

E A Framework for Strategies and Priorities for Poverty Reduction

Governments in the Pacific are faced with what many perceive to be difficult choices. Progress and development mean change. Information, education, and travel all introduce new concepts into society. Change threatens traditional values despite the fact that today's traditions may be yesterday's heresies or innovations. The changes brought about by the introduction of Christianity (now the heart of much of tradition and custom) to Pacific countries in the nineteenth century were far greater than any changes now taking place as a result of economic and social reform. Development inevitably leads to increasing monetization of society, and monetization leads to greater individualism that in turn leads to a weakening of the ties among family members. National strategies need to recognize these dynamics with interventions aimed at reducing poverty while avoiding a one-size-fits-all approach. A new consultative, participatory, conceptual framework for setting and implementing development priorities and strategies that will achieve that goal is suggested.

1. ALLEVIATING POVERTY: THE THREE PILLARS OF ADB'S POVERTY REDUCTION STRATEGY

Poverty is multi-faceted; there is no single definition, thus there is no single policy or strategy that will completely alleviate it. ADB has proposed three pillars for comprehensive, integrated poverty reduction strategies aimed at achieving equitable growth and alleviating hardship:

- good governance;
- inclusive social development;
- sustainable, pro-poor economic growth.

These three pillars recognize the breadth of the problems to be addressed and provide a basis for a comprehensive set of strategies (see Box 12). There must be cooperation and balance between governments and the private sector. Policies must be mutually supportive such that each reinforces the other.

Box 12

Three Pillars of the Poverty Reduction Strategy**Good Governance**

- Rule of law.
- Accountability and transparency.
- Equitable and acceptable standards of delivery of public services.
- Participation and partnership in policy process.
- Strong leadership, clear vision, and prioritized strategies.

Inclusive Social Development

- Equitable and acceptable standards of delivery of basic services.
- Building human capital through education and skill training (technical, vocational and lifestyle skills).
- Promoting health and nutrition.
- Strengthening social capital.
- Youth and gender issues.
- Inclusion and protection of the disadvantaged.
- Welfare.

Sustainable, Pro-Poor Economic Growth

- Sound macroeconomic policies.
- Fiscal and monetary stability.
- Stable economic environment.
- Enabling regulatory environment for private sector investment and growth.
- Creating employment and economic opportunities.
- International and regional cooperation.
- Sustainable environmental management.

In seeking to promote sustainable pro-poor, economic growth, projects and programs must be designed to create jobs and income-earning opportunities for the poor. These opportunities must be located in poor areas, be they urban or rural, and should allow the poor access to and benefits from investments. Economic growth is the main explanation for Asia's success in reducing poverty, but growth alone is not enough. The challenge remains to spread the benefits of growth more widely, specifically to those areas and

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people “left behind.” As Easterly (2000)⁴² stresses, “People respond to incentives.” The incentives in the three pillars come from the confidence generated by credible and honest governments; appropriate, good quality education and other basic services; and sound macroeconomic policies and regulatory environments.

Of the three pillars, good governance is considered to be the single most important, for without good governance it is unlikely that the other two pillars can successfully be established. Sound, honest govern-

ment is the best way to help people out of poverty. Each government has a responsibility to create a balanced regulatory environment that encourages economic growth and the wider provision of goods and services, both in the public and private sectors. The private sector and markets must work to efficiently allocate resources to commercially viable, employment-generating investments. Good governance includes sound, responsive institutions and processes built on strong, visionary leadership and a commitment at the highest levels to give priority to the implementation and achievement of equitable growth strategies. The second pillar supports investments in social services to increase human capital, improve social protection, upgrade social infrastructure, and build social capital in ways that focus on the poor. In particular, initiatives to improve technical skill levels, especially among rural people, to meet the demands of private enterprise must be supported. The third pillar requires growth oriented, employment-creating strategies to broaden and deepen both the domestic and export sectors of PDMC economies. This includes the agricultural, fisheries, and tourism sectors where considerable potential exists for additional production and employment creation in most countries. Changing attitudes toward rural lifestyles, particularly subsistence activities, are, however, threatening to negate efforts to promote greater production in the primary sector.

