments and other representative structures, the public, civilian society and external partners.\(^9\) The formulation of the strategy rests with the national government to strengthen the domestic ownership of the strategy.\(^10\) The role of

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\(^1\) For a more detailed list of countries and their process towards the decision point see annex 4.
\(^2\) For more detailed information on PRSPs by country see also annex 4.
\(^3\) The requirement for PRSP covers all countries applying for debt relieve under the enhanced HIPC initiative, 36 at maximum. This requirement has been broadened now to include all countries where the IMF Poverty Reduction and Growth Facility - formerly the Enhanced Structural Adjustment Facility - is active to absorb the negative aspects of structural adjustment programs on the poor. Also countries applying for aid from the International Development Association of the World Bank group will be required to develop PRSPs. This broadens the group to about 70 low-income countries. See Klugman, J. (2000), p. 2, 3 and KfW (2000), p. 2.
development agencies should – in the spirit of the Comprehensive Development Framework (CDF) – be limited to the support for the PRSP process by financial and technical contributions from scientific papers and funded workshops.\(^2\)

**Figure 5: Poverty Reduction Strategy\(^3\)**

The Comprehensive Development Framework is a systematic approach to tackling some of the problems of donor coordination and it is designed as a third pillar next to the HIPC-initiative and the PRSP processes, for implementing the ideas presented by new strategies. It is an analytical framework\(^4\) designed to bring people together and build consensus, to forge stronger partnerships, to reduce wasteful competition and to emphasize the achievement of concrete results.\(^5\) Its conception rests on the vision that macroeconomic aspects conducive to reducing poverty need to be considered jointly with social, structural and human aspects of reducing poverty and cannot be assessed in isolation.\(^6\) The main objectives in each of the four areas can be determined in the

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5. See World Bank (2001a).
PRS process and enter this analysis as a given. The CDF approach attempts to link these objectives to the individual efforts of various donors and seeks to enable a stronger focus on how the donors can work together to address all objectives in the most efficient way.

The tool to facilitate this cooperative attempt is a simple matrix. For visualization of its components and its link to the PRSPs, refer to annex 2. The horizontal side of the matrix marks the prerequisites for sustainable development and poverty alleviation as have been determined in the PRSP process, e.g. the goals of the development process. These are broadly categorized in the four areas of Structural/Institutional, Social/Human, Physical/Rural/Urban and Macroeconomic/Financial development objectives. The vertical side of the matrix consists of all the activities which participants in the developmental process currently undertake, e.g. the activities of the government, NGOs and bilateral and multilateral development organizations. Each field within the matrix then indicates whether a donor activity contributes to a developmental goal or not. Thus, each horizontal row indicates to which goals a specific donor activity is conducive, while each vertical row indicates all activities that contribute to a certain developmental goal. If a vertical line is not marked at all, that means that no project is conducted towards this goal, while a highly marked vertical row can be an indication that an excessive amount of donor activities is focused on a particular developmental prerequisite or objective.

This simple analysis allows greater cooperation and coordination between all players in the development process, by visualizing any gaps or overlaps and providing a framework to assess future engagements. It is now in the implementation stage in 13 developing countries, for which the success yet needs to be evaluated.

The reformation of the way in which reducing poverty is handled, is still in its start-up phase. In regard to the achieved consensus on the necessity of country ownership of the strategy, participation of civil society and coordination and cooperation, these reforms generally have to be welcomed. Critical review has to be given to the conflict of goals that is obvious in the need to provide fast and broad-based debt relief and the ambition to provide debt relief only in the light of visible focus of the national priorities on poverty reduction. The time pressure to provide far reaching debt cancellation that is visible in the debate collides

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1 This connection is exemplified in the graphical representation in Annex 2 taken from World Bank (2001b).
2 This discussion is based on Wolfensohn, J. (1999b), p. 25 – 35 and annex.
3 See World Bank (2001c).
4 Not least due to the tribute the international development organizations have to pay to the demands of increasingly organized, mobile and aggressive anti-globalization movements that view the indebtedness of poor countries as one of the evils of globalization. In the context of anti-globalization campaigns debt relief seems to be valued as an end justified by the mere inability of the countries to pay back the loans whose collection is considered unethical rather than a means that can be used to push for greater poverty reduction focus.
with the time consuming process of participatory strategy formulation. The introduction of interim PRSPs that provide the basis for a start of debt cancellation, shows that the strategies which can be drawn up in a relatively short time period, do not satisfy the aspirations of the donor community under the lead of the World Bank.

It will have to be seen how far the goal not only to channel the newly available funds, but rather the general priorities of the recipient nations towards poverty reduction can be achieved and how the question of ownership of the PRSP strategy will be handled in cases in which the national strategies lie at odds with those which the donor community deems necessary for poverty reduction. Even though the Joint Staff Assessment of the World Bank / International Monetary Fund (IMF) of the PRSPs is not intended to constitute formal approval of the PRSP, which is a country owned document\(^1\), the endorsement required for debt relief calls into question the ownership of the country\(^2\).

The CDF approach is still in its conceptual phase. The donor community has not yet subscribed to the new idea in its entirety. The approach in itself is extremely simple, which holds the disadvantage of potentially oversimplifying the complexities of the developmental problems faced in a given country. Still, the CDF framework enables the communication between numerous actors, easily identifies the neglected areas and those that deserve coordination and its simplicity allows participation of every organization without training on the issue. This CDF approach therefore looks like a promising coordination tool.

The HIPC initiative, the PRSP process and the CDF approach incorporate many ideas that are commonly believed in the new strategies for reducing poverty and have to be welcomed for the new focus they bring into the reduction of poverty. The value that these reforms will bear depends strongly on the vigor with which these reforms are pursued, the power of the institutions to keep the high standards they have set for priorities to reduce poverty and their ability to pursue high quality rather than public actionism. The progress also requires the restraint of national and organizational interests in favor of cooperation and coordination, which might not help the profile of each individual country or organization, but the profile of all players in development cooperations together and in the progress towards poverty reduction. But coordination and cooperation remains difficult if underlying differences are not taken into account. Therefore, the different accentuations of the strategies are at the center of the following chapter.

\(^1\) World Bank (2000a)

\(^2\) Since the donor institutions have the responsibility to their constituents to utilize their funds efficiently, this form of approval – whether admitted or paraphrased – is an obvious necessity. The real challenge will be to walk the fine line of giving the country the freedom to use its funds where it sees the greatest need and the control that the funds are used in a way that the intended goal of poverty reduction will be achieved and that funds are not unduly diverted.