Porter (1990)⁴³ argues that even countries with limited factor and resource endowments can overcome these constraints by creating an environment that maximizes the advantages they possess. He argues that a nation can create new factor endowments such as skilled labor, a strong technology and knowledge base, government support and an enabling environment. These can provide the basis for policy reinforcement and the development

⁴² Easterly William. 2000. *The Elusive Quest for Growth; Economists' Adventures and Misadventures in the Tropics*. MIT Press

⁴³ Porter, Michael E. 1990 *The Competitive Advantage of Nations*, New York Free Press

of new comparative advantages. The three pillars of ADB poverty reduction strategies follow this logic.

As mentioned before, new ideas threaten the stability and established interests of the traditional order and the traditional elite who almost invariably wish to preserve the status quo. They may be supported by those who have failed to make progress in the new order. Hindering economic and social reform and the modernization of society may, however, help to perpetuate hardship and to reduce the impact of poverty alleviation strategies. Both macro and micro policies are needed to alleviate poverty. At the macro level, national policy might focus on the broad issues of governance and institution building to improve health or education services and to create an environment conducive to private sector investment. At the micro level, it is necessary to address the specific needs of individual communities. This means small-scale projects to improve water supplies, sanitation, and rural and outer island infrastructure and transport among others.

Formulating strategies for equitable growth and hardship alleviation is just the first step. Implementing the strategies, monitoring their performance and effectiveness, and regularly reviewing and adjusting them to improve overall effectiveness are all critical to success. If domestic growth can be stimulated, incomes will rise throughout the economy. Government revenues will grow and budgets will be strengthened enabling more hardship alleviation strategies to be implemented.

2. THE FRAMEWORK

The previous sections have painted a somewhat gloomy picture of progress in coming to terms with changes required to alleviate poverty and hardship. Is there a better way, a new approach that might improve performance and raise growth rates in the PDMCs? Which sector, which issue, and what investment can best help reduce poverty in which country? What are the priorities and how should actions be sequenced and carried out? How can implementation be improved?

Development thinking has evolved from an early focus on savings and capital investment to the inclusion of human capital, policy, and technical change, to the inclusion of the role of institutions and of good governance. Secure property rights in the broadest sense, those applicable to all resources and not just land, are particularly important to realize investment yield. Steve Pollard and Professor Ronald Duncan reviewed the history and progress of development theory and thinking over the past years and described the conceptual framework in Figure 8 to set priorities and to sequence and char-

acterize all interventions.⁴⁴ This conceptual framework has been adopted by some departments of ADB to help guide the formulation of country strategies and the selection, characterization, prioritization, and sequencing of projects and programs.⁴⁵ ADB's Pacific Department is one that has employed and developed this framework to guide both poverty research and the formulation of country strategies and programs.⁴⁶

The framework and the conclusions of this paper suggest that civil and social order may be the first "essential" for formulating the institutions that in turn form the basis for a market economy. The effective operation of these institutions is then essential for good governance defined in the broader sense to include institutions and organizations as well as good government. Good governance in turn is essential for effective factor and product markets. With all these building blocks in place, it is then much more possible for public and private investments to produce the yields expected of them, that is, in support of pro-poor growth and poverty reduction. Alternatively, projects and public investments without order, good governance, and strong institutions fail to yield as projected. Similar arguments, and a similar framework, have also been suggested by the World Bank.⁴⁷

This framework should not be rigorously interpreted as strictly implying that poverty reduction can be assigned to a linear relationship from order to governance through rules and regulations to markets and institutions and so on. All these components exist at any one time in any particular society and economy, and the components are inter-related. Economic decline can eventually lead to civil disorder. What the framework does suggest, however, is that stronger order supports stronger governance and stronger governance can support a more virtuous cycle of progress rather than an ultimately vicious cycle of social and economic decline. The emphasis is on yield and productivity. While new investments are still needed, public action must also address institutional and capacity building, good governance, and order if investments are to yield as intended. Stronger ownership, organization, and management are essential for investments of capital, technology, and skills to yield results.

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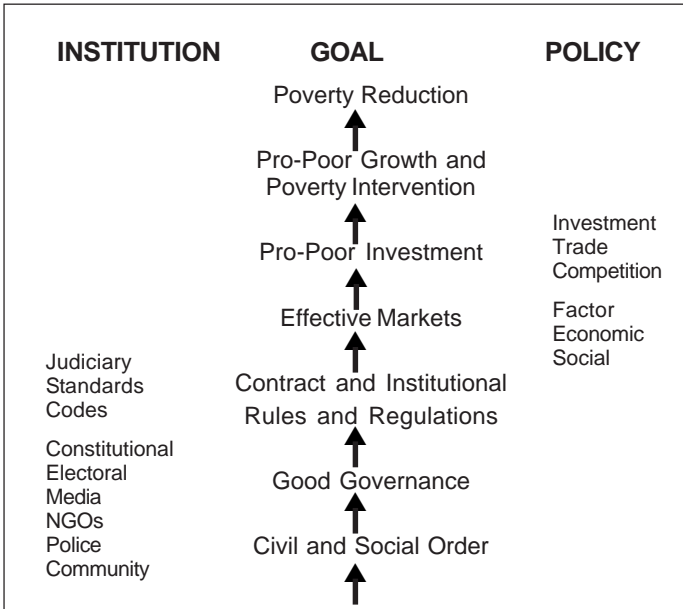
⁴⁴ Duncan, Ron and Steve Pollard. 2002. "A Framework for Establishing Priorities in a Country Poverty Reduction Strategy." ERD Working Paper Series No. 15. ADB.

⁴⁵ See *Poverty Reduction in Nepal. Issues, Findings, and Approaches*. ADB. March 2002.

⁴⁶ Lightfoot Chris and Ryan T. ADB. 2001. *Poverty, is it an issue in the Pacific?* Manila. Pacific DMC strategies are increasingly characterized by a common focus on the improved delivery of basic public goods and services, strengthening the environment for private sector development, and on good governance.

⁴⁷ Thomas, V. et. al. 2000. *The Quality of Growth*. The World Bank and Oxford University Press.

Figure 8
Conceptual Framework for Poverty Reduction



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Central to the framework and to current development thinking is the argument that institutions and markets need to be strong and effective. They must actually work to translate the growth potential provided by good governance and institutional order into support for sustainable, productive social and economic activity. Hernando de Soto⁴⁸ argues that the creation of capital by the poor is greatly inhibited by the lack of effective systems of private entitlement to land. He estimates that the total value of land and other assets “owned” by the poor in the developing world amounts to around US\$9.3 trillion, far greater than the value of foreign aid or foreign investment. However, without the possibility of efficient transfer of these assets and the ability to use

⁴⁸ De Soto, Hernando. 2000. *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else*. New York: Basic Books.

them as collateral to raise capital, the assets have little income-generating power. He refers to the capital of the developing world as “dead capital.” The same arguments could be made more generally for markets and institutions in the developing world. These conclusions give added weight to the need for land reform in PDMCs to make it easier for this traditional asset to be used as collateral.

Land is indeed an issue high on the list of concerns and priorities of the people. Customary land (about 90% of all land in the PDMCs) is communally owned, and the perception is that everyone therefore has access to it for subsistence purposes. This is not, however, always the case. Most interviewed in the PAH expressed hardship and poverty in terms of not having access to adequate land. People are gradually coming to understand the role of land in a modern developing society and are now seeing traditional land as a resource to be utilized for economic as well as subsistence and social purposes. This is another result of the increasing need for money in society. Many of those consulted agreed that it would be desirable to mobilize land for development without threatening traditional ownership. Accelerated urban migration results in many landless urban poor. It also leads to under-utilization of rural land when the primary owners have moved away. While some land is under-utilized, large rural families may not have access to enough land, and others may not have access to any land at all.

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In most developed countries, the bulk of small businesses are started using loans backed by land. As the private sector study⁴⁹ reiterated, land is a major economic issue in the Pacific and a source of internal conflict. Ambiguous land rights and the resulting difficulties in using land as collateral for loans are major constraints to private sector development. The report also notes that land can be a central source of wealth and is particularly important to the rural community as a primary latent asset but only if there is a system of property rights. The problems in land tenure in the Pacific that need to be addressed include:

- ambiguous ownership and boundaries primarily due to lack of proper recording;
- restrictions on transferability largely resulting from dubious ownership;
- vague definition of different land tenure rights;
- weak (and unrecorded) dispute resolution practices and enforcement.

⁴⁹ *Swimming Against the Tide*. Op cit

Several principles need to be observed to gain the confidence and acceptance of customary landowners in designing solutions and enabling land's dead capital value to be unlocked.

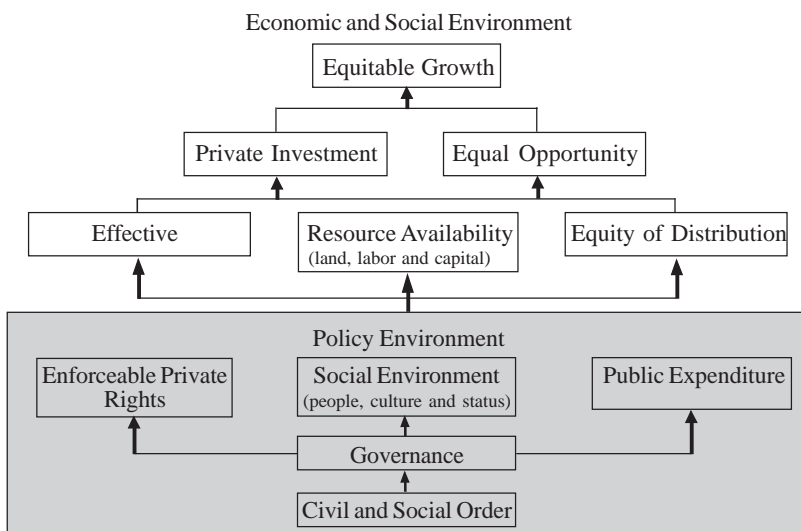
- Governments must clearly specify the fundamental problems to be addressed and must articulate the goals/outcomes of each step as well as the ultimate objectives.
- Governments should announce at the outset that constitutional protections on land will not be altered.
- A policy framework for reform must be designed and agreed upon.
- The process should be stepwise and deliberate.
- The process should be participatory and inclusive based on the community (family, tribe, clan, or village as appropriate) and must involve extensive consultation through a political awareness campaign.
- Existing accepted community organizations such as councils of chiefs should play a central role.
- National political institutions should provide only a framework, facilitation, and recording.
- Robust dispute resolution and appeal mechanisms based on local practice such as the customary reconciliation council should be in place.
- Steps should follow a defined process, and agreements reached should be recorded and considered final.
- Ultimately, participation in the system should be optional for individual landholding groups.

Implementing land reform in the PDMCs will be a slow process, but changes will occur as the economic value of land becomes more widely acknowledged and understood and the demands for greater economic opportunity lead governments to accept the challenge of promoting reform.

During the transition, however, developing countries will continue to suffer from what could be termed "economic anemia" characterized by insecure property rights and noncompetitive or inflexible commercial capital markets and weak labor markets. Economic activity will be dominated by personal or familial relationships often reflecting the weakness of formal markets, mistrust in public sector institutions, and abuse of official rules and regulations. Much of the economic activity will occur in an informal sector that is inadequately supported and poorly regulated. This, in turn, will limit the development of larger enterprises in the formal, private sector. Public institutions may then act for their own benefits rather than serving public needs and demands. In such an environment, economic agents seek short-term returns rather than long-term profits thereby sustaining a system of weak order, weak markets, and riskier, low- yield public investment.

The framework as it has been adopted and adapted by ADB’s Pacific Department is presented in Figure 9. This particular adaptation aims to distinguish policy from economic and social environments.

Figure 9
Constraints to Equitable Growth



3. ORGANIZATION

Development and poverty reduction have long been the subject of theory, international debate, and accumulated experience. After some 40–50 years of effort, the challenge is not so much in deciding what should be done. Many examples of best and worst practices provide guidance to governments and institutions. Development agencies, practitioners, and academics not to mention governments themselves generally know what policies and programs should work. Relevant roles and responsibilities for government, business, and civil society are also relatively well understood if not necessarily followed. As Easterly shows, however, many of the panaceas offered

over the years have not delivered the expected benefits and outcomes.⁵⁰ As he concludes, it is not so much that the policy prescriptions themselves have necessarily been wrong but rather that the correct incentive environment, that of opportunity and choice and not of finances or taxes, has not been present for government officials, for the public, or for private enterprise. The challenge is to ensure an environment in which appropriate incentives result in consistent, committed implementation of poverty reduction strategies by governments while at the same time fostering ownership on the part of the people.

With regard to economic policy, the “Washington Consensus” generally applies as much to Pacific economies as to any other.⁵¹ The principles of business also apply just as much in the Pacific as anywhere else. As the World Bank has recently recorded, “One size can fit all—in the manner of business regulation. Many times what works in developed countries works well in developing countries, too.”⁵² Although ADB and other institutions have examined how best policy and practice apply in the Pacific,⁵³ it is still not followed. Continued weak management of budgets in some countries, continued subsidizing of state-owned enterprises by many, and the prevention of private sector competition by nearly all suggest that the challenge is not so much what to do but rather how to do it. This is especially the case with regard to improving basic social services and to expanding private investment.

Earlier short-term transfers of capital, skills, and technology may have been peripheral to the endemic constraints of anemic or weak institutions including a lack of markets and declining standards of governance. As the conceptual framework for poverty reduction⁵⁴ suggests (Figure 8), simple transfers of public funds, skills, and technology cannot yield projected development outcomes in the absence of adequate domestic markets and institutions. The public and private institutions and markets required to sustain service delivery, investment yield, growth, and poverty reduction have yet to be fully established in the PDMCs. There is, therefore, a pronounced need to focus on how to build

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⁵⁰ Easterly op cit.

⁵¹ The term “Washington Consensus” was invented by John Williamson of the Washington Institute for International Economics in 1990 to define that set of policy reforms which was then seen to be good for the development of Latin American countries.

⁵² The World Bank. “Doing Business in 2004. Understanding Regulation. World Bank and Oxford University Press.

⁵³ Duncan, R., S. Cuthbertson, and M. Bosworth. 1999. *Pursuing Economic Reform in the Pacific*. ADB.

⁵⁴ Pollard, Duncan op cit.

systems that support improved productivity in both the public and private sectors.

Are the means to institution and market building well known, well understood, and generally supported by government and by society? The public institutions and markets of the Pacific largely support subsistence and traditional order rather than modern, streamlined systems to deliver public and private services. The challenge to develop the institutions and markets that deliver such essential services is one of developing a modern, independent state. This challenge is made all the more difficult by the very limited domestic tax bases of PDMCs; by entrenched relationships in a small, familiar society; and by the fact that elite groups in power may privately benefit from existing inefficiencies and so have little incentive to push for reform. If tax levels are low, tax audits weak, and tax collection is not enforced, then people and businesses are likely to pay much less attention to the delivery of public services. Poverty alleviation involves raising the productivity of the public sector and creating a healthy environment for private investment for improved delivery of essential public and private goods and services. Widespread education, extensive participation of all interested parties, and the long-term focus of international assistance agencies must build understanding of the need and means to accomplish this and must confront existing organizations and interests that impede progress.

4. DESIGN AND IMPLEMENTATION

Frequently, the elected leadership may not have the full and unconditional support of either government or of a relatively small, familiar society for the changes and liberalizing reforms taking place in the PDMC economies especially if they involve strengthening land registration, privatizing state-owned enterprises, strengthening public service inspections, and supervising and managing the public sector. Often the rationale for and potential benefits of such reforms are not properly explained and/or understood, and they are frequently misrepresented by those who oppose them. This is where greater practical, community participation and public education reinforced by local skill training is needed.⁵⁵ With few exceptions,⁵⁶ there has been inadequate

⁵⁵ This recommendation is supported by the findings and lessons learned from an ADB funded regional project, RETA 6065, entitled: "Assessing Community Perspectives in Governance in the Pacific" that was carried out by the Foundation of the Peoples of the South Pacific International, October 31, 2003

⁵⁶ Notable exceptions being the formulation of Samoa's country strategy formulation and the most recent preparation of a poverty reduction strategy in Papua New Guinea. Williamson, J. 1999. "What Should The Bank Think About The Washington Consensus?" Institute for International Economics. Paper prepared as a background to the World Bank's World Development Report 2000.

consultation outside of central government let alone true participation in country strategy development and implementation. The same strategies are also rarely monitored or evaluated, and in most cases, they may bear little relation to annual budget formulation and implementation. There is both a need and the potential for people to participate in budget, strategy, and program formulation. ADB is increasingly promoting participation,⁵⁷ challenging governments to integrate good policies with good politics; it is not always a comfortable fit.

The objectives of the reforms in the Pacific are as valid today as they were in the mid-1990's with their focus on macroeconomic stability, public sector efficiency and effectiveness, and private sector development. When considering strategies and action plans for the next planning period, it is necessary to consider and apply the lessons from past reform efforts. Further actions to improve public sector governance institutions and processes are still needed, but they must be owned and implemented by the PDMCs themselves at a pace appropriate to each country's stage of development and within the constraints of local skills and resources.⁵⁸

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Assistance from development partners in the region, including ADB, remains critical given the poor economic performance in most countries in the past decades. Those undertaking public sector reforms have to be cognizant of the longer-term nature of capacity building, of the need to generate equitable economic growth to help reduce poverty, and of actions to make governance institutions and processes effective.⁵⁹

Development strategies and programs to date have been comprehensive, perhaps excessively so. Given limited resources, the greater needs of the poor, and the potential for business and the community to play a role in development, there is a need for greater prioritization. An initial step to give clear directions to governments could be based on the priorities of the people as summarized in Appendix 1. The supply and demand for good governance that is the basic building block for poverty reduction has not operated well in the Pacific. A "buy-in" from the people would be a key initiative. Partici-

⁵⁷ For instance increased participation has featured in the assessments of poverty and hardship, assistance to the Marshall Islands in participatory policy formulation, assistance to the Government of Nauru in participatory governance, and in the design of regional program to strengthen participatory budgeting.

⁵⁸ ADB. 2004. *Governance in the Pacific: Focus for Action 2005–2009*.

⁵⁹ ADB. 2004. *Op.cit.*

patory governance in budgeting, tracking service delivery, and reporting on the delivery of public services has all been pioneered elsewhere in the world and should be considered in the Pacific. As with other nations,⁶⁰ Pacific societies can be supported in their desires for greater transparency, accountability, and good governance and can be encouraged to express their demands for greater participation.

5. CONCLUSIONS

Sound, honest government that creates a balanced regulatory environment that encourages economic growth and the wider provision of goods and services in both the public and private sectors is the best way to help people out of poverty. The conceptual framework argues that improved delivery of essential public and private goods and services must be derived from more competitive markets and more productive public institutions, which in turn are founded on good governance and civil and social order. The challenge is to ensure an environment in which appropriate incentives result in consistent, committed implementation of poverty reduction strategies by governments while at the same time fostering ownership on the part of the people.

⁶⁰ For example see: Filipino Report Card on Pro-Poor Services. The World Bank. E. Ablo and R. Reinikka. "Do Budgets Really Matter? Evidence from Public Spending on Education and Health in Uganda" International Budget Project. "Case Study: Analysis of the Executive Budget. Budget Information Service, South Africa." D. A. Songco. "Accountability to the Poor: Experiences in Civic Engagements in Public Expenditure Management." World Bank. World Development Report 2004. Making Services Work for Poor